FORM 10-Q

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended **September 30, 2014**

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _______ to _______
Commission file number **1-10816**

MGIC INVESTMENT CORPORATION

(Exact name of registrant as specified in its charter)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES x **NO o**

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

YES x **NO o**

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

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

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

YES o **NO x**

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

CLASS OF STOCK	PAR VALUE	DATE	NUMBER OF SHARES
Common stock	$1.00	10/31/14	338,559,545

Forward Looking and Other Statements

All statements in this report that address events, developments or results that we expect or anticipate may occur in the future are "forward looking statements." Forward looking statements consist of statements that relate to matters other than historical fact. In most cases, forward looking statements may be identified by words such as "believe," "anticipate" or "expect," or words of similar import. The risk factors referred to in "Forward Looking Statements and Risk Factors – Location of Risk Factors" in Management's Discussion and Analysis of Financial Condition and Results of Operations below, may cause our actual results to differ materially from the results contemplated by forward looking statements that we may make. We are not undertaking any obligation to update any forward looking statements or other statements we may make in this document even though these statements may be affected by events or circumstances occurring after the forward looking statements or other statements were made. Therefore no reader of this document should rely on these statements being current as of any time other than the time at which this document was filed with the Securities and Exchange Commission.

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
September 30, 2014 and December 31, 2013
(Unaudited)

	September 30, 2014	December 31, 2013
	(In thousands)	
ASSETS		
Investment portfolio (notes 7 and 8):		
Securities, available-for-sale, at fair value:		
Fixed maturities (amortized cost, 2014 - $4,644,561; 2013 - $4,948,543)	$ 4,626,979	$ 4,863,925
Equity securities	3,022	2,894
Total investment portfolio	4,630,001	4,866,819
Cash and cash equivalents	243,922	332,692
Restricted cash and cash equivalents (note 1)	17,207	17,440
Accrued investment income	30,483	31,660
Prepaid reinsurance premiums (note 4)	44,230	36,243
Reinsurance recoverable on loss reserves (note 4)	57,898	64,085
Reinsurance recoverable on paid losses (note 4)	6,450	10,425
Premium receivable	60,330	62,301
Home office and equipment, net	28,583	26,185
Deferred insurance policy acquisition costs	11,650	9,721
Profit commission receivable	68,952	2,368
Other assets	139,672	141,451
Total assets	$ 5,339,378	$ 5,601,390
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Loss reserves (note 12)	$ 2,527,582	$ 3,061,401
Premium deficiency reserve (note 13)	28,711	48,461
Unearned premiums	185,992	154,479
Senior notes (note 3)	61,906	82,773
Convertible senior notes (note 3)	845,000	845,000
Convertible junior debentures (note 3)	389,522	389,522
Other liabilities	316,157	275,216
Total liabilities	4,354,870	4,856,852
Contingencies (note 5)		
Shareholders' equity (note 14):		
Common stock (one dollar par value, shares authorized 1,000,000; shares issued 2014 and 2013 - 340,047; shares outstanding 2014 - 338,560; 2013 - 337,758)	340,047	340,047
Paid-in capital	1,661,061	1,661,269
Treasury stock (shares at cost 2014 - 1,487; 2013 - 2,289)	(32,937)	(64,435)
Accumulated other comprehensive loss, net of tax (note 9)	(56,776)	(117,726)
Accumulated deficit	(926,887)	(1,074,617)
Total shareholders' equity	984,508	744,538
Total liabilities and shareholders' equity	$ 5,339,378	$ 5,601,390

See accompanying notes to consolidated financial statements.

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
Three and Nine Months Ended September 30, 2014 and 2013
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(In thousands, except per share data)			
Revenues:				
Premiums written:				
Direct	$ 255,041	$ 247,254	$ 740,479	$ 749,282
Assumed	400	509	1,281	1,591
Ceded (note 4)	(32,536)	(13,485)	(87,450)	(31,473)
Net premiums written	222,905	234,278	654,310	719,400
Increase in unearned premiums, net	(13,870)	(2,421)	(23,528)	(2,707)
Net premiums earned	209,035	231,857	630,782	716,693
Investment income, net of expenses	22,355	20,250	63,691	59,461
Realized investment gains, net	632	189	923	3,933
Total other-than-temporary impairment losses	-	(328)	-	(328)
Portion of losses recognized in other comprehensive income, before taxes	-	-	-	-
Net impairment losses recognized in earnings	-	(328)	-	(328)
Other revenue	3,093	2,481	6,037	7,735
Total revenues	235,115	254,449	701,433	787,494
Losses and expenses:				
Losses incurred, net (note 12)	115,254	180,189	379,003	642,671
Change in premium deficiency reserve (note 13)	(6,744)	(3,813)	(19,750)	(16,746)
Amortization of deferred policy acquisition costs	2,096	2,209	5,191	5,861
Other underwriting and operating expenses, net	34,882	45,761	105,101	139,683
Interest expense (note 3)	17,361	17,653	52,274	62,001
Total losses and expenses	162,849	241,999	521,819	833,470
Income (loss) before tax	72,266	12,450	179,614	(45,976)
Provision for income taxes (note 11)	249	336	2,093	2,465
Net income (loss)	$ 72,017	$ 12,114	$ 177,521	$ (48,441)
Income (loss) per share (note 6):				
Basic	$ 0.21	$ 0.04	$ 0.52	$ (0.16)
Diluted	$ 0.18	$ 0.04	$ 0.45	$ (0.16)
Weighted average common shares outstanding - basic (note 6)	338,626	337,868	338,488	302,996
Weighted average common shares outstanding - diluted (note 6)	413,576	339,426	413,473	302,996

See accompanying notes to consolidated financial statements.

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Three and Nine Months Ended September 30, 2014 and 2013
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(In thousands)			
Net income (loss)	$ 72,017	$ 12,114	$ 177,521	$ (48,441)
Other comprehensive income (loss), net of tax (note 9):				
Change in unrealized investment gains and losses (note 7)	(17,301)	7,277	66,798	(100,796)
Benefit plan adjustments	(1,732)	-	(5,198)	-
Foreign currency translation adjustment	(2,490)	1,885	(650)	(10,311)
Other comprehensive income (loss), net of tax	(21,523)	9,162	60,950	(111,107)
Comprehensive income (loss)	$ 50,494	$ 21,276	$ 238,471	$ (159,548)

See accompanying notes to consolidated financial statements.

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
Nine Months Ended September 30, 2013 and 2014
(Unaudited)

	Common stock	Paid-in capital	Treasury stock	Accumulated other comprehensive income (loss)	Accumulated deficit
			(In thousands)		
Balance, December 31, 2012	$ 205,047	$ 1,135,296	$ (104,959)	$ (48,163)	$ (990,281)
Net loss					(48,441)
Change in unrealized investment gains and losses, net	-	-	-	(100,796)	-
Common stock issuance (note 14)	135,000	528,335	-	-	-
Reissuance of treasury stock, net	-	(7,892)	40,524	-	(34,488)
Equity compensation	-	4,175	-	-	-
Unrealized foreign currency translation adjustment	-	-	-	(10,311)	-
Balance, September 30, 2013	$ 340,047	$ 1,659,914	$ (64,435)	$ (159,270)	$ (1,073,210)
Balance, December 31, 2013	$ 340,047	$ 1,661,269	$ (64,435)	$ (117,726)	$ (1,074,617)
Net income					177,521
Change in unrealized investment gains and losses, net (note 7)	-	-	-	66,798	-
Reissuance of treasury stock, net	-	(6,680)	31,498	-	(29,791)
Equity compensation	-	6,472	-	-	-
Benefit plan adjustments	-	-	-	(5,198)	-
Unrealized foreign currency translation adjustment	-	-	-	(650)	-
Balance, September 30, 2014	$ 340,047	$ 1,661,061	$ (32,937)	$ (56,776)	$ (926,887)

See accompanying notes to consolidated financial statements.

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Nine Months Ended September 30, 2014 and 2013
(Unaudited)

	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
	(In thousands)	
Cash flows from operating activities:		
Net income (loss)	$ 177,521	$ (48,441)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and other amortization	37,859	53,599
Deferred tax provision (benefit)	336	(11)
Realized investment gains, excluding impairment losses	(923)	(3,933)
Net investment impairment losses	-	328
Loss on repurchases of senior notes	837	-
Other	29,132	(3,235)
Change in certain assets and liabilities:		
Accrued investment income	1,177	(7,007)
Prepaid reinsurance premium	(7,987)	(7,974)
Reinsurance recoverable on loss reserves	6,187	34,227
Reinsurance recoverable on paid losses	3,975	1,228
Premium receivable	1,971	2,566
Deferred insurance policy acquisition costs	(1,929)	(1,273)
Profit commission receivable	(66,584)	(2,938)
Loss reserves	(533,819)	(703,849)
Premium deficiency reserve	(19,750)	(16,746)
Unearned premiums	31,513	10,529
Income taxes payable (current)	(1,180)	314
Net cash used in operating activities	(341,664)	(692,616)
Cash flows from investing activities:		
Purchase of fixed maturities	(1,549,883)	(2,669,778)
Purchase of equity securities	(59)	(69)
Proceeds from sale of fixed maturities	902,660	602,062
Proceeds from maturity of fixed maturities	914,465	1,120,152
Net increase in payable for securities	7,245	317
Net change in restricted cash	233	(60,348)
Net cash provided by (used in) investing activities	274,661	(1,007,664)
Cash flows from financing activities:		
Net proceeds from convertible senior notes	-	484,625
Common stock shares issued	-	663,335
Repurchases of long-term debt	(21,767)	(17,235)
Net cash (used in) provided by financing activities	(21,767)	1,130,725
Net decrease in cash and cash equivalents	(88,770)	(569,555)
Cash and cash equivalents at beginning of period	332,692	1,027,625
Cash and cash equivalents at end of period	$ 243,922	$ 458,070

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

The accompanying unaudited consolidated financial statements of MGIC Investment Corporation and its wholly-owned subsidiaries have been prepared in accordance with the instructions to Form 10-Q as prescribed by the Securities and Exchange Commission ("SEC") for interim reporting and do not include all of the other information and disclosures required by accounting principles generally accepted in the United States of America ("GAAP"). These statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2013 included in our Annual Report on Form 10-K. As used below, "we," "our" and "us" refer to MGIC Investment Corporation's consolidated operations or to MGIC Investment Corporation, as the context requires.

In the opinion of management the accompanying financial statements include all adjustments, consisting primarily of normal recurring accruals, necessary to fairly state our financial position and results of operations for the periods indicated. The results of operations for the interim period may not be indicative of the results that may be expected for the year ending December 31, 2014.

Capital - GSEs

Since 2008, substantially all of our insurance written has been for loans sold to Fannie Mae and Freddie Mac (the "GSEs"), each of which has mortgage insurer eligibility requirements. The existing eligibility requirements include a minimum financial strength rating of Aa3/AA-. Because MGIC does not meet such financial strength rating requirements (its financial strength rating from Moody's is Ba3 (with a stable outlook) and from Standard & Poor's is BB (with a positive outlook)), MGIC is currently operating with each GSE as an eligible insurer under a remediation plan.

On July 10, 2014, the conservator of the GSEs, the Federal Housing Finance Agency ("FHFA"), released draft Private Mortgage Insurer Eligibility Requirements ("draft PMIERs"). The draft PMIERs include revised financial requirements for mortgage insurers (the "GSE Financial Requirements") that require a mortgage insurer's "Available Assets" (generally only the most liquid assets of an insurer) to meet or exceed "Minimum Required Assets" (which are calculated from tables of factors with several risk dimensions and are subject to a floor amount).

The public input period for the draft PMIERs ended September 8, 2014. We currently expect the PMIERs to be published in final form by December 31, 2014 and the "effective date" to occur 180 days thereafter. Mortgage insurers will have up to two years after the final PMIERs are published to meet the GSE Financial Requirements (the "transition period"). A mortgage insurer that fails to certify by the effective date that it meets the GSE Financial Requirements would be subject to a transition plan having milestones for actions to achieve compliance. The transition plan would be submitted for the approval of each GSE within 90 days after the effective date, and if approved, the GSEs would monitor the insurer's progress. During the transition period for an insurer with an approved transition plan, an insurer would be in remediation (a status similar to the one under which MGIC has been operating with the GSEs for over five years) and eligible to provide mortgage insurance on loans owned or guaranteed by the GSEs.

We estimated that as of June 30, 2014, applying the rules of the draft PMIERs, MGIC would have a material shortfall in Available Assets. This shortfall is expected to be reduced by operations throughout the transition period, which is expected to end December 31, 2016. The shortfall assumes the risk in force and capital of MIC are repatriated to MGIC, and full credit is given in the calculation of Minimum Required Assets for our existing reinsurance transaction. However, we do not expect to receive full credit for our current reinsurance transaction. As a result, we are in discussions with the reinsurers participating in our existing reinsurance transaction regarding modifications to the agreement so that any reduction in the credit would be minimized. We have not updated these projections, but do not believe they would have changed significantly.

As of September 30, 2014, we had approximately $517 million of cash and investments at our holding company, a portion of which we believe may be available for future contribution to MGIC. Furthermore, there are regulated insurance affiliates of MGIC that have approximately $100 million of assets as of September 30, 2014. We expect that, subject to regulatory approval, we would be able to use a material portion of these assets to increase the Available Assets of MGIC. Additionally, if the draft PMIERs are implemented as released, we would consider seeking additional reinsurance and/or non-dilutive debt capital to mitigate the shortfall. We believe we will be able to use a combination of the alternatives outlined above so that MGIC will meet the GSE Financial Requirements of the draft PMIERs even if they are implemented as released. However, factors that may negatively impact MGIC's ability to comply with the GSE Financial Requirements within the transition period include the following:

- Changes in the actual PMIERs adopted from the draft PMIERs may increase the amount of the MGIC's Minimum Required Assets or reduce its Available Assets, with the result that the shortfall in Available Assets could increase;
- We may not obtain regulatory approval to transfer assets from MGIC's regulated insurance affiliates to the extent we are assuming because regulators project higher losses than we project or require a level of capital be maintained in these companies higher than we are assuming;
- We may not be able to access the non-dilutive debt markets due to market conditions, concern about our creditworthiness, or other factors, in a manner sufficient to provide the funds we are assuming;
- We may not be able to achieve modifications in our existing reinsurance arrangements necessary to minimize the reduction in the credit for reinsurance under the draft PMIERs;
- We may not be able to obtain additional reinsurance necessary to further reduce the Minimum Required Assets due to market capacity, pricing or other reasons (including disapproval of the proposed transaction by a GSE); and
- Our future operating results may be negatively impacted by the matters discussed throughout the financial statement footnotes. Such matters could decrease our revenues, increase our losses or require the use of assets, thereby reducing our Available Assets and increasing our shortfall in Available Assets, or they could increase the Minimum Required Assets, also increasing our shortfall in Available Assets.

There also can be no assurance that the GSEs would not make the GSE Financial Requirements more onerous in the future; in this regard, the draft PMIERs provide that the tables of factors that determine Minimum Required Assets may be updated to reflect changes in risk characteristics and the macroeconomic environment. If MGIC ceases to be eligible to insure loans purchased by one or both of the GSEs, it would significantly reduce the volume of our new business writings.

If we increase the amount of Available Assets we hold in order to continue to insure GSE loans, the amount of capital we hold may increase. If we increase the amount of capital we hold with respect to insured loans, our returns may decrease unless we increase premiums. An increase in premium rates may not be feasible for a number of reasons, including competition from other private mortgage insurers, the FHA or other credit enhancement products.

See disclosure regarding statutory capital in Note 15 – "Statutory Capital."

Reclassifications

Certain reclassifications have been made in the accompanying financial statements to 2013 amounts to conform to 2014 presentation.

Restricted cash and cash equivalents

During the second quarter of 2013, approximately $60.3 million was placed in escrow in connection with the two agreements we entered into to resolve our dispute with Countrywide Home Loans ("CHL") and its affiliate, Bank of America, N.A., as successor to Countrywide Home Loans Servicing LP ("BANA" and collectively with CHL, "Countrywide") regarding rescissions. In the fourth quarter of 2013, approximately $42.9 million was released from escrow in connection with the BANA agreement. At September 30, 2014 and December 31, 2013, approximately $17.2 million and $17.4 million, respectively, remains in escrow in connection with the CHL agreement. See additional discussion of these settlement agreements in Note 5 – "Litigation and Contingencies."

Subsequent events

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

Note 2 - New Accounting Guidance

In August 2014, the FASB issued an update that requires an entity's management to evaluate whether there is substantial doubt about that entity's ability to continue as a going concern and, if so, disclose that fact. An entity's management will also be required to evaluate and disclose whether its plans alleviate that doubt. The guidance is effective for annual periods ending after December 15, 2016 and for interim and annual periods thereafter. We do not expect the adoption of this update to have a material effect on the presentation of our financial statements and notes therein.

In July 2013, the FASB issued an update to the accounting standard regarding income taxes. This update provides guidance concerning the balance sheet presentation of an unrecognized tax benefit when a net operating loss carryforward or a tax credit carryforward (the "Carryforwards") is available. This accounting standard requires an entity to net its liability related to unrecognized tax benefits against the related deferred tax assets for the Carryforwards. A gross presentation will be required when the Carryforwards are not available under the tax law of the applicable jurisdiction or when the Carryforwards would not be used by the entity to settle any additional income taxes resulting from disallowance of the uncertain tax position. This update is effective for fiscal years and interim periods within such years beginning after December 15, 2013. We are currently in compliance with this new guidance. It did not have a significant impact on our consolidated financial statements and disclosures.

Note 3 – Debt

5.375% Senior Notes – due November 2015

At September 30, 2014 and December 31, 2013 we had outstanding $62.0 million and $82.9 million, respectively, of 5.375% Senior Notes due in November 2015. In February 2014, we repurchased $20.9 million in par value of these notes at a cost slightly above par. Interest on these notes is payable semi-annually in arrears on May 1 and November 1 of each year. These Senior Notes are described in our Annual Report on Form 10-K for the year ended December 31, 2013. That description is qualified in its entirety by the terms of the notes, which are contained in the Indenture, dated as of October 15, 2000, between us and U.S. Bank, National Association, as trustee, and in an Officer's Certificate dated as of October 4, 2005, which specifies the interest rate, maturity date and other terms of the Senior Notes.

Scheduled interest payments on the Senior Notes were $1.7 million and $2.8 million for the nine months ended September 30, 2014 and 2013, respectively. In the first quarter of 2014, we also paid $0.3 million in interest related to our repurchase discussed above.

5% Convertible Senior Notes – due May 2017

At September 30, 2014 and December 31, 2013 we had outstanding $345 million principal amount of 5% Convertible Senior Notes due in May 2017. Interest on the 5% Notes is payable semi-annually in arrears on May 1 and November 1 of each year.

The 5% Notes are convertible, at the holder's option, at an initial conversion rate, which is subject to adjustment, of 74.4186 shares per $1,000 principal amount at any time prior to the maturity date. This represents an initial conversion price of approximately $13.44 per share. These 5% Notes will be equal in right of payment to our other senior debt and will be senior in right of payment to our existing Convertible Junior Debentures, discussed below. Debt issuance costs are being amortized to interest expense over the contractual life of the 5% Notes. These 5% Notes are described in our Annual Report on Form 10-K for the year ended December 31, 2013. That description is qualified in its entirety by the terms of the notes, which are contained in the Supplemental Indenture, dated as of April 26, 2010, between us and U.S. Bank National Association, as trustee, and the Indenture dated as of October 15, 2000, between us and the trustee.

Interest payments on the 5% Notes were $8.6 million in each of the nine months ended September 30, 2014 and 2013.

2% Convertible Senior Notes – due April 2020

At September 30, 2014 and December 31, 2013, we had outstanding $500 million principal amount of 2% Convertible Senior Notes due in 2020 which we issued in March 2013. We received net proceeds of approximately $484.6 million after deducting underwriting discount and offering expenses. Interest on the 2% Notes is payable semi-annually in arrears on April 1 and October 1 of each year. The 2% Notes will mature on April 1, 2020, unless earlier repurchased by us or converted. Prior to January 1, 2020, the 2% Convertible Senior Notes are convertible only upon satisfaction of one or more conditions. One such condition is that during any calendar quarter commencing after March 31, 2014, the last reported sale price of our common stock for each of at least 20 trading days during the 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter be greater than or equal to 130% of the applicable conversion price on each applicable trading day. The notes are convertible at an initial conversion rate, which is subject to adjustment, of 143.8332 shares per $1,000 principal amount. This represents an initial conversion price of approximately $6.95 per share. 130% of such conversion price is $9.03. On or after January 1, 2020, holders may convert their notes irrespective of satisfaction of the conditions. These 2% Notes will be equal in right of payment to our other senior debt and will be senior in right of payment to our existing Convertible Junior Debentures. Debt issuance costs are being amortized to interest expense over the contractual life of the 2% Notes. Prior to April 10, 2017, the notes will not be redeemable. On any business day on or after April 10, 2017 we may redeem for cash all or part of the notes, at our option, at a redemption price equal to 100% of the principal amount of the notes being redeemed, plus any accrued and unpaid interest, if the closing sale price of our common stock exceeds 130% of the then prevailing conversion price of the notes for at least 20 of the 30 trading days preceding notice of the redemption.

These 2% Notes are described in our Annual Report on Form 10-K for the year ended December 31, 2013. That description is qualified in its entirety by the terms of the notes, which are contained in the Second Supplemental Indenture, dated March 12, 2013, between us and U.S. Bank National Association, as trustee, and the Indenture dated as of October 15, 2000, between us and the trustee.

Interest payments on the 2% Notes were $5.0 million for the nine months ended September 30, 2014. There were no scheduled interest payments on the 2% Notes for the nine months ended September 30, 2013.

9% Convertible Junior Subordinated Debentures – due April 2063

At September 30, 2014 and December 31, 2013 we had outstanding $389.5 million principal amount of 9% Convertible Junior Subordinated Debentures due in 2063 (the “debentures”). The debentures rank junior to all of our existing and future senior indebtedness.

Interest on the debentures is payable semi-annually in arrears on April 1 and October 1 of each year. As long as no event of default with respect to the debentures has occurred and is continuing, we may defer interest, under an optional deferral provision, for one or more consecutive interest periods up to ten years without giving rise to an event of default. Deferred interest will accrue additional interest at the rate then applicable to the debentures. During an optional deferral period we may not pay or declare dividends on our common stock.

Interest on the debentures that would have been payable on the scheduled interest payment date of October 1, 2012 had been deferred. During the deferral period the deferred interest continued to accrue and compound semi-annually at an annual rate of 9%.

On April 1, 2013 we paid the deferred interest payment, including the compound interest. The interest payment, totaling approximately $18.3 million, was made from the net proceeds of our March 2013 common stock offering. We also paid the regular April 1, 2013 interest payment due on the debentures of approximately $17.5 million, and we remain current on all interest payments due. We continue to have the right to defer interest that is payable on subsequent scheduled interest payment dates. Any deferral of such interest would be on terms equivalent to those described above.

These debentures are described in our Annual Report on Form 10-K for the year ended December 31, 2013. That description is qualified in its entirety by the terms of the debentures, which are contained in the Indenture, dated as of March 28, 2008, between us and U.S. Bank National Association, as trustee.

We may redeem the 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 debentures being redeemed, plus any accrued and unpaid interest, if the closing sale price of our common stock exceeds 130% of the then prevailing conversion price of the debentures for at least 20 of the 30 trading days preceding notice of the redemption.

The debentures are currently convertible, at the holder's option, at an initial conversion rate, which is subject to adjustment, of 74.0741 common shares per $1,000 principal amount of debentures at any time prior to the maturity date. This represents an initial conversion price of approximately $13.50 per share. If a holder elects to convert their debentures, deferred interest owed on the debentures being converted is also converted into shares of our common stock. The conversion rate for any deferred interest is based on the average price that our shares traded at during a 5-day period immediately prior to the election to convert. In lieu of issuing shares of common stock upon conversion of the debentures, we may, at our option, make a cash payment to converting holders for all or some of the shares of our common stock otherwise issuable upon conversion.

Interest payments on the debentures were $17.5 million and $35.8 million for the nine months ended September 30, 2014 and 2013, respectively.

All debt

The par value and fair value of our debt at September 30, 2014 and December 31, 2013 appears in the table below.

	Par Value	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
			(In thousands)		
September 30, 2014					
Liabilities:					
Senior Notes	$ 61,953	$ 63,696	$ -	$ 63,696	$ -
Convertible Senior Notes due 2017	345,000	374,498	374,498	-	-
Convertible Senior Notes due 2020	500,000	656,250	656,250	-	-
Convertible Junior Subordinated Debentures	389,522	497,371	-	497,371	-
Total Debt	$ 1,296,475	$ 1,591,815	$ 1,030,748	$ 561,067	$ -
December 31, 2013					
Liabilities:					
Senior Notes	$ 82,883	$ 85,991	$ 85,991	$ -	$ -
Convertible Senior Notes due 2017	345,000	388,988	388,988	-	-
Convertible Senior Notes due 2020	500,000	685,625	685,625	-	-
Convertible Junior Subordinated Debentures	389,522	439,186	-	439,186	-
Total Debt	$ 1,317,405	$ 1,599,790	$ 1,160,604	$ 439,186	$ -

The fair value of our debt is disclosed in accordance with the fair value hierarchy described in Note 8 – “Fair Value Measurements.”

The Senior Notes, Convertible Senior Notes and Convertible Junior Debentures are obligations of our holding company, MGIC Investment Corporation, and not of its subsidiaries. At September 30, 2014, we had approximately $517 million in cash and investments at our holding company. The net unrealized losses on our holding company investment portfolio were approximately $4.5 million at September 30, 2014. The modified duration of the holding company investment portfolio, excluding cash and cash equivalents, was 3.3 years at September 30, 2014.

Note 4 – Reinsurance

In April 2013, we entered into a quota share reinsurance agreement with a group of unaffiliated reinsurers that are not captive reinsurers. These reinsurers primarily have a rating of A or better by Moody's Investors Service, Standard & Poor's Rating Services or both. This reinsurance agreement applies to new insurance written between April 1, 2013 and December 31, 2015 (with certain exclusions) and covers incurred losses, with renewal premium through December 31, 2018, at which time the agreement terminates. Early termination of the agreement prior to December 31, 2018 is possible under specified scenarios. The structure of the reinsurance agreement is a 30% quota share, with a 20% ceding commission as well as a profit commission. In December 2013, we entered into an Addendum to the quota share reinsurance agreement that applies to certain insurance written before April 1, 2013 that has never been delinquent. The structure of the quota share reinsurance agreement remained the same, with the exception that the business written before April 1, 2013 is a 40% quota share. Under the Addendum, the premium which was received and unearned as of December 31, 2013 for policies covered by the Addendum was ceded.

As of September 30, 2014 and December 31, 2013, we have accrued a profit commission receivable of $69.0 million and $2.4 million, respectively. This receivable could increase materially through the term of the agreement, but the ultimate amount of the commission will depend on the ultimate level of premiums earned and losses incurred under the agreement. Any profit commission would be paid to us upon termination of the reinsurance agreement.

The reinsurers are required to maintain trust funds or letters of credit to support recoverable balances for reinsurance, such as loss reserves, paid losses, prepaid reinsurance premiums and profit commissions. As such forms of collateral are in place, we have not established an allowance against these balances.

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

Captive agreements were written on an annual book of business and the captives are required to maintain a separate trust account to support the combined reinsured risk on all annual books. MGIC is the sole beneficiary of the trust, and the trust account is made up of capital deposits by the lender captive, premium deposits by MGIC, and investment income earned. These amounts are held in the trust account and are available to pay reinsured losses. The reinsurance recoverable on loss reserves related to captive agreements was $48 million at September 30, 2014 which was supported by $205 million of trust assets, while at December 31, 2013, the reinsurance recoverable on loss reserves related to captives was $64 million which was supported by $226 million of trust assets. At September 30, 2014 and December 31, 2013 there was an additional $6 million and $23 million, respectively, of trust assets in captive agreements where there was no related reinsurance recoverable on loss reserves. See Note 5 – "Litigation and Contingencies" for a discussion of requests or subpoenas for information regarding captive mortgage reinsurance arrangements.

A summary of the effect of our reinsurance agreements on our results for the nine months ended September 30, 2014 and 2013 appears below.

	Nine Months Ended September 30,	
	2014	2013
	(In thousands)	
Ceded premiums written, net of profit commission	$ 87,450	$ 31,473
Ceded premiums earned, net of profit commission	79,460	23,499
Ceded losses incurred	22,451	21,238
Ceding commissions	28,994	4,646

Note 5 – Litigation and Contingencies

Before paying a claim, we review the loan and servicing files to determine the appropriateness of the claim amount. All of our insurance policies provide that we can reduce or deny a claim if the servicer did not comply with its obligations under our insurance policy, including the requirement to mitigate our loss by performing reasonable loss mitigation efforts or, for example, diligently pursuing a foreclosure or bankruptcy relief in a timely manner. We call such reduction of claims submitted to us “curtailments.” In 2013 and the first nine months of 2014, curtailments reduced our average claim paid by approximately 5.8% and 6.5%, respectively. In addition, the claims submitted to us sometimes include costs and expenses not covered by our insurance policies, such as hazard insurance premiums for periods after the claim date and losses resulting from property damage that has not been repaired. These other adjustments reduced claim amounts by less than the amount of curtailments. After we pay a claim, servicers and insureds sometimes object to our curtailments and other adjustments. We review these objections if they are sent to us within 90 days after the claim was paid.

When reviewing the loan file associated with a claim, we may determine that we have the right to rescind coverage on the loan. Prior to 2008, rescissions of coverage on loans were not a material portion of our claims resolved during a year. However, beginning in 2008, our rescissions of coverage on loans have materially mitigated our paid losses. In 2009 through 2011, rescissions mitigated our paid losses in the aggregate by approximately $3.0 billion; and in 2012, 2013 and the first nine months of 2014, rescissions mitigated our paid losses by approximately $0.3 billion, $135 million and $75 million, respectively (in each case, the figure includes amounts that would have either resulted in a claim payment or been charged to a deductible under a bulk or pool policy, and may have been charged to a captive reinsurer). In recent quarters, approximately 5% of claims received in a quarter have been resolved by rescissions, down from the peak of approximately 28% in the first half of 2009.

We estimate rescissions mitigated our incurred losses by approximately $2.5 billion in 2009 and $0.2 billion in 2010. These figures include the benefit of claims not paid in the period as well as the impact of changes in our estimated expected rescission activity on our loss reserves in the period. In 2012, we estimate that our rescission benefit in loss reserves was reduced by $0.2 billion due to probable rescission settlement agreements. We estimate that other rescissions had no significant impact on our losses incurred in 2011 through the first nine months of 2014. Our loss reserving methodology incorporates our estimates of future rescissions and reversals of rescissions. Historically, reversals of rescissions have been immaterial. A variance between ultimate actual rescission and reversal rates and our estimates, as a result of the outcome of litigation, settlements or other factors, could materially affect our losses.

If the insured disputes our right to rescind coverage, we generally engage in discussions in an attempt to settle the dispute. As part of those discussions, we may voluntarily suspend rescissions we believe may be part of a settlement. In 2011, Freddie Mac advised its servicers that they must obtain its prior approval for rescission settlements, Fannie Mae advised its servicers that they are prohibited from entering into such settlements and Fannie Mae notified us that we must obtain its prior approval to enter into certain settlements. Since those announcements, the GSEs have consented to our settlement agreements with two customers, one of which is Countrywide, as discussed below, and have rejected other settlement agreements. We have reached and implemented settlement agreements that do not require GSE approval, but they have not been material in the aggregate.

If we are unable to reach a settlement, the outcome of a dispute ultimately would be determined by legal proceedings. Under our policies, legal proceedings disputing our right to rescind coverage may be brought up to three years after the lender has obtained title to the property (typically through a foreclosure) or the property was sold in a sale that we approved, whichever is applicable, although in a few jurisdictions there is a longer time to bring such an action.

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

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

In April 2013, MGIC entered into separate settlement agreements with CHL and BANA, pursuant to which the parties will settle the Countrywide litigation as it relates to MGIC’s rescission practices (as amended, the “Agreements”). The Agreement with BANA covers loans purchased by the GSEs. That original Agreement was implemented beginning in November 2013 and we resolved all related suspended rescissions in November and December 2013 by paying the associated claim or processing the rescission. The pending arbitration proceedings concerning the loans covered by that agreement have been dismissed, the mutual releases between the parties regarding such loans have become effective and the litigation between the parties regarding such loans is to be dismissed.

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

We recorded the estimated impact of the Agreements and another probable settlement in our financial statements for the quarter ending December 31, 2012. We have also recorded the estimated impact of other probable settlements, including a previously disclosed curtailment dispute with Countrywide. The estimated impact that we recorded is our best estimate of our loss from these matters. We estimate that the maximum exposure above the best estimate provision we recorded is $670 million, of which about 58% is related to claims paying practices subject to the Agreement with CHL and the curtailment dispute with Countrywide. If we are not able to implement the Agreement with CHL or the other settlements we consider probable, we intend to defend MGIC vigorously against any related legal proceedings.

The flow policies at issue with Countrywide are in the same form as the flow policies that we used with all of our customers during the period covered by the Agreements, and the bulk policies at issue vary from one another, but are generally similar to those used in the majority of our Wall Street bulk transactions.

We are involved in discussions and legal and consensual proceedings with customers with respect to our claims paying practices. Although it is reasonably possible that when these discussions or proceedings are completed we will not prevail in all cases, we are unable to make a reasonable estimate or range of estimates of the potential liability. We estimate the maximum exposure associated with these discussions and proceedings to be approximately $38 million, although we believe we will ultimately resolve these matters for significantly less than this amount.

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

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

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

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

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

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

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

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

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

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

Through a non-insurance subsidiary, we utilize our underwriting skills to provide an outsourced underwriting service to our customers known as contract underwriting. As part of the contract underwriting activities, that subsidiary is responsible for the quality of the underwriting decisions in accordance with the terms of the contract underwriting agreements with customers. That subsidiary may be required to provide certain remedies to its customers if certain standards relating to the quality of our underwriting work are not met, and we have an established reserve for such future obligations. Claims for remedies may be made a number of years after the underwriting work was performed. Beginning in the second half of 2009, our subsidiary experienced an increase in claims for contract underwriting remedies, which continued throughout 2012. The underwriting remedy expense for 2013 and the first nine months of 2014 was approximately $5 million and $3 million, respectively, but may increase in the future.

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

Note 6 – Earnings (Loss) per Share

Our basic EPS is based on the weighted average number of common shares outstanding, which excludes participating securities of 0.1 million for the nine months ended September 30, 2013 because they were anti-dilutive due to our reported net loss. Participating securities of 0.1 million were included in our weighted average number of common shares outstanding for the three and nine months ended September 30, 2014 and for the three months ended September 30, 2013. Typically, diluted EPS is based on the weighted average number of common shares outstanding plus common stock equivalents which include certain stock awards and the dilutive effect of our convertible debt. In accordance with accounting guidance, if we report a net loss from continuing operations then our diluted EPS is computed in the same manner as the basic EPS. In addition if any common stock equivalents are anti-dilutive they are excluded from the calculation. The following includes a reconciliation of the weighted average number of shares; however for the three months ended September 30, 2014 and 2013 common stock equivalents of 54.5 million and 126.5 million, respectively, and for the nine months ended September 30, 2014 and 2013 common stock equivalents of 54.5 million and 109.6 million, respectively, were not included because they were anti-dilutive.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(In thousands, except per share data)			
Basic earnings per share:				
Net income (loss)	$ 72,017	$ 12,114	$ 177,521	$ (48,441)
Weighted average common shares outstanding	338,626	337,868	338,488	302,996
Basic income (loss) per share	$ 0.21	$ 0.04	$ 0.52	$ (0.16)
Diluted earnings per share:				
Net income (loss)	$ 72,017	$ 12,114	$ 177,521	$ (48,441)
Effect of dilutive securities:				
2% Convertible Senior Notes	3,049	-	9,148	-
Net income (loss) plus assumed conversions	$ 75,066	$ 12,114	$ 186,669	$ (48,441)
Weighted-average shares - Basic	338,626	337,868	338,488	302,996
Common stock equivalents	74,950	1,558	74,985	-
Weighted-average shares - Diluted	413,576	339,426	413,473	302,996
Diluted income (loss) per share	$ 0.18	$ 0.04	$ 0.45	$ (0.16)

Note 7 – Investments

The amortized cost, gross unrealized gains and losses and fair value of the investment portfolio at September 30, 2014 and December 31, 2013 are shown below.

September 30, 2014	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses (1)	Fair Value
	(In thousands)			
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 414,778	$ 2,636	$ (9,795)	$ 407,619
Obligations of U.S. states and political subdivisions	833,510	10,068	(4,316)	839,262
Corporate debt securities	2,341,189	9,953	(12,587)	2,338,555
Asset-backed securities	341,519	932	(202)	342,249
Residential mortgage-backed securities	344,515	167	(13,751)	330,931
Commercial mortgage-backed securities	269,857	675	(3,032)	267,500
Collateralized loan obligations	61,339	-	(763)	60,576
Debt securities issued by foreign sovereign governments	37,854	2,466	(33)	40,287
Total debt securities	4,644,561	26,897	(44,479)	4,626,979
Equity securities	2,968	63	(9)	3,022
Total investment portfolio	$ 4,647,529	$ 26,960	$ (44,488)	$ 4,630,001

December 31, 2013	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses (1)	Fair Value
	(In thousands)			
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 663,642	$ 1,469	$ (25,521)	$ 639,590
Obligations of U.S. states and political subdivisions	932,922	5,865	(17,420)	921,367
Corporate debt securities	2,190,095	6,313	(24,993)	2,171,415
Asset-backed securities	399,839	1,100	(453)	400,486
Residential mortgage-backed securities	383,368	146	(24,977)	358,537
Commercial mortgage-backed securities	277,920	131	(6,668)	271,383
Collateralized loan obligations	61,337	-	(1,042)	60,295
Debt securities issued by foreign sovereign governments	39,420	1,722	(290)	40,852
Total debt securities	4,948,543	16,746	(101,364)	4,863,925
Equity securities	2,908	9	(23)	2,894
Total investment portfolio	$ 4,951,451	$ 16,755	$ (101,387)	$ 4,866,819

(1) At September 30, 2014 and December 31, 2013, there were no other-than-temporary impairment losses recorded in other comprehensive income.

Our foreign investments primarily consist of the investment portfolio supporting our Australian domiciled subsidiary. This portfolio is comprised of Australian government and semi government securities, representing 86% of the market value of our foreign investments with the remaining 10% invested in corporate securities and 4% in cash equivalents. Seventy-nine percent of the Australian portfolio is rated AAA, by one or more of Moody's, Standard & Poor's and Fitch Ratings, and the remaining 21% is rated AA.

The amortized cost and fair values of debt securities at September 30, 2014, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Because most asset-backed and mortgage-backed securities and collateralized loan obligations provide for periodic payments throughout their lives, they are listed below in separate categories.

September 30, 2014	Amortized Cost	Fair Value
	(In thousands)	
Due in one year or less	$ 405,324	$ 406,256
Due after one year through five years	1,858,612	1,863,872
Due after five years through ten years	928,153	922,372
Due after ten years	435,242	433,223
	$ 3,627,331	$ 3,625,723
Asset-backed securities	341,519	342,249
Residential mortgage-backed securities	344,515	330,931
Commercial mortgage-backed securities	269,857	267,500
Collateralized loan obligations	61,339	60,576
Total at September 30, 2014	$ 4,644,561	$ 4,626,979

At September 30, 2014 and December 31, 2013, the investment portfolio had gross unrealized losses of $44.5 million and $101.4 million, respectively. For those securities in an unrealized loss position, the length of time the securities were in such a position, as measured by their month-end fair values, is as follows:

September 30, 2014	Less Than 12 Months				12 Months or Greater				Total			
	Fair Value		Unrealized Losses		Fair Value		Unrealized Losses		Fair Value		Unrealized Losses	
	(In thousands)											
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$	6,320	$	43	$	325,892	$	9,752	$	332,212	$	9,795
Obligations of U.S. states and political subdivisions		165,975		1,392		135,146		2,924		301,121		4,316
Corporate debt securities		1,000,551		5,995		233,161		6,592		1,233,712		12,587
Asset-backed securities		56,801		137		14,675		65		71,476		202
Residential mortgage-backed securities		15,020		55		307,151		13,696		322,171		13,751
Commercial mortgage-backed securities		91,505		855		112,195		2,177		203,700		3,032
Collateralized loan obligations		-		-		60,576		763		60,576		763
Debt securities issued by foreign sovereign governments		4,561		10		1,783		23		6,344		33
Equity securities		137		1		238		8		375		9
Total investment portfolio	$	1,340,870	$	8,488	$	1,190,817	$	36,000	$	2,531,687	$	44,488

December 31, 2013	Less Than 12 Months				12 Months or Greater				Total			
	Fair Value		Unrealized Losses		Fair Value		Unrealized Losses		Fair Value		Unrealized Losses	
	(In thousands)											
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$	465,975	$	24,980	$	4,103	$	541	$	470,078	$	25,521
Obligations of U.S. states and political subdivisions		503,967		17,370		4,226		50		508,193		17,420
Corporate debt securities		1,238,211		20,371		81,593		4,622		1,319,804		24,993
Asset-backed securities		126,991		387		7,114		66		134,105		453
Residential mortgage-backed securities		91,534		3,886		265,827		21,091		357,361		24,977
Commercial mortgage-backed securities		192,440		6,239		43,095		429		235,535		6,668
Collateralized loan obligations		60,295		1,042		-		-		60,295		1,042
Debt securities issued by foreign sovereign governments		7,203		290		-		-		7,203		290
Equity securities		1,012		18		75		5		1,087		23
Total investment portfolio	$	2,687,628	$	74,583	$	406,033	$	26,804	$	3,093,661	$	101,387

The unrealized losses in all categories of our investments at September 30, 2014 and December 31, 2013 were primarily caused by the difference in interest rates at each respective period, compared to interest rates at the time of purchase.

Under the current guidance a debt security impairment is deemed other than temporary if we either intend to sell the security, or it is more likely than not that we will be required to sell the security before recovery or we do not expect to collect cash flows sufficient to recover the amortized cost basis of the security. During each of the three and nine months ended September 30, 2014 there were no other-than-temporary impairments ("OTTI") recognized. There were $0.3 million of OTTI losses recognized during the three and nine months ended September 30, 2013.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(In thousands)			
Net realized investment gains (losses) and OTTI on investments:				
Fixed maturities	$ 629	$ (393)	$ 755	$ 2,755
Equity securities	3	254	168	850
	$ 632	$ (139)	$ 923	$ 3,605

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(In thousands)			
Net realized investment gains (losses) and OTTI on investments:				
Gains on sales	$ 1,161	$ 391	$ 3,273	$ 5,352
Losses on sales	(529)	(202)	(2,350)	(1,419)
Impairment losses	-	(328)	-	(328)
	$ 632	$ (139)	$ 923	$ 3,605

Note 8 – Fair Value Measurements

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

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

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

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

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

During the quarter ended September 30, 2014, we changed the classification of our U.S. government corporation and agency securities with a fair value of $215 million, from Level 1 to Level 2 in the fair value hierarchy. The fair value of our U.S. government corporation and agency securities, in current market conditions, is determined from quoted prices for similar instruments in active markets, which is in accordance with our policy for determining fair value for Level 2 securities. The classification of these securities in the fair value table as of December 31, 2013 has been revised, as we believe the most appropriate classification for these securities was Level 2 at that date. There were no other transfers between Level 1 and Level 2 during the nine months ended September 30, 2014.

Fair value measurements for assets measured at fair value included the following as of September 30, 2014 and December 31, 2013:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In thousands)			
September 30, 2014				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 407,619	$ 192,683	$ 214,936	$ -
Obligations of U.S. states and political subdivisions	839,262	-	837,268	1,994
Corporate debt securities	2,338,555	-	2,338,555	-
Asset-backed securities	342,249	-	342,249	-
Residential mortgage-backed securities	330,931	-	330,931	-
Commercial mortgage-backed securities	267,500	-	267,500	-
Collateralized loan obligations	60,576	-	60,576	-
Debt securities issued by foreign sovereign governments	40,287	40,287	-	-
Total debt securities	4,626,979	232,970	4,392,015	1,994
Equity securities	3,022	2,701	-	321
Total investments	$ 4,630,001	$ 235,671	$ 4,392,015	$ 2,315
Real estate acquired (1)	$ 16,565	$ -	$ -	$ 16,565

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(In thousands)		
December 31, 2013				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 639,590	$ 347,273	$ 292,317	$ -
Obligations of U.S. states and political subdivisions	921,367	-	918,944	2,423
Corporate debt securities	2,171,415	-	2,171,415	-
Asset-backed securities	400,486	-	400,486	-
Residential mortgage-backed securities	358,537	-	358,537	-
Commercial mortgage-backed securities	271,383	-	271,383	-
Collateralized loan obligations	60,295	-	60,295	-
Debt securities issued by foreign sovereign governments	40,852	40,852	-	-
Total debt securities	4,863,925	388,125	4,473,377	2,423
Equity securities	2,894	2,573	-	321
Total investments	$ 4,866,819	$ 390,698	$ 4,473,377	$ 2,744
Real estate acquired (1)	$ 13,280	$ -	$ -	$ 13,280

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

For assets measured at fair value using significant unobservable inputs (Level 3), a reconciliation of the beginning and ending balances for the three and nine months ended September 30, 2014 and 2013 is as follows:

	Obligations of U.S. States and Political Subdivisions	Equity Securities	Total Investments	Real Estate Acquired
	(In thousands)			
Balance at June 30, 2014	$ 2,231	$ 321	$ 2,552	$ 10,804
Total realized/unrealized gains (losses):				
Included in earnings and reported as losses incurred, net	-	-	-	(2,062)
Purchases	-	-	-	14,107
Sales	(237)	-	(237)	(6,284)
Transfers into Level 3	-	-	-	-
Transfers out of Level 3	-	-	-	-
Balance at September 30, 2014	$ 1,994	$ 321	$ 2,315	$ 16,565
Amount of total losses included in earnings for the three months ended September 30, 2014 attributable to the change in unrealized losses on assets still held at September 30, 2014	$ -	$ -	$ -	$ -

	Obligations of U.S. States and Political Subdivisions	Equity Securities	Total Investments	Real Estate Acquired
	(In thousands)			
Balance at December 31, 2013	$ 2,423	$ 321	$ 2,744	$ 13,280
Total realized/unrealized gains (losses):				
Included in earnings and reported as losses incurred, net	-	-	-	(4,378)
Purchases	30	-	30	33,484
Sales	(459)	-	(459)	(25,821)
Transfers into Level 3	-	-	-	-
Transfers out of Level 3	-	-	-	-
Balance at September 30, 2014	$ 1,994	$ 321	$ 2,315	$ 16,565
Amount of total losses included in earnings for the nine months ended September 30, 2014 attributable to the change in unrealized losses on assets still held at September 30, 2014	$ -	$ -	$ -	$ -

	Obligations of U.S. States and Political Subdivisions	Corporate Debt Securities	Equity Securities	Total Investments	Real Estate Acquired
			(In thousands)		
Balance at June 30, 2013	$ 2,811	$ -	$ 321	$ 3,132	$ 8,741
Total realized/unrealized gains (losses):					
Included in earnings and reported as losses incurred, net	-	-	-	-	(1,378)
Purchases	-	-	-	-	10,857
Sales	(241)	-	-	(241)	(5,844)
Transfers into Level 3	-	-	-	-	-
Transfers out of Level 3	-	-	-	-	-
Balance at September 30, 2013	$ 2,570	$ -	$ 321	$ 2,891	$ 12,376
Amount of total losses included in earnings for the three months ended September 30, 2013 attributable to the change in unrealized losses on assets still held at September 30, 2013	$ -	$ -	$ -	$ -	$ -

	Obligations of U.S. States and Political Subdivisions	Corporate Debt Securities	Equity Securities	Total Investments	Real Estate Acquired
			(In thousands)		
Balance at December 31, 2012	$ 3,130	$ 17,114	$ 321	$ 20,565	$ 3,463
Total realized/unrealized gains (losses):					
Included in earnings and reported as realized investment gains (losses), net	-	(225)	-	(225)	-
Included in earnings and reported as losses incurred, net	-	-	-	-	(3,680)
Purchases	30	-	-	30	28,401
Sales	(590)	(16,889)	-	(17,479)	(15,808)
Transfers into Level 3	-	-	-	-	-
Transfers out of Level 3	-	-	-	-	-
Balance at September 30, 2013	$ 2,570	$ -	$ 321	$ 2,891	$ 12,376
Amount of total losses included in earnings for the nine months ended September 30, 2013 attributable to the change in unrealized losses on assets still held at September 30, 2013	$ -	$ -	$ -	$ -	$ -

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

Additional fair value disclosures related to our investment portfolio are included in Note 7 – "Investments." Fair value disclosures related to our debt are included in Note 3 – "Debt."

Note 9 – Other Comprehensive Income

Our other comprehensive income for the three and nine months ended September 30, 2014 and 2013 was as follows:

	Three Months Ended September 30, 2014			
	Before tax	Tax effect	Valuation allowance	Net of tax
	(In thousands)			
Other comprehensive income (loss):				
Change in unrealized gains and losses on investments	$ (17,377)	$ 6,069	$ (5,993)	$ (17,301)
Benefit plan adjustments	(1,732)	606	(606)	(1,732)
Unrealized foreign currency translation adjustment	(3,835)	1,345	-	(2,490)
Other comprehensive income (loss)	$ (22,944)	$ 8,020	$ (6,599)	$ (21,523)

	Nine Months Ended September 30, 2014			
	Before tax	Tax effect	Valuation allowance	Net of tax
	(In thousands)			
Other comprehensive income (loss):				
Change in unrealized gains and losses on investments	$ 67,102	$ (23,436)	$ 23,132	$ 66,798
Benefit plan adjustments	(5,198)	1,819	(1,819)	(5,198)
Unrealized foreign currency translation adjustment	(1,000)	350	-	(650)
Other comprehensive income (loss)	$ 60,904	$ (21,267)	$ 21,313	$ 60,950

	Three Months Ended September 30, 2013			
	Before tax	Tax effect	Valuation allowance	Net of tax
	(In thousands)			
Other comprehensive income (loss):				
Change in unrealized gains and losses on investments	$ 7,163	$ (2,526)	$ 2,640	$ 7,277
Unrealized foreign currency translation adjustment	2,901	(1,016)	-	1,885
Other comprehensive income (loss)	$ 10,064	$ (3,542)	$ 2,640	$ 9,162

	Nine Months Ended September 30, 2013			
	Before tax	Tax effect	Valuation allowance	Net of tax
	(In thousands)			
Other comprehensive income (loss):				
Change in unrealized gains and losses on investments	$ (102,468)	$ 35,586	$ (33,914)	$ (100,796)
Unrealized foreign currency translation adjustment	(15,868)	5,557	-	(10,311)
Other comprehensive income (loss)	$ (118,336)	$ 41,143	$ (33,914)	$ (111,107)

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

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

	Three Months Ended September 30, 2014			
	Unrealized gains and losses on available-for-sale securities	Defined benefit plans	Foreign currency translation	Total
	(In thousands)			
Balance at June 30, 2014, before tax	$ (155)	$ (7,232)	$ 14,019	$ 6,632
Other comprehensive income (loss) before reclassifications	(18,217)	-	(3,835)	(22,052)
Amounts reclassified from accumulated other comprehensive income (loss)	(840)(1)	1,732(2)	-	892
Net current period other comprehensive income (loss)	(17,377)	(1,732)	(3,835)	(22,944)
Balance at September 30, 2014, before tax	$ (17,532)	$ (8,964)	$ 10,184	$ (16,312)

	Nine Months Ended September 30, 2014			
	Unrealized gains and losses on available-for-sale securities	Defined benefit plans	Foreign currency translation	Total
	(In thousands)			
Balance at December 31, 2013, before tax	$ (84,634)	$ (3,766)	$ 11,184	$ (77,216)
Other comprehensive income (loss) before reclassifications	56,332	-	(1,000)	55,332
Amounts reclassified from accumulated other comprehensive income (loss)	(10,770)(1)	5,198(2)	-	(5,572)
Net current period other comprehensive income (loss)	67,102	(5,198)	(1,000)	60,904
Balance at September 30, 2014, before tax	(17,532)	(8,964)	10,184	(16,312)
Tax effect (3)	(64,360)	26,940	(3,044)	(40,464)
Balance at September 30, 2014, net of tax	$ (81,892)	$ 17,976	$ 7,140	$ (56,776)

	Three Months Ended September 30, 2013			
	Unrealized gains and losses on available-for-sale securities	Defined benefit plans	Foreign currency translation	Total
	(In thousands)			
Balance at June 30, 2013, before tax	$ (68,090)	$ (71,804)	$ 13,978	$ (125,916)
Other comprehensive income (loss) before reclassifications	4,396	-	2,901	7,297
Amounts reclassified from accumulated other comprehensive income (loss)	(2,767)(1)	-	-	(2,767)
Net current period other comprehensive income (loss)	7,163	-	2,901	10,064
Balance at September 30, 2013, before tax	$ (60,927)	$ (71,804)	$ 16,879	$ (115,852)

	Nine Months Ended September 30, 2013			
	Unrealized gains and losses on available-for-sale securities	Defined benefit plans	Foreign currency translation	Total
	(In thousands)			
Balance at December 31, 2012, before tax	$ 41,541	$ (71,804)	$ 32,747	$ 2,484
Other comprehensive income (loss) before reclassifications	(95,588)	-	(15,868)	(111,456)
Amounts reclassified from accumulated other comprehensive income (loss)	6,880(1)	-	-	6,880
Net current period other comprehensive income (loss)	(102,468)	-	(15,868)	(118,336)
Balance at September 30, 2013, before tax	(60,927)	(71,804)	16,879	(115,852)
Tax effect (3)	(64,968)	26,940	(5,390)	(43,418)
Balance at September 30, 2013, net of tax	$ (125,895)	$ (44,864)	$ 11,489	$ (159,270)

(1) During the three and nine months ended September 30, 2014, net unrealized losses of ($0.8) million and ($10.8) million, respectively, were reclassified to the Consolidated Statement of Operations and included in Realized investment gains, net. During the three and nine months ended September 30, 2013, net unrealized (losses) gains of ($2.8) million and $6.9 million, respectively were reclassified to the Consolidated Statement of Operations and included in Realized investment gains, net.

(2) During the three and nine months ended September 30, 2014, other comprehensive income related to benefit plans of $1.7 million and $5.2 million, respectively, was reclassified to the Consolidated Statement of Operations and included in Underwriting and other expenses, net.

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

Total accumulated other comprehensive income at December 31, 2013 is included in the table below.

	Unrealized gains and losses on available-for-sale securities	Defined benefit plans	Foreign currency translation	Total
		(In thousands)		
Balance at December 31, 2013, before tax	$ (84,634)	$ (3,766)	$ 11,184	$ (77,216)
Tax effect (1)	(64,056)	26,940	(3,394)	(40,510)
Balance at December 31, 2013, net of tax	$ (148,690)	$ 23,174	$ 7,790	$ (117,726)

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

Note 10 - Benefit Plans

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

	Three Months Ended September 30,			
	Pension and Supplemental Executive Retirement Plans		Other Postretirement Benefits	
	2014	2013	2014	2013
	(In thousands)			
Service cost	$ 2,142	$ 2,835	$ 165	$ 202
Interest cost	3,997	3,823	164	155
Expected return on plan assets	(5,258)	(5,035)	(1,162)	(919)
Recognized net actuarial loss	271	1,536	(109)	-
Amortization of prior service cost	(233)	125	(1,663)	(1,663)
Net periodic benefit cost	$ 919	$ 3,284	$ (2,605)	$ (2,225)

	Nine Months Ended September 30,			
	Pension and Supplemental Executive Retirement Plans		Other Postretirement Benefits	
	2014	2013	2014	2013
	(In thousands)			
Service cost	$ 6,425	$ 8,504	$ 494	$ 609
Interest cost	11,991	11,467	491	464
Expected return on plan assets	(15,773)	(15,108)	(3,486)	(2,759)
Recognized net actuarial loss	812	4,609	(326)	-
Amortization of prior service cost	(698)	377	(4,988)	(4,987)
Net periodic benefit cost	$ 2,757	$ 9,849	$ (7,815)	$ (6,673)

We currently intend to make a contribution to our Pension plan in the fourth quarter of 2014 that will approximate our annual service cost for the plan.

Note 11 – Income Taxes

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

It is reasonably possible that the amount of the valuation allowance will be reversed in the foreseeable future when we show positive evidence, such as meaningful levels of sustainable operating income, that our deferred tax assets are realizable. In the period in which the valuation allowance is reversed, we would recognize a tax benefit which will increase our earnings for that period. In future years, after the valuation allowance has been reversed and until such time as our net operating loss carryforwards are exhausted or expired, our provision for income tax would substantially exceed the amount of cash tax payments.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(In thousands)			
Tax provision (benefit) before valuation allowance	$ 25,030	$ (674)	$ 65,322	$ (17,792)
Change in valuation allowance	(24,781)	1,010	(63,229)	20,257
Provision for income taxes	$ 249	$ 336	$ 2,093	$ 2,465

The change in the valuation allowance that was included in other comprehensive income for the three months ended September 30, 2014 and 2013 was an increase of $6.6 million and a decrease of $2.6 million, respectively. The change in the valuation allowance that was included in other comprehensive income for the nine months ended September 30, 2014 and 2013 was a decrease of $21.3 million and an increase of $33.9 million, respectively. The total valuation allowance as of September 30, 2014 and December 31, 2013 was $919.7 million and $1,004.2 million, respectively.

We have approximately $2.5 billion of net operating loss carryforwards on a regular tax basis and $1.6 billion of net operating loss carryforwards for computing the alternative minimum tax as of September 30, 2014. Any unutilized carryforwards are scheduled to expire at the end of tax years 2029 through 2033.

Tax Contingencies

As previously disclosed, the Internal Revenue Service ("IRS") completed examinations of our federal income tax returns for the years 2000 through 2007 and issued proposed assessments for taxes, interest and penalties related to our treatment of the flow-through income and loss from an investment in a portfolio of residual interests of Real Estate Mortgage Investment Conduits ("REMICs"). The IRS indicated that it did not believe that, for various reasons, we had established sufficient tax basis in the REMIC residual interests to deduct the losses from taxable income. We appealed these assessments within the IRS and in August 2010, we reached a tentative settlement agreement with the IRS which was not finalized. On September 10, 2014, we received Notices of Deficiency (commonly referred to as "90 day letters") covering the 2000-2007 tax years. The Notices of Deficiency reflect taxes and penalties related to the REMIC matters of $197.5 million and at September 30, 2014, there would also be interest related to these matters of approximately $164.8 million. In 2007, we made a payment of $65.2 million to the United States Department of the Treasury which will reduce any amounts we would ultimately owe. Depending on the outcome of this matter, additional state income taxes and state interest may become due when a final resolution is reached. As of September 30, 2014, those state taxes and interest would approximate $47.0 million. In addition, there could also be state tax penalties. The Notices of Deficiency also reflected additional amounts due of $261.4 million which are primarily associated with the disallowance of the carryback of the 2009 net operating loss to the 2004-2007 tax years. We believe the IRS included the carryback adjustments as a precaution to keep open the statute of limitations on collection of the tax that was refunded when this loss was carried back, and not because the IRS actually intends to disallow the carryback permanently.

We intend to petition the U.S. Tax Court to litigate the deficiency amounts and have until December 8, 2014 to do so. Any resulting litigation could be lengthy and costly in terms of legal fees and related expenses. We can provide no assurance regarding the outcome of any such litigation or whether a compromised settlement with the IRS will ultimately be reached and finalized. Our total amount of unrecognized tax benefits as of September 30, 2014 is $106.0 million, which represents the tax benefits generated by the REMIC portfolio included in our tax returns that we have not taken benefit for in our financial statements, including any related interest. We continue to believe that our previously recorded tax provisions and liabilities are appropriate. However, we would need to make appropriate adjustments, which could be material, to our tax provision and liabilities if our view of the probability of success in this matter changes, and the ultimate resolution of this matter could have a material negative impact on our effective tax rate, results of operations, cash flows, available assets and statutory capital. In this regard, see Note 1 – "Nature of Business – Capital-GSEs."

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

The total amount of the unrecognized tax benefits, related to our aforementioned REMIC issue, that would affect our effective tax rate is $93.4 million, after taking into account the effect of NOL carrybacks. We recognize interest accrued and penalties related to unrecognized tax benefits in income taxes. As of September 30, 2014 and December 31, 2013, we had accrued $26.7 million and $26.1 million, respectively, for the payment of interest.

Note 12 – Loss Reserves

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

Estimation of losses is inherently judgmental. The conditions that affect the claim rate and claim severity include the current and future state of the domestic economy, including unemployment, and the current and future strength of local housing markets. Current conditions in the housing and mortgage industries make these assumptions more volatile than they would otherwise be. The actual amount of the claim payments may be substantially different than our loss reserve estimates. Our estimates could be adversely affected by several factors, including a 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, may affect borrower willingness to continue to make mortgage payments when the value of the home is below the mortgage balance. Changes to our estimates could result in a material impact to our results of operations and capital position, even in a stable economic environment.

The following table provides a reconciliation of beginning and ending loss reserves for the nine months ended September 30, 2014 and 2013:

	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
	(In thousands)	
Reserve at beginning of period	$ 3,061,401	$ 4,056,843
Less reinsurance recoverable	64,085	104,848
Net reserve at beginning of period	2,997,316	3,951,995
Losses incurred:		
Losses and LAE incurred in respect of default notices related to:		
Current year	454,390	686,454
Prior years (1)	(75,387)	(43,783)
Subtotal	379,003	642,671
Losses paid:		
Losses and LAE paid in respect of default notices related to:		
Current year	11,574	28,792
Prior years	895,061	1,286,833
Reinsurance terminations (2)	-	(3,332)
Subtotal	906,635	1,312,293
Net reserve at end of period	2,469,684	3,282,373
Plus reinsurance recoverables	57,898	70,621
Reserve at end of period	$ 2,527,582	$ 3,352,994

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

(2) In a termination, the reinsurance agreement is cancelled, with no future premium ceded and funds for any incurred but unpaid losses transferred to us. The transferred funds result in an increase in our investment portfolio (including cash and cash equivalents) and a decrease in net losses paid (reduction to losses incurred). In addition, there is an offsetting decrease in the reinsurance recoverable (increase in losses incurred), and thus there is no net impact to losses incurred.

The "Losses incurred" section of the table above shows losses incurred on default notices received in the current year and in prior years. The amount of losses incurred relating to default notices received in the current year represents the estimated amount to be ultimately paid on such default notices. The amount of losses incurred relating to default notices received in prior years represents the actual claim rate and severity associated with those defaults notices resolved in the current year differing from the estimated liability at the prior year-end, as well as a re-estimation of amounts to be ultimately paid on defaults remaining in inventory from the end of the prior year. This re-estimation of the estimated claim rate and estimated severity is the result of our review of current trends in the default inventory, such as percentages of defaults that have resulted in a claim, the amount of the claims, changes in the relative level of defaults by geography and changes in average loan exposure.

Losses incurred on default notices received in the current year decreased in the first nine months of 2014 compared to the same period in 2013, primarily due to a decrease in the number of new default notices received, net of cures, as well as a decrease in the estimated claim rate on new and previously received delinquencies.

The prior year development of the reserves in the first nine months of 2014 and 2013 is reflected in the table below.

	Nine Months Ended September 30,	
	2014	2013
	(In millions)	
Prior year loss development (1):		
(Decrease) increase in estimated claim rate on primary defaults	$ (38)	$ 10
Decrease in estimated severity on primary defaults	(20)	(40)
Change in estimates related to pool reserves, LAE reserves and reinsurance	(17)	(14)
Total prior year loss development	$ (75)	$ (44)

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

The prior year loss development was based on the resolution of approximately 50% and 48% for the nine months ended September 30, 2014 and 2013, respectively, of the prior year default inventory, as well as a re-estimation of amounts to be ultimately paid on defaults remaining in inventory from the end of the prior year and estimated incurred but not reported items from the end of the prior year. In the first nine months of 2014, we recognized favorable development on our estimated claim rate as we experienced a better cure rate on previously received delinquencies. The favorable development related to our estimated severity primarily relates to items resolved in the first nine months of 2014. In the first nine months of 2013, we recognized favorable development in our estimated severity primarily related to items resolved in the first nine months of 2013.

The “Losses paid” section of the table above shows the breakdown between claims paid on default notices received in the current year, claims paid on default notices received in prior years and the decrease in losses paid related to terminated reinsurance agreements as noted in footnote (2) of that table. Until a few years ago, it took, on average, approximately twelve months for a default that is not cured to develop into a paid claim. Over the past several years, the average time it takes to receive a claim associated with a default has increased. This is, in part, due to new loss mitigation protocols established by servicers and to changes in some state foreclosure laws that may include, for example, a requirement for additional review and/or mediation processes. It is difficult to estimate how long it may take for current and future defaults that do not cure to develop into paid claims.

The liability associated with our estimate of premiums to be refunded on expected claim payments is accrued for separately at September 30, 2014 and December 31, 2013 and approximated $112 million and $131 million, respectively. Separate components of this liability are included in “Other liabilities” and “Premium deficiency reserve” on our consolidated balance sheet. Changes in the liability affect premiums written and earned and change in premium deficiency reserve.

A rollforward of our primary default inventory for the three and nine months ended September 30, 2014 and 2013 appears in the table below. The information concerning new notices and cures is compiled from monthly reports received from loan servicers. The level of new notice and cure activity reported in a particular month can be influenced by, among other things, the date on which a servicer generates its report, the number of business days in a month and transfers of servicing between loan servicers. 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.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Default inventory at beginning of period	85,416	117,105	103,328	139,845
New Notices	22,927	27,755	67,451	81,044
Cures	(19,582)	(24,105)	(68,082)	(80,677)
Paids (including those charged to a deductible or captive)	(5,288)	(8,659)	(18,420)	(27,155)
Rescissions and denials	(319)	(509)	(1,123)	(1,470)
Default inventory at end of period	83,154	111,587	83,154	111,587

Pool insurance notice inventory decreased from 6,821 at September 30, 2013 to 6,563 at December 31, 2013 and to 4,525 at September 30, 2014.

The decrease in the primary default inventory experienced during 2014 and 2013 was generally across all markets and all book years. Historically as a default ages it becomes more likely to result in a claim. The percentage of loans that have been in default for 12 or more consecutive months and the number of loans in our primary claims received inventory have been affected by our suspended rescissions and the resolution of certain of those rescissions discussed below and in Note 5 – “Litigation and Contingencies.”

Aging of the Primary Default Inventory

	September 30, 2014		December 31, 2013		September 30, 2013	
Consecutive months in default						
3 months or less	16,209	19%	18,941	18%	20,144	18%
4 - 11 months	18,890	23%	24,514	24%	24,138	22%
12 months or more	48,055	58%	59,873	58%	67,305	60%
Total primary default inventory	83,154	100%	103,328	100%	111,587	100%
Primary claims received inventory included in ending default inventory (1)	5,194	6%	6,948	7%	9,858	9%

(1) Our claims received inventory includes suspended rescissions, as we have voluntarily suspended rescissions of coverage related to certain loans that we believed would be included in a potential resolution. As of September 30, 2014, rescissions of coverage on approximately 1,575 loans had been voluntarily suspended.

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

Number of Payments Delinquent

	September 30, 2014		December 31, 2013		September 30, 2013	
3 payments or less	23,769	28%	28,095	27%	28,777	26%
4 - 11 payments	18,985	23%	24,605	24%	25,089	22%
12 payments or more	40,400	49%	50,628	49%	57,721	52%
Total primary default inventory	83,154	100%	103,328	100%	111,587	100%

Claims paying practices

We estimate rescissions mitigated our incurred losses by approximately $2.5 billion in 2009 and $0.2 billion in 2010. These figures include the benefit of claims not paid in the period as well as the impact of changes in our estimated expected rescission activity on our loss reserves in the period. In 2012, we estimate that our rescission benefit in loss reserves was reduced by $0.2 billion due to probable rescission settlement agreements. We estimate that other rescissions had no significant impact on our losses incurred in 2011 through the first nine months of 2014. Our loss reserving methodology incorporates our estimates of future rescissions and reversals of rescissions. Historically, reversals of rescissions have been immaterial. A variance between ultimate actual rescission and reversal rates and our estimates, as a result of the outcome of litigation, settlements or other factors, could materially affect our losses.

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

The liability associated with our estimate of premiums to be refunded on expected future rescissions is accrued for separately. At September 30, 2014 and December 31, 2013 the estimate of this liability totaled $29 million and $15 million, respectively. Separate components of this liability are included in “Other liabilities” and “Premium deficiency reserve” on our consolidated balance sheet. Changes in the liability affect premiums written and earned and change in premium deficiency reserve.

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

Note 13 – Premium Deficiency Reserve

The components of the premium deficiency reserve at September 30, 2014, December 31, 2013 and September 30, 2013 appear in the table below.

	September 30, 2014	December 31, 2013	September 30, 2013
		(In millions)	
Present value of expected future paid losses and expenses, net of expected future premium	$ (570)	$ (669)	$ (709)
Established loss reserves	541	621	652
Net deficiency	$ (29)	$ (48)	$ (57)

The decrease in the premium deficiency reserve for the three and nine months ended September 30, 2014 was $6 million and $19 million, respectively, as shown in the table below, which represents the net result of actual premiums, losses and expenses as well as a net change in assumptions for these periods. The net change in assumptions for the three months ended September 30, 2014 is primarily related to higher estimated ultimate losses. The net change in assumptions for the nine months ended September 30, 2014 is primarily related to higher estimated ultimate premiums.

	Three Months Ended		Nine Months Ended	
	September 30, 2014			
	(In millions)			
Premium Deficiency Reserve at beginning of period		$ (35)		$ (48)
Paid claims and loss adjustment expenses	$ 41		$ 132	
Decrease in loss reserves	(15)		(81)	
Premium earned	(17)		(59)	
Effects of present valuing on future premiums, losses and expenses	3		(1)	
Change in premium deficiency reserve to reflect actual premium, losses and expenses recognized		12		(9)
Change in premium deficiency reserve to reflect change in assumptions relating to future premiums, losses, expenses and discount rate (1)		(6)		28
Premium Deficiency Reserve at end of period		$ (29)		$ (29)

(1) A (negative) positive number for changes in assumptions relating to premiums, losses, expenses and discount rate indicates a (deficiency) redundancy of the prior premium deficiency reserve.

The decrease in the premium deficiency reserve for the three and nine months ended September 30, 2013 was $4 million and $17 million, respectively, as shown in the table below. The net change in assumptions for both the three months and nine months ended September 30, 2013 is primarily related to higher estimated ultimate premiums.

	Three Months Ended September 30, 2013		Nine Months Ended September 30, 2013	
	(In millions)			
Premium Deficiency Reserve at beginning of period		$ (61)		$ (74)
Paid claims and loss adjustment expenses	$ 51		$ 172	
Decrease in loss reserves	(37)		(114)	
Premium earned	(24)		(72)	
Effects of present valuing on future premiums, losses and expenses	-		(2)	
Change in premium deficiency reserve to reflect actual premium, losses and expenses recognized		(10)		(16)
Change in premium deficiency reserve to reflect change in assumptions relating to future premiums, losses, expenses and discount rate (1)		14		33
Premium Deficiency Reserve at end of period		$ (57)		$ (57)

(1) A (negative) positive number for changes in assumptions relating to premiums, losses, expenses and discount rate indicates a (deficiency) redundancy of the prior premium deficiency reserve.

Note 14 – Shareholders' Equity

In June 2013, we amended our Articles of Incorporation to increase our authorized common stock from 680 million shares to 1.0 billion shares.

In March 2013 we completed the public offering and sale of 135 million shares of our common stock at a price of $5.15 per share. We received net proceeds of approximately $663.3 million, after deducting underwriting discount and offering expenses. The shares of common stock sold were newly issued shares.

In March 2013 we also concurrently completed the sale of $500 million principal amount of 2% Convertible Senior Notes due in 2020. For more information, see Note 3 – "Debt."

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

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

Note 15 – Statutory Capital

Statutory Capital Requirements

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

In 2013, we entered into a quota share reinsurance transaction with a group of unaffiliated reinsurers that reduced our risk-to-capital ratio. At September 30, 2014, MGIC's risk-to-capital ratio was 15.0 to 1, below the maximum allowed by the jurisdictions with State Capital Requirements, and its policyholder position was $605 million above the required MPP of $1.0 billion. 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 disallowed full credit under either the State Capital Requirements or the GSE Financial Requirements, MGIC may terminate the transaction, without penalty. At this time, we expect MGIC to continue to comply with the current State Capital Requirements. Matters that could negatively affect compliance with State Capital Requirements are discussed throughout the financial statement footnotes.

At September 30, 2014, the risk-to-capital ratio of our combined insurance operations (which includes reinsurance affiliates) was 17.0 to 1. Reinsurance transactions with affiliates permit MGIC to write insurance with a higher coverage percentage than it could on its own under certain state-specific requirements. A higher risk-to-capital ratio on a combined basis may indicate that, in order for MGIC to continue to utilize reinsurance arrangements with its affiliates, unless a waiver of the State Capital Requirements of Wisconsin continues to be effective, additional capital contributions to the reinsurance affiliates could be needed.

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

If MGIC fails to meet the State Capital Requirements of Wisconsin and is unable to obtain a waiver of them from the Office of the Commissioner of Insurance of the State of Wisconsin ("OCI"), MGIC could be prevented from writing new business in all jurisdictions. If MGIC fails to meet the State Capital Requirements of a jurisdiction other than Wisconsin and is unable to obtain a waiver of them, MGIC could be prevented from writing new business in that particular jurisdiction. It is possible that regulatory action by one or more jurisdictions, including those that do not have specific State Capital Requirements, may prevent MGIC from continuing to write new insurance in such jurisdictions. If we are unable to write business in all jurisdictions, lenders may be unwilling to procure insurance from us anywhere. In addition, a lender's assessment of the future ability of our insurance operations to meet the Financial Requirements may affect its willingness to procure insurance from us. A possible future failure by MGIC to meet the Financial Requirements will not necessarily mean that MGIC lacks sufficient resources to pay claims on its insurance liabilities. Matters that could negatively affect MGIC's claims paying resources are discussed throughout the financial statement footnotes.

We have in place a longstanding plan to write new business in MIC, a direct subsidiary of MGIC, in the event MGIC cannot meet the State Capital Requirements of a jurisdiction or obtain a waiver of them. Writing business in MIC would be subject to any repatriation to MGIC of MIC's capital in order to comply with the PMIERs, as discussed in Note 1 – "Nature of Business and Basis of Presentation – Capital – GSEs." MIC is licensed to write business in all jurisdictions. During 2012, MIC began writing new business in the jurisdictions where MGIC did not meet and did not have a waiver of the State Capital Requirements. MIC suspended writing new business in 2013 because MGIC again meets the State Capital Requirements and is writing new business in all jurisdictions. As of September 30, 2014, MIC had statutory capital of $466 million and risk in force, net of reinsurance, of approximately $547 million and met all State Capital Requirements. Before MIC may again write new business, it must obtain the necessary approvals from the OCI and the GSEs. We cannot assure you that the OCI and the GSEs would again approve MIC to write new business in all jurisdictions if in the future MGIC became unable to do so.

Statement of Statutory Accounting Principles No. 101 ("SSAP No. 101") became effective January 1, 2012 and prescribed new standards for determining the amount of deferred tax assets that can be recognized as admitted assets for determining statutory capital. Under a permitted practice effective September 30, 2012 and until further notice, the OCI has approved MGIC to report its net deferred tax asset as an admitted asset in an amount not to exceed 10% of surplus as regards policyholders, notwithstanding any contrary provisions of SSAP No. 101. Deferred tax assets of $134 million and $138 million were included in MGIC's statutory capital at September 30, 2014 and December 31, 2013, respectively.

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

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

Overview

Through our subsidiaries MGIC and MIC, we are a leading provider of private mortgage insurance in the United States, as measured by insurance in force, to the home mortgage lending industry.

As used below, "we" and "our" refer to MGIC Investment Corporation's consolidated operations. The discussion below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the year ended December 31, 2013. We refer to this Discussion as the "10-K MD&A." In the discussion below, we classify, in accordance with industry practice, as "full documentation" loans approved by GSE and other automated underwriting systems under "doc waiver" programs that do not require verification of borrower income. For additional information about such loans, see footnote (3) to the composition of primary default inventory table under "Results of Consolidated Operations-Losses-Losses incurred" below. The discussion of our business in this document generally does not apply to our Australian operations which have historically been immaterial. The results of our operations in Australia are included in the consolidated results disclosed. For additional information about our Australian operations, see our risk factor titled "Our Australian operations may suffer significant losses" and "Overview—Australia" in our 10-K MD&A.

Forward Looking and Other Statements

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

Outlook

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

Capital

GSEs

As mentioned above, since 2008, substantially all of our insurance written has been for loans sold to the GSEs, each of which has mortgage insurer eligibility requirements. The existing eligibility requirements include a minimum financial strength rating of Aa3/AA-. Because MGIC does not meet such financial strength rating requirements (its financial strength rating from Moody's is Ba3 (with a stable outlook) and from Standard & Poor's is BB (with a positive outlook)), MGIC is currently operating with each GSE as an eligible insurer under a remediation plan.

On July 10, 2014, the conservator of the GSEs, the Federal Housing Finance Agency ("FHFA"), released draft Private Mortgage Insurer Eligibility Requirements ("draft PMIERs"). The draft PMIERs include revised financial requirements for mortgage insurers (the "GSE Financial Requirements") that require a mortgage insurer's "Available Assets" (generally only the most liquid assets of an insurer) to meet or exceed "Minimum Required Assets" (which are calculated from tables of factors with several risk dimensions and are subject to a floor amount).

The public input period for the draft PMIERs ended September 8, 2014. We currently expect the PMIERs to be published in final form by December 31, 2014 and the "effective date" to occur 180 days thereafter. Mortgage insurers will have up to two years after the final PMIERs are published to meet the GSE Financial Requirements (the "transition period"). A mortgage insurer that fails to certify by the effective date that it meets the GSE Financial Requirements would be subject to a transition plan having milestones for actions to achieve compliance. The transition plan would be submitted for the approval of each GSE within 90 days after the effective date, and if approved, the GSEs would monitor the insurer's progress. During the transition period for an insurer with an approved transition plan, an insurer would be in remediation (a status similar to the one under which MGIC has been operating with the GSEs for over five years) and eligible to provide mortgage insurance on loans owned or guaranteed by the GSEs.

Although we believe we have sufficient claims paying resources to meet our claim obligations on our insurance in force on a timely basis, we expect that if the draft PMIERs are implemented as released, as of December 31, 2014, MGIC would have a shortfall in Available Assets. In July 2014, we projected that as of December 31, 2014, we would have a shortfall in Available Assets of approximately $600 million, and that such shortfall would be reduced through operations so that as of December 31, 2016 (the expected end of the transition period), it would be approximately $300 million. The shortfall projections at both dates assumed the risk in force and capital of MIC are repatriated to MGIC, and full credit is given in the calculation of Minimum Required Assets for our existing reinsurance transaction (approximately $500 million of credit at December 31, 2014, increasing to $600 million of credit at December 31, 2016). However, we do not expect to receive full credit for our current reinsurance transaction. As a result, we are in discussions with the reinsurers participating in our existing reinsurance transaction regarding modifications to the agreement so that any reduction in the credit would be minimized. We have not updated these projections, but do not believe they would have changed significantly.

As of September 30, 2014, we had approximately $517 million of cash and investments at our holding company, a portion of which we believe may be available for future contribution to MGIC. Furthermore, there are regulated insurance affiliates of MGIC that have approximately $100 million of assets as of September 30, 2014. We expect that, subject to regulatory approval, we would be able to use a material portion of these assets to increase the Available Assets of MGIC. Additionally, if the draft PMIERs are implemented as released, we would consider seeking additional reinsurance and/or non-dilutive debt capital to mitigate the shortfall. We believe we will be able to use a combination of the alternatives outlined above so that MGIC will meet the GSE Financial Requirements of the draft PMIERs even if they are implemented as released. However, factors that may negatively impact MGIC's ability to comply with the GSE Financial Requirements within the transition period include the following:

- Changes in the actual PMIERs adopted from the draft PMIERs may increase the amount of the MGIC’s Minimum Required Assets or reduce its Available Assets, with the result that the shortfall in Available Assets could increase;
- We may not obtain regulatory approval to transfer assets from MGIC’s regulated insurance affiliates to the extent we are assuming because regulators project higher losses than we project or require a level of capital be maintained in these companies higher than we are assuming;
- We may not be able to access the non-dilutive debt markets due to market conditions, concern about our creditworthiness, or other factors, in a manner sufficient to provide the funds we are assuming;
- We may not be able to achieve modifications in our existing reinsurance arrangements necessary to minimize the reduction in the credit for reinsurance under the draft PMIERs;
- We may not be able to obtain additional reinsurance necessary to further reduce the Minimum Required Assets due to market capacity, pricing or other reasons (including disapproval of the proposed transaction by a GSE); and
- 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 reducing our Available Assets and increasing our shortfall in Available Assets, or they could increase the Minimum Required Assets, also increasing our shortfall in Available Assets.

There also can be no assurance that the GSEs would not make the GSE Financial Requirements more onerous in the future; in this regard, the draft PMIERs provide that the tables of factors that determine Minimum Required Assets may be updated to reflect changes in risk characteristics and the macroeconomic environment. If MGIC ceases to be eligible to insure loans purchased by one or both of the GSEs, it would significantly reduce the volume of our new business writings.

If we increase the amount of Available Assets we hold in order to continue to insure GSE loans, the amount of capital we hold may increase. If we increase the amount of capital we hold with respect to insured loans, our returns may decrease unless we increase premiums. An increase in premium rates may not be feasible for a number of reasons, including competition from other private mortgage insurers, the FHA or other credit enhancement products.

State Regulations

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

In 2013, we entered into a quota share reinsurance transaction with a group of unaffiliated reinsurers that reduced our risk-to-capital ratio. At September 30, 2014, MGIC's risk-to-capital ratio was 15.0 to 1, below the maximum allowed by the jurisdictions with State Capital Requirements, and its policyholder position was $605 million above the required MPP of $1.0 billion. 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 disallowed full credit under either the State Capital Requirements or the GSE Financial Requirements, MGIC may terminate the transaction, without penalty. At this time, we expect MGIC to continue to comply with the current State Capital Requirements, however, you should read our risk factors for information about matters that could negatively affect such compliance.

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

GSE Reform

The FHFA is the conservator of the GSEs and has the authority to control and direct their operations. The increased role that the federal government has assumed in the residential mortgage market through the GSE conservatorship may increase the likelihood that the business practices of the GSEs change in ways that have a material adverse effect on us. In addition, these factors may increase the likelihood that the charters of the GSEs are changed by new federal legislation. The financial reform legislation that was passed in July 2010 (the "Dodd-Frank Act" or "Dodd-Frank") required the U.S. Department of the Treasury to report its recommendations regarding options for ending the conservatorship of the GSEs. This report did not provide any definitive timeline for GSE reform, however, it did recommend using a combination of federal housing policy changes to wind down the GSEs, shrink the government's footprint in housing finance (including FHA insurance), and help bring private capital back to the mortgage market. Since then, Members of Congress introduced several bills intended to change the business practices of the GSEs and the FHA; however, no legislation has been enacted. As a result of the matters referred to above, it is uncertain what role the GSEs, FHA and private capital, including private mortgage insurance, will play in the domestic residential housing finance system in the future or the impact of any such changes on our business. In addition, the timing of the impact of any resulting changes on our business is uncertain. Most meaningful changes would require Congressional action to implement and it is difficult to estimate when Congressional action would be final and how long any associated phase-in period may last.

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

Dodd-Frank requires a securitizer to retain at least 5% of the risk associated with mortgage loans that are securitized, and in some cases the retained risk may be allocated between the securitizer and the lender that originated the loan. In October 2014, a final rule implementing that requirement was released, which will become effective for residential mortgages one year after publication of the final rule in the Federal Register. The final rule exempts securitizations of qualified residential mortgages (“QRMs”) from the risk retention requirement and generally aligns the QRM definition with that of QM. As noted above, there is a temporary category of QMs for mortgages that satisfy the general product feature requirements of QMs and meet the GSEs’ underwriting requirements. As a result, lenders that originate loans that are sold to the GSEs while they are in conservatorship would not be required to retain risk associated with those loans. The final rule requires the agencies to review the QRM definition no later than four years after its effective date and every five years thereafter, and allows each agency to request a review of the definition at any time.

We estimate that approximately 87% of our new risk written in 2013 and 84% of our new risk written in the first nine months of 2014 was for loans that would have met the CFPB’s general QM definition and, therefore, the QRM definition. We estimate that approximately 99% of our new risk written in 2013 and in the first nine months of 2014 was for loans that would have met the temporary category in CFPB’s QM definition. Changes in the treatment of GSE-guaranteed mortgage loans in the regulations defining QM and QRM, or changes in the conservatorship or capital support provided to the GSEs by the U.S. Government, could impact the manner in which the risk-retention rules apply to GSE securitizations, originators who sell loans to GSEs and our business.

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

Loan Modification and Other Similar Programs

Beginning in the fourth quarter of 2008, the federal government, including through the Federal Deposit Insurance Corporation and the GSEs, and several lenders implemented programs to modify loans to make them more affordable to borrowers with the goal of reducing the number of foreclosures. During 2012, 2013 and the first nine months of 2014, we were notified of modifications that cured delinquencies that had they become paid claims would have resulted in approximately $1.2 billion, $1.0 billion and $620 million, respectively, of estimated claim payments. As noted below, we cannot predict with a high degree of confidence what the ultimate re-default rate on these modifications will be. Although the recent re-default rate has been lower, for internal reporting and planning purposes, we assume approximately 50% of these modifications will ultimately re-default, and those re-defaults may result in future claim payments. Because modifications cure the defaults with respect to the previously defaulted loans, our loss reserves do not account for potential re-defaults unless at the time the reserve is established, the re-default has already occurred. Based on information that is provided to us, most of the modifications resulted in reduced payments from interest rate and/or amortization period adjustments; from 2012 through the first nine months of 2014, approximately 9% resulted in principal forgiveness.

One loan modification program is the Home Affordable Modification Program ("HAMP") which began in 2009. We believe that it could take several months from the time a borrower has made all of the payments during HAMP's three month "trial modification" period for the loan to be reported to us as a cured delinquency. We rely on information provided to us by the GSEs and servicers. We do not receive all of the information from such sources that is required to determine with certainty the number of loans that are participating in, have successfully completed, or are eligible to participate in, HAMP. We are aware of approximately 6,190 loans in our primary delinquent inventory at September 30, 2014 for which the HAMP trial period has begun and which trial periods have not been reported to us as completed or cancelled. Through September 30, 2014, approximately 53,990 delinquent primary loans have cured their delinquency after entering HAMP and are not in default. In 2013 and the first nine months of 2014, approximately 17% of our primary cures were the result of a modification, with HAMP accounting for approximately 68% and 67%, respectively, of those modifications in 2013 and the first nine months of 2014. Although the HAMP program has been extended through December 2016, we believe that we have realized the majority of the benefits from HAMP because the number of loans insured by us that we are aware are entering HAMP trial modification periods has decreased significantly since 2010. The interest rates on certain loans modified under HAMP are subject to adjustment five years after the modification was entered into. Such adjustments are limited to an increase of one percentage point per year.

In 2009, the GSEs began offering the Home Affordable Refinance Program ("HARP"). HARP, which is currently scheduled to expire December 31, 2015, allows borrowers who are not delinquent but who may not otherwise be able to refinance their loans under the current GSE underwriting standards, to refinance their loans. We allow HARP refinances on loans that we insure, regardless of whether the loan meets our current underwriting standards, and we account for the refinance as a loan modification (even where there is a new lender) rather than new insurance written. As of September 20, 2014, approximately 15% of our primary insurance in force had benefitted from HARP and was still in force.

The effect on us of loan modifications depends on how many modified loans subsequently re-default, which in turn can be affected by changes in housing values. Re-defaults can result in losses for us that could be greater than we would have paid had the loan not been modified. Although the majority of loans modified through HAMP and HARP are current, at this point, we cannot predict with a high degree of confidence what the ultimate re-default rate will be. Eligibility under certain loan modification programs can also adversely affect us by creating an incentive for borrowers who are able to make their mortgage payments to become delinquent in an attempt to obtain the benefits of a modification. New notices of delinquency increase our incurred losses. If legislation is enacted to permit a portion of a borrower's mortgage loan balance to be reduced in bankruptcy and if the borrower re-defaults after such reduction, then the amount we would be responsible to cover would be calculated after adding back the reduction. Unless a lender has obtained our prior approval, if a borrower's mortgage loan balance is reduced outside the bankruptcy context, including in association with a loan modification, and if the borrower re-defaults after such reduction, then under the terms of our policy the amount we would be responsible to cover would be calculated net of the reduction.

As shown in the following table, as of September 30, 2014 approximately 26% of our primary risk in force has been modified.

Policy Year	HARP (1) Modifications	HAMP Modifications	Other Modifications
2003 and Prior	9.8%	12.3%	11.9%
2004	15.0%	12.1%	10.2%
2005	19.9%	13.8%	10.8%
2006	23.2%	16.1%	11.5%
2007	32.8%	16.9%	7.2%
2008	46.8%	10.1%	3.4%
2009	18.9%	0.7%	0.6%
2010 – Q3 2014	0.0%	0.0%	0.0%
Total	15.1%	7.2%	4.1%

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

As of September 30, 2014 based on loan count, the existing loans associated with 98.3% of all HARP (or similar) modifications, 77.2% of HAMP modifications and 69.1% of other modifications were current.

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

Factors Affecting Our Results

Our results of operations are affected by:

- Premiums written and earned

  Premiums written and earned in a year are influenced by:

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

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

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

- Premiums ceded under reinsurance agreements. See Note 4 – “Reinsurance” to our consolidated financial statements for a discussion of our 2013 quota share agreement, under which premiums are ceded net of a profit commission.

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

- Investment income

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

- Losses incurred

Losses incurred are the current expense that reflects estimated payments that will ultimately be made as a result of delinquencies on insured loans. As explained under “Critical Accounting Policies” in our 10-K MD&A, except in the case of a premium deficiency reserve, we recognize an estimate of this expense only for delinquent loans. Losses incurred are generally affected by:

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

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

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

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

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

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

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

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

- Changes in premium deficiency reserve

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

- Underwriting and other expenses

The majority of our operating expenses are fixed, with some variability due to contract underwriting volume. Contract underwriting generates fee income included in “Other revenue.” Underwriting and other expenses are net of any ceding commission associated with our reinsurance agreements. See Note 4 – “Reinsurance” to our consolidated financial statements for a discussion of our reinsurance agreements.

· Interest expense

Interest expense reflects the interest associated with our outstanding debt obligations. The principal amount of our long-term debt obligations at September 30, 2014 is comprised of $62.0 million of 5.375% Senior Notes due in November 2015, $345 million of 5% Convertible Senior Notes due in 2017, $500 million of 2% Convertible Senior Notes due in 2020 and $389.5 million of 9% Convertible Junior Subordinated Debentures due in 2063 (interest on these debentures continues to accrue and compounds if we defer the payment of interest), as discussed in Note 3 – "Debt" to our consolidated financial statements and under "Liquidity and Capital Resources" below.

Mortgage Insurance Earnings and Cash Flow Cycle

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

Summary of 2014 Third Quarter Results

Our results of operations for the third quarter of 2014 were principally affected by the factors referred to below.

· Net premiums written and earned

Net premiums written and earned during the third quarter of 2014 decreased when compared to the same period in 2013. The decrease was primarily due to an increase in premiums ceded under reinsurance agreements.

· Investment income

Investment income in the third quarter of 2014 was higher when compared to the same period in 2013 due to an increase in our average investment yield as we continue to extend the duration of our investment portfolio and assume modestly more credit risk.

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

Net realized gains for the third quarter of 2014 were $0.6 million compared to $0.2 million for the third quarter of 2013. There were no OTTI losses in the third quarter of 2014, compared to $0.3 million in the third quarter of 2013. At September 30, 2014, the net unrealized losses in our investment portfolio were $17.5 million, which included $44.5 million of gross unrealized losses, partially offset by $27.0 million of gross unrealized gains.

· Losses incurred

Losses incurred for the third quarter of 2014 decreased compared to the same period in 2013, primarily due to fewer new notices of default being received and a lower claim rate on new and previously received delinquencies. There were 22,927 new notices received in the third quarter of 2014 compared to 27,755 new notices received in the third quarter of 2013. There was a decrease in the average estimated claim rate and average estimated severity in both the third quarter of 2014 and 2013.

· Change in premium deficiency reserve

The premium deficiency reserve as of September 30, 2014 reflects the present value of expected future losses and expenses that exceeds the present value of expected future premiums and already established loss reserves. During the third quarter of 2014 the premium deficiency reserve on Wall Street bulk transactions declined by $7 million to $29 million. The decrease in the premium deficiency reserve represents the net result of actual premiums, losses and expenses as well as a change in net assumptions for the period. The change in net assumptions for the third quarter of 2014 is primarily related to higher estimated ultimate losses.

· Underwriting and other expenses

Underwriting and other expenses for the third quarter of 2014 decreased when compared to the same period last year primarily due to an increase in the ceding commission on our reinsurance agreements as well as a decrease in legal fees and contract underwriting costs.

· Interest expense

Interest expense for the third quarter of 2014 decreased slightly when compared to the same period in 2013. The decrease is related to a decrease in interest costs on our Senior Notes due in November 2015 due to debt repurchases.

· Provision for income taxes

We had a net provision for income taxes of $0.2 million and $0.3 million in the third quarter of 2014 and 2013, respectively. The provision for (benefit from) income taxes was offset by a decrease (increase) in the valuation allowance of $24.8 million and ($1.0) million for the three months ended September 30, 2014 and 2013, respectively.

Results of Consolidated Operations

New insurance written

The amount of our primary new insurance written during the three and nine months ended September 30, 2014 and 2013 was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Total Primary NIW (In billions)	$ 10.4	$ 8.6	$ 23.9	$ 23.1
Refinance volume as a % of primary NIW	12%	18%	12%	30%

The decrease in refinance volume experienced in the third quarter and first nine months of 2014 was offset by an increase in purchase volume, when compared to the same periods in 2013. We continue to believe that new insurance written volumes in 2014 will be similar to our 2013 levels or slightly higher. Our industry continues to regain market share from the FHA but the pace of that recovery is slower than we expected because of the continued differences in underwriting guidelines, loan level price adjustments by the GSEs and the secondary market benefits associated with government insured loans versus loans insured by the private sector.

The FHA substantially increased its market share beginning in 2008, and beginning in 2011, that market share began to gradually decline. We believe that the FHA's market share increased, in part, because private mortgage insurers tightened their underwriting guidelines (which led to increased utilization of the FHA's programs) and because of increases in the amount of loan level price adjustments that the GSEs assess on loans (which result in higher costs to borrowers). In addition, federal legislation and programs provided the FHA with greater flexibility in establishing new products and increased the FHA's competitive position against private mortgage insurers. We believe that the FHA's current premium pricing, when compared to our current credit-tiered premium pricing (and considering the effects of GSE pricing changes), has allowed us to be more competitive with the FHA than in the recent past for loans with high FICO credit scores. We cannot predict, however, the FHA's share of new insurance written in the future due to, among other factors, different loan eligibility terms between the FHA and the GSEs; future changes to GSE guaranty fees and/or loan level price adjustments; changes to the FHA's annual premiums; and the total profitability that may be realized by mortgage lenders from securitizing loans through Ginnie Mae when compared to securitizing loans through Fannie Mae or Freddie Mac. Our level of new insurance written could also be affected by other items, including those noted in our risk factors.

Historically, the level of competition within the private mortgage insurance industry has been intense and it is not expected to diminish given the presence of new entrants. Effective in December 2013, we reduced all of our borrower-paid monthly premium rates and most of our single premium rates to match competition. Effective in September 2014, we reduced many of our lender-paid single premium rates to match competition, although in certain states these reductions are pending regulatory approval. During most of 2013, when almost all of our single premium rates were above those most commonly used in the market, single premium policies were approximately 10% of our total new insurance written; they were approximately 14% in the first nine months of 2014. In addition lenders seeking to expand their mortgage lending businesses request discounts from mortgage insurers in order to offer products that are less expensive to borrowers, which includes lender-paid singles, or request more liberal underwriting requirements. We are observing an increase in the percentage of new insurance written on lender-paid single premium policies and an increase in the number of lenders requesting customized lender-paid single premium rate programs. Certain lender-paid single premium transactions can be structured as bids on a portfolio of recently closed loans.

From time to time, in response to market conditions, we change the types of loans that we insure and the requirements under which we insure them. In 2013, we liberalized our underwriting guidelines somewhat, in part through aligning most of our underwriting requirements with Fannie Mae and Freddie Mac for loans that receive and are processed in accordance with certain approval recommendations from a GSE automated underwriting system. As a result of the liberalization of our underwriting requirements, the migration of marginally lower FICO business from the FHA to us and other private mortgage insurers and other factors, our business written in the last several quarters is expected to have a somewhat higher claim incidence than business written in recent years. However, we believe this business presents an acceptable level of risk. Our underwriting requirements are available on our website at http://www.mgic.com/underwriting/index.html. We monitor the competitive landscape and will make adjustments to our pricing and underwriting guidelines as warranted. We also make exceptions to our underwriting requirements on a loan-by-loan basis and for certain customer programs. Together, the number of loans for which exceptions were made accounted for fewer than 2% of the loans we insured in 2013 and the first nine months of 2014.

The circumstances in which we are entitled to rescind coverage have narrowed for insurance we have written in recent years. During the second quarter of 2012, we began writing a portion of our new insurance under an endorsement to our then existing master policy (the “Gold Cert Endorsement”), which limited our ability to rescind coverage compared to that master policy. As of September 30, 2014, approximately 25% of our flow, primary insurance in force was written under our Gold Cert Endorsement. However, approximately 65% and 75% of our flow, primary new insurance written in 2013 and the first nine months of 2014, respectively, was written under this endorsement. The Gold Cert Endorsement is filed as Exhibit 99.7 to our quarterly report on Form 10-Q for the quarter ended March 31, 2012 (filed with the SEC on May 10, 2012).

To comply with requirements of the GSEs, we introduced a new master policy that applies to loans we insure with a mortgage insurance application date on or after October 1, 2014. Our rescission rights under our new master policy are comparable to those under our previous master policy, as modified by the Gold Cert Endorsement, but may be further narrowed if the GSEs permit modifications to them. Our new master policy is filed as Exhibit 99.19 to this Form 10-Q.

Cancellations, insurance in force and risk in force

New insurance written and cancellations of primary insurance in force during the three and nine months ended September 30, 2014 and 2013 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(In billions)			
NIW	$ 10.4	$ 8.6	$ 23.9	$ 23.1
Cancellations	(7.3)	(8.0)	(20.2)	(26.0)
Change in primary insurance in force	$ 3.1	$ 0.6	$ 3.7	$ (2.9)
Direct primary insurance in force as of September 30,	$ 162.4	$ 159.2		
Direct primary risk in force as of September 30,	$ 42.3	$ 41.1		

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

Our persistency rate was 82.8% at September 30, 2014 compared to 79.5% at December 31, 2013 and 78.3% at September 30, 2013. Our persistency rate is affected by the level of current mortgage interest rates compared to the mortgage interest rates on our insurance in force, which affects the vulnerability of the insurance in force to refinancing During the 1990s, our year-end persistency ranged from a high of 87.4% at December 31, 1990 to a low of 68.1% at December 31, 1998. Since 2000, our year-end persistency ranged from a high of 84.7% at December 31, 2009 to a low of 47.1% at December 31, 2003.

Bulk transactions

We ceased writing Wall Street bulk business in the fourth quarter of 2007. In addition, we wrote no new business through the bulk channel since the second quarter of 2008. Our total bulk risk in force was $3.5 billion at September 30, 2014, approximately 77% of which was Wall Street bulk transactions.

Pool insurance

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

Our direct pool risk in force was $0.9 billion ($0.3 billion on pool policies with aggregate loss limits and $0.6 billion on pool policies without aggregate loss limits) at September 30, 2014 compared to $1.0 billion ($0.4 billion on pool policies with aggregate loss limits and $0.6 billion on pool policies without aggregate loss limits) at December 31, 2013. If claim payments associated with a specific pool reach the aggregate loss limit the remaining insurance in force within the pool would be cancelled and any remaining defaults under the pool are removed from our default inventory.

Net premiums written and earned

Net premiums written and earned during the third quarter and first nine months of 2014 decreased when compared to the same periods in 2013. The decrease was primarily due to an increase in premiums ceded under reinsurance agreements.

We expect our average insurance in force to increase slightly in the fourth quarter of 2014. We expect our premium yields (net premiums earned, expressed on an annual basis, divided by the average insurance in force) for the fourth quarter of 2014 to decline from the level experienced during the first nine months of 2014 due to the 2013 quota share reinsurance agreement under which premiums are ceded net of a profit commission as discussed in Note 4 – “Reinsurance” to our consolidated financial statements, as well as reductions in our premium rates that took effect in late 2013 and the second half of 2014. Under the quota share agreement we will also recognize benefits to our income statement through reductions to losses incurred and other underwriting expenses. Additional external reinsurance transactions are an option to reduce the Minimum Required Assets under the draft PMIERs; see our Risk Factor titled “We may not continue to meet the GSEs’ mortgage insurer eligibility requirements and our returns may decrease if we are required to maintain significantly more capital in order to maintain our eligibility.” Future external reinsurance or reductions in our premium rates will reduce our future premium yields.

Reinsurance agreements

In 2013, MGIC and several of our competitors reached a settlement with the CFPB to resolve its investigation of captive reinsurance. As part of the settlement, without admitting or denying any liability, we have agreed that we will not enter into any new captive reinsurance agreement or reinsure any new loans under any existing captive reinsurance agreement for a period of ten years. In accordance with this settlement, all of our active captive agreements were placed into run-off. See Note 4 – “Reinsurance” to our consolidated financial statements for a description of these reinsurance agreements and the related reinsurance recoverables, as well as a description of our 2013 quota share reinsurance agreement.

At September 30, 2014, approximately 59% of our insurance in force is subject to reinsurance agreements (most of which are not captive agreements), compared to 55% at December 31, 2013 and 18% at September 30, 2013. For the first nine months of 2014 approximately 91% of our new insurance written was subject to reinsurance agreements, compared to 70% in the first nine months of 2013.

See our risk factor titled “We are involved in legal proceedings and are subject to the risk of additional legal proceedings in the future” for a discussion of requests or subpoenas for information regarding captive mortgage reinsurance agreements.

Investment income

Investment income in the third quarter and first nine months of 2014 increased compared to the same periods in 2013, in part, due to an increase in our investment yield as we continue to extend the duration of our investment portfolio and assume modestly more credit risk. Higher reinvestment rates would provide some investment income offset to the continuing claim payments and expected decline in invested assets, as discussed under “Liquidity and Capital Resources” below. The portfolio’s average pre-tax investment yield was 2.1% at September 30, 2014 and 1.7% at September 30, 2013. The portfolio’s average pre-tax investment yield was 1.7% at December 31, 2013.

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

Net realized gains for the third quarter and first nine months of 2014 were $0.6 million and $0.9 million, respectively, compared to $0.2 million and $3.9 million, respectively, for the third quarter and first nine months of 2013. There were no other-than-temporary impairments in the third quarter or first nine months of 2014. There were $0.3 million in other-than-temporary impairment in the third quarter and first nine months of 2013. At September 30, 2014, the net unrealized losses in our investment portfolio were $17.5 million, which included $44.5 million of gross unrealized losses, partially offset by $27.0 million of gross unrealized gains.

Losses

As discussed in “Critical Accounting Policies” in our 10-K MD&A and consistent with industry practices, we establish loss reserves for future claims only for loans that are currently delinquent. The terms “delinquent” and “default” are used interchangeably by us. For reporting purposes, we consider a loan in default when it is two or more payments past due. Loss reserves are established based on estimating the number of loans in our default inventory that will result in a claim payment, which is referred to as the claim rate, and further estimating the amount of the claim payment, which is referred to as claim severity.

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

Losses incurred

Losses incurred for the third quarter of 2014 decreased compared to the same period in 2013, primarily due to fewer new notices of default being received and a lower claim rate on new and previously received delinquencies. There were 22,927 new notices received in the third quarter of 2014 compared to 27,755 new notices received in the third quarter of 2013. There was a decrease in the average estimated claim rate and average estimated severity in both the third quarter of 2014 and 2013.

In the first nine months of 2014, net losses incurred were $379 million, comprised of $454 million of current year loss development partially offset by $75 million of favorable prior years' loss development. In the first nine months of 2013, net losses incurred were $643 million, comprised of $687 million of current year loss development partially offset by $44 million of favorable prior years' loss development.

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

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

Information about the composition of the primary default inventory at September 30, 2014, December 31, 2013 and September 30, 2013 appears in the table below.

	September 30, 2014	December 31, 2013	September 30, 2013
Total loans delinquent (1)	83,154	103,328	111,587
Percentage of loans delinquent (default rate)	8.65%	10.76%	11.51%
Prime loans delinquent (2)	52,301	65,724	71,376
Percentage of prime loans delinquent (default rate)	6.13%	7.82%	8.44%
A-minus loans delinquent (2)	13,474	16,496	17,311
Percentage of A-minus loans delinquent (default rate)	27.65%	30.41%	30.62%
Subprime credit loans delinquent (2)	5,477	6,391	6,519
Percentage of subprime credit loans delinquent (default rate)	35.88%	38.70%	38.10%
Reduced documentation loans delinquent (3)	11,902	14,717	16,381
Percentage of reduced documentation loans delinquent (default rate)	27.44%	30.41%	32.41%

General Notes: (a) For the information presented, the FICO credit score for a loan with multiple borrowers is the lowest of the borrowers' "decision FICO scores." A borrower's "decision FICO score" is determined as follows: if there are three FICO scores available, the middle FICO score is used; if two FICO scores are available, the lower of the two is used; if only one FICO score is available, it is used.

(b) Servicers continue to pay our premiums for nearly all of the loans in our default inventory, but in some cases, servicers stop paying our premiums. In those cases, even though the loans continue to be included in our default inventory, the applicable loans are removed from our insurance in force and risk in force. Loans where servicers have stopped paying premiums include 4,296 defaults with a risk of $213.9 million as of September 30, 2014.

(1) At September 30, 2014, December 31, 2013 and September 30, 2013, 18,129, 20,955 and 21,515 loans in the default inventory, respectively, related to Wall Street bulk transactions.

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

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

The primary and pool loss reserves at September 30, 2014, December 31, 2013 and September 30, 2013 appear in the table below.

Gross Reserves	September 30, 2014	December 31, 2013	September 30, 2013
Primary:			
Direct loss reserves (in millions)	$ 2,362	$ 2,834	$ 3,109
Ending default inventory	83,154	103,328	111,587
Average direct reserve per default	$ 28,404	$ 27,425	$ 27,858
Primary claims received inventory included in ending default inventory	5,194	6,948	9,858
Pool (1):			
Direct loss reserves (in millions):			
With aggregate loss limits (2)	$ 54	$ 82	$ 88
Without aggregate loss limits	15	17	16
Reserves related to Freddie Mac Settlement (2)	94	126	136
Total pool direct loss reserves	$ 163	$ 225	$ 240
Ending default inventory:			
With aggregate loss limits (2)	3,686	5,496	5,743
Without aggregate loss limits	839	1,067	1,078
Total pool ending default inventory	4,525	6,563	6,821
Pool claims received inventory included in ending default inventory	86	173	185
Other gross reserves (in millions)	$ 3	$ 2	$ 4

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

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

The primary default inventory and primary loss reserves by region at September 30, 2014, December 31, 2013 and September 30, 2013 appear in the table below.

Primary Default Inventory

Region	September 30, 2014	December 31, 2013	September 30, 2013
Great Lakes	9,535	12,049	12,930
Mid-Atlantic	4,509	5,469	5,821
New England	4,235	5,056	5,341
North Central	8,882	11,225	12,615
Northeast	13,466	15,223	15,741
Pacific	6,638	8,313	9,612
Plains	2,460	3,156	3,298
South Central	9,259	11,606	12,169
Southeast	24,170	31,231	34,060
Total	83,154	103,328	111,587

Primary Loss Reserves
(In millions)

Region	September 30, 2014	December 31, 2013	September 30, 2013
Great Lakes	$ 150	$ 206	$ 235
Mid-Atlantic	109	123	134
New England	123	139	151
North Central	233	313	372
Northeast	439	417	374
Pacific	280	360	461
Plains	35	53	56
South Central	150	192	223
Southeast	693	849	951
Total before IBNR and LAE	$ 2,212	$ 2,652	$ 2,957
IBNR and LAE	150	182	152
Total	$ 2,362	$ 2,834	$ 3,109

Regions contain the states as follows:

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

The primary loss reserves (before IBNR and LAE) at September 30, 2014, December 31, 2013 and September 30, 2013 separated between our flow and bulk business appears in the table below.

Primary loss reserves (In millions)	September 30, 2014	December 31, 2013	September 30, 2013
Flow	$ 1,546	$ 1,911	$ 2,187
Bulk	666	741	770
Total primary reserves	$ 2,212	$ 2,652	$ 2,957

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

The primary average claim paid for the top 5 states (based on 2014 paid claims) for the three and nine months ended September 30, 2014 and 2013 appears in the table below.

Primary average claim paid	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Florida	$ 56,233	$ 52,505	$ 55,249	$ 53,108
Illinois	46,767	46,904	47,478	48,001
California	79,260	83,027	78,909	84,855
Maryland	67,538	67,397	67,338	70,699
Ohio	29,942	30,889	30,973	30,957
All other states	41,320	41,677	41,055	41,598
All states	$ 45,849	$ 45,706	$ 45,763	$ 46,180

The primary average loan size of our insurance in force at September 30, 2014, December 31, 2013 and September 30, 2013 appears in the table below.

Primary average loan size	September 30, 2014	December 31, 2013	September 30, 2013
Total insurance in force	$ 169,050	$ 165,310	$ 164,210
Prime (FICO 620 & >)	171,720	167,660	166,400
A-Minus (FICO 575-619)	126,810	127,280	127,780
Subprime (FICO < 575)	117,970	118,510	118,980
Reduced doc (All FICOs)(1)	182,020	183,050	183,500

(1) In this report we classify loans without complete documentation as "reduced documentation" loans regardless of FICO credit score rather than as prime, "A-" or "subprime" loans; in the table above, such loans appear only in the reduced documentation category and they do not appear in any of the other categories.

The primary average loan size of our insurance in force at September 30, 2014, December 31, 2013 and September 30, 2013 for the top 5 states (based on 2014 paid claims) appears in the table below.

Primary average loan size

	September 30, 2014	December 31, 2013	September 30, 2013
Florida	$ 176,829	$ 172,869	$ 172,000
Illinois	155,435	154,694	154,740
California	283,117	282,660	283,085
Maryland	239,113	236,840	236,368
Ohio	127,743	124,709	124,055
All other states	163,959	160,049	158,833

Information about net paid claims during the three and nine months ended September 30, 2014 and 2013 appears in the table below.

Net paid claims (In millions)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Prime (FICO 620 & >)	$ 168	$ 288	$ 587	$ 909
A-Minus (FICO 575-619)	28	44	100	140
Subprime (FICO < 575)	9	13	30	41
Reduced doc (All FICOs)(1)	37	51	126	164
Pool (2)	20	25	68	82
Other	1	-	1	2
Direct losses paid	263	421	912	1,338
Reinsurance	(7)	(17)	(27)	(50)
Net losses paid	256	404	885	1,288
Net LAE paid	7	10	21	28
Net losses and LAE paid before terminations	263	414	906	1,316
Reinsurance terminations	-	-	-	(3)
Net losses and LAE paid	$ 263	$ 414	$ 906	$ 1,313

(1) In this report we classify loans without complete documentation as "reduced documentation" loans regardless of FICO credit score rather than as prime, "A-" or "subprime" loans; in the table above, such loans appear only in the reduced documentation category and they do not appear in any of the other categories.

(2) The three and nine months ended September 30, 2014 and 2013, both include $11 million and $32 million, respectively, paid under the terms of the settlement with Freddie Mac.

Primary claims paid for the top 15 states (based on 2014 paid claims) and all other states for the three and nine months ended September 30, 2014 and 2013 appears in the table below.

Paid Claims by state (In millions)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Florida	$ 59	$ 77	$ 203	$ 220
Illinois	20	34	70	108
California	11	30	43	124
Maryland	11	14	39	37
Ohio	10	15	32	47
Pennsylvania	10	12	30	33
Washington	8	20	29	57
New Jersey	9	10	28	22
Michigan	6	13	24	47
Georgia	6	12	23	47
New York	5	6	19	13
North Carolina	6	10	19	29
Arizona	5	12	18	46
Nevada	5	11	17	37
Wisconsin	4	9	16	32
All other states	67	111	233	355
	$ 242	$ 396	$ 843	$ 1,254
Other (Pool, LAE, Reinsurance)	21	18	63	59
Net losses and LAE paid	$ 263	$ 414	$ 906	$ 1,313

The primary default inventory for the top 15 states (based on 2014 paid claims) at September 30, 2014, December 31, 2013 and September 30, 2013 appears in the table below.

Primary default inventory by state

	September 30, 2014	December 31, 2013	September 30, 2013
Florida	10,448	14,685	16,652
Illinois	4,777	6,167	6,992
California	2,967	3,656	4,400
Maryland	2,217	2,791	2,948
Ohio	4,012	5,055	5,339
Pennsylvania	4,627	5,449	5,688
Washington	1,510	1,986	2,210
New Jersey	4,175	4,646	4,838
Michigan	2,505	3,284	3,593
Georgia	2,831	3,515	3,761
New York	4,664	5,128	5,215
North Carolina	2,273	2,886	3,084
Arizona	909	1,195	1,392
Nevada	917	1,189	1,433
Wisconsin	1,840	2,176	2,439
All other states	32,482	39,520	41,603
	83,154	103,328	111,587

The primary default inventory at September 30, 2014, December 31, 2013 and September 30, 2013 separated between our flow and bulk business appears in the table below.

Primary default inventory

	September 30, 2014	December 31, 2013	September 30, 2013
Flow	61,323	77,851	85,232
Bulk	21,831	25,477	26,355
	83,154	103,328	111,587

The flow default inventory by policy year at September 30, 2014, December 31, 2013 and September 30, 2013 appears in the table below.

Flow default inventory by policy year

Policy year:	September 30, 2014	December 31, 2013	September 30, 2013
2003 and prior	7,835	10,584	11,250
2004	4,811	6,085	6,480
2005	7,256	9,217	10,024
2006	10,415	13,385	14,630
2007	22,276	28,350	31,826
2008	6,946	8,674	9,557
2009	660	749	782
2010	289	327	320
2011	259	243	216
2012	281	189	129
2013	246	48	18
2014	49	-	-
	61,323	77,851	85,232

Our results of operations continue to be negatively impacted by the mortgage insurance we wrote during 2005 through 2008. Although uncertainty remains with respect to the ultimate losses we may experience on these books of business, as we continue to write new insurance on high-quality mortgages, those books have become a smaller percentage of our total portfolio, and we expect this trend to continue. Our 2005 through 2008 books of business represented approximately 42% of our total primary risk in force at September 30, 2014 compared to approximately 49% at December 31, 2013 and 51% at September 30, 2013.

As of September 30, 2014, 45% of our primary risk in force was written subsequent to December 31, 2010, 47% of our primary risk in force was written subsequent to December 31, 2009, and 50% of our primary risk in force was written subsequent to December 31, 2008. On our flow business, the highest claim frequency years have typically been the third and fourth year after the year of loan origination. On our bulk business, the period of highest claims frequency has generally occurred earlier than in the historical pattern on our flow business. However, the pattern of claims frequency can be affected by many factors, including persistency and deteriorating economic conditions. Low persistency can accelerate the period in the life of a book during which the highest claim frequency occurs. Deteriorating economic conditions can result in increasing claims following a period of declining claims.

Premium deficiency

Beginning in 2007, when we stopped writing Wall Street bulk business, we began to separately measure the performance of these transactions and established a premium deficiency reserve related to this business. The premium deficiency reserve reflects the present value of expected future losses and expenses that exceeded the present value of expected future premiums and already established loss reserves. This premium deficiency reserve as of September 30, 2014 was $29 million. The discount rate used in the calculation of the premium deficiency reserve at September 30, 2014 was 2.0%.

See Note 13 – “Premium Deficiency Reserve” to our consolidated financial statements for a discussion of our premium deficiency reserve.

Underwriting and other expenses

Underwriting and other expenses for the third quarter and first nine months of 2014 decreased when compared to the same periods last year primarily due to an increase in the ceding commission on our reinsurance agreements as well as a decrease in legal fees and contract underwriting costs.

We revised our master policy to, among other things, comply with various requirements the GSEs have communicated to the industry. These requirements contain limitations on rescission rights that may increase the number of new mortgage insurance applications that get reviewed through our quality control procedures. The GSEs require the new master policy be used for all loans sold to them with an application date on or after October 1, 2014. Also, the draft PMIERs, discussed above under "Capital – GSEs," include operational requirements that may require changes and enhancements to our quality control procedures. We believe our operating expenses may increase modestly due to the terms of the new master policy and the draft PMIERs once they become effective.

Ratios

The table below presents our loss, expense and combined ratios for our combined insurance operations for the three and nine months ended September 30, 2014 and 2013.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Loss ratio	55.1%	77.7%	60.1%	89.7%
Underwriting expense ratio	14.9%	18.1%	15.0%	17.9%
Combined ratio	70.0%	95.8%	75.1%	107.6%

The loss ratio is the ratio, expressed as a percentage, of the sum of incurred losses and loss adjustment expenses to net premiums earned. The loss ratio does not reflect any effects due to premium deficiency. The decrease in the loss ratio in the third quarter and first nine months of 2014, compared to the same periods in 2013, was due to a decrease in losses incurred, partially offset by a decrease in premiums earned. The underwriting expense ratio is the ratio, expressed as a percentage, of the underwriting expenses of our combined insurance operations (which excludes the cost of non-insurance operations) to net premiums written. The decrease in the expense ratio in the third quarter and first nine months of 2014, compared to the same periods in 2013, was due to a decrease in underwriting expenses for our combined insurance operations, partially offset by a decrease in net premiums written. The combined ratio is the sum of the loss ratio and the expense ratio. See further discussion under "Results of Consolidated Operations – Losses incurred, – Net premiums written and earned and – Underwriting and other expenses."

Interest expense

Interest expense for the third quarter of 2014 decreased slightly when compared to the same period in 2013. The decrease is primarily related to a decrease in interest costs on our Senior Notes due in November 2015 due to debt repurchases.

Interest expense for the first nine months of 2014 decreased when compared to the same period in 2013. The decrease is primarily related to a $10.5 million decrease in amortization of the discount on our junior debentures which was fully amortized as of March 31, 2013. This decrease to interest expense was somewhat offset by our issuance of 2% Convertible Senior Notes in March 2013.

Income taxes

The effective tax rate on our pre-tax income (loss) was 1.2% and (5.4%) in the first nine months of 2014 and 2013, respectively. During those periods, the provision (benefit) from income taxes was reduced by the change in the valuation allowance.

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

Financial Condition

At September 30, 2014 the total fair value of our investment portfolio was $4.6 billion. In addition, at September 30, 2014 our total assets included approximately $261 million of cash and cash equivalents as shown on our consolidated balance sheet. At September 30, 2014, based on fair value, virtually all of our fixed income securities were investment grade securities. The percentage of investments rated BBB may continue to increase as we reinvest to achieve higher yields. Lower rated investments have greater risk. More than 99% of our fixed income securities are readily marketable. The composition of ratings at September 30, 2014, December 31, 2013 and September 30, 2013 are shown in the table below.

Investment Portfolio Ratings

	September 30, 2014	December 31, 2013	September 30, 2013
AAA	34%	42%	44%
AA	17%	17%	18%
A	32%	27%	27%
BBB	17%	14%	11%
Investment grade	100%	100%	100%
Below investment grade	-	-	-
Total	100%	100%	100%

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

Approximately 2% of our investment portfolio is guaranteed by financial guarantors. We evaluate the credit risk of securities through analysis of the underlying fundamentals. The extent of our analysis depends on a variety of factors, including the issuer's sector, scale, profitability, debt cover, ratings and the tenor of the investment. At September 30, 2014, less than 1% of our fixed income securities were relying on financial guaranty insurance to elevate their rating.

We primarily place our investments in investment grade securities pursuant to our investment policy guidelines. The policy guidelines also limit the amount of our credit exposure to any one issue, issuer and type of instrument. At September 30, 2014, the modified duration of our fixed income investment portfolio was 3.8 years, which means that an instantaneous parallel shift in the yield curve of 100 basis points would result in a change of 3.8% in the fair value of our fixed income portfolio. For an upward shift in the yield curve, the fair value of our portfolio would decrease and for a downward shift in the yield curve, the fair value would increase. See Note 7 – "Investments" to our consolidated financial statements for additional disclosure surrounding our investment portfolio.

At September 30, 2014, we had outstanding $62 million, 5.375% Senior Notes due in November 2015, with an approximate fair value of $64 million, $345 million principal amount of 5% Convertible Senior Notes outstanding due in 2017, with an approximate fair value of $375 million, $500 million principal amount of 2% Convertible Senior Notes outstanding due in 2020, with an approximate fair value of $656 million and $390 million principal amount of 9% Convertible Junior Subordinated Debentures due in 2063 outstanding, with an approximate fair value of $504 million. See Note 3 – "Debt" to our consolidated financial statements for additional disclosure on our debt.

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

Our principal exposure to loss is our obligation to pay claims under MGIC's mortgage guaranty insurance policies. At September 30, 2014, MGIC's direct (before any reinsurance) primary and pool risk in force, which is the unpaid principal balance of insured loans as reflected in our records multiplied by the coverage percentage, and taking account of any loss limit, was approximately $43.2 billion. In addition, as part of our contract underwriting activities provided through a non-insurance subsidiary, that subsidiary is responsible for the quality of the underwriting decisions in accordance with the terms of the contract underwriting agreements with customers. That subsidiary may be required to provide certain remedies to our customers if certain standards relating to the quality of our underwriting work are not met, and we have an established reserve for such future obligations. Claims for remedies may be made a number of years after the underwriting work was performed. Beginning in the second half of 2009, our subsidiary experienced an increase in claims for contract underwriting remedies, which continued throughout 2012. The related contract underwriting remedy expense was approximately $27 million, $23 million and $19 million for the years ended December 31, 2012, 2011 and 2010. The underwriting remedy expense for 2013 and the first nine months of 2014 was approximately $5 million and $3 million, respectively, but may increase in the future.

Liquidity and Capital Resources

Overview

Our sources of funds consist primarily of:

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

Our obligations consist primarily of:

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

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

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

The following table summarizes our consolidated cash flows from operating, investing and financing activities:

	For the Nine Months ended September 30, 2014	2013
	(In thousands)	
Total cash (used in) provided by:		
Operating activities	$ (341,664)	$ (692,616)
Investing activities	274,661	(1,007,664)
Financing activities	(21,767)	1,130,725
Decrease in cash and cash equivalents	$ (88,770)	$ (569,555)

Cash used in operating activities for the first nine months of 2014 was lower compared to the same period in 2013 primarily due to a decrease in losses paid, partially offset by a decrease in premiums collected.

Cash provided by investing activities increased in the first nine months of 2014 compared to the same period in 2013 primarily due to investment activity related to the proceeds from our concurrent common stock and convertible senior notes offerings in March 2013 discussed in Note 3 – “Debt” and Note 14 – “Shareholders’ Equity” to our consolidated financial statements. The majority of the decrease in cash provided from financing activities in the first nine months of 2014, compared to the same period in 2013, was also related to these offerings.

Debt at Our Holding Company and Holding Company Capital Resources

The senior notes, convertible senior notes and convertible debentures are obligations of MGIC Investment Corporation and not of its subsidiaries. The payment of dividends from our insurance subsidiaries, which other than raising capital in the public markets is the principal source of our holding company cash inflow, is restricted by insurance regulation. MGIC is the principal source of dividend-paying capacity. Since 2008, MGIC has not paid any dividends to our holding company. Through 2014, MGIC cannot pay any dividends to our holding company without approval from the OCI. The GSEs have imposed dividend restrictions on MGIC until we are able to meet their eligibility requirements.

At September 30, 2014, we had approximately $517 million in cash and investments at our holding company.

As of September 30, 2014, our holding company's debt obligations were $1,297 million in par value consisting of:

- $62 million in par value of 5.375% Senior Notes due in November 2015, with an annual interest cost of approximately $3 million;

- $345 million in par value of 5% Convertible Senior Notes due in 2017, with an annual interest cost of approximately $17 million;

- $500 million in par value of 2% Convertible Senior Notes due in 2020, with an annual interest cost of $10 million; and

- $390 million in par value of 9% Convertible Junior Debentures due in 2063, with an annual interest cost of approximately $35 million.

See Note 8 – "Debt" to our consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2013 for additional information about this indebtedness, including restrictive covenants in our Senior Notes and our option to defer interest on our Convertible Junior Debentures. Any deferred interest compounds at the stated rate of 9%. The description in Note 8 - "Debt" to our consolidated financial statements in our Annual Report on Form 10-K is qualified in its entirety by the terms of the notes and debentures. The terms of our Senior Notes are contained in the Officer's Certificate, dated as of October 4, 2005, which specifies the interest rate, maturity date and other terms, and in the Indenture dated as of October 15, 2000, between us and the trustee, included as an exhibit to our Form 8-K filed with the SEC on October 19, 2000 (the "2000 Indenture"). The terms of our 5% Convertible Senior Notes are contained in a Supplemental Indenture, dated as of April 26, 2010, between us and U.S. Bank National Association, as trustee, which is included as an exhibit to our 8-K filed with the SEC on April 30, 2010, and in the 2000 Indenture. The terms of our 2% Convertible Senior Notes are contained in a Second Supplemental Indenture, dated as of March 12, 2013, between us and U.S. Bank National Association, as trustee, which is included as an exhibit to our 8-K filed with the SEC on March 15, 2013, and the Indenture dated as of October 15, 2000, between us and the trustee. The terms of our Convertible Junior Debentures are contained in the Indenture dated as of March 28, 2008, between us and U.S. Bank National Association filed as an exhibit to our Form 10-Q filed with the SEC on May 12, 2008.

Our holding company has no other material sources of cash inflows other than investment income. Furthermore, our holding company contributed $800 million in the first quarter of 2013, $100 million in December 2012 and $200 million in December 2011 to support its insurance operations. Any further contributions to our insurance operations or other non-insurance affiliates would further decrease our holding company cash and investments. See discussion of our non-insurance contract underwriting services under “Financial Condition” above and in Note 5 – “Litigation and Contingencies” to our consolidated financial statements. We may also contribute funds to our insurance operations in connection with the implementation of the GSE Financial Requirements under the draft PMIERs or State Capital Requirements. See “Overview – Capital” above for a discussion of these capital standards.

During the first quarter of 2014 we repurchased $20.9 million of our 5.375% Senior Notes due in November 2015 at a cost slightly above par value. During 2013 we repurchased $17.2 million of those notes at par value. We may from time to time continue to seek to acquire our debt obligations through cash purchases and/or exchanges for other securities. We may do this in open market purchases, privately negotiated acquisitions or other transactions. The amounts involved may be material.

Risk-to-Capital

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

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

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

		September 30, 2014		December 31, 2013
		(In millions, except ratio)		
Risk in force - net (1)	$	25,248	$	24,054
Statutory policyholders' surplus	$	1,479	$	1,521
Statutory contingency reserve		206		-
Statutory policyholders' position	$	1,685	$	1,521
Risk-to-capital		15.0:1		15.8:1

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

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

		September 30, 2014		December 31, 2013
		(In millions, except ratio)		
Risk in force - net (1)	$	30,792	$	29,468
Statutory policyholders' surplus	$	1,546	$	1,584
Statutory contingency reserve		271		19
Statutory policyholders' position	$	1,817	$	1,603
Risk-to-capital		17.0:1		18.4:1

(1) Risk in force – net, as shown in the table above, is net of reinsurance and exposure on policies currently in default ($3.8 billion at September 30, 2014 and $4.7 billion at December 31, 2013) and for which loss reserves have been established.

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

For additional information regarding regulatory capital see Note 1 – "Nature of Business – Capital - GSEs" and Note 15 – "Statutory Capital" to our consolidated financial statements as well as our risk factors titled "We may not continue to meet the GSEs' mortgage insurer eligibility requirements and our returns may decrease if we are required to maintain significantly more capital in order to maintain our eligibility" and "State capital requirements may prevent us from continuing to write new insurance on an uninterrupted basis."

Financial Strength Ratings

The financial strength of MGIC, our principal mortgage insurance subsidiary, is rated Ba3 by Moody’s Investors Service with a stable outlook. Standard & Poor’s Rating Services’ insurer financial strength rating of MGIC is BB with a positive outlook. For further information about the importance of MGIC’s ratings, see our risk factors titled “We may not continue to meet the GSEs’ mortgage insurer eligibility requirements and our returns may decrease if we are required to maintain significantly more capital in order to maintain our eligibility” and “Competition or changes in our relationships with our customers could reduce our revenues, reduce our premium yields and/or increase our losses.”

Contractual Obligations

At September 30, 2014, the approximate future payments under our contractual obligations of the type described in the table below are as follows:

	Payments due by period				
Contractual Obligations (In millions):	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term debt obligations	$ 3,131	$ 66	$ 533	$ 90	$ 2,442
Operating lease obligations	3	1	1	1	-
Tax obligations	19	-	19	-	-
Purchase obligations	3	2	1	-	-
Pension, SERP and other post-retirement benefit plans	182	13	29	33	107
Other long-term liabilities	2,528	1,213	1,112	203	-
Total	$ 5,866	$ 1,295	$ 1,695	$ 327	$ 2,549

Our long-term debt obligations at September 30, 2014 include, $62.0 million of 5.375% Senior Notes due in November 2015, $345.0 million of 5% Convertible Senior Notes due in 2017, $500 million 2% Convertible Senior Notes due in 2020 and $389.5 million in 9% Junior Convertible Debentures due in 2063, including related interest, as discussed in Note 3 – “Debt” to our consolidated financial statements and under “Liquidity and Capital Resources” above. Our operating lease obligations include operating leases on certain office space, data processing equipment and autos, as discussed in Note 19 – “Leases” to our consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2013. Tax obligations consist primarily of amounts related to our current dispute with the IRS, as discussed in Note 11 – “Income Taxes.” Purchase obligations consist primarily of agreements to purchase data processing hardware or services made in the normal course of business. See Note 13 – “Benefit Plans” to our consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2013 for discussion of expected benefit payments under our benefit plans.

Our other long-term liabilities represent the loss reserves established to recognize the liability for losses and loss adjustment expenses related to defaults on insured mortgage loans. The timing of the future claim payments associated with the established loss reserves was determined primarily based on two key assumptions: the length of time it takes for a notice of default to develop into a received claim and the length of time it takes for a received claim to be ultimately paid. The future claim payment periods are estimated based on historical experience, and could emerge significantly different than this estimate. Due to the uncertainty regarding how certain factors, such as new loss mitigation protocols established by servicers and changes in some state foreclosure laws that may include, for example, a requirement for additional review and/or mediation process, will affect our future paid claims it has become even more difficult to estimate the amount and timing of future claim payments. Current conditions in the housing and mortgage industries make all of the assumptions discussed in this paragraph more volatile than they would otherwise be. See Note 12 – “Loss Reserves” to our consolidated financial statements and “-Critical Accounting Policies” in our 10-K MD&A. In accordance with GAAP for the mortgage insurance industry, we establish loss reserves only for loans in default. Because our reserving method does not take account of the impact of future losses that could occur from loans that are not delinquent, our obligation for ultimate losses that we expect to occur under our policies in force at any period end is not reflected in our financial statements or in the table above.

Forward Looking Statements and Risk Factors

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

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

Location of Risk Factors: The risk factors are in Item 1 A of our Annual Report on Form 10-K for the year ended December 31, 2013, as supplemented by Part II, Item 1 A of our Quarterly Report on Form 10-Q for the Quarters ended March 31 and June 30, 2014 and by Part II, Item 1 A of this Quarterly Report on Form 10-Q. The risk factors in the 10-K, as supplemented by these 10-Qs and through updating of various statistical and other information, are reproduced in Exhibit 99 to this Quarterly Report on Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

At September 30, 2014, the derivative financial instruments in our investment portfolio were immaterial. We place our investments in instruments that meet high credit quality standards, as specified in our investment policy guidelines; the policy also limits the amount of credit exposure to any one issue, issuer and type of instrument. At September 30, 2014, the modified duration of our fixed income investment portfolio was 3.8 years, which means that an instantaneous parallel shift in the yield curve of 100 basis points would result in a change of 3.8% in the market value of our fixed income portfolio. For an upward shift in the yield curve, the market value of our portfolio would decrease and for a downward shift in the yield curve, the market value would increase.

Item 4. Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended), as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on such evaluation, our principal executive officer and principal financial officer concluded that such controls and procedures were effective as of the end of such period. There was no change in our internal control over financial reporting that occurred during the third quarter of 2014 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

The Internal Revenue Service ("IRS") completed examinations of our federal income tax returns for the years 2000 through 2007 and issued proposed assessments for taxes, interest and penalties related to our treatment of the flow-through income and loss from an investment in a portfolio of residual interests of Real Estate Mortgage Investment Conduits ("REMICs"). The IRS indicated that it did not believe that, for various reasons, we had established sufficient tax basis in the REMIC residual interests to deduct the losses from taxable income. We appealed these assessments within the IRS and in August 2010, we reached a tentative settlement agreement with the IRS which was not finalized. On September 10, 2014, we received Notices of Deficiency (commonly referred to as "90 day letters") covering the 2000-2007 tax years. The Notices of Deficiency reflect taxes and penalties related to the REMIC matters of $197.5 million and at September 30, 2014, there would also be interest related to these matters of approximately $164.8 million. In 2007, we made a payment of $65.2 million to the United States Department of the Treasury which will reduce any amount we would ultimately owe. Depending on the outcome of this matter, additional state income taxes and state interest may become due when a final resolution is reached. As of September 30, 2014, those state taxes and interest would approximate $47.0 million. In addition, there could also be state tax penalties. The Notices of Deficiency also reflected additional amounts due of $261.4 million, which are primarily associated with the disallowance of the carryback of the 2009 net operating loss to the 2004-2007 tax years. We believe the IRS included the carryback adjustments as a precaution to keep open the statute of limitations on collection of the tax that was refunded when this loss was carried back, and not because the IRS actually intends to disallow the carryback permanently.

We intend to petition the U.S. Tax Court to litigate the deficiency amounts and have until December 8, 2014 to do so. Any resulting litigation could be lengthy and costly in terms of legal fees and related expenses. We can provide no assurance regarding the outcome of any such litigation or whether a compromised settlement with the IRS will ultimately be reached and finalized. Our total amount of unrecognized tax benefits as of September 30, 2014 is $106.0 million, which represents the tax benefits generated by the REMIC portfolio included in our tax returns that we have not taken benefit for in our financial statements, including any related interest. We continue to believe that our previously recorded tax provisions and liabilities are appropriate. However, we would need to make appropriate adjustments, which could be material, to our tax provision and liabilities if our view of the probability of success in this matter changes, and the ultimate resolution of this matter could have a material negative impact on our effective tax rate, results of operations, cash flows, available assets and statutory capital. In this regard, see our risk factors titled "We may not continue to meet the GSEs' mortgage insurer eligibility requirements and our returns may decrease if we are required to maintain significantly more capital in order to maintain our eligibility" and "State capital requirements may prevent us from continuing to write new insurance on an uninterrupted basis."

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, 2013 as supplemented by Part II, Item I A of our Quarterly Report on Form 10-Q for the Quarters ended March 31 and June 30, 2014. The risk factors in the 10-K, as supplemented by those 10-Qs and this 10-Q, and through updating of various statistical and other information, are reproduced in their entirety in Exhibit 99 to this Quarterly Report on Form 10-Q.

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

Since 2008, substantially all of our insurance written has been for loans sold to Fannie Mae and Freddie Mac (the "GSEs"), each of which has mortgage insurer eligibility requirements. The existing eligibility requirements include a minimum financial strength rating of Aa3/AA-. Because MGIC does not meet such financial strength rating requirements (its financial strength rating from Moody's is Ba3 (with a stable outlook) and from Standard & Poor's is BB (with a positive outlook)), MGIC is currently operating with each GSE as an eligible insurer under a remediation plan.

On July 10, 2014, the conservator of the GSEs, the Federal Housing Finance Agency ("FHFA"), released draft Private Mortgage Insurer Eligibility Requirements ("draft PMIERs"). The draft PMIERs include revised financial requirements for mortgage insurers (the "GSE Financial Requirements") that require a mortgage insurer's "Available Assets" (generally only the most liquid assets of an insurer) to meet or exceed "Minimum Required Assets" (which are calculated from tables of factors with several risk dimensions and are subject to a floor amount).

The public input period for the draft PMIERs ended September 8, 2014. We currently expect the PMIERs to be published in final form by December 31, 2014 and the "effective date" to occur 180 days thereafter. Mortgage insurers will have up to two years after the final PMIERs are published to meet the GSE Financial Requirements (the "transition period"). A mortgage insurer that fails to certify by the effective date that it meets the GSE Financial Requirements would be subject to a transition plan having milestones for actions to achieve compliance. The transition plan would be submitted for the approval of each GSE within 90 days after the effective date, and if approved, the GSEs would monitor the insurer's progress. During the transition period for an insurer with an approved transition plan, an insurer would be in remediation (a status similar to the one under which MGIC has been operating with the GSEs for over five years) and eligible to provide mortgage insurance on loans owned or guaranteed by the GSEs.

Although we believe we have sufficient claims paying resources to meet our claim obligations on our insurance in force on a timely basis, we expect that if the draft PMIERs are implemented as released, as of December 31, 2014, MGIC would have a shortfall in Available Assets. In July 2014, we projected that as of December 31, 2014, we would have a shortfall in Available Assets of approximately $600 million, and that such shortfall would be reduced through operations so that as of December 31, 2016 (the expected end of the transition period), it would be approximately $300 million. The shortfall projections at both dates assumed the risk in force and capital of MIC are repatriated to MGIC, and full credit is given in the calculation of Minimum Required Assets for our existing reinsurance transaction (approximately $500 million of credit at December 31, 2014, increasing to $600 million of credit at December 31, 2016). However, we do not expect to receive full credit for our current reinsurance transaction. As a result, we are in discussions with the reinsurers participating in our existing reinsurance transaction regarding modifications to the agreement so that any reduction in the credit would be minimized. We have not updated these projections, but do not believe they would have changed significantly.

As of September 30, 2014, we had approximately $517 million of cash and investments at our holding company, a portion of which we believe may be available for future contribution to MGIC. Furthermore, there are regulated insurance affiliates of MGIC that have approximately $100 million of assets as of September 30, 2014. We expect that, subject to regulatory approval, we would be able to use a material portion of these assets to increase the Available Assets of MGIC. Additionally, if the draft PMIERs are implemented as released, we would consider seeking additional reinsurance and/or non-dilutive debt capital to mitigate the shortfall. We believe we will be able to use a combination of the alternatives outlined above so that MGIC will meet the GSE Financial Requirements of the draft PMIERs even if they are implemented as released. However, factors that may negatively impact MGIC's ability to comply with the GSE Financial Requirements within the transition period include the following:

- Changes in the actual PMIERs adopted from the draft PMIERs may increase the amount of the MGIC's Minimum Required Assets or reduce its Available Assets, with the result that the shortfall in Available Assets could increase;
- We may not obtain regulatory approval to transfer assets from MGIC's regulated insurance affiliates to the extent we are assuming because regulators project higher losses than we project or require a level of capital be maintained in these companies higher than we are assuming;
- We may not be able to access the non-dilutive debt markets due to market conditions, concern about our creditworthiness, or other factors, in a manner sufficient to provide the funds we are assuming;
- We may not be able to achieve modifications in our existing reinsurance arrangements necessary to minimize the reduction in the credit for reinsurance under the draft PMIERs;
- We may not be able to obtain additional reinsurance necessary to further reduce the Minimum Required Assets due to market capacity, pricing or other reasons (including disapproval of the proposed transaction by a GSE); and
- 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 reducing our Available Assets and increasing our shortfall in Available Assets, or they could increase the Minimum Required Assets, also increasing our shortfall in Available Assets.

There also can be no assurance that the GSEs would not make the GSE Financial Requirements more onerous in the future; in this regard, the draft PMIERs provide that the tables of factors that determine Minimum Required Assets may be updated to reflect changes in risk characteristics and the macroeconomic environment. If MGIC ceases to be eligible to insure loans purchased by one or both of the GSEs, it would significantly reduce the volume of our new business writings.

If we increase the amount of Available Assets we hold in order to continue to insure GSE loans, the amount of capital we hold may increase. If we increase the amount of capital we hold with respect to insured loans, our returns may decrease unless we increase premiums. An increase in premium rates may not be feasible for a number of reasons, including competition from other private mortgage insurers, the FHA or other credit enhancement products.

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.

Since 2008, substantially all of our insurance written has been for loans sold to Fannie Mae and Freddie Mac. The business practices of the GSEs affect the entire relationship between them, lenders and mortgage insurers and include:

- the level of private mortgage insurance coverage, subject to the limitations of the GSEs' charters (which may be changed by federal legislation), when private mortgage insurance is used as the required credit enhancement on low down payment mortgages,
- the amount of loan level price adjustments and guaranty fees (which result in higher costs to borrowers) that the GSEs assess on loans that require mortgage insurance,
- whether the GSEs influence the mortgage lender's selection of the mortgage insurer providing coverage and, if so, any transactions that are related to that selection,
- the underwriting standards that determine what loans are eligible for purchase by the GSEs, which can affect the quality of the risk insured by the mortgage insurer and the availability of mortgage loans,
- the terms on which mortgage insurance coverage can be canceled before reaching the cancellation thresholds established by law,
- the programs established by the GSEs intended to avoid or mitigate loss on insured mortgages and the circumstances in which mortgage servicers must implement such programs,
- the terms that the GSEs require to be included in mortgage insurance policies for loans that they purchase,
- the extent to which the GSEs intervene in mortgage insurers' rescission practices or rescission settlement practices with lenders. For additional information, see our risk factor titled "*We are involved in legal proceedings and are subject to the risk of additional legal proceedings in the future,*" and
- the maximum loan limits of the GSEs in comparison to those of the FHA and other investors.

The FHFA is the conservator of the GSEs and has the authority to control and direct their operations. The increased role that the federal government has assumed in the residential mortgage market through the GSE conservatorship may increase the likelihood that the business practices of the GSEs change in ways that have a material adverse effect on us. In addition, these factors may increase the likelihood that the charters of the GSEs are changed by new federal legislation. The financial reform legislation that was passed in July 2010 (the “Dodd-Frank Act” or “Dodd-Frank”) required the U.S. Department of the Treasury to report its recommendations regarding options for ending the conservatorship of the GSEs. This report did not provide any definitive timeline for GSE reform, however, it did recommend using a combination of federal housing policy changes to wind down the GSEs, shrink the government’s footprint in housing finance (including FHA insurance), and help bring private capital back to the mortgage market. Since then, Members of Congress introduced several bills intended to change the business practices of the GSEs and the FHA; however, no legislation has been enacted. As a result of the matters referred to above, it is uncertain what role the GSEs, FHA and private capital, including private mortgage insurance, will play in the domestic residential housing finance system in the future or the impact of any such changes on our business. In addition, the timing of the impact of any resulting changes on our business is uncertain. Most meaningful changes would require Congressional action to implement and it is difficult to estimate when Congressional action would be final and how long any associated phase-in period may last.

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

Dodd-Frank requires a securitizer to retain at least 5% of the risk associated with mortgage loans that are securitized, and in some cases the retained risk may be allocated between the securitizer and the lender that originated the loan. In October 2014, a final rule implementing that requirement was released, which will become effective for residential mortgages one year after publication of the final rule in the Federal Register. The final rule exempts securitizations of qualified residential mortgages (“QRMs”) from the risk retention requirement and generally aligns the QRM definition with that of QM. As noted above, there is a temporary category of QMs for mortgages that satisfy the general product feature requirements of QMs and meet the GSEs’ underwriting requirements. As a result, lenders that originate loans that are sold to the GSEs while they are in conservatorship would not be required to retain risk associated with those loans. The final rule requires the agencies to review the QRM definition no later than four years after its effective date and every five years thereafter, and allows each agency to request a review of the definition at any time.

We estimate that approximately 87% of our new risk written in 2013 and 84% of our new risk written in the first nine months of 2014 was for loans that would have met the CFPB’s general QM definition and, therefore, the QRM definition. We estimate that approximately 99% of our new risk written in 2013 and in the first nine months of 2014 was for loans that would have met the temporary category in CFPB’s QM definition. Changes in the treatment of GSE-guaranteed mortgage loans in the regulations defining QM and QRM, or changes in the conservatorship or capital support provided to the GSEs by the U.S. Government, could impact the manner in which the risk-retention rules apply to GSE securitizations, originators who sell loans to GSEs and our business.

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

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

Before paying a claim, we review the loan and servicing files to determine the appropriateness of the claim amount. All of our insurance policies provide that we can reduce or deny a claim if the servicer did not comply with its obligations under our insurance policy, including the requirement to mitigate our loss by performing reasonable loss mitigation efforts or, for example, diligently pursuing a foreclosure or bankruptcy relief in a timely manner. We call such reduction of claims submitted to us “curtailments.” In 2013 and the first nine months of 2014, curtailments reduced our average claim paid by approximately 5.8% and 6.5%, respectively. In addition, the claims submitted to us sometimes include costs and expenses not covered by our insurance policies, such as hazard insurance premiums for periods after the claim date and losses resulting from property damage that has not been repaired. These other adjustments reduced claim amounts by less than the amount of curtailments. After we pay a claim, servicers and insureds sometimes object to our curtailments and other adjustments. We review these objections if they are sent to us within 90 days after the claim was paid.

When reviewing the loan file associated with a claim, we may determine that we have the right to rescind coverage on the loan. Prior to 2008, rescissions of coverage on loans were not a material portion of our claims resolved during a year. However, beginning in 2008, our rescissions of coverage on loans have materially mitigated our paid losses. In 2009 through 2011, rescissions mitigated our paid losses in the aggregate by approximately $3.0 billion; and in 2012, 2013 and the first nine months of 2014, rescissions mitigated our paid losses by approximately $0.3 billion, $135 million and $75 million, respectively (in each case, the figure includes amounts that would have either resulted in a claim payment or been charged to a deductible under a bulk or pool policy, and may have been charged to a captive reinsurer). In recent quarters, approximately 5% of claims received in a quarter have been resolved by rescissions, down from the peak of approximately 28% in the first half of 2009.

We estimate rescissions mitigated our incurred losses by approximately $2.5 billion in 2009 and $0.2 billion in 2010. These figures include the benefit of claims not paid in the period as well as the impact of changes in our estimated expected rescission activity on our loss reserves in the period. In 2012, we estimate that our rescission benefit in loss reserves was reduced by $0.2 billion due to probable rescission settlement agreements. We estimate that other rescissions had no significant impact on our losses incurred in 2011 through the first nine months of 2014. Our loss reserving methodology incorporates our estimates of future rescissions and reversals of rescissions. Historically, reversals of rescissions have been immaterial. A variance between ultimate actual rescission and reversal rates and our estimates, as a result of the outcome of litigation, settlements or other factors, could materially affect our losses.

If the insured disputes our right to rescind coverage, we generally engage in discussions in an attempt to settle the dispute. As part of those discussions, we may voluntarily suspend rescissions we believe may be part of a settlement. In 2011, Freddie Mac advised its servicers that they must obtain its prior approval for rescission settlements, Fannie Mae advised its servicers that they are prohibited from entering into such settlements and Fannie Mae notified us that we must obtain its prior approval to enter into certain settlements. Since those announcements, the GSEs have consented to our settlement agreements with two customers, one of which is Countrywide, as discussed below, and have rejected other settlement agreements. We have reached and implemented settlement agreements that do not require GSE approval, but they have not been material in the aggregate.

If we are unable to reach a settlement, the outcome of a dispute ultimately would be determined by legal proceedings. Under our policies, legal proceedings disputing our right to rescind coverage may be brought up to three years after the lender has obtained title to the property (typically through a foreclosure) or the property was sold in a sale that we approved, whichever is applicable, although in a few jurisdictions there is a longer time to bring such an action.

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

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

In April 2013, MGIC entered into separate settlement agreements with CHL and BANA, pursuant to which the parties will settle the Countrywide litigation as it relates to MGIC’s rescission practices (as amended, the “Agreements”). The original Agreements are described in our Form 8-K filed with the SEC on April 25, 2013. The original Agreements are filed as exhibits to that Form 8-K and amendments were filed with our Forms 10-Q for the quarters ended September 30, 2013 and March 31, 2014, and June 30, 2014, and our Form 10-K for 2013, and amendments to the Agreement with CHL extending certain deadlines will be filed with our Form 10-Q for the quarter ended September 30, 2014. Certain portions of the Agreements are redacted and covered by confidential treatment requests that have been granted.

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

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

We recorded the estimated impact of the Agreements and another probable settlement in our financial statements for the quarter ending December 31, 2012. We have also recorded the estimated impact of other probable settlements, including a previously disclosed curtailment dispute with Countrywide. The estimated impact that we recorded is our best estimate of our loss from these matters. We estimate that the maximum exposure above the best estimate provision we recorded is $670 million, of which about 58% is related to claims paying practices subject to the Agreement with CHL and the curtailment dispute with Countrywide. If we are not able to implement the Agreement with CHL or the other settlements we consider probable, we intend to defend MGIC vigorously against any related legal proceedings.

The flow policies at issue with Countrywide are in the same form as the flow policies that we used with all of our customers during the period covered by the Agreements, and the bulk policies at issue vary from one another, but are generally similar to those used in the majority of our Wall Street bulk transactions.

We are involved in discussions and legal and consensual proceedings with customers with respect to our claims paying practices. Although it is reasonably possible that when these discussions or proceedings are completed we will not prevail in all cases, we are unable to make a reasonable estimate or range of estimates of the potential liability. We estimate the maximum exposure associated with these discussions and proceedings to be approximately $38 million, although we believe we will ultimately resolve these matters for significantly less than this amount.

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

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

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

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

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

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

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

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

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

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

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

As previously disclosed, the Internal Revenue Service ("IRS") completed examinations of our federal income tax returns for the years 2000 through 2007 and issued proposed assessments for taxes, interest and penalties related to our treatment of the flow-through income and loss from an investment in a portfolio of residual interests of Real Estate Mortgage Investment Conduits ("REMICs"). The IRS indicated that it did not believe that, for various reasons, we had established sufficient tax basis in the REMIC residual interests to deduct the losses from taxable income. We appealed these assessments within the IRS and in August 2010, we reached a tentative settlement agreement with the IRS which was not finalized. On September 10, 2014, we received Notices of Deficiency (commonly referred to as "90 day letters") covering the 2000-2007 tax years. The Notices of Deficiency reflect taxes and penalties related to the REMIC matters of $197.5 million and at September 30, 2014, there would also be interest related to these matters of approximately $164.8 million. In 2007, we made a payment of $65.2 million to the United States Department of the Treasury which will reduce any amounts we would ultimately owe. Depending on the outcome of this matter, additional state income taxes and state interest may become due when a final resolution is reached. As of September 30, 2014, those state taxes and interest would approximate $47.0 million. In addition, there could also be state tax penalties. The Notices of Deficiency also reflected additional amounts due of $261.4 million, which are primarily associated with the disallowance of the carryback of the 2009 net operating loss to the 2004-2007 tax years. We believe the IRS included the carryback adjustments as a precaution to keep open the statute of limitations on collection of the tax that was refunded when this loss was carried back, and not because the IRS actually intends to disallow the carryback permanently.

We intend to petition the U.S. Tax Court to litigate the deficiency amounts and have until December 8, 2014 to do so. Any resulting litigation could be lengthy and costly in terms of legal fees and related expenses. We can provide no assurance regarding the outcome of any such litigation or whether a compromised settlement with the IRS will ultimately be reached and finalized. Our total amount of unrecognized tax benefits as of September 30, 2014 is $106.0 million, which represents the tax benefits generated by the REMIC portfolio included in our tax returns that we have not taken benefit for in our financial statements, including any related interest. We continue to believe that our previously recorded tax provisions and liabilities are appropriate. However, we would need to make appropriate adjustments, which could be material, to our tax provision and liabilities if our view of the probability of success in this matter changes, and the ultimate resolution of this matter could have a material negative impact on our effective tax rate, results of operations, cash flows, available assets and statutory capital. In this regard, see our risk factors titled "*We may not continue to meet the GSEs' mortgage insurer eligibility requirements and our returns may decrease if we are required to maintain significantly more capital in order to maintain our eligibility*" and "*State capital requirements may prevent us from continuing to write new insurance on an uninterrupted basis*."

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

As noted above, the FHA substantially increased its market share beginning in 2008 and beginning in 2011, that market share began to gradually decline. It is difficult to predict the FHA's future market share due to, among other factors, different loan eligibility terms between the FHA and the GSEs, potential changes in guaranty fees and/or loan level price adjustments charged by the GSEs, changes to the FHA's annual premiums, and the total profitability that may be realized by mortgage lenders from securitizing loans through Ginnie Mae when compared to securitizing loans through Fannie Mae or Freddie Mac.

Until 2010 the mortgage insurance industry had not had new entrants in many years. Since 2010, two new public companies were formed and began writing business and a worldwide insurer and reinsurer with mortgage insurance operations in Europe completed the purchase of a competitor and is currently writing business. Our private mortgage insurance competitors include:

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

The perceived increase in credit quality of loans that are being insured today; the possibility of a decrease in the FHA's share of the mortgage insurance market; and the significantly more favorable treatment that new mortgage insurance companies, unencumbered with a portfolio of pre-crisis mortgages, are given under the draft GSE Financial Requirements, may encourage additional new entrants, although the lower expected returns that may result from the draft GSE Financial Requirements if adopted as proposed, may discourage additional new entrants.

Historically, the level of competition within the private mortgage insurance industry has been intense and it is not expected to diminish given the presence of new entrants. Effective in December 2013, we reduced all of our borrower-paid monthly premium rates and most of our single premium rates to match competition. Effective in September 2014, we reduced many of our lender-paid single premium rates to match competition, although in certain states these reductions are pending regulatory approval. During most of 2013, when almost all of our single premium rates were above those most commonly used in the market, single premium policies were approximately 10% of our total new insurance written; they were approximately 14% in the first nine months of 2014. In addition, lenders seeking to expand their mortgage lending businesses request discounts from mortgage insurers in order to offer products that are less expensive to borrowers, which includes lender-paid singles, or request more liberal underwriting requirements. We are observing an increase in the percentage of new insurance written on lender-paid single premium policies and an increase in the number of lenders requesting customized lender-paid single premium rate programs. Certain lender-paid single premium transactions can be structured as bids on a portfolio of recently closed loans.

During 2013 and the first nine months of 2014, approximately 7% and 4%, respectively, of our new insurance written was for loans for which one lender was the original insured and our revenue from such loans was significantly less than 10% of our revenues during each of those periods. Our relationships with our customers could be adversely affected by a variety of factors, including tightening of and adherence to our underwriting requirements, which have resulted in our declining to insure some of the loans originated by our customers and insurance rescissions that affect the customer. We have ongoing discussions with lenders who are significant customers regarding their objections to our rescissions.

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

We believe that financial strength ratings may be a significant consideration for participants seeking to secure credit enhancement in the non-GSE mortgage market, which includes most non-QM loans. While this market has been limited since the financial crisis, it may grow in the future. The financial strength ratings of our insurance subsidiaries are lower than those of some competitors and below investment grade levels, therefore, we may be competitively disadvantaged with some market participants. For each of MGIC and MIC, the financial strength rating from Moody's is Ba3 (with a stable outlook) and from Standard & Poor's is BB (with a positive outlook). It is possible that MGIC's and MIC's financial strength ratings could decline from these levels. Our ability to participate in the non-GSE market could depend on our ability to secure investment grade ratings for our mortgage insurance subsidiaries.

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

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

Even when housing values are stable or rising, mortgages with certain characteristics have higher probabilities of claims. These characteristics include loans with loan-to-value ratios over 95% (or in certain markets that have experienced declining housing values, over 90%), FICO credit scores below 620, limited underwriting, including limited borrower documentation, or higher total debt-to-income ratios, as well as loans having combinations of higher risk factors. As of September 30, 2014, approximately 19.6% of our primary risk in force consisted of loans with loan-to-value ratios greater than 95%, 5.9% had FICO credit scores below 620, and 6.0% had limited underwriting, including limited borrower documentation, each attribute as determined at the time of loan origination. A material portion of these loans were written in 2005 — 2007 or the first quarter of 2008. In accordance with industry practice, loans approved by GSEs and other automated underwriting systems under "doc waiver" programs that do not require verification of borrower income are classified by us as "full documentation." For additional information about such loans, see footnote (3) to the composition of primary default inventory table under "Results of Consolidated Operations-Losses-Losses incurred in Management's Discussion and Analysis of Financial Condition and Results of Operations.

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

From time to time, in response to market conditions, we change the types of loans that we insure and the requirements under which we insure them. In 2013, we liberalized our underwriting guidelines somewhat, in part through aligning most of our underwriting requirements with Fannie Mae and Freddie Mac for loans that receive and are processed in accordance with certain approval recommendations from a GSE automated underwriting system. As a result of the liberalization of our underwriting requirements, the migration of marginally lower FICO business from the FHA to us and other private mortgage insurers and other factors, our business written in the last several quarters is expected to have a somewhat higher claim incidence than business written in recent years. However, we believe this business presents an acceptable level of risk. Our underwriting requirements are available on our website at http://www.mgic.com/underwriting/index.html. We monitor the competitive landscape and will make adjustments to our pricing and underwriting guidelines as warranted. We also make exceptions to our underwriting requirements on a loan-by-loan basis and for certain customer programs. Together, the number of loans for which exceptions were made accounted for fewer than 2% of the loans we insured in 2013 and the first nine months of 2014.

As noted above in our risk factor titled *"State capital requirements may prevent us from continuing to write new insurance on an uninterrupted basis,"* in 2013, we entered into a quota share reinsurance transaction with a group of unaffiliated reinsurers. Although that transaction reduces our premium yields, the transaction will have a lesser impact on our overall results, as losses ceded under this transaction reduce our losses incurred and the ceding commission we receive reduces our underwriting expenses. As of September 30, 2014, we have accrued a profit commission receivable of $69 million. This receivable is expected to grow materially through the term of the agreement, absent any modifications to the agreement, but the ultimate amount of the commission will depend on the ultimate level of premiums earned and losses incurred under the agreement. Any profit commission would be paid to us upon termination of the reinsurance agreement. The reinsurers are required to maintain trust funds or letters of credit to support recoverable balances for reinsurance, such as loss reserves, paid losses, prepaid reinsurance premiums and profit commissions. As such forms of collateral are in place, we have not established an allowance against these balances.

The circumstances in which we are entitled to rescind coverage have narrowed for insurance we have written in recent years. During the second quarter of 2012, we began writing a portion of our new insurance under an endorsement to our then existing master policy (the "Gold Cert Endorsement"), which limited our ability to rescind coverage compared to that master policy. As of September 30, 2014, approximately 25% of our flow, primary insurance in force was written under our Gold Cert Endorsement. However, approximately 65% and 75% of our flow, primary new insurance written in 2013 and the first nine months of 2014, respectively, was written under this endorsement. The Gold Cert Endorsement is filed as Exhibit 99.7 to our quarterly report on Form 10-Q for the quarter ended March 31, 2012 (filed with the SEC on May 10, 2012).

To comply with requirements of the GSEs, we introduced a new master policy that applies to loans we insure with a mortgage insurance application date on or after October 1, 2014. Our rescission rights under our new master policy are comparable to those under our previous master policy, as modified by the Gold Cert Endorsement, but may be further narrowed if the GSEs permit modifications to them. Our new master policy is filed as Exhibit 99.19 to this Form 10-Q.

As of September 30, 2014, approximately 1.5% of our primary risk in force written through the flow channel, and 20.8% of our primary risk in force written through the bulk channel, consisted of adjustable rate mortgages in which the initial interest rate may be adjusted during the five years after the mortgage closing ("ARMs"). We classify as fixed rate loans adjustable rate mortgages in which the initial interest rate is fixed during the five years after the mortgage closing. If interest rates should rise between the time of origination of such loans and when their interest rates may be reset, claims on ARMs and adjustable rate mortgages whose interest rates may only be adjusted after five years would be substantially higher than for fixed rate loans. In addition, we have insured "interest-only" loans, which may also be ARMs, and loans with negative amortization features, such as pay option ARMs. We believe claim rates on these loans will be substantially higher than on loans without scheduled payment increases that are made to borrowers of comparable credit quality.

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

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

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

We continue to experience material losses, especially on the 2006 and 2007 books. The ultimate amount of these losses will depend in part on general economic conditions, including unemployment, and the direction of home prices, which in turn will be influenced by general economic conditions and other factors. Because we cannot predict future home prices or general economic conditions with confidence, there is significant uncertainty surrounding what our ultimate losses will be on our 2006 and 2007 books. Our current expectation is that the incurred and paid losses from these books, although declining, will continue to generate a material portion of our total incurred and paid losses for a number of years.

Item 6. Exhibits

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

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized, on November 7, 2014.

MGIC INVESTMENT CORPORATION

/s/ Timothy J. Mattke
Timothy J. Mattke
Executive Vice President and
Chief Financial Officer

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

INDEX TO EXHIBITS
(Part II, Item 6)

Exhibit Number	**Description of Exhibit**
31.1	Certification of CEO under Section 302 of Sarbanes-Oxley Act of 2002
31.2	Certification of CFO under Section 302 of Sarbanes-Oxley Act of 2002
32	Certification of CEO and CFO under Section 906 of Sarbanes-Oxley Act of 2002 (as indicated in Item 6 of Part II, this Exhibit is not being "filed")
99	Risk Factors included in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2013, as supplemented by Part II, Item 1A of our Quarterly Reports on Form 10-Q for the quarters ended March 31, June 30 and September 30, 2014, and through updating of various statistical and other information
99.17	Sixth Amendment to Confidential Settlement Agreement and Release made as of August 31, 2014 among Mortgage Guaranty Insurance Corporation (“MGIC”), Countrywide Home Loans, Inc. (“CHL”) and Bank of America, N.A., in its capacity as master servicer or servicer of Subject Loans (as defined in the settlement agreement).
99.18	Seventh Amendment to Confidential Settlement Agreement and Release made as of September 11, 2014 among Mortgage Guaranty Insurance Corporation (“MGIC”), Countrywide Home Loans, Inc. (“CHL”) and Bank of America, N.A., in its capacity as master servicer or servicer of Subject Loans (as defined in the settlement agreement).
99.19	Mortgage Guaranty Insurance Corporation’s Master Insurance Policy and Declaration Page (effective for loans with mortgage insurance applications dated on or after October 1, 2014)
101	The following financial information from MGIC Investment Corporation’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2014, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets as of September 30, 2014 and December 31, 2013, (ii) Consolidated Statements of Operations for the three and nine months ended September 30, 2014 and 2013, (iii) Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2014 and 2013, (iv) Consolidated Statements of Shareholders’ Equity for the nine months ended September 30, 2014 and 2013, (v) Consolidated Statements of Cash Flows for the nine months ended September 30, 2014 and 2013, and (vi) the Notes to Consolidated Financial Statements.

Exhibit 31.1

CERTIFICATIONS

I, Curt S. Culver, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: November 7, 2014

/s/ Curt S. Culver
Curt S. Culver
Chief Executive Officer

Exhibit 31.2

CERTIFICATIONS

I, Timothy J. Mattke, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: November 7, 2014

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

Exhibit 32

SECTION 1350 CERTIFICATIONS

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

(1) the Quarterly Report on Form 10-Q of the Company for the three months ended September 30, 2014 (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: November 7, 2014

/s/ Curt S. Culver
Curt S. Culver
Chief Executive Officer

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

Exhibit 99

Risk Factors included in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2013, as supplemented by Part II, Item 1A of our Quarterly Reports on Form 10-Q for the quarters ended March 31, June 30 and September 30, 2014 and through updating of various statistical and other information.

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

Since 2008, substantially all of our insurance written has been for loans sold to Fannie Mae and Freddie Mac (the "GSEs"), each of which has mortgage insurer eligibility requirements. The existing eligibility requirements include a minimum financial strength rating of Aa3/AA-. Because MGIC does not meet such financial strength rating requirements (its financial strength rating from Moody's is Ba3 (with a stable outlook) and from Standard & Poor's is BB (with a positive outlook)), MGIC is currently operating with each GSE as an eligible insurer under a remediation plan.

On July 10, 2014, the conservator of the GSEs, the Federal Housing Finance Agency ("FHFA"), released draft Private Mortgage Insurer Eligibility Requirements ("draft PMIERs"). The draft PMIERs include revised financial requirements for mortgage insurers (the "GSE Financial Requirements") that require a mortgage insurer's "Available Assets" (generally only the most liquid assets of an insurer) to meet or exceed "Minimum Required Assets" (which are calculated from tables of factors with several risk dimensions and are subject to a floor amount).

The public input period for the draft PMIERs ended September 8, 2014. We currently expect the PMIERs to be published in final form by December 31, 2014 and the "effective date" to occur 180 days thereafter. Mortgage insurers will have up to two years after the final PMIERs are published to meet the GSE Financial Requirements (the "transition period"). A mortgage insurer that fails to certify by the effective date that it meets the GSE Financial Requirements would be subject to a transition plan having milestones for actions to achieve compliance. The transition plan would be submitted for the approval of each GSE within 90 days after the effective date, and if approved, the GSEs would monitor the insurer's progress. During the transition period for an insurer with an approved transition plan, an insurer would be in remediation (a status similar to the one under which MGIC has been operating with the GSEs for over five years) and eligible to provide mortgage insurance on loans owned or guaranteed by the GSEs.

Although we believe we have sufficient claims paying resources to meet our claim obligations on our insurance in force on a timely basis, we expect that if the draft PMIERs are implemented as released, as of December 31, 2014, MGIC would have a shortfall in Available Assets. In July 2014, we projected that as of December 31, 2014, we would have a shortfall in Available Assets of approximately $600 million, and that such shortfall would be reduced through operations so that as of December 31, 2016 (the expected end of the transition period), it would be approximately $300 million. The shortfall projections at both dates assumed the risk in force and capital of MIC are repatriated to MGIC, and full credit is given in the calculation of Minimum Required Assets for our existing reinsurance transaction (approximately $500 million of credit at December 31, 2014, increasing to $600 million of credit at December 31, 2016). However, we do not expect to receive full credit for our current reinsurance transaction. As a result, we are in discussions with the reinsurers participating in our existing reinsurance transaction regarding modifications to the agreement so that any reduction in the credit would be minimized. We have not updated these projections, but do not believe they would have changed significantly.

As of September 30, 2014, we had approximately $517 million of cash and investments at our holding company, a portion of which we believe may be available for future contribution to MGIC. Furthermore, there are regulated insurance affiliates of MGIC that have approximately $100 million of assets as of September 30, 2014. We expect that, subject to regulatory approval, we would be able to use a material portion of these assets to increase the Available Assets of MGIC. Additionally, if the draft PMIERs are implemented as released, we would consider seeking additional reinsurance and/or non-dilutive debt capital to mitigate the shortfall. We believe we will be able to use a combination of the alternatives outlined above so that MGIC will meet the GSE Financial Requirements of the draft PMIERs even if they are implemented as released. However, factors that may negatively impact MGIC's ability to comply with the GSE Financial Requirements within the transition period include the following:

- Changes in the actual PMIERs adopted from the draft PMIERs may increase the amount of the MGIC's Minimum Required Assets or reduce its Available Assets, with the result that the shortfall in Available Assets could increase;
- We may not obtain regulatory approval to transfer assets from MGIC's regulated insurance affiliates to the extent we are assuming because regulators project higher losses than we project or require a level of capital be maintained in these companies higher than we are assuming;
- We may not be able to access the non-dilutive debt markets due to market conditions, concern about our creditworthiness, or other factors, in a manner sufficient to provide the funds we are assuming;
- We may not be able to achieve modifications in our existing reinsurance arrangements necessary to minimize the reduction in the credit for reinsurance under the draft PMIERs;
- We may not be able to obtain additional reinsurance necessary to further reduce the Minimum Required Assets due to market capacity, pricing or other reasons (including disapproval of the proposed transaction by a GSE); and
- 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 reducing our Available Assets and increasing our shortfall in Available Assets, or they could increase the Minimum Required Assets, also increasing our shortfall in Available Assets.

There also can be no assurance that the GSEs would not make the GSE Financial Requirements more onerous in the future; in this regard, the draft PMIERs provide that the tables of factors that determine Minimum Required Assets may be updated to reflect changes in risk characteristics and the macroeconomic environment. If MGIC ceases to be eligible to insure loans purchased by one or both of the GSEs, it would significantly reduce the volume of our new business writings.

If we increase the amount of Available Assets we hold in order to continue to insure GSE loans, the amount of capital we hold may increase. If we increase the amount of capital we hold with respect to insured loans, our returns may decrease unless we increase premiums. An increase in premium rates may not be feasible for a number of reasons, including competition from other private mortgage insurers, the FHA or other credit enhancement products.

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

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

In 2013, we entered into a quota share reinsurance transaction with a group of unaffiliated reinsurers that reduced our risk-to-capital ratio. At September 30, 2014, MGIC’s risk-to-capital ratio was 15.0 to 1, below the maximum allowed by the jurisdictions with State Capital Requirements, and its policyholder position was $605 million above the required MPP of $1.0 billion. 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 disallowed full credit under either the State Capital Requirements or the GSE Financial Requirements, MGIC may terminate the transaction, without penalty. At this time, we expect MGIC to continue to comply with the current State Capital Requirements, however, you should read the rest of these risk factors for information about matters that could negatively affect such compliance.

At September 30, 2014, the risk-to-capital ratio of our combined insurance operations (which includes reinsurance affiliates) was 17.0 to 1. Reinsurance transactions with affiliates permit MGIC to write insurance with a higher coverage percentage than it could on its own under certain state-specific requirements. A higher risk-to-capital ratio on a combined basis may indicate that, in order for MGIC to continue to utilize reinsurance arrangements with its affiliates, unless a waiver of the State Capital Requirements of Wisconsin continues to be effective, additional capital contributions to the reinsurance affiliates could be needed.

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

If MGIC fails to meet the State Capital Requirements of Wisconsin and is unable to obtain a waiver of them from the Office of the Commissioner of Insurance of the State of Wisconsin (“OCI”), MGIC could be prevented from writing new business in all jurisdictions. If MGIC fails to meet the State Capital Requirements of a jurisdiction other than Wisconsin and is unable to obtain a waiver of them, MGIC could be prevented from writing new business in that particular jurisdiction. It is possible that regulatory action by one or more jurisdictions, including those that do not have specific State Capital Requirements, may prevent MGIC from continuing to write new insurance in such jurisdictions. If we are unable to write business in all jurisdictions, lenders may be unwilling to procure insurance from us anywhere. In addition, a lender’s assessment of the future ability of our insurance operations to meet the Financial Requirements may affect its willingness to procure insurance from us. 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 Financial Requirements will not necessarily mean that MGIC lacks sufficient resources to pay claims on its insurance liabilities. While we believe MGIC has sufficient claims paying resources to meet its claim obligations on its insurance in force on a timely basis, you should read the rest of these risk factors for information about matters that could negatively affect MGIC’s claims paying resources.

We have in place a longstanding plan to write new business in MIC, a direct subsidiary of MGIC, in the event MGIC cannot meet the State Capital Requirements of a jurisdiction or obtain a waiver of them. Writing business in MIC would be subject to any repatriation to MGIC of MIC's capital in order to comply with the PMIERs, as discussed in our risk factor titled "*We may not continue to meet the GSEs' mortgage insurer eligibility requirements and our returns may decrease if we are required to maintain significantly more capital in order to maintain our eligibility.*" MIC is licensed to write business in all jurisdictions. During 2012, MIC began writing new business in the jurisdictions where MGIC did not meet and did not have a waiver of the State Capital Requirements. MIC suspended writing new business in 2013 because MGIC again meets the State Capital Requirements and is writing new business in all jurisdictions. As of September 30, 2014, MIC had statutory capital of $466 million and risk in force, net of reinsurance, of approximately $547 million and met all State Capital Requirements. Before MIC may again write new business, it must obtain the necessary approvals from the OCI and the GSEs. We cannot assure you that the OCI and the GSEs would again approve MIC to write new business in all jurisdictions if in the future MGIC became unable to do so.

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

Alternatives to private mortgage insurance include:

- lenders using government mortgage insurance programs, including those of the FHA and the Veterans Administration,

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

- investors (including the GSEs) using risk mitigation techniques other than private mortgage insurance, such as obtaining insurance from non-mortgage insurers and engaging in credit-linked note transactions executed in the capital markets; using other risk mitigation techniques in conjunction with reduced levels of private mortgage insurance coverage; or accepting credit risk without credit enhancement, and

- lenders originating mortgages using piggyback structures to avoid private mortgage insurance, such as a first mortgage with an 80% loan-to-value ratio and a second mortgage with a 10%, 15% or 20% loan-to-value ratio (referred to as 80-10-10, 80-15-5 or 80-20 loans, respectively) rather than a first mortgage with a 90%, 95% or 100% loan-to-value ratio that has private mortgage insurance.

The FHA substantially increased its market share beginning in 2008, and beginning in 2011, that market share began to gradually decline. We believe that the FHA's market share increased, in part, because private mortgage insurers tightened their underwriting guidelines (which led to increased utilization of the FHA's programs), the GSEs increased their loan level price adjustments (which result in higher costs to borrowers), the Ginnie Mae securitization of FHA-insured loans offered lenders higher returns than those obtained by selling loans to Fannie Mae or Freddie Mac for securitization, and federal legislation and programs provided the FHA with greater flexibility in establishing new products. We cannot predict how these factors will change in the future, therefore, we cannot predict the FHA's share of new insurance written in the future. We believe that the FHA's current premium pricing, when compared to our current credit-tiered premium pricing (and considering the effects of GSE pricing changes), has allowed us to be more competitive with the FHA than in the recent past for loans with high FICO credit scores.

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.

Since 2008, substantially all of our insurance written has been for loans sold to Fannie Mae and Freddie Mac. The business practices of the GSEs affect the entire relationship between them, lenders and mortgage insurers and include:

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

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

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

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

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

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

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

- the extent to which the GSEs intervene in mortgage insurers' rescission practices or rescission settlement practices with lenders. For additional information, see our risk factor titled *"We are involved in legal proceedings and are subject to the risk of additional legal proceedings in the future,"* and

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

The FHFA is the conservator of the GSEs and has the authority to control and direct their operations. The increased role that the federal government has assumed in the residential mortgage market through the GSE conservatorship may increase the likelihood that the business practices of the GSEs change in ways that have a material adverse effect on us. In addition, these factors may increase the likelihood that the charters of the GSEs are changed by new federal legislation. The financial reform legislation that was passed in July 2010 (the "Dodd-Frank Act" or "Dodd-Frank") required the U.S. Department of the Treasury to report its recommendations regarding options for ending the conservatorship of the GSEs. This report did not provide any definitive timeline for GSE reform, however, it did recommend using a combination of federal housing policy changes to wind down the GSEs, shrink the government's footprint in housing finance (including FHA insurance), and help bring private capital back to the mortgage market. Since then, Members of Congress introduced several bills intended to change the business practices of the GSEs and the FHA; however, no legislation has been enacted. As a result of the matters referred to above, it is uncertain what role the GSEs, FHA and private capital, including private mortgage insurance, will play in the domestic residential housing finance system in the future or the impact of any such changes on our business. In addition, the timing of the impact of any resulting changes on our business is uncertain. Most meaningful changes would require Congressional action to implement and it is difficult to estimate when Congressional action would be final and how long any associated phase-in period may last.

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

Dodd-Frank requires a securitizer to retain at least 5% of the risk associated with mortgage loans that are securitized, and in some cases the retained risk may be allocated between the securitizer and the lender that originated the loan. In October 2014, a final rule implementing that requirement was released, which will become effective for residential mortgages one year after publication of the final rule in the Federal Register. The final rule exempts securitizations of qualified residential mortgages ("QRMs") from the risk retention requirement and generally aligns the QRM definition with that of QM. As noted above, there is a temporary category of QMs for mortgages that satisfy the general product feature requirements of QMs and meet the GSEs' underwriting requirements. As a result, lenders that originate loans that are sold to the GSEs while they are in conservatorship would not be required to retain risk associated with those loans. The final rule requires the agencies to review the QRM definition no later than four years after its effective date and every five years thereafter, and allows each agency to request a review of the definition at any time.

We estimate that approximately 87% of our new risk written in 2013 and 84% of our new risk written in the first nine months of 2014 was for loans that would have met the CFPB's general QM definition and, therefore, the QRM definition. We estimate that approximately 99% of our new risk written in 2013 and in the first nine months of 2014 was for loans that would have met the temporary category in CFPB's QM definition. Changes in the treatment of GSE-guaranteed mortgage loans in the regulations defining QM and QRM, or changes in the conservatorship or capital support provided to the GSEs by the U.S. Government, could impact the manner in which the risk-retention rules apply to GSE securitizations, originators who sell loans to GSEs and our business.

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

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

As of September 30, 2014, we had approximately $2.5 billion of net operating losses for tax purposes that we can use in certain circumstances to offset future taxable income and thus reduce our federal income tax liability. Our ability to utilize these net operating losses to offset future taxable income may be significantly limited if we experience an “ownership change” as defined in Section 382 of the Internal Revenue Code of 1986, as amended (the “Code”). In general, an ownership change will occur if there is a cumulative change in our ownership by “5-percent shareholders” (as defined in the Code) that exceeds 50 percentage points over a rolling three-year period. A corporation that experiences an ownership change will generally be subject to an annual limitation on the corporation’s subsequent use of net operating loss carryovers that arose from pre-ownership change periods and use of losses that are subsequently recognized with respect to assets that had a built-in-loss on the date of the ownership change. The amount of the annual limitation generally equals the value of the corporation immediately before the ownership change multiplied by the long-term tax-exempt interest rate (subject to certain adjustments). To the extent that the limitation in a post-ownership-change year is not fully utilized, the amount of the limitation for the succeeding year will be increased.

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

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

Before paying a claim, we review the loan and servicing files to determine the appropriateness of the claim amount. All of our insurance policies provide that we can reduce or deny a claim if the servicer did not comply with its obligations under our insurance policy, including the requirement to mitigate our loss by performing reasonable loss mitigation efforts or, for example, diligently pursuing a foreclosure or bankruptcy relief in a timely manner. We call such reduction of claims submitted to us “curtailments.” In 2013 and the first nine months of 2014, curtailments reduced our average claim paid by approximately 5.8% and 6.5%, respectively. In addition, the claims submitted to us sometimes include costs and expenses not covered by our insurance policies, such as hazard insurance premiums for periods after the claim date and losses resulting from property damage that has not been repaired. These other adjustments reduced claim amounts by less than the amount of curtailments. After we pay a claim, servicers and insureds sometimes object to our curtailments and other adjustments. We review these objections if they are sent to us within 90 days after the claim was paid.

When reviewing the loan file associated with a claim, we may determine that we have the right to rescind coverage on the loan. Prior to 2008, rescissions of coverage on loans were not a material portion of our claims resolved during a year. However, beginning in 2008, our rescissions of coverage on loans have materially mitigated our paid losses. In 2009 through 2011, rescissions mitigated our paid losses in the aggregate by approximately $3.0 billion; and in 2012, 2013 and the first nine months of 2014, rescissions mitigated our paid losses by approximately $0.3 billion, $135 million and $75 million, respectively (in each case, the figure includes amounts that would have either resulted in a claim payment or been charged to a deductible under a bulk or pool policy, and may have been charged to a captive reinsurer). In recent quarters, approximately 5% of claims received in a quarter have been resolved by rescissions, down from the peak of approximately 28% in the first half of 2009.

We estimate rescissions mitigated our incurred losses by approximately $2.5 billion in 2009 and $0.2 billion in 2010. These figures include the benefit of claims not paid in the period as well as the impact of changes in our estimated expected rescission activity on our loss reserves in the period. In 2012, we estimate that our rescission benefit in loss reserves was reduced by $0.2 billion due to probable rescission settlement agreements. We estimate that other rescissions had no significant impact on our losses incurred in 2011 through the first nine months of 2014. Our loss reserving methodology incorporates our estimates of future rescissions and reversals of rescissions. Historically, reversals of rescissions have been immaterial. A variance between ultimate actual rescission and reversal rates and our estimates, as a result of the outcome of litigation, settlements or other factors, could materially affect our losses.

If the insured disputes our right to rescind coverage, we generally engage in discussions in an attempt to settle the dispute. As part of those discussions, we may voluntarily suspend rescissions we believe may be part of a settlement. In 2011, Freddie Mac advised its servicers that they must obtain its prior approval for rescission settlements, Fannie Mae advised its servicers that they are prohibited from entering into such settlements and Fannie Mae notified us that we must obtain its prior approval to enter into certain settlements. Since those announcements, the GSEs have consented to our settlement agreements with two customers, one of which is Countrywide, as discussed below, and have rejected other settlement agreements. We have reached and implemented settlement agreements that do not require GSE approval, but they have not been material in the aggregate.

If we are unable to reach a settlement, the outcome of a dispute ultimately would be determined by legal proceedings. Under our policies, legal proceedings disputing our right to rescind coverage may be brought up to three years after the lender has obtained title to the property (typically through a foreclosure) or the property was sold in a sale that we approved, whichever is applicable, although in a few jurisdictions there is a longer time to bring such an action.

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

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

In April 2013, MGIC entered into separate settlement agreements with CHL and BANA, pursuant to which the parties will settle the Countrywide litigation as it relates to MGIC’s rescission practices (as amended, the “Agreements”). The original Agreements are described in our Form 8-K filed with the SEC on April 25, 2013. The original Agreements are filed as exhibits to that Form 8-K and amendments were filed with our Forms 10-Q for the quarters ended September 30, 2013 and March 31, 2014, and June 30, 2014, and our Form 10-K for 2013, and amendments to the Agreement with CHL extending certain deadlines will be filed with our Form 10-Q for the quarter ended September 30, 2014. Certain portions of the Agreements are redacted and covered by confidential treatment requests that have been granted.

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

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

We recorded the estimated impact of the Agreements and another probable settlement in our financial statements for the quarter ending December 31, 2012. We have also recorded the estimated impact of other probable settlements, including a previously disclosed curtailment dispute with Countrywide. The estimated impact that we recorded is our best estimate of our loss from these matters. We estimate that the maximum exposure above the best estimate provision we recorded is $670 million, of which about 58% is related to claims paying practices subject to the Agreement with CHL and the curtailment dispute with Countrywide. If we are not able to implement the Agreement with CHL or the other settlements we consider probable, we intend to defend MGIC vigorously against any related legal proceedings.

The flow policies at issue with Countrywide are in the same form as the flow policies that we used with all of our customers during the period covered by the Agreements, and the bulk policies at issue vary from one another, but are generally similar to those used in the majority of our Wall Street bulk transactions.

We are involved in discussions and legal and consensual proceedings with customers with respect to our claims paying practices. Although it is reasonably possible that when these discussions or proceedings are completed we will not prevail in all cases, we are unable to make a reasonable estimate or range of estimates of the potential liability. We estimate the maximum exposure associated with these discussions and proceedings to be approximately $38 million, although we believe we will ultimately resolve these matters for significantly less than this amount.

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

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

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

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

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

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

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

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

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

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

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

As previously disclosed, the Internal Revenue Service ("IRS") completed examinations of our federal income tax returns for the years 2000 through 2007 and issued proposed assessments for taxes, interest and penalties related to our treatment of the flow-through income and loss from an investment in a portfolio of residual interests of Real Estate Mortgage Investment Conduits ("REMICs"). The IRS indicated that it did not believe that, for various reasons, we had established sufficient tax basis in the REMIC residual interests to deduct the losses from taxable income. We appealed these assessments within the IRS and in August 2010, we reached a tentative settlement agreement with the IRS which was not finalized. On September 10, 2014, we received Notices of Deficiency (commonly referred to as "90 day letters") covering the 2000-2007 tax years. The Notices of Deficiency reflect taxes and penalties related to the REMIC matters of $197.5 million and at September 30, 2014, there would also be interest related to these matters of approximately $164.8 million. In 2007, we made a payment of $65.2 million to the United States Department of the Treasury which will reduce any amounts we would ultimately owe. Depending on the outcome of this matter, additional state income taxes and state interest may become due when a final resolution is reached. As of September 30, 2014, those state taxes and interest would approximate $47.0 million. In addition, there could also be state tax penalties. The Notices of Deficiency also reflected additional amounts due of $261.4 million, which are primarily associated with the disallowance of the carryback of the 2009 net operating loss to the 2004-2007 tax years. We believe the IRS included the carryback adjustments as a precaution to keep open the statute of limitations on collection of the tax that was refunded when this loss was carried back, and not because the IRS actually intends to disallow the carryback permanently.

We intend to petition the U.S. Tax Court to litigate the deficiency amounts and have until December 8, 2014 to do so. Any resulting litigation could be lengthy and costly in terms of legal fees and related expenses. We can provide no assurance regarding the outcome of any such litigation or whether a compromised settlement with the IRS will ultimately be reached and finalized. Our total amount of unrecognized tax benefits as of September 30, 2014 is $106.0 million, which represents the tax benefits generated by the REMIC portfolio included in our tax returns that we have not taken benefit for in our financial statements, including any related interest. We continue to believe that our previously recorded tax provisions and liabilities are appropriate. However, we would need to make appropriate adjustments, which could be material, to our tax provision and liabilities if our view of the probability of success in this matter changes, and the ultimate resolution of this matter could have a material negative impact on our effective tax rate, results of operations, cash flows, available assets and statutory capital. In this regard, see our risk factors titled *"We may not continue to meet the GSEs' mortgage insurer eligibility requirements and our returns may decrease if we are required to maintain significantly more capital in order to maintain our eligibility*" and "*State capital requirements may prevent us from continuing to write new insurance on an uninterrupted basis*."

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

In accordance with accounting principles generally accepted in the United States, commonly referred to as GAAP, we establish loss reserves only for loans in default. Reserves are established for insurance losses and loss adjustment expenses when notices of default on insured mortgage loans are received. Reserves are also established for insurance losses and loss adjustment expenses 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"). We establish reserves using estimated claim rates and claim amounts. Because our reserving method does not take account of losses that could occur from loans that are not delinquent, such losses are not reflected in our financial statements, except in the case where a premium deficiency exists. As a result, future losses on loans that are not currently delinquent may have a material impact on future results as such losses emerge.

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

We establish reserves using estimated claim rates and claim amounts in estimating the ultimate loss on delinquent loans. The estimated claim rates and claim amounts represent our best estimates of what we will actually pay on the loans in default as of the reserve date and incorporate anticipated mitigation from rescissions. We rescind coverage on loans and deny claims in cases where we believe our policy allows us to do so. Therefore, when establishing our loss reserves, we do not include additional loss reserves that would reflect a possible adverse development from ongoing dispute resolution proceedings regarding rescissions and denials unless we have determined that a loss is probable and can be reasonably estimated. For more information regarding our legal proceedings, see our risk factor titled *"We are involved in legal proceedings and are subject to the risk of additional legal proceedings in the future."*

The establishment of loss reserves is subject to inherent uncertainty and requires judgment by management. Current conditions in the housing and mortgage industries make the assumptions that we use to establish loss reserves more volatile than they would otherwise be. The actual amount of the claim payments may be substantially different than our loss reserve estimates. Our estimates could be adversely affected by several factors, including a deterioration of regional or national economic conditions, including unemployment, leading to a reduction in borrowers' income and thus their ability to make mortgage payments and a drop in housing values, which may affect borrower willingness to continue to make mortgage payments when the value of the home is below the mortgage balance. Changes to our estimates could result in a material impact to our results of operations, even in a stable economic environment. For example, better or worse loss development than we had assumed at the end of the prior period could have a material impact on our results. 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 notice activity and a lower cure rate.

We rely on our management team and our business could be harmed if we are unable to retain qualified personnel.

Our industry is undergoing a fundamental shift following the mortgage crisis: long-standing competitors have gone out of business and two newly capitalized start-ups that are not encumbered with a portfolio of pre-crisis mortgages have been formed. Former executives from other mortgage insurers have joined these two new competitors. In addition, in January 2014, a worldwide insurer and reinsurer with mortgage insurance operations in Europe announced that it had completed the purchase of a competitor, CMG Mortgage Insurance Company, and that it had received approval as an eligible insurer from both GSEs. 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, and there can be no assurance that we would be able to employ a suitable replacement for the departing individuals, or that a replacement could be hired on terms that are favorable to us. 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 unexpectedly depart.

Our reinsurance transactions with unaffiliated reinsurers allow each reinsurer to terminate such reinsurer's portion of the transactions on a run-off basis if during any six month period prior to July 1, 2015, two or more of our top five executives depart, the departures result in a material adverse impact on our underwriting and risk management practices or policies, and such reinsurer timely objects to the replacements of such executives. We view such a termination as unlikely.

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

Beginning in the fourth quarter of 2008, the federal government, including through the Federal Deposit Insurance Corporation and the GSEs, and several lenders implemented programs to modify loans to make them more affordable to borrowers with the goal of reducing the number of foreclosures. During 2012, 2013 and the first nine months of 2014, we were notified of modifications that cured delinquencies that had they become paid claims would have resulted in approximately $1.2 billion, $1.0 billion and $620 million, respectively, of estimated claim payments. As noted below, we cannot predict with a high degree of confidence what the ultimate re-default rate on these modifications will be. Although the recent re-default rate has been lower, for internal reporting and planning purposes, we assume approximately 50% of these modifications will ultimately re-default, and those re-defaults may result in future claim payments. Because modifications cure the defaults with respect to the previously defaulted loans, our loss reserves do not account for potential re-defaults unless at the time the reserve is established, the re-default has already occurred. Based on information that is provided to us, most of the modifications resulted in reduced payments from interest rate and/or amortization period adjustments; from 2012 through the first nine months of 2014, approximately 9% resulted in principal forgiveness.

One loan modification program is the Home Affordable Modification Program ("HAMP") which began in 2009. We believe that it could take several months from the time a borrower has made all of the payments during HAMP's three month "trial modification" period for the loan to be reported to us as a cured delinquency. We rely on information provided to us by the GSEs and servicers. We do not receive all of the information from such sources that is required to determine with certainty the number of loans that are participating in, have successfully completed, or are eligible to participate in, HAMP. We are aware of approximately 6,190 loans in our primary delinquent inventory at September 30, 2014 for which the HAMP trial period has begun and which trial periods have not been reported to us as completed or cancelled. Through September 30, 2014, approximately 53,990 delinquent primary loans have cured their delinquency after entering HAMP and are not in default. In 2013 and the first nine months of 2014, approximately 17% of our primary cures were the result of a modification, with HAMP accounting for approximately 68% and 67%, respectively, of those modifications in 2013 and the first nine months of 2014. Although the HAMP program has been extended through December 2016, we believe that we have realized the majority of the benefits from HAMP because the number of loans insured by us that we are aware are entering HAMP trial modification periods has decreased significantly since 2010. The interest rates on certain loans modified under HAMP are subject to adjustment five years after the modification was entered into. Such adjustments are limited to an increase of one percentage point per year.

In 2009, the GSEs began offering the Home Affordable Refinance Program ("HARP"). HARP, which is currently scheduled to expire December 31, 2015, allows borrowers who are not delinquent but who may not otherwise be able to refinance their loans under the current GSE underwriting standards, to refinance their loans. We allow HARP refinances on loans that we insure, regardless of whether the loan meets our current underwriting standards, and we account for the refinance as a loan modification (even where there is a new lender) rather than new insurance written. As of September 20, 2014, approximately 15% of our primary insurance in force had benefitted from HARP and was still in force.

The effect on us of loan modifications depends on how many modified loans subsequently re-default, which in turn can be affected by changes in housing values. Re-defaults can result in losses for us that could be greater than we would have paid had the loan not been modified. Although the majority of loans modified through HAMP and HARP are current, at this point, we cannot predict with a high degree of confidence what the ultimate re-default rate will be. Eligibility under certain loan modification programs can also adversely affect us by creating an incentive for borrowers who are able to make their mortgage payments to become delinquent in an attempt to obtain the benefits of a modification. New notices of delinquency increase our incurred losses. If legislation is enacted to permit a portion of a borrower's mortgage loan balance to be reduced in bankruptcy and if the borrower re-defaults after such reduction, then the amount we would be responsible to cover would be calculated after adding back the reduction. Unless a lender has obtained our prior approval, if a borrower's mortgage loan balance is reduced outside the bankruptcy context, including in association with a loan modification, and if the borrower re-defaults after such reduction, then under the terms of our policy the amount we would be responsible to cover would be calculated net of the reduction.

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

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

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

As noted above, the CFPB rules implementing laws requiring mortgage lenders to make ability-to-pay determinations prior to extending credit became effective in January 2014. We are uncertain whether this Bureau will issue any other rules or regulations that affect our business or the volume of low down payment home mortgage originations. Such rules and regulations could have a material adverse effect on our financial position or results of operations.

A decline in the volume of low down payment home mortgage originations could decrease demand for mortgage insurance, decrease our new insurance written and reduce our revenues. 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."*

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

As noted above, the FHA substantially increased its market share beginning in 2008 and beginning in 2011, that market share began to gradually decline. It is difficult to predict the FHA's future market share due to, among other factors, different loan eligibility terms between the FHA and the GSEs, potential changes in guaranty fees and/or loan level price adjustments charged by the GSEs, changes to the FHA's annual premiums, and the total profitability that may be realized by mortgage lenders from securitizing loans through Ginnie Mae when compared to securitizing loans through Fannie Mae or Freddie Mac.

Until 2010 the mortgage insurance industry had not had new entrants in many years. Since 2010, two new public companies were formed and began writing business and a worldwide insurer and reinsurer with mortgage insurance operations in Europe completed the purchase of a competitor and is currently writing business. Our private mortgage insurance competitors include:

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

The perceived increase in credit quality of loans that are being insured today; the possibility of a decrease in the FHA's share of the mortgage insurance market; and the significantly more favorable treatment that new mortgage insurance companies, unencumbered with a portfolio of pre-crisis mortgages, are given under the draft GSE Financial Requirements, may encourage additional new entrants, although the lower expected returns that may result from the draft GSE Financial Requirements if adopted as proposed, may discourage additional new entrants.

Historically, the level of competition within the private mortgage insurance industry has been intense and it is not expected to diminish given the presence of new entrants. Effective in December 2013, we reduced all of our borrower-paid monthly premium rates and most of our single premium rates to match competition. Effective in September 2014, we reduced many of our lender-paid single premium rates to match competition, although in certain states these reductions are pending regulatory approval. During most of 2013, when almost all of our single premium rates were above those most commonly used in the market, single premium policies were approximately 10% of our total new insurance written; they were approximately 14% in the first nine months of 2014. In addition, lenders seeking to expand their mortgage lending businesses request discounts from mortgage insurers in order to offer products that are less expensive to borrowers, which includes lender-paid singles, or request more liberal underwriting requirements. We are observing an increase in the percentage of new insurance written on lender-paid single premium policies and an increase in the number of lenders requesting customized lender-paid single premium rate programs. Certain lender-paid single premium transactions can be structured as bids on a portfolio of recently closed loans.

During 2013 and the first nine months of 2014, approximately 7% and 4%, respectively, of our new insurance written was for loans for which one lender was the original insured and our revenue from such loans was significantly less than 10% of our revenues during each of those periods. Our relationships with our customers could be adversely affected by a variety of factors, including tightening of and adherence to our underwriting requirements, which have resulted in our declining to insure some of the loans originated by our customers and insurance rescissions that affect the customer. We have ongoing discussions with lenders who are significant customers regarding their objections to our rescissions.

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

We believe that financial strength ratings may be a significant consideration for participants seeking to secure credit enhancement in the non-GSE mortgage market, which includes most non-QM loans. While this market has been limited since the financial crisis, it may grow in the future. The financial strength ratings of our insurance subsidiaries are lower than those of some competitors and below investment grade levels, therefore, we may be competitively disadvantaged with some market participants. For each of MGIC and MIC, the financial strength rating from Moody's is Ba3 (with a stable outlook) and from Standard & Poor's is BB (with a positive outlook). It is possible that MGIC's and MIC's financial strength ratings could decline from these levels. Our ability to participate in the non-GSE market could depend on our ability to secure investment grade ratings for our mortgage insurance subsidiaries.

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

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

Losses result from events that reduce a borrower's ability to continue to make mortgage payments, such as unemployment, and whether the home of a borrower who defaults on his mortgage can be sold for an amount that will cover unpaid principal and interest and the expenses of the sale. In general, favorable economic conditions reduce the likelihood that borrowers will lack sufficient income to pay their mortgages and also favorably affect the value of homes, thereby reducing and in some cases even eliminating a loss from a mortgage default. A deterioration in economic conditions, including an increase in unemployment, generally increases the likelihood that borrowers will not have sufficient income to pay their mortgages and can also adversely affect housing values, which in turn can influence the willingness of borrowers with sufficient resources to make mortgage payments to do so when the mortgage balance exceeds the value of the home. Housing values may decline even absent a deterioration in economic conditions due to declines in demand for homes, which in turn may result from changes in buyers' perceptions of the potential for future appreciation, restrictions on and the cost of mortgage credit due to more stringent underwriting standards, liquidity issues and risk-retention requirements associated with non-QRM loans affecting lenders, higher interest rates generally or changes to the deductibility of mortgage interest for income tax purposes, or other factors. The residential mortgage market in the United States had for some time experienced a variety of poor or worsening economic conditions, including a material nationwide decline in housing values, with declines continuing into early 2012 in a number of geographic areas. Although housing values in most markets have recently been increasing, in some markets they remain significantly below their early 2007 levels. Changes in housing values and unemployment levels are inherently difficult to forecast given the uncertainty in the current market environment, including uncertainty about the effect of actions the federal government has taken and may take with respect to tax policies, mortgage finance programs and policies, and housing finance reform.

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

Even when housing values are stable or rising, mortgages with certain characteristics have higher probabilities of claims. These characteristics include loans with loan-to-value ratios over 95% (or in certain markets that have experienced declining housing values, over 90%), FICO credit scores below 620, limited underwriting, including limited borrower documentation, or higher total debt-to-income ratios, as well as loans having combinations of higher risk factors. As of September 30, 2014, approximately 19.6% of our primary risk in force consisted of loans with loan-to-value ratios greater than 95%, 5.9% had FICO credit scores below 620, and 6.0% had limited underwriting, including limited borrower documentation, each attribute as determined at the time of loan origination. A material portion of these loans were written in 2005 — 2007 or the first quarter of 2008. In accordance with industry practice, loans approved by GSEs and other automated underwriting systems under “doc waiver” programs that do not require verification of borrower income are classified by us as “full documentation.” For additional information about such loans, see footnote (3) to the composition of primary default inventory table under “Results of Consolidated Operations-Losses-Losses incurred in Management’s Discussion and Analysis of Financial Condition and Results of Operations.

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

From time to time, in response to market conditions, we change the types of loans that we insure and the requirements under which we insure them. In 2013, we liberalized our underwriting guidelines somewhat, in part through aligning most of our underwriting requirements with Fannie Mae and Freddie Mac for loans that receive and are processed in accordance with certain approval recommendations from a GSE automated underwriting system. As a result of the liberalization of our underwriting requirements, the migration of marginally lower FICO business from the FHA to us and other private mortgage insurers and other factors, our business written in the last several quarters is expected to have a somewhat higher claim incidence than business written in recent years. However, we believe this business presents an acceptable level of risk. Our underwriting requirements are available on our website at http://www.mgic.com/underwriting/index.html. We monitor the competitive landscape and will make adjustments to our pricing and underwriting guidelines as warranted. We also make exceptions to our underwriting requirements on a loan-by-loan basis and for certain customer programs. Together, the number of loans for which exceptions were made accounted for fewer than 2% of the loans we insured in 2013 and the first nine months of 2014.

As noted above in our risk factor titled *“State capital requirements may prevent us from continuing to write new insurance on an uninterrupted basis,”* in 2013, we entered into a quota share reinsurance transaction with a group of unaffiliated reinsurers. Although that transaction reduces our premium yields, the transaction will have a lesser impact on our overall results, as losses ceded under this transaction reduce our losses incurred and the ceding commission we receive reduces our underwriting expenses. As of September 30, 2014, we have accrued a profit commission receivable of $69 million. This receivable is expected to grow materially through the term of the agreement, absent any modifications to the agreement, but the ultimate amount of the commission will depend on the ultimate level of premiums earned and losses incurred under the agreement. Any profit commission would be paid to us upon termination of the reinsurance agreement. The reinsurers are required to maintain trust funds or letters of credit to support recoverable balances for reinsurance, such as loss reserves, paid losses, prepaid reinsurance premiums and profit commissions. As such forms of collateral are in place, we have not established an allowance against these balances.

The circumstances in which we are entitled to rescind coverage have narrowed for insurance we have written in recent years. During the second quarter of 2012, we began writing a portion of our new insurance under an endorsement to our then existing master policy (the “Gold Cert Endorsement”), which limited our ability to rescind coverage compared to that master policy. As of September 30, 2014, approximately 25% of our flow, primary insurance in force was written under our Gold Cert Endorsement. However, approximately 65% and 75% of our flow, primary new insurance written in 2013 and the first nine months of 2014, respectively, was written under this endorsement. The Gold Cert Endorsement is filed as Exhibit 99.7 to our quarterly report on Form 10-Q for the quarter ended March 31, 2012 (filed with the SEC on May 10, 2012).

To comply with requirements of the GSEs, we introduced a new master policy that applies to loans we insure with a mortgage insurance application date on or after October 1, 2014. Our rescission rights under our new master policy are comparable to those under our previous master policy, as modified by the Gold Cert Endorsement, but may be further narrowed if the GSEs permit modifications to them. Our new master policy is filed as Exhibit 99.19 to this Form 10-Q.

As of September 30, 2014, approximately 1.5% of our primary risk in force written through the flow channel, and 20.8% of our primary risk in force written through the bulk channel, consisted of adjustable rate mortgages in which the initial interest rate may be adjusted during the five years after the mortgage closing (“ARMs”). We classify as fixed rate loans adjustable rate mortgages in which the initial interest rate is fixed during the five years after the mortgage closing. If interest rates should rise between the time of origination of such loans and when their interest rates may be reset, claims on ARMs and adjustable rate mortgages whose interest rates may only be adjusted after five years would be substantially higher than for fixed rate loans. In addition, we have insured “interest-only” loans, which may also be ARMs, and loans with negative amortization features, such as pay option ARMs. We believe claim rates on these loans will be substantially higher than on loans without scheduled payment increases that are made to borrowers of comparable credit quality.

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

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

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

We continue to experience material losses, especially on the 2006 and 2007 books. The ultimate amount of these losses will depend in part on general economic conditions, including unemployment, and the direction of home prices, which in turn will be influenced by general economic conditions and other factors. Because we cannot predict future home prices or general economic conditions with confidence, there is significant uncertainty surrounding what our ultimate losses will be on our 2006 and 2007 books. Our current expectation is that the incurred and paid losses from these books, although declining, will continue to generate a material portion of our total incurred and paid losses for a number of years.

It is uncertain what effect the extended timeframes in the foreclosure process will have on us.

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

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

We depend on reliable, consistent third-party servicing of the loans that we insure. Over the last several years, the mortgage loan servicing industry has experienced consolidation. The resulting reduction in the number of servicers could lead to disruptions in the servicing of mortgage loans covered by our insurance policies. In addition, recent housing market trends have led to significant increases in the number of delinquent mortgage loans requiring servicing. These increases have strained the resources of servicers, reducing their ability to undertake mitigation efforts that could help limit our losses, and have resulted in an increasing amount of delinquent loan servicing being transferred to specialty servicers. The transfer of servicing can cause a disruption in the servicing of delinquent loans. Future housing market conditions could lead to additional increases in delinquencies. Managing a substantially higher volume of non-performing loans could lead to increased disruptions in the servicing of mortgages.

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

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

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

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

Our persistency rate was 82.8% at September 30, 2014, compared to 79.5% at December 31, 2013, and 79.8% at December 31, 2012. During the 1990s, our year-end persistency ranged from a high of 87.4% at December 31, 1990 to a low of 68.1% at December 31, 1998. Since 2000, our year-end persistency ranged from a high of 84.7% at December 31, 2009 to a low of 47.1% at December 31, 2003.

Our persistency rate is 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. Due to refinancing, we have experienced lower persistency on our 2009 through 2011 books of business. This has been partially offset by higher persistency on our older books of business reflecting the more restrictive credit policies of lenders (which make it more difficult for homeowners to refinance loans), as well as declines in housing values. Future premiums on our insurance in force represent a material portion of our claims paying resources.

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

As noted above under our risk factor titled "*We may not continue to meet the GSEs' mortgage insurer eligibility requirements and our returns may decrease if we are required to maintain significantly more capital in order to maintain our eligibility,*" if the draft PMIERs are implemented as released, we would consider seeking non-dilutive debt capital to mitigate the shortfall in Available Assets. However, there can be no assurance that we would not have to raise additional equity capital. Any future issuance of equity securities may dilute your ownership interest in our company. In addition, the market price of our common stock could decline as a result of sales of a large number of shares or similar securities in the market or the perception that such sales could occur.

We have $389.5 million principal amount of 9% Convertible Junior Subordinated Debentures outstanding. The principal amount of the debentures is currently convertible, at the holder's option, at an initial conversion rate, which is subject to adjustment, of 74.0741 common shares per $1,000 principal amount of debentures. This represents an initial conversion price of approximately $13.50 per share. We have the right, and may elect, to defer interest payable under the debentures in the future. If a holder elects to convert its debentures, the interest that has been deferred on the debentures being converted is also convertible into shares of our common stock. The conversion rate for such deferred interest is based on the average price that our shares traded at during a 5-day period immediately prior to the election to convert the associated debentures. We may elect to pay cash for some or all of the shares issuable upon a conversion of the debentures. We also have $345 million principal amount of 5% Convertible Senior Notes and $500 million principal amount of 2% Convertible Senior Notes outstanding. The 5% Convertible Senior Notes are convertible, at the holder's option, at an initial conversion rate, which is subject to adjustment, of 74.4186 shares per $1,000 principal amount at any time prior to the maturity date. This represents an initial conversion price of approximately $13.44 per share. Prior to January 1, 2020, the 2% Convertible Senior Notes are convertible only upon satisfaction of one or more conditions. One such condition is that during any calendar quarter commencing after March 31, 2014, the last reported sale price of our common stock for each of at least 20 trading days during the 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter be greater than or equal to 130% of the applicable conversion price on each applicable trading day. The notes are convertible at an initial conversion rate, which is subject to adjustment, of 143.8332 shares per $1,000 principal amount. This represents an initial conversion price of approximately $6.95 per share. 130% of such conversion price is $9.03. On or after January 1, 2020, holders may convert their notes irrespective of satisfaction of the conditions. We do not have the right to defer interest on our Convertible Senior Notes. For a discussion of the dilutive effects of our convertible securities on our earnings per share, see Note 6 — "Earnings (Loss) per Share" to our consolidated financial statements.

Our debt obligations materially exceed our holding company cash and investments

At September 30, 2014, we had approximately $517 million in cash and investments at our holding company and our holding company's debt obligations were $1,297 million in aggregate principal amount, consisting of $62 million of Senior Notes due in November 2015, $345 million of Convertible Senior Notes due in 2017, $500 million of Convertible Senior Notes due in 2020 and $390 million of Convertible Junior Debentures due in 2063. Annual debt service on the debt outstanding as of September 30, 2014, is approximately $66 million.

The Senior Notes, Convertible Senior Notes and Convertible Junior Debentures are obligations of our holding company, MGIC Investment Corporation, and not of its subsidiaries. Our holding company has no material sources of cash inflows other than investment income. The payment of dividends from our insurance subsidiaries, which other than raising capital in the public markets is the principal source of our holding company cash inflow, is restricted by insurance regulation. MGIC is the principal source of dividend-paying capacity. Since 2008, MGIC has not paid any dividends to our holding company. Through 2014, MGIC cannot pay any dividends to our holding company without approval from the OCI. Any additional capital contributions to our subsidiaries would decrease our holding company cash and investments.

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

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

Our Australian operations may suffer significant losses.

We began international operations in Australia, where we started to write business in June 2007. Since 2008, we are no longer writing new business in Australia. Our existing risk in force in Australia is subject to the risks described in the general economic and insurance business-related factors discussed above. In addition to these risks, we are subject to a number of other risks from having deployed capital in Australia, including foreign currency exchange rate fluctuations and interest-rate volatility particular to Australia.

Exhibit 99.17

Execution Copy

SIXTH AMENDMENT TO

CONFIDENTIAL SETTLEMENT AGREEMENT AND RELEASE

This SIXTH AMENDMENT TO CONFIDENTIAL SETTLEMENT AGREEMENT AND RELEASE (“Amendment”) is made and is effective as of August 31, 2014, by and among Mortgage Guaranty Insurance Corporation (“MGIC”), Countrywide Home Loans, Inc. (“CHL”) and Bank of America, N.A., in its capacity as master servicer or servicer of Subject Loans (“Servicer”). Capitalized terms used in this Amendment without definition have the meaning given them in the Settlement Agreement.

RECITALS

WHEREAS, MGIC, CHL, and Bank of America are Parties to a Confidential Settlement Agreement and Release, dated as of April 19, 2013 (as amended, the “Settlement Agreement”); and

WHEREAS, the Parties desire further to amend the Settlement Agreement in certain respects as specified in this Amendment.

NOW, THEREFORE, intending to be legally bound, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, including the promises and other matters contained herein, the Parties agree, pursuant to Section 19(g) of the Settlement Agreement, that the Settlement Agreement is hereby amended as follows:

1. Termination of Settlement Agreement for Failure to Obtain Other Consent. Section 5(c)(i) is amended and restated as follows:

   “(i) If Other Consent is not obtained from the Trustee/Other(s) holding at least fifty percent (50%) of the number of Covered Loans by the close of business on September 15, 2014, MGIC, on the one hand, and CHL and Servicer, on the other, may terminate this Settlement Agreement by written notice to the other Parties within thirty (30) days thereafter.”

2. Settlement Agreement. The Parties hereby affirm all other terms, provisions, and conditions of the Settlement Agreement. All references in the Settlement Agreement to the Settlement Agreement shall mean the Settlement Agreement as amended by all Amendments.

3. Governing Law. This Amendment and any Cause of Action arising under or related to this Amendment shall be governed by, and construed in accordance with, the internal laws of the State of New York without regard to the law of conflicts.

4. Interpretation. This Amendment shall not be construed against any Party, but shall be construed as if the Parties jointly prepared the Amendment and any uncertainty and ambiguity shall not be interpreted against any one Party.

5. Severability. If any provision of this Amendment is declared invalid or unenforceable, then, to the extent possible, all of the remaining provisions of this Amendment shall remain in full force and effect and shall be binding upon the Parties.

6. Representations and Warranties. Each of the Parties represents that: (1) it has full power and authority to execute and deliver this Amendment and to perform its obligations under the Amendment; (2) it has taken all necessary corporate action to authorize the execution and delivery of this Amendment and the performance of its duties and obligations contemplated hereby; (3) none of such execution, delivery, or performance of this Amendment and the transactions contemplated hereby: (A) conflicts with the obligations of such Party under any material agreement binding upon it; (B) requires any authorization, consent or approval by, or registration, declaration or filing with, or notice to, any governmental authority, agency or instrumentality, or any third party, except for (x) filing with the appropriate periodic report with the Securities and Exchange Commission and (y) any authorization, consent, approval, registration, declaration, filing, or notice that has been obtained or given prior to the date hereof; (C) results in, or requires, the creation or imposition of any lien or other charge upon or with respect to any of the assets now owned or hereafter acquired by a Party; and (4) this Amendment, upon execution and delivery, is a valid and binding agreement, enforceable against it in accordance with the terms of the Settlement Agreement, as amended by this Amendment, subject to applicable bankruptcy, insolvency, reorganization, moratorium, insurers' rehabilitation and liquidation, and other similar laws affecting creditor's rights generally and general principles of equity.

7. Counterparts. This Amendment may be executed in counterparts, and when each Party has signed and delivered at least one such counterpart, each counterpart shall be deemed an original, and, when taken together with the other signed counterparts, shall constitute one agreement, which shall be binding upon and effective as to all Parties. Signatures of the Parties transmitted by fax or .pdf shall be deemed to be their original signatures for all purposes.

[*The next page is the signature page.*]

IN WITNESS WHEREOF, the Parties have executed this Sixth Amendment to Confidential Settlement Agreement and Release as of the date first stated above.

MORTGAGE GUARANTY INSURANCE CORPORATION

/s/ Jeffrey H. Lane
Name: Jeffrey H. Lane
Title: Executive Vice President
And General Counsel

COUNTRYWIDE HOME LOANS, INC.

/s/ Michael Schloessmann
Name: Michael Schloessmann
Title: President

BANK OF AMERICA, N.A., as Master Servicer or Servicer

/s/ David Cassell
Name: David Cassell
Title: Senior Vice President

Exhibit 99.18

Execution Copy

SEVENTH AMENDMENT TO

CONFIDENTIAL SETTLEMENT AGREEMENT AND RELEASE

This SEVENTH AMENDMENT TO CONFIDENTIAL SETTLEMENT AGREEMENT AND RELEASE ("Amendment") is made and is effective as of September 11, 2014, by and among Mortgage Guaranty Insurance Corporation ("MGIC"), Countrywide Home Loans, Inc. ("CHL") and Bank of America, N.A., in its capacity as master servicer or servicer of Subject Loans ("Servicer"). Capitalized terms used in this Amendment without definition have the meaning given them in the Settlement Agreement.

RECITALS

WHEREAS, MGIC, CHL, and Bank of America are Parties to a Confidential Settlement Agreement and Release, dated as of April 19, 2013 (as amended, the "Settlement Agreement"); and

WHEREAS, the Parties desire further to amend the Settlement Agreement in certain respects as specified in this Amendment.

NOW, THEREFORE, intending to be legally bound, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, including the promises and other matters contained herein, the Parties agree, pursuant to Section 19(g) of the Settlement Agreement, that the Settlement Agreement is hereby amended as follows:

1. Termination of Settlement Agreement for Failure to Obtain Other Consent. Section 5(c)(i) is amended and restated as follows:

   "(i) If Other Consent is not obtained from the Trustee/Other(s) holding at least fifty percent (50%) of the number of Covered Loans by the close of business on October 31, 2014, MGIC, on the one hand, and CHL and Servicer, on the other, may terminate this Settlement Agreement by written notice to the other Parties within thirty (30) days thereafter."

2. Settlement Agreement. The Parties hereby affirm all other terms, provisions, and conditions of the Settlement Agreement. All references in the Settlement Agreement to the Settlement Agreement shall mean the Settlement Agreement as amended by all Amendments.

3. Governing Law. This Amendment and any Cause of Action arising under or related to this Amendment shall be governed by, and construed in accordance with, the internal laws of the State of New York without regard to the law of conflicts.

4. Interpretation. This Amendment shall not be construed against any Party, but shall be construed as if the Parties jointly prepared the Amendment and any uncertainty and ambiguity shall not be interpreted against any one Party.

5. Severability. If any provision of this Amendment is declared invalid or unenforceable, then, to the extent possible, all of the remaining provisions of this Amendment shall remain in full force and effect and shall be binding upon the Parties.

6. Representations and Warranties. Each of the Parties represents that: (1) it has full power and authority to execute and deliver this Amendment and to perform its obligations under the Amendment; (2) it has taken all necessary corporate action to authorize the execution and delivery of this Amendment and the performance of its duties and obligations contemplated hereby; (3) none of such execution, delivery, or performance of this Amendment and the transactions contemplated hereby: (A) conflicts with the obligations of such Party under any material agreement binding upon it; (B) requires any authorization, consent or approval by, or registration, declaration or filing with, or notice to, any governmental authority, agency or instrumentality, or any third party, except for (x) filing with the appropriate periodic report with the Securities and Exchange Commission and (y) any authorization, consent, approval, registration, declaration, filing, or notice that has been obtained or given prior to the date hereof; (C) results in, or requires, the creation or imposition of any lien or other charge upon or with respect to any of the assets now owned or hereafter acquired by a Party; and (4) this Amendment, upon execution and delivery, is a valid and binding agreement, enforceable against it in accordance with the terms of the Settlement Agreement, as amended by this Amendment, subject to applicable bankruptcy, insolvency, reorganization, moratorium, insurers' rehabilitation and liquidation, and other similar laws affecting creditor's rights generally and general principles of equity.

7. Counterparts. This Amendment may be executed in counterparts, and when each Party has signed and delivered at least one such counterpart, each counterpart shall be deemed an original, and, when taken together with the other signed counterparts, shall constitute one agreement, which shall be binding upon and effective as to all Parties. Signatures of the Parties transmitted by fax or .pdf shall be deemed to be their original signatures for all purposes.

[*The next page is the signature page*.]

IN WITNESS WHEREOF, the Parties have executed this Seventh Amendment to Confidential Settlement Agreement and Release as of the date first stated above.

MORTGAGE GUARANTY INSURANCE CORPORATION

/s/ Jeffrey H. Lane
Name: Jeffrey H. Lane
Title: Executive Vice President
and General Counsel

COUNTRYWIDE HOME LOANS, INC.

/s/ Michael Schloessmann
Name: Michael Schloesmann
Title: President

BANK OF AMERICA, N.A.,
as Master Servicer or Servicer

/s/ David Cassell
Name: David Cassell
Title: Senior Vice President

MGIC Master Policy

Mortgage Guaranty Insurance Corporation

270 E. Kilbourn Avenue, Milwaukee, Wisconsin 53202

P. O. Box 488, Milwaukee, Wisconsin 53201

Table of Contents

Master Policy

Section 1 Definitions

In this Policy, the terms “we”, “us” and “our” mean the Company, its successors and assigns. In addition, the following terms have the specific meanings set forth below.

Accelerated Claim means a Claim that we require to be submitted as described in Section 8.1 (Accelerated Claim).

Acquisition Option means our settlement of a Claim by payment of the entire Calculated Loss and acquisition of Good and Marketable Title to the Property as described in Section 10.1(a) (Company Options), subject to any reductions provided for in this Policy.

Advances means the following expenses that have been incurred by the Servicer or the Beneficiary:

(1) Reasonable and customary property insurance premiums;

(2) Taxes, assessments and other public charges imposed upon the Property;

(3) Condominium fees, homeowner association dues, pro-rated portions of shared fees related to the common areas attendant to the Property, to the extent necessary to preserve the lien priority of the Mortgage;

(4) Customary court costs and other reasonable and necessary expenses incurred in eviction proceedings (and moving expenses to the extent that moving expenses are required by Applicable Law to be paid by the evicting party) and other Appropriate Proceedings, including reasonable attorneys’ fees not in excess of (x) 3% of the unpaid principal and interest due on the Loan when the Claim is submitted for a Loan with an unpaid principal balance of $200,000 or greater, and (y) the lesser of (a) $6,000 and (b) 5% of the unpaid principal balance and interest due on the Loan when the Claim is submitted for a Loan with an unpaid principal balance less than $200,000. This limitation does not apply to reasonable attorneys’ fees incurred pursuant to Section 11.3 (Deficiency Judgments) to preserve our rights of subrogation; and

(5) Reasonable and customary expenses necessary for preservation of the Property.

Anticipated Loss Option means our settlement of a Claim in accordance with Section 10.1(d) (Company Options), subject to any reductions provided for in this Policy.

Applicable Law means any controlling federal, state, local, or foreign law, statute or ordinance, common law, or any rule, regulation, judgment, order, writ, injunction, ruling, decree, arbitration award, agency requirement, license, or permit of any governmental authority.

Appropriate Proceedings means (i) any action or proceeding to vest in the Servicer or Beneficiary all of the Borrower's right, title and interest in and to the Property, including foreclosure by public or private sale, (ii) eviction proceedings, (iii) voluntary conveyance from the Borrower, or (iv) any bankruptcy or similar proceedings pursuant to which the Servicer or Beneficiary is permitted to assert its interest in the Property to the extent that such action or proceeding is permitted by Applicable Law and is not inconsistent with the requirements of this Policy.

Beneficiary means the Initial Insured, except that in the case of a Loan Transfer, the Loan Transferee will become the Beneficiary as provided in Section 5.5(b) (Loan Transferee as Beneficiary).

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 Proceedings means any administrative, judicial or non-judicial action or proceeding brought or claim asserted by a Borrower that has affected, or has the potential to affect, a Loan or the Borrower's, Servicer's, Beneficiary's or lender's rights or obligations under the Loan.

Borrower's Own Funds means, with respect to a Loan Payment and except as permitted in the Underwriting Requirements in effect when an Insurance Application is submitted to us, that such payment has been made by the Borrower from his/her/its own funds. Borrower's Own Funds excludes any funds advanced or provided by a First Party, Pattern Party, any Beneficiary, any Servicer, their respective agents or any other Person who is not a Borrower but is affiliated with a First Party, Pattern Party, Beneficiary or Servicer.

Borrower's Title means all right, title and interest of the Borrower in and to a Property, as evidenced by (i) an executed trustee's or sheriff's deed (which need not reflect recordation) or other satisfactory evidence that a foreclosure sale has been properly completed and the redemption period has expired; provided however, that the redemption period need not have expired if so elected by the Servicer or Beneficiary, with such election being made by submission of a Claim before expiration of the redemption period, or (ii) in the case of a voluntary conveyance to the Servicer or Beneficiary, a deed from the Borrower.

Business Day means any day that is not a Saturday, Sunday or other day that we are not open for business.

Calculated Loss means the amount used to determine the Insurance Benefit payable for a Claim, calculated in accordance with Section 9.3 (Calculated Loss).

Certificate means either (i) a certificate issued or transmitted, including in electronic form, to the Initial Insured extending insurance coverage under this Policy to the Loan therein described, or (ii) a Commitment for which coverage has been activated as contemplated in Section 2.2 (Commitment and Certificate). The Certificate will identify this Policy and any applicable endorsements by our form numbers.

Certificate Effective Date means the date from which our coverage is in force, which shall be the closing date of the Loan or such later date requested by or on behalf of the Initial Insured and approved by us, in both cases as reflected in our books and records.

Claim means a request for payment of an Insurance Benefit for a Loan submitted in the manner and method set forth in our Servicing Guide and otherwise in accordance with the provisions of the Policy.

Claim Denial Notice means our notification to the Servicer that we have denied a Claim and providing the reason(s) for nonpayment of an Insurance Benefit on a Claim.

Claim Settlement Period means the period starting when the Claim becomes a Perfected Claim and ending at the close of business on the Settlement Due Date.

Closing File means, with respect to a Loan, copies of: the final HUD-1 Settlement Statement or other settlement statement signed by the Borrower; the signed promissory note; the signed Mortgage; the title insurance commitment; and such other documentation produced or obtained at or after the closing of the Loan transaction that we may require, as specified in our Underwriting Requirements in effect when an Insurance Application is submitted.

Commitment means a commitment issued or transmitted, including in electronic form, to the Initial Insured setting forth the terms, conditions and representations, in addition to any contained in this Policy, under which we will insure a particular Loan under this Policy. If we issue or transmit more than one such commitment with respect to a particular Loan, the most recent one is the Commitment. The Commitment will identify this Policy and any applicable endorsements by our form numbers.

Company Cancellation Notice means our notification to the Servicer providing the reason(s) that we have cancelled a Commitment or coverage on a Certificate as of a specified date.

Construction Loan means a Loan extended to finance the new construction of the improvements comprising the residential dwelling unit of a Property or the reconstruction of substantial physical damage.

Credible Evidence means any information, regardless of format, relating to the Loan, Borrower, Property or a First Party, received or obtained by us at any time, that would be viewed by a reasonable person in the context of all other information available to us as having a basis in fact, or in the case of a Property valuation, as a reasonably reliable estimate or opinion. Information that consists solely of unsworn statements made by the Borrower, without corroboration by any other information, will not be considered Credible Evidence. Our Servicing Guide includes examples of Credible Evidence.

Default means the failure of the Borrower to pay a Loan Payment in full on the due date as specified in the Loan documents (without giving effect to any grace period), or all amounts due upon acceleration of the Loan by the Servicer or Beneficiary following a transfer of title to the Property. A Loan is deemed to be in Default as of the close of business on the Loan Payment due date, or, if earlier, as of the close of business on the due date stated in the notice of acceleration given pursuant to the Mortgage.

Deficiency Judgment means a court judgment imposing personal liability on the Borrower for the unpaid amount remaining under the terms of a Loan when the proceeds of a foreclosure sale of the Property subject to the Mortgage securing the Loan were insufficient to fully satisfy the outstanding debt.

Delinquent means, with respect to a Loan Payment, that such payment or any portion thereof, is not paid when due; provided however, that if such Loan Payment or portion thereof is credited or received by the Servicer following its due date solely as a result of an error in the set-up of the Borrower's account with the Servicer, then such payment shall not be considered Delinquent. A Loan Payment is 30 days Delinquent if it remains unpaid as of the due date of the next monthly Loan Payment; a Loan Payment is 60 days Delinquent if it remains unpaid as of the due date of the next succeeding monthly Loan Payment (following the due date of such next Loan Payment); and a Loan Payment is Delinquent by an additional 30 days for each successive monthly Loan Payment due date that it remains unpaid.

Eligibility Criteria means the requirements that a Loan must meet to be eligible for insurance under this Policy, as set forth in our Underwriting Requirements in effect when an Insurance Application is submitted to us, and, if applicable, in the Commitment.

Eligibility Criteria Violation means on the Certificate Effective Date a Loan did not in fact meet one or more Eligibility Criteria in any respect material to our acceptance of the risk or the hazard assumed, such that had we known of the noncompliance as of such date, we would not have insured the Loan, regardless of whether the noncompliance caused or contributed to a Default or the Calculated Loss. A Material Value Variance is an Eligibility Criteria Violation.

Environmental Condition or Impairment means the presence of (i) any condition giving rise to liability under the Comprehensive Environmental Response, Compensation and Liability Act (42 U.S.C. § 9601 et seq.) or any similar federal law or law of the state or locality where the Property is located; (ii) 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 federal law or law of the state or locality where the Property is located; or (iii) 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, or (iv) any other substance or condition that renders the principal residential structure on the Property Uninhabitable. Notwithstanding the foregoing, for purposes of this Policy, the presence of radon gas, lead paint, or asbestos in the dwelling on a Property is not an Environmental Condition or Impairment.

Exclusion means any of the circumstances or conditions set forth in Section 4.1 (Exclusions) under which we may cancel or rescind coverage on a Certificate, cancel a Commitment, deny a Claim or reduce the Calculated Loss or Insurance Benefit.

Explanation of Benefits means a form prepared by us in connection with a Claim that includes an explanation of any Insurance Benefit paid and any adjustments to the Claim amounts.

First Party means, with respect to a Loan, the Initial Insured and any other Persons (other than the Borrower or the Borrower's agent) who performed or had a duty to perform any acts related to the Insurance Application or Origination of such Loan, including correspondent lenders, mortgage brokers, escrow or closing agents, processers, underwriters, independent contractors, intermediaries involved with processing, underwriting or Originating such Loan, appraisers, appraisal companies, closing agents, title companies, other third-party vendors involved with processing, underwriting or Originating such Loan and all agents (including employees) of the Initial Insured or of any such Persons.

First Party Misrepresentation means any material misrepresentation related to or in connection with Eligibility Criteria, whether by information furnished, omitted, falsified or forged, that was knowingly and intentionally made, or knowingly and intentionally participated in, by a First Party.

Gold Cert Coverage means the limitations on our right to rescind coverage on a Certificate if the conditions specified in Section 4.3 (Rescission Limitations – Gold Cert Coverage) are satisfied. Gold Cert Coverage does not apply when there is First Party Misrepresentation or Pattern Activity.

Good and Marketable Title means title to a Property that is readily able to be sold and freely transferable and that is free and clear of all liens, defects, encumbrances and tenancies, including rights of parties in possession and rights of redemption, except for the following and any other exceptions that we approve for that Property:

(1) the lien of general real estate taxes and other public charges and assessments for the current year not yet due and payable; and

(2) easements for public utilities, recorded building and use restrictions and the effect of building laws or regulations with which the improvements on the Property comply and that do not impair the use of the Property for its intended purpose;

provided however, that Good and Marketable Title does not exist if (a) there is a lien on the Property under Applicable Law in connection with an Environmental Condition or Impairment, or if notice has been given of commencement of proceedings which could result in the imposition of a lien on the Property pursuant to the Comprehensive Environmental Response, Compensation and Liability Act, as amended (42 U.S.C. § 9601, et seq.), or any other Applicable Law, or (b) convenient means of ingress and egress or freely alienable rights to the use and enjoyment of municipal or private sources of water and means of sewage disposal are not conveyed, whether such rights are by easement or covenant running with the Property reflected in the public records.

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.

Initial Insured means the Person designated on the Declaration Page accompanying this Policy.

Insurance Application means a request for insurance coverage under this Policy for a Loan, or a request for modification of such insurance coverage, in a form or format we approve, including the supporting information we require. An Insurance Application includes all information, documents and materials, regardless of format, submitted to us in connection with such request by the Initial Insured or any other Person. An Insurance Application also includes all information about the Loan, Mortgage, Borrower and Property contained in the Certificate based on the information furnished by the Initial Insured or other Person.

Insurance Benefit means that portion of the Calculated Loss computed pursuant to Section 10.1, (Company Options) and other provisions of this Policy for which we are liable in settlement of a Claim.

Insured means, with respect to a Loan, the Servicer, or if we are notified pursuant to Section 5.6 (Beneficiary Option to Become the Insured) that the Beneficiary elects to become the Insured for the Loan then Insured means the Beneficiary.

Loan means the indebtedness of the Borrower (giving effect to any subsequent increase or decrease in the principal amount of such indebtedness), in the amount and for the term specified in a written obligation secured by a Mortgage that is a first lien or equivalent charge on the Property, as reflected in the Certificate.

Loan Application means all statements and representations, regardless of format, made by the Borrower or any other Person in connection with obtaining the Loan and provided to any First Party, including the Borrower's signed loan application, disclosure statements, purchase contract, credit reports, and verifications of employment, income, assets and deposits.

Loan File means, collectively, the Loan Origination File and the Closing File.

Loan Origination File means all information, data and materials (other than the Closing File), regardless of format, created, received, required, transmitted, stored or preserved in connection with Origination of a Loan by or on behalf of the Initial Insured or any other First Party, including the Loan Application, Loan approval notes, appraisal and other property valuation information (including all addenda, attachments, schedules, photographs and other information included by the appraiser in the value assessment), underwriting and processing notes and automated underwriting systems output.

Loan Payment means all amounts due under the terms of a Loan in a regular monthly payment period, including all required escrow amounts (disregarding any forbearance, waiver or other modification made without our approval, whether arising by Applicable Law or otherwise, that entitles the Borrower not to make a payment, in whole or in part, or to delay a payment otherwise due under the terms of the Loan).

Loan Transfer means the sale, assignment or transfer of all right, title and interest in and to a Loan, other than solely by pledge or otherwise for security or securitization purposes.

Loan Transferee means the recipient of the right, title and interest in and to a Loan in a Loan Transfer.

Loan Transferor means the Person making the sale, assignment or transfer in a Loan Transfer.

Loss on Property Sale Option means our settlement of a Claim in connection with a Property Sale, as described in Section 10.1(c) (Company Options) and subject to any reductions provided for in this Policy.

Material Value Variance means an Eligibility Criteria Violation relating to the Property value that exists when (i) there is a percentage variance of 15% or more between the Origination Valuation 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 Origination Valuation in compliance with industry standard appraisal practices, and (ii) the loan-to-value ratio calculated as of the Certificate Effective Date using the appraised value from our requested appraisal report does not meet the Eligibility Criteria applicable to the Loan. The percentage variance is the quotient determined by dividing the difference between the two values by the Origination Valuation, expressed as a percentage.

Mortgage means the mortgage, deed of trust or other security instrument securing repayment of a Loan, together with all addenda, exhibits and riders thereto.

Net Proceeds means the gross proceeds the Servicer or Beneficiary receives from a Property Sale, less the Servicer's or Beneficiary's reasonable costs of obtaining and closing the Property Sale to the extent allowable pursuant to our Servicing Guide, which costs include applicable Advances actually paid by the Servicer or Beneficiary.

Notice of Default means the notice required to be provided to us pursuant to Section 6.1(a) (Notice of Default) when two consecutive Loan Payments for a Loan are not made when due.

Originated means having performed all or any part of the processes related to the origination of the Loan, from the taking of the Loan Application to the disbursement of funds, including the underwriting, processing, review, approval and funding of the Loan. The terms "Originate" "Originating" and "Origination" have corresponding meanings.

Origination Valuation means the value of a Property as represented in an Insurance Application.

Pattern Activity means a pattern of misrepresentations related to or in connection with Eligibility Criteria, whether by information furnished, omitted, falsified or forged, involving (a) two or more Loans, at least one of which is insured by us, and (b) either (i) two or more Pattern Parties or (ii) the Borrower and one or more Pattern Parties.

Pattern Party means (i) any individual acting with actual or apparent authority for the Initial Insured, or (ii) any First Party other than the Initial Insured, or (iii) any Property seller, Property builder, real estate broker or real estate agent.

Percentage Option means our settlement of a Claim by payment of the percentage of the Calculated Loss specified in the Certificate as the coverage percentage, as described in Section 10.1(b) (Company Options) and subject to any reductions provided for in this Policy.

Perfected Claim means a Claim for which we have received all of the information, documentation and Property access, if applicable, to which we are entitled under Section 9.2(a) (Initial Claim Requirements) and, if applicable, Section 9.2(b) (Additional Claim Requirements).

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, whether caused by accident 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; 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 Condition or Impairment. The presence of radon gas, lead paint, or asbestos in the dwelling on a Property does not constitute Physical Damage.

Policy means this Master Policy document, the Declaration Page accompanying this document, and all schedules and endorsements hereto or incorporated herein by reference, and with respect to a Loan also includes the Commitment and Certificate, and any endorsements thereto, incorporated herein by reference, together with the Insurance Application which is attached thereto or incorporated therein by reference.

Pre-Claim Advance means any amount paid in our discretion pursuant to Section 8.2 (Pre-Claim Advance) in circumstances in which a Claim has not been submitted.

Premium means the amount payable for insurance coverage on a Certificate for the initial and any renewal term, including all applicable taxes, assessments and other government agency charges.

Pre-Settlement 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, and (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.

Property means the real property (including all improvements, appurtenances, rights of access, rights of ownership and use of common areas, recreational and other facilities, and additions thereto) subject to the Mortgage that secures a Loan, which real property includes:

(1) a building designed for residential occupancy by not more than four families;

(2) a one-family residential condominium or unit in a planned unit development;

(3) any other one-family residential unit as to which Good and Marketable Title may be held or conveyed freely, including manufactured housing; or

(4) a mixed-use building, provided that the mixed-use represents a legal, permissible use of the property under local zoning requirements, the property contains only one non-residential use and a one-family dwelling unit that the Borrower occupies as a principal residence, and the Borrower is both the owner and operator of the business.

Property Sale means (i) a Pre-Settlement Sale, or (ii) a foreclosure or trustee’s sale of the Property to a third party.

Rescission Limitations means our right to rescind coverage on a Certificate is limited as described in Section 4.3 (Rescission Limitations – Gold Cert Coverage).

Rescission Notice means our notification to the Servicer and the Beneficiary that we have exercised our right of rescission on a Certificate, with the result that coverage is deemed void ab initio.

Servicer means, with respect to a Loan, the Initial Insured or, if the Initial Insured or any successor Servicer or Beneficiary, as the case may be, provides notice pursuant to Section 5.3(c) (Change of Servicer) that a different Person is servicing the Loan, then the Person so identified is the Servicer.

Servicing File means all information, data and materials, regardless of format, created, received, required, transmitted, stored or preserved in connection with servicing a Loan by or on behalf of each Servicer of the Loan, including Servicer notes and records (including notes and records pertaining to Defaults, collections, loss mitigation, Workouts and proposed Workouts, Borrower Proceedings and Appropriate Proceedings), the complete Loan payment history, records reflecting the exercise of rights by the Servicer under the Loan documentation, and records relating to Loan repurchase or indemnification demands.

Servicing Guide means, collectively, our guidelines and requirements relating to this Policy for servicing Loans, whether current or Delinquent, including the payment of Premium, changes in or cancellation of coverage by the Insured, and submitting Claims and other information to us, as published from time to time, whether in hard copy or electronic format. Guidelines and requirements are effective upon the effective date specified when published and are considered “published” as soon as they appear on a website of ours that regularly makes such material available to lenders and Servicers. Our records maintained in good faith shall be conclusive regarding the content of the Servicing Guide in effect at any particular time.

Servicing Report means a monthly report, in any format and via any medium that we approve, reflecting the identity and status of each Loan for which coverage is in force under this Policy, containing at a minimum the unpaid principal balance, the coupon rate and the last paid-to date of each such Loan, together with any other information we reasonably request.

Settlement Due Date means the date that is 60 days after the date that a Claim is a Perfected Claim, or the date otherwise specified in this Policy as the Settlement Due Date.

Subservicer means any Person to which the Servicer of a Loan has delegated or assigned all or a portion of the responsibilities or activities associated with servicing the Loan, whether or not in Default, but without a full assignment of the Servicer's servicing rights with respect to the Loan.

Total Loss means,

(a) in the case of:

(1) a Pre-Settlement Sale as part of a Workout under Section 5.2 (c) (Allocation of Funds), or

(2) a cash settlement or payment on a promissory note described in Section 10.3 (Repayment of Insurance Benefit),

the Calculated Loss determined pursuant to Section 9.3 (Calculated Loss) plus the amount of all commercially reasonable out-of-pocket costs incurred in obtaining such funds, to the extent such costs are not already included in the Calculated Loss calculation;

(b) in the case of a settlement under Section 9.3(m) (Calculated Loss), the Calculated Loss determined without regard to such settlement, plus the amount of all commercially reasonable out-of-pocket costs incurred in obtaining such settlement, to the extent such costs are not already included in the Calculated Loss calculation;

(c) in the case of a deed in lieu of foreclosure as part of a Workout pursuant to Section 5.2(c) (Allocation of Funds), the Calculated Loss determined pursuant to Section 9.3 (Calculated Loss), plus the amount of all commercially reasonable out-of-pocket costs incurred in closing such conveyance, to the extent such costs are not already included in the Calculated Loss calculation, minus the estimated value of the Property as agreed to by the Servicer (or, as applicable, the GSE Beneficiary) and us; and

(d) in the case of a Deficiency Judgment under Section 11.3(b) (Deficiency Judgments), the Calculated Loss determined in accordance with Section 9.3 (Calculated Loss) plus all expenses (including Advances) associated with the preservation and pursuit of the Deficiency Judgment in excess of those expenses associated with the normal and customary foreclosure process, to the extent such expenses are not already included in the Calculated Loss calculation, minus the estimated value of the Property as agreed to by the Servicer (or, as applicable, the GSE Beneficiary) and us.

Twelve Payment Protection means insurance coverage on a Certificate will not be rescinded on account of an Eligibility Criteria Violation or other Exclusion to which the Rescission Limitations apply if the conditions of Section 4.3(b) are met. Twelve Payment Protection applies only to the extent specified in the notice given under Section 4.3(b) and does not apply when there is First Party Misrepresentation or Pattern Activity.

Underwriting Requirements means the definitions, methods, calculations, guidelines, documentation and other requirements we use to determine if Eligibility Criteria are met, as published from time to time in our underwriting guides, bulletins, premium rate cards, by other notice to the Insured, or as we otherwise approve. Underwriting Requirements are effective upon the effective date specified when published and are considered “published” as soon as they appear on a website of ours that regularly makes such material available to lenders. Our records maintained in good faith will be conclusive regarding the content of the Underwriting Requirements in effect at any particular time.

Underwriting Review and Validation means, with respect to a Loan, our underwriting review of Verification Information and other information we view as appropriate to determine whether a Loan is eligible for Twelve Payment Protection. Our Underwriting Review and Validation is in addition to our underwriting of the Insurance Application and our customary quality control reviews and will include, but not necessarily be limited to:

(1) with respect to a Material Value Variance, pre-closing or post-closing verification of the Origination Valuation by obtaining from an independent third party a Property appraisal, automated estimate of Property value, or other reasonably reliable estimate of the Property value as of the date of the Origination Valuation, or by conducting an appraisal review using a process reasonably adapted to detect material defects in appraisal methodology, analysis and descriptions performed by trained personnel;

(2) with respect to Eligibility Criteria Violations other than a Material Value Variance, our post-closing underwriting of Loan File information for compliance with our Eligibility Criteria and Underwriting Requirements, and a comparison of the Insurance Application information to the Loan File information to confirm that there are no material discrepancies.

If we identify discrepancies, errors or other questionable data or information that in our reasonable judgment we determine is in need of re-verification, we will obtain and review additional information using reasonably reliable independent sources and records recognized as such in the mortgage origination industry.

Uninhabitable means generally recognized standards for residential occupancy are violated or, in the absence of such standards, a fully informed and reasonable Person would conclude that a Property was unsafe or unsuitable for habitation as a residential dwelling.

Verification Information means the information and documentation required to be submitted for Twelve Payment Protection eligibility, and includes:

(1) for Material Value Variance eligibility, the complete appraisal or other Property valuation documentation from the Loan Origination File;

(2) for Eligibility Criteria Violations other than a Material Value Variance, the Loan File, and

(3) any other information and documentation specified in our Underwriting Requirements in effect when an Insurance Application is submitted, or as we otherwise approve for the Initial Insured.

Verification Period means the period commencing on the date the Insurance Application is submitted to us and expiring on the one-year anniversary of the Certificate Effective Date, or such shorter period as may be specified in our Underwriting Requirements for completion of the Underwriting Review and Validation or approved by us in writing for the Initial Insured.

Workout means any assumption or modification of the terms of a Loan, regardless of the status of the Loan, including (i) any change in the principal balance, interest rate, payment terms, or amortization schedule, (ii) any change in or release of the Property subject to the Mortgage, (iii) any forbearance or partial release of a Borrower's Loan obligations, (iv) a Pre-Settlement Sale by the Borrower, or (v) acceptance of a deed in lieu of foreclosure.

Section 2 Insurance Application, Commitment/Certificate and Premium

2.1 Insurance Application

(a) **Submission of Insurance Application**. To request insurance coverage under this Policy, the Initial Insured, or any other First Party acting on behalf of the Initial Insured, shall submit a properly completed Insurance Application.

(b) **Representation by Initial Insured; Binding Effect**. Submission of an Insurance Application to us constitutes a representation by the Initial Insured that the Insurance Application, including supporting information, documentation and materials, is in all material respects, true and accurate and does not omit any fact necessary in order to make such Insurance Application not false or misleading in any material respect. An Insurance Application or omission is materially false or misleading when accurate or omitted information would have made the Loan ineligible for insurance or ineligible for coverage at the premium rate offered. For the purposes of this Policy, such representations will be binding on all Beneficiaries, including each Loan Transferee and the Insured, regardless of whether any Beneficiary, Loan Transferee or the Insured knew or should have known of the false or misleading nature of the Insurance Application or omission.

2.2 Commitment and Certificate

Approval of any Insurance Application is at our discretion and will be communicated to the Initial Insured in the form of a Commitment. Upon compliance with the provisions of this Policy and any terms, conditions and representations shown on the Commitment required to activate coverage, including timely payment of the initial Premium, insurance coverage will be effective and in force as of the Certificate Effective Date and the Commitment will then constitute the Certificate (unless we separately issue a Certificate). We will notify the Person requesting coverage if an Insurance Application is not approved. The Initial Insured is responsible for notifying the Borrower if the Loan Application is declined.

2.3 Initial Premium

The Servicer shall remit the initial Premium as shown on the Commitment in accordance with the requirements set forth in the Servicing Guide for the premium plan chosen by the Initial Insured.

2.4 Renewal Premium

To continue coverage on a Loan following the initial term of coverage specified in the Certificate, the Servicer shall pay renewal Premium for the renewal term in full at the rate specified in the Certificate. We will provide a renewal Premium bill to the Servicer for each renewal term of a Certificate. We must receive payment of the entire renewal Premium on or before the Premium due date specified in the Premium bill, or within the applicable grace period specified in the Servicing Guide (which will not be less than 60 days after the Premium due date). If the entire renewal Premium is not paid prior to expiration of the grace period, coverage on a Certificate terminates effective as of the last day of the term for which Premium was paid. If a Default occurs during the applicable Premium payment grace period, coverage will continue with respect to such Default, subject to the terms and conditions of this Policy, and any Premium due but unpaid for the period prior to such Default will be deducted in accordance with Section 10.1 (Company Options). If Premium is paid on an annual basis and a Default occurs during the Premium payment grace period, coverage will continue with respect to such Default, subject to the terms and conditions of this Policy, only if the renewal Premium then due is paid during the grace period. All payments of Premium shall be made without setoff, deduction, withholding or other reduction for any reason.

2.5 Reinstatement

If all required renewal Premium is paid after expiration of the applicable Premium payment grace period, we will reinstate coverage, retroactively to the termination effective date, but only if (i) such reinstatement is in accordance with our then-current reinstatement policy described in our Servicing Guide, or (ii) within 60 days after expiration of the Premium payment grace period, we receive the entire renewal Premium and the Servicer establishes, with reasonable support as specified in the Servicing Guide, that the failure to pay renewal Premium within the grace period was due to an error or omission that occurred in connection with the transfer, surrender or seizure of servicing rights associated with a group of Loans. In the case of clause (ii) of the preceding sentence, we will reinstate coverage on the affected Loans, provided that coverage is reinstated for all Loans insured under this Policy affected by such transfer, surrender or seizure. We will consider any other request to reinstate coverage after expiration of the applicable Premium payment grace period; however, we may decline the request in our discretion.

2.6 Premium Paid After Loan Default

If the Servicer does not pay renewal Premium for the period after Default on a Loan, coverage for the period up to and including the Default will not automatically terminate under Section 2.4 (Renewal Premium) for failure to pay such renewal Premium. If a Claim arises from such Default, the Servicer is not required to pay renewal Premium during the period after Default. If renewal Premium is paid after such Default, it will be reimbursed upon settlement of a Claim to the GSE Beneficiary, if any, otherwise to the Servicer. If a Default on the Loan cures, we must receive all unpaid Premium for the period after the Default within 60 days of such cure. If we do not receive the required Premium within such 60-day period coverage on the Certificate will terminate effective as of the last day of the renewal term for which Premium was paid. We have no obligation to reinstate coverage on the terminated Certificate following such 60-day period. If a Loan in Default cures and subsequently there is another Default, the provisions of this Section 2.6 will apply to the subsequent Default.

2.7 Payment of Incorrect Premium

(a) **Required Premium Payment**. If we determine or are notified that because of inaccurate or omitted information in the related Insurance Application, a Loan was not eligible for coverage at the premium rate set forth in the applicable Certificate, but such Loan was eligible for insurance coverage on the Insurance Application submission date at a different premium rate, we may provide notice to the Servicer of the additional premium amount required. If we require payment of additional premium and such amount is not paid within 60 days of our notice, we may issue a Rescission Notice rescinding coverage on the Certificate.

(b) **Origination Valuation**. We will not require payment of an additional premium amount pursuant to Section 2.7(a) (Required Premium Payment) in the case of an inaccurate Origination Valuation that does not result in a Material Value Variance unless the inaccuracy is attributable to a failure to adjust the Property value represented in the Insurance Application pursuant to the Underwriting Requirements applicable to establishing the loan-to-value ratio for the Loan.

(c) **Effect of Rescission Limitations**. We will not require payment of an additional premium amount pursuant to Section 2.7(a) (Required Premium Payment) with respect to a Loan after the conditions are satisfied for the Rescission Limitations under Section 4.3(a) (Limitations After 36 Months) to apply, nor to the extent that Twelve Payment Protection has been extended as a result of satisfaction of the conditions in Section 4.3(b) (Twelve Payment Protection).

Section 3 Coverage Eligibility, Term and Cancellation

3.1 Eligibility

(a) **Eligibility Criteria**. To be eligible for insurance coverage under this Policy, a Loan must meet the Eligibility Criteria in effect when the Insurance Application for the Loan is submitted to us. The Initial Insured is responsible for compliance with the Eligibility Criteria, regardless of the information in the Insurance Application. Submission of the Insurance Application to us constitutes a representation by the Initial Insured that the Loan complies with the Eligibility Criteria.

(b) **Company Underwriting Errors**. We will underwrite the information submitted to us in an Insurance Application prior to issuance of a Commitment to determine whether such information meets the Eligibility Criteria. Notwithstanding the provisions in paragraph (a) above, if (i) the information submitted to us in the Insurance Application clearly establishes one or more Eligibility Criteria Violations, without any verification or investigation by us and without requesting any additional information, (ii) the information submitted to us in such Insurance Application is in fact accurate, and (iii) we issue a Commitment to insure the Loan without requiring that the Eligibility Criteria Violation(s) be remedied, we will not subsequently rescind coverage under Section 4.1(d) (Eligibility Criteria Violation) on account of such Eligibility Criteria Violation(s). This paragraph (b) does not restrict our rescission of coverage if the conditions in this paragraph (b) are not met, including in the case of a Material Value Variance, nor does this paragraph restrict our rescission of coverage under any other Exclusion.

3.2 Term of Coverage

Provided that all Premium is paid as required with respect to a Certificate, coverage on that Certificate will continue in effect and terminate automatically upon the first to occur of the following events:

(a) The Loan insured under the Certificate is paid in full;

(b) The Servicer or Beneficiary cancels coverage on the Certificate;

(c) The term of coverage expires in accordance with the applicable Premium plan as specified in the Certificate; or

(d) We settle a Claim submitted with respect to the Certificate in accordance with the Policy.

3.3 Cancellation of Certificate by the Servicer or Beneficiary

The Servicer or Beneficiary may cancel a Certificate at any time by notice to us, specifying (i) the effective date of cancellation, and (ii) the reason for cancellation. If the Servicer initiates the cancellation of a Certificate, the cancellation is binding on the Beneficiary whether or not the Beneficiary is notified of the cancellation. The Servicer shall be responsible for notifying the Beneficiary that it has submitted a notice of cancellation for a Certificate. If a GSE Beneficiary has requested copies of notices pursuant to Section 13.2 (Duplicate Notice to GSE Beneficiary), we will provide a report of cancellations received pursuant to this Section 3.3 to such GSE Beneficiary.

3.4 Effect of Cancellation

Subject to Section 3.5 (Premium Refunds), cancellation of a Certificate, including a cancellation by the Servicer or Beneficiary, relieves us from all liability arising from, in connection with, or related to the Certificate unless a Default that has been reported to us under Section 6.1 (Default Reporting) exists on the intended date of cancellation, in which case the cancellation will not be effective and the Certificate will remain in effect subject to the terms and conditions of this Policy. Cancellation of a Certificate pursuant to this Section 3.4 does not affect coverage on any other Certificate insured under this Policy.

3.5 Premium Refunds

Within (a) the later of (i) 30 days following our receipt of a Certificate cancellation or termination notice from the Servicer or Beneficiary, or (ii) such period as may be required to confirm whether a Default for which we previously received a Notice of Default has cured, or, (b) if different, such period as may be required by Applicable Law, we will refund to the Servicer, or as otherwise directed by the Servicer, Premium paid for the time period after the effective date of the cancellation or termination in accordance with our Premium refund schedule applicable to the Certificate, as set forth in our Servicing Guide; provided however, that no Premium will be refunded for any period more than 45 days prior to our receipt of the cancellation notice. It is the Servicer's responsibility to provide timely notice to us if coverage on a Certificate is cancellable or must be terminated pursuant to Applicable Law or the Beneficiary's established guidelines. If the Servicer fails to provide notice to us within 45 days following such required cancellation or termination date, the Servicer will be responsible to the Borrower for any Premium paid to us for the period more than 45 days after the cancellation or termination effective date, in addition to any refunded Premium received from us.

3.6 Cancellation of Policy

This Policy may be cancelled by the Initial Insured or by us at any time upon not less than 10 days' prior notice; provided however, that this Policy will remain in full force and effect in accordance with its terms with respect to any Commitment or Certificate issued prior to such cancellation.

Section 4 Rescission, Cancellation, Claim Denial and Reduction of Calculated Loss or Insurance Benefit

4.1 Exclusions

If any of the Exclusions described in this Section 4.1 occurs or exists with respect to a Commitment, Certificate, Loan, Mortgage, Property or Claim, we may exercise the remedy or remedies specified as applicable to such Exclusion. Any reduction in the Calculated Loss for a Claim or other adjustment to an Insurance Benefit, as computed in the Explanation of Benefits for the Claim, will be made in accordance with the Claim curtailment methodology set forth in our then current Servicing Guide. Unless an Exclusion for which our remedy is to issue a Rescission Notice specifies that the Rescission Limitations apply to such Exclusion, the Rescission Limitations do not apply. If we provide a Rescission Notice, Company Cancellation Notice, Claim Denial Notice, or reduce the Insurance Benefit with respect to a Claim pursuant to an Exclusion set forth below, it shall not limit our remedies under any other Exclusion.

(a) **Access and Information**. The Beneficiary or Servicer fails to provide the information or access within 30 days following our second request as provided in Section 16.2 (Duty of Cooperation), in which case we may issue a Company Cancellation Notice cancelling coverage on any Certificate related to the Loans for which such access or information was not so provided effective as of the date of such second request, or if a Claim on any such Loan has been submitted, we may issue a Claim Denial Notice denying the Claim in full. We will not exercise our remedies under this Section 4.1(a) as a result of a failure of the Servicer or Beneficiary to respond to documentation requests which would be impermissible under Section 4.3(d) (Rescission Limitations – Gold Cert – Effect on Investigation and Documentation Requests).

(b) **Assumption of Loan**. Without our prior consent, any assumption of liability for the Loan occurs, with or without release of any original Borrower from liability, in which case we may issue a Company Cancellation Notice cancelling coverage on the Certificate effective as of the date of such assumption, or if a Claim has been submitted we may issue a Claim Denial Notice denying the Claim in full. This Section 4.1(b) does not apply to an assumption if Applicable Law prohibits acceleration of the Loan upon the transfer of the interest in the Property.

(c) **Balloon Payment**. The Borrower fails to make any payment of principal and/or interest due upon maturity of a Loan with a term to maturity that is shorter than the amortization period, and which payment is for an amount more than twice the regular periodic payments of principal, interest and any additional amounts required for tax and insurance escrows (commonly referred to as a "Balloon Payment"), in which case we may issue a Company Cancellation Notice cancelling coverage on the Certificate effective as of the due date of the Balloon Payment, or if a Claim has been submitted we may issue a Claim Denial Notice denying the Claim in full. This Exclusion does not apply if, prior to the Balloon Payment coming due the Servicer or Beneficiary extends a written offer to the Borrower for renewal or extension of the Loan or a new mortgage loan that constitutes a first lien on the Property (i) at rates and terms generally prevailing in the marketplace, (ii) in an amount not less than the then unpaid principal balance, and (iii) that has no decrease in the amortization period referred to above.

(d) **Eligibility Criteria Violation**. We determine on the basis of Credible Evidence that there was an Eligibility Criteria Violation with respect to a Loan, in which case we will issue a Rescission Notice rescinding coverage on the subject Certificate. The Rescission Limitations apply to the Exclusion under this Section 4.1(d).

(e) **Excess Insurance Benefit**. The amount of the Calculated Loss would exceed the amount of consideration that the Beneficiary paid to acquire the Loan, in which case we may reduce the Calculated Loss by the amount of such excess; provided however, that if the Beneficiary fails to provide all information we reasonably request within 90 days of the date of such request to enable us to determine whether this Section 4.1(e) applies, we may issue a Claim Denial Notice denying the Claim in full. The Exclusion under this Section 4.1(e) does not apply to a GSE Beneficiary.

(f) **Failure to Comply With Applicable Law**. The Loan as Originated did not comply with Applicable Law in any material respect, in which case we may issue a Rescission Notice rescinding coverage on the Certificate.

(g) **Failure to Satisfy Commitment Conditions**. Any condition to coverage specified in the Commitment for a Loan is not satisfied within the time specified in the Commitment, in which case we may issue a Rescission Notice rescinding coverage on the Certificate. The Rescission Limitations apply to an Exclusion under this Section 4.1(g).

(h) **Failure to Satisfy Post-Origination Conditions or Obligations**. Following the Origination of the Loan, the Servicer fails to comply with any of its post-Origination obligations under this Policy, including its obligations to mitigate loss, obtain our approval of a Workout, or commence, diligently pursue and complete Appropriate Proceedings, in which case we may reduce the Calculated Loss for a Claim by the amount we reasonably determine is the estimated resulting damage, except that 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, (ii) we determine that such noncompliance was the principal cause of the Default that results in a Claim, or (iii) with respect to the obligations set forth in Sections 5.1(Servicing Reports; Notice of Proceedings and Loan Payoff), 6.1 (Default Reporting) and 6.2 (Appropriate Proceedings), such noncompliance continues for a period of 12 months, we may issue a Company Cancellation Notice cancelling coverage on the Certificate effective as of the date such noncompliance first occurred, or, if a Claim has been submitted, we may issue a Claim Denial Notice denying the Claim in full.

With respect to a failure to commence Appropriate Proceedings, as required pursuant to Section 6.2(a) (Commencement), the “estimated resulting damage” shall be the amount of any accrued and unpaid interest and Advances actually paid by the Servicer or Beneficiary incurred during the period beginning on the date that Appropriate Proceedings should have been commenced in accordance with such Section 6.2(a) (Commencement) through the date such Appropriate Proceedings are actually commenced, together with such other damages as we can reasonably demonstrate. If a Pre-Settlement Sale is closed without our prior approval, then we may reduce the Calculated Loss by the excess, if any, of the amount we reasonably estimate to be the fair market value of the Property at the time of such sale, less all of the Servicer’s and Beneficiary’s reasonable costs of obtaining and closing the Pre-Settlement Sale (excluding costs not allowable under our Servicing Guide), over the actual Net Proceeds of the sale; provided however, that in no event shall the Insurance Benefit payable be greater than the Insurance Benefit that would be payable pursuant to the Percentage Option.

(i) **First Lien Status**. The Mortgage did not provide the owner of the Loan with a first lien on the Property on the Certificate Effective Date, in which case we may issue a Rescission Notice rescinding coverage on the Certificate.

(j) **First Party Misrepresentation or Pattern Activity**. We determine, on the basis of Credible Evidence, that there was Pattern Activity or a First Party Misrepresentation, in which case we will issue a Rescission Notice rescinding coverage on the Certificate. However, unless we become aware of Credible Evidence, through our own investigation, through publicly available information, or otherwise that there has been First Party Misrepresentation or Pattern Activity, we will not request information or documentation from the Servicer to investigate First Party Misrepresentation or Pattern Activity with respect to a Loan after the conditions applicable to the Rescission Limitations under Section 4.3(a) (Limitations After 36 Months) or (b) (Twelve Payment Protection) are satisfied. The foregoing provision does not prevent us from requesting (i) information or documentation required under Section 9.2(b) (Additional Claim Requirements) in connection with perfection and settlement of a Claim, (ii) servicing-related information or documentation not related to the Origination of the Loan, or (iii) information or documentation we require for purposes of compliance with our legal or regulatory obligations.

(k) **Incomplete Construction**. Construction, rehabilitation or remodeling of the Property has not been completed in accordance with the applicable plans and specifications or as indicated in the Origination Valuation, in which case we may issue a Rescission Notice rescinding coverage on the Certificate.

(l) **Loan Acquired by Natural Person**. With respect to a Loan, at any time, a Beneficiary is or was a natural, individual person (not an entity), in which case we may issue a Company Cancellation Notice cancelling coverage on the Certificate effective as of the date such Beneficiary acquired the Loan, or if a Claim has been submitted, we may issue a Claim Denial Notice denying the Claim in full.

(m) **Loan Charge-Off**. The Servicer charges off a Loan as uncollectable prior to the completion of Appropriate Proceedings, in which case we may issue a Company Cancellation Notice cancelling coverage on the subject Certificate, effective as of the date of the charge-off, or if a Claim has been submitted we may issue a Claim Denial Notice denying the Claim in full, provided, however, this Exclusion shall not apply with respect to such Loan if Appropriate Proceedings are being pursued in accordance with Section 6.2 (Appropriate Proceedings).

(n) **Late Claim Submission**. A Claim is submitted after the 60-day period required by Section 9.1(a) (Time for Submission), in which case we may exclude from the Calculated Loss any interest accruing and Advances incurred after such 60-day period. If the Claim is submitted more than 120 days after expiration of the 60-day period we may issue a Claim Denial Notice denying the Claim in full.

(o) **Non-Residential Property**. The property subject to the Mortgage did not meet the definition of Property under this Policy on either of the Certificate Effective Date or the date the Claim was submitted, in which case we may issue a Claim Denial Notice denying the Claim in full. If the property met the definition of Property on the Certificate Effective Date but not when the Claim was submitted and we reasonably determine the change in the property adversely affected the use, marketability or value of the property, then we may (i) require restoration of the property to the condition it was in as of the Commitment date or to a similar condition, reasonable wear and tear excepted, (ii) reduce the Insurance Benefit by an amount we determine is equal to the estimated cost of restoration in accordance with the curtailment procedures set forth in the then current Servicing Guide, or (iii) if the property is not restored and we reasonably determine that no Insurance Benefit would be payable if the restoration were completed, we may issue a Claim Denial Notice denying the Claim in full.

In establishing the cost of restoration referred to in this Section 4.1(o), we may either obtain a complete repair estimate from an independent third party of our choosing or rely on repair estimates provided by the Servicer or Beneficiary; provided however, that all such estimates will be based on review of both the interior and exterior of the Property. If we rely on a repair estimate that is not obtained by the Servicer or Beneficiary, we will provide a copy of such estimate to the Servicer or Beneficiary upon request. If we are unable to obtain a repair estimate as described in this paragraph (o), we may settle the Claim pursuant to the Anticipated Loss Option.

(p) **Physical Damage**. There is Physical Damage to the Property that occurred or manifested itself on or after the Commitment date, in which case we may reduce the Insurance Benefit or issue a Claim Denial Notice, denying the Claim in full, as specified below.

(i) **Principal Cause of Default.** If the Physical Damage was the principal cause of the Default giving rise to the Claim, we may issue a Claim Denial Notice denying the Claim in full. The Physical Damage will be deemed to be the principal cause of the Default if either (1) there is direct evidence that the Physical Damage led to the Default, or (2) (i) as of the Claim submission date, the Borrower has not restored the Property to its condition on the Commitment date, reasonable wear and tear excepted, and (ii) we reasonably determine that the estimated cost to restore the Property would equal or exceed 25% of the unpaid principal balance of the Loan as of the date we elect to exercise a remedy, and (iii) the Property was either uninsured for loss arising from the Physical Damage or was insured for an amount which, disregarding normal and customary deductibles not to exceed $5,000, was insufficient to restore the Property to its condition as of the Commitment date, reasonable wear and tear excepted, and (iv) the Default occurred on or after the date that the Physical Damage occurred or manifested itself, and (v) the Property is Uninhabitable.

(ii) **Not Principal Cause of Default**. If (i) the Physical Damage was not the principal cause of the Default giving rise to the Claim, (ii) as of the Claim submission date the Property has not been restored to its condition that existed on the Commitment date, reasonable wear and tear excepted, and (iii) we reasonably determine that the estimated cost to restore the Property to its condition on the Commitment date exceeds $5,000, we will, if we select the Acquisition Option or if there is a Pre-Settlement Sale, reduce the Insurance Benefit by the estimated repair cost in accordance with the curtailment procedures set forth in the then current Servicing Guide. No such reduction will apply if the Insurance Benefit is paid under the Percentage Option or if the Property has been restored to its condition on the Commitment date, reasonable wear and tear excepted. If we reasonably determine that no Insurance Benefit would be payable if restoration were completed, then, regardless of the settlement option selected, we may issue a Claim Denial Notice denying the Claim in full.

(iii) **Cost of Restoration of Property**. In establishing the cost to restore the Property to 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 repair estimates provided by the Servicer or Beneficiary; provided however, that all such estimates will be based on review of both the interior and exterior of the Property. If we rely on a repair estimate that is not obtained by the Servicer or Beneficiary, we will provide a copy of the estimate to the Servicer or Beneficiary upon request. If we are unable to obtain a repair estimate as described in this paragraph (iii), we may settle the Claim pursuant to the Anticipated Loss Option. We will specify the amount of any reduction in the Insurance Benefit on account of Physical Damage in the Explanation of Benefits and any such reduction may be appealed in accordance with Section 4.4 (Appeal of Rescission, Cancellation, Denial or Reduction in Insurance Benefit).

(q) **Pre-Existing Environmental Condition or Impairment**. An Environmental Condition or Impairment existed on the Property on the Commitment date (whether or not known by the Person submitting the Insurance Application) that was material to our acceptance of the risk, such that we would not have insured the Loan had we known of the Environmental Condition or Impairment, in which case (i) we may issue a Company Cancellation Notice to cancel the Commitment, or (ii) if the Environmental Condition or Impairment was the principal cause of Default, we may issue a Rescission Notice rescinding coverage on the Certificate. The Environmental Condition or Impairment will be deemed to be the principal cause of the Default if there is direct evidence that the Environmental Condition or Impairment led to the Default, or if, as of the Claim submission date, the Borrower has not completely removed or otherwise remediated the Environmental Condition or Impairment and the Property is Uninhabitable.

(r) Prior Delinquencies; First Payment Default.

(i) A Default existed as of the Certificate Effective Date, in which case we may issue a Rescission Notice rescinding coverage on a Certificate. The Rescission Limitations apply to a rescission under this paragraph (i).

(ii) A Default existed with respect to the first Loan Payment due under the Loan and such Default continues at the time of Claim submission, in which case we may issue a Claim Denial Notice, denying the Claim in full.

(s) Release from Indebtedness/Borrower Defenses. A Borrower is released from indebtedness under the Loan without our prior consent or a Borrower successfully asserts defenses to liability for such indebtedness, in which case we may reduce the unpaid principal balance in determining the Calculated Loss, in full or in part, based upon the amount of the indebtedness (i) from which the Borrower is released without our prior consent, or (ii) against which the Borrower successfully asserts defenses. The reduction described in this Section 4.1(s) does not apply if a Loan has been divided into secured and unsecured portions pursuant to proceedings under the federal bankruptcy laws, so long as the entire Premium continues to be paid without giving effect to such division.

4.2 Application of Exclusion

(a) Notice of Remedy. Each Rescission Notice, Company Cancellation Notice, Claim Denial Notice and Explanation of Benefits (in the case of a reduction in the Calculated Loss or Insurance Benefit) will identify the affected Commitment or Certificate and state the reason(s) for the notice; provided however, that the inclusion or omission of a reason in any such notice will not limit our right to rescind or cancel coverage or deny a Claim or reduce the Calculated Loss or Insurance Benefit if there is another basis for cancellation, rescission or Claim denial or reduction in the Calculated Loss or Insurance Benefit, nor shall such circumstances limit our other rights and remedies set forth elsewhere in this Policy.

(b) Premium Refund. If we cancel coverage on a Certificate pursuant to a Company Cancellation Notice or deny a Claim pursuant to a Claim Denial Notice, we will refund to the Servicer, unless otherwise directed by the GSE Beneficiary, all Premium received for the time period after the occurrence of the event giving rise to the right of cancellation or denial, if any, and otherwise in accordance with our Premium refund schedule or policies applicable to the Certificate. If we rescind coverage on a Certificate pursuant to a Rescission Notice we will refund all Premium received, if any, in connection with the Certificate to the Servicer.

(c) Effect of Remedy. No rescission, cancellation, Claim denial or reduction in Calculated Loss or Insurance Benefit for a particular Loan, Commitment, Certificate or Claim shall affect coverage under this Policy on any other Loan, Commitment, Certificate or Claim.

4.3 Rescission Limitations – Gold Cert Coverage

(a) Limitations After 36 Months. Unless there is a First Party Misrepresentation or Pattern Activity determined by Credible Evidence, we will not rescind coverage on a Certificate on account of an Eligibility Criteria Violation or other Exclusion to which the Rescission Limitations apply if, at the end of 36th month following the due date of the Borrower's first Loan Payment, the following five conditions are met, as demonstrated by the payment history from the Servicing File or other evidence acceptable to us:

(i) The 36th Loan Payment is not 30 days Delinquent; and

(ii) All Loan Payments were made from the Borrower's Own Funds; and

(iii) Not more than two Loan Payments were 30 days Delinquent; and

(iv) No Loan Payment was 60 or more days Delinquent; and

(v) The Loan was not subject to a Workout.

(b) Twelve Payment Protection.

(i) If Verification Information for a Loan is submitted to us as and within the time required by our Underwriting Requirements, and the opt out provision of paragraph (c) does not apply to the Loan, we will conduct an Underwriting Review and Validation of the Loan and within the Verification Period notify the Insured as specified in our Servicing Guide if we determine that the Certificate for the Loan is eligible for Twelve Payment Protection. Our notice will specify whether the Twelve Payment Protection eligibility applies with respect to the absence of a Material Value Variance, other Eligibility Criteria Violations, or both Material Value Variance and other Eligibility Criteria Violations.

(ii) Twelve Payment Protection, as specified in our notice, will apply to an eligible Certificate only if the Loan is not subject to a Workout, none of the first 12 Loan Payments was 30 or more days Delinquent and all such Loan Payments were made from the Borrower's Own Funds, which must be demonstrated by the payment history from the Servicing File or other evidence acceptable to us.

(iii) Unless there is a First Party Misrepresentation or Pattern Activity determined by Credible Evidence, we will not rescind coverage on a Certificate on account of an Eligibility Criteria Violation to which Twelve Payment Protection applies or another Exclusion to which the Rescission Limitations apply.

(iv) To the extent that Twelve Payment Protection does not apply, the Rescission Limitations in paragraph (a) of this Section 4.3 will apply to the Certificate. Nothing in this Section 4.3(b) will restrict our right to rescind coverage on a Certificate prior to satisfaction of the conditions for the Rescission Limitations under Section 4.3(a) (Limitations After 36 Months) to apply if our rescission is based on an Eligibility Criteria Violation to which Twelve Payment Protection does not apply, whether or not identified as a result of our Underwriting Review and Validation.

(c) **Twelve Payment Protection Opt Out**. The Initial Insured may elect, by notice to us, to opt out of Twelve Payment Protection for all Loans insured under this Policy with respect to Material Value Variance, other Eligibility Criteria Violations, or both Material Value Variance and other Eligibility Criteria Violations. The Initial Insured may change its election at any time by notice to us, effective with respect to Commitments issued after our receipt of such notice. An election to opt out of Twelve Payment Protection will not apply to a subsequent Servicer or Beneficiary of the Loan if such Servicer or Beneficiary satisfies conditions for Twelve Payment Protection specified in paragraph (b) above.

(d) **Effect on Investigation and Documentation Requests**. Unless we become aware of Credible Evidence, through our own investigation, through publicly available information, or otherwise that there has been First Party Misrepresentation or Pattern Activity, we will not request information or documentation from the Servicer pursuant to Section 16.2 (Duty of Cooperation) regarding an Eligibility Criteria Violation with respect to a Loan after the conditions are satisfied for the Rescission Limitations under Section 4.3(a) (Limitations After 36 Months) to apply, nor will we request such information or documentation regarding an Eligibility Criteria Violation for which Twelve Payment Protection has been extended as a result of satisfaction of the condition in Section 4.3(b) (Twelve Payment Protection). We will not exercise our remedies under Section 4.1(a) (Access and Information) as a result of failure of the Servicer or Beneficiary to respond to documentation requests which would be impermissible under this Section 4.3(d). Nothing in this Section 4.3(d) will prevent us from requesting (i) information or documentation required under Section 9.2(b) (Additional Claim Requirements) in connection with perfection and settlement of a Claim, (ii) servicing-related information or documentation not related to the Origination of the Loan, or (iii) information or documentation we require for purposes of compliance with our legal or regulatory obligations.

(e) **Other Policy Provisions**. Except as otherwise set forth in this Policy, the Rescission Limitations in Sections 4.3(a) and (b) above do not limit our rights under any other provisions of this Policy.

4.4 Appeal of Rescission, Cancellation, Denial or Reduction in Insurance Benefit

(a) **Request for Reconsideration**. The Beneficiary, or the Servicer on the Beneficiary's behalf, is entitled, no later than 90 days following receipt of a Company Cancellation Notice, Rescission Notice, Claim Denial Notice, or Explanation of Benefits identifying an Insurance Benefit reduction, to request in writing that we reconsider our decision; provided however, within such 90-day period the Servicer and Beneficiary shall provide all information and documentation we require for evaluation of the request, as specified in our then current Servicing Guide (or, with respect to documentation from the Loan File or otherwise relating to Origination of the Loan, the Servicing Guide in effect on the date we received the Insurance Application), and supplemental information, if any, the Servicer or Beneficiary provides to rebut the cancellation or rescission. If the request for reconsideration and all required information and documentation is not submitted within such 90-day period, the request will be denied.

(b) **Company Determination**. We will make a determination with respect to any request for reconsideration within 60 days following our receipt of all required and supplemental information and documentation. If, after review of the request, we determine that the Servicer or Beneficiary has provided evidence or an explanation reasonably satisfactory to rebut the cancellation, rescission, Claim denial or Insurance Benefit reduction, then unless there is another basis for cancellation, rescission, Claim denial or reduction in the Insurance Benefit, we will, (i) in the case of a rescission or cancellation, reinstate coverage on the Certificate, effective as of the date of the rescission or cancellation effective date, provided that we have received all refunded Premium and any additional Premium then due, and (ii) in the case of a Claim denial or Insurance Benefit reduction, pay the Insurance Benefit (calculated in accordance with and subject to any reductions provided for in this Policy) in full within 10 Business Days of such determination.

(c) **Pending Claim**. If a Claim was pending when coverage was rescinded or cancelled, and coverage is subsequently reinstated, the Claim will be perfected and settled in accordance with Section 9.2 (Claim Requirements). If the Claim has been perfected pursuant to Section 9.2 (Claim Requirements) prior to the date of rescission, the Settlement Due Date for such Claim will be 10 Business Days after reinstatement. If a Claim was pending when coverage was rescinded and coverage is subsequently reinstated based solely on our reconsideration of our original rescission decision, without the production of new information or documentation, the interest added to the Calculated Loss pursuant to Section 9.3(b) (Interest) will include accumulated unpaid interest through the date that the Insurance Benefit is paid.

(d) **Failure to Perfect Claim**. Notwithstanding Section 4.4(b) (Company Determination), in the case of a Claim Denial Notice issued because the Claim was not perfected, if we subsequently determine on the basis of our review that the Claim is a Perfected Claim, we will process such Claim in accordance with the provisions of this Policy applicable to settlement of Perfected Claims.

(e) **Nonpayment of Premium**. The provisions of this Section 4.4 do not apply if coverage on a Certificate terminates or is cancelled pursuant to Section 2 (Insurance Application, Commitment/Certificate and Premium) on account of nonpayment of Premium.

Section 5 Policy Administration

The submission of the reports and information required under this Section 5 will constitute a representation by the Servicer that all such information is complete and accurate in all material respects.

5.1 Servicing Reports; Notice of Proceedings and Loan Payoff

(a) **Servicing Reports**. As long as coverage is in force on any Certificate under this Policy, the Servicer shall provide a Servicing Report for the prior month on or before the twenty-fifth (25th) day of each month.

(b) **Notice of Proceedings**. In addition to monthly Servicing Reports, the Servicer shall provide us with notice within 30 days after the Servicer or Beneficiary has knowledge of the commencement of any proceeding, including Appropriate Proceedings or Borrower Proceedings, which affects or may affect the Loan, Mortgage, Property, or the Servicer's, Beneficiary's or Borrower's interest therein.

(c) **Notice of Loan Payoff**. In addition to monthly Servicing Reports, the Servicer shall provide us with notice within 30 days after a Loan is paid in full.

5.2 Workouts

(a) **Approval Process**. All Workouts require our prior approval. Within 10 Business Days of our receipt of a request for a proposed Workout, we will approve or deny such request. If we fail to respond to a request to approve a Workout within such 10 Business Days, the proposed Workout is deemed to be approved. If we require additional information to evaluate the proposed Workout, we will deny the request within such 10 Business Days, indicate the additional information required and reconsider the request if resubmitted with the required information. Notwithstanding the foregoing deemed approval provision, if there is a related delegation agreement between us and a Servicer or a GSE Beneficiary, our failure to respond to a Workout request within such 10 Business Days shall not be construed to be an approval of any Workout that does not comply with such delegation agreement. Submission of any Workout to us shall constitute a representation that the Servicer has consented to such Workout and that any requisite consent from the Beneficiary has been obtained.

(b) **Effect on Premium**. Any additional Premium payable as a result of an increase in the unpaid principal balance of the Loan must be paid within 60 days of our approval of the Workout. If an approved Workout that requires a change in the Premium amount is not consummated, the Servicer shall so notify us within 60 days after our approval.

(c) **Allocation of Funds**. If the terms of a Workout approved by us provide that a cash contribution will be paid by the Borrower to the Servicer or Beneficiary, then the amount of such cash contribution will be deducted from any subsequent Insurance Benefit paid with respect to the subject Loan. If the terms of such a Workout require that the Borrower execute a promissory note to us as payee, then the Servicer shall provide the Borrower's executed promissory note to us in the form we require upon consummation of the Workout. Notwithstanding the foregoing, in the case of a GSE Beneficiary and a Workout that involves the transfer of Borrower's Title, unless otherwise agreed by the GSE Beneficiary and us in writing, the cash contribution and any payment on the promissory note, less any reasonable expenses incurred in documenting and collecting payments, shall be shared by the GSE Beneficiary and us pro rata. Our pro rata share of the contribution will calculated using a quotient, the numerator of which shall be the Insurance Benefit paid, and the denominator of which shall be the Total Loss. If the Borrower contribution or payment is to be shared by the parties as described herein, the party receiving any such funds will remit the other party's share promptly following receipt thereof.

5.3 Servicer Authority

(a) **Servicer Actions**. The Servicer is deemed to act solely as an authorized representative of the Beneficiary for purposes of this Policy. The Servicer is not our agent or representative. All statements, acts and omissions on the part of the Servicer, to the extent they would result in acceptance of or a reduction or denial of the Insurance Benefit, are binding on the Beneficiary, including the acceptance of any rescission, cancellation, Claim denial, Insurance Benefit payment or refund of Premium. Notwithstanding the foregoing provision, and without limitation of our remedies and defenses set forth in the Policy, the Beneficiary shall have no liability to us for the statements, acts or omissions of the Servicer. If the Beneficiary is a GSE, the Servicer has no authority, without the prior written consent of the GSE Beneficiary, to (i) manage or dispose of any Property that is the subject of any Loan owned by the GSE Beneficiary, (ii) receive an Insurance Benefit for any such Loan, (iii) enter into any Workout with respect to the Loan (whether or not we have consented to the Workout), (iv) enter into any loss sharing, indemnification, settlement or compromise agreement with us if such agreement affects the GSE Beneficiary's interest in two or more Loans, or (v) give any consent on behalf of the GSE Beneficiary, including a consent to arbitrate any dispute with regard to any such Loan or group of Loans. The foregoing provision does not limit the Servicer's authority to settle a Claim with us for any single Loan in the ordinary course of our business, without the consent of the GSE Beneficiary, provided that in connection with such settlement, we do not receive any financial consideration independent of any Insurance Benefit adjustment, we provide an Explanation of Benefits for the Claim, and the Claim settlement is subject to the provisions of Section 4.4 (Appeal of Rescission, Cancellation, Denial or Reduction in Insurance Benefit).

(b) **Beneficiary Actions**. All statements, acts and omissions on the part of the Beneficiary, to the extent they would result in acceptance of or a reduction or denial of the Insurance Benefit, or rescission of coverage on a Certificate, are binding on the Servicer including the acceptance of any rescission, cancellation, Claim denial, Insurance Benefit payment or refund of Premium. Subject to the limitations in paragraph (a) above, for GSE Beneficiaries, any acts of the Beneficiary under this Policy may be performed by the Servicer.

(c) **Change of Servicer**. The transferee Servicer or Beneficiary shall provide notice to us no later than 30 days after a transfer of servicing with respect to a Loan, but in any event prior to our payment of any Insurance Benefit for the Loan. Until we receive such notice, the Person most recently identified to us as the Servicer of the Loan shall be deemed to be the Servicer of the Loan, subject to the provisions of Section 5.4 (Approval of Servicer). Any failure to give notice under this paragraph shall not invalidate the automatic Beneficiary status of any Loan Transferee.

(d) **Subservicer**. 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 the Subservicer shall be binding on the Servicer to the same extent as if made, performed or omitted by the Servicer. A Subservicer shall not become the Insured with respect to a Certificate unless we are notified that the servicing of the Loan has been transferred to the Subservicer by the Servicer in accordance with the Section 5.3(c) above and subject to Section 5.4 (Approval of Servicer).

5.4 Approval of Servicer

(a) **Approval**. A Servicer of a Loan must be approved by us to service a Loan insured under this Policy. Any Person that is a current holder of a Master Policy in the form of this Policy issued by us is deemed to be an approved Servicer; provided however, that we may revoke or limit our approval pursuant to this Section 5.4. A natural, individual person may not be an approved Servicer.

(b) **Limitations**. We may revoke or limit our approval of any Servicer at any time, provided, that we have first (i) notified such Servicer of our reason for such revocation or limitation, and (ii) if we have identified performance deficiencies as the reason for our revocation or limitation of approval, given such Servicer a 60-day period to remedy the performance deficiencies. If any performance deficiencies are identified and not remedied to our satisfaction within the 60-day period, we may notify such Servicer that our approval of the Servicer is revoked or limited, effective as of the date of such notice. If the Beneficiary is a GSE, we will provide such GSE Beneficiary with a copy of any notice to the Servicer under this Section 5.4. At our option, the terms of the revocation or limitation may be that either:

(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 our notice to the Servicer and, if applicable, the GSE Beneficiary; 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 (whether as a result of Loan Transfer, Origination or otherwise). If we limit a Servicer's approval in accordance with this clause (ii), we may thereafter revoke approval under clause (i) without providing an additional cure period with respect to the Servicer's performance deficiencies.

(c) **Remedies**. Coverage on a Certificate will continue uninterrupted when servicing is transferred from one approved Servicer to another approved Servicer; provided however, we may issue a Company Cancellation Notice cancelling coverage on a Certificate or a Claim Denial Notice denying a Claim in full if:

(i) on the date of the servicing transfer, the servicing transferee is not an approved Servicer or is a Servicer whose approval is limited pursuant to Section 5.4(b)(ii), 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 set forth above in clause (i) of Section 5.4(b), servicing has not been transferred as required.

5.5 Successors, Policy Beneficiaries and Related Matters

(a) **Binding Effect**. The provisions of this Policy and any Certificate will inure to the benefit of and be binding upon us, the Insured and the Beneficiary and our and their respective successors. The coverage on any Certificate for a Loan under this Policy will survive any Loan Transfer with respect to such Loan.

(b) **Loan Transferee as Beneficiary**. In the case of a Loan Transfer, the Loan Transferee will be the Beneficiary of the applicable Certificate for all purposes under this Policy, effective as of the date of the Loan Transfer and any rights and obligations of the Loan Transferor under this Policy will transfer to the Loan Transferee. The Servicer or Loan Transferee shall provide notice to us of any Loan Transfer within 60 days of the transfer, but in any event prior to the payment of any Insurance Benefit for the Certificate. Any failure to give notice of a Loan Transfer will not invalidate the automatic Beneficiary status of any Loan Transferee, but prior to such notice we will be entitled to treat the Person shown in our records as the prior Beneficiary as the Beneficiary for all purposes of this Policy.

(c) **Company Rights**. 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.

(d) **No Third Party Beneficiary**. In no event will any Borrower or other Person, other than the Insured and the Beneficiary, be deemed to be a party to, or intended beneficiary of, this Policy.

(e) **Recovery Rights**. No payments made hereunder to the Servicer or Beneficiary will lessen or affect our, or any such party's rights of recovery against any Borrower or other Person.

(f) **Effect of Other Contracts**. No rights, remedies or other terms and conditions set forth in or arising under any contractual arrangement between any of a Servicer, Beneficiary and/or other Person will give any party to such contractual arrangement any right or remedy under this Policy. No contractual arrangement between any of a Servicer, Beneficiary and/or other Person will affect the terms or conditions or interpretation of this Policy. Without limitation of the foregoing, the fact that a Loan Transferor is required to repurchase a Loan or "make-whole" a Loan Transferee does not, in and of itself, give rise to any rights under this Policy. If a Loan Transferor of a particular Loan subsequently repurchases, assumes or otherwise acquires a Loan, then that Loan Transferor, at the time such repurchase, assumption or acquisition is completed, will be considered the Loan Transferee of such Loan.

5.6 Beneficiary Option to Become the Insured

The Beneficiary may by notice to us elect to become the Insured under this Policy with respect to one or more Certificates. Effective upon our receipt of such notice, the Beneficiary will be the Insured under this Policy, subject to all of the rights and obligations of the Insured hereunder with respect to such Certificate and the insured Loan.

5.7 Access to Information by Beneficiary

Upon the request of a GSE Beneficiary, we will provide directly to the GSE Beneficiary all information reasonably accessible to us pertaining to any Loan that is owned by such GSE Beneficiary. We, the Initial Insured and the Servicer hereby waive any objection to providing such information directly to the GSE Beneficiary.

5.8 Coordination of Benefits

The coverage under this Policy will be excess over any other insurance which may apply to the Property or to the Loan regardless of the type of insurance or the effective date of such other coverage, except for mortgage guaranty pool insurance or supplemental mortgage guaranty insurance.

5.9 Eminent Domain

If all or part of a Property is taken by eminent domain, condemnation or by any other proceedings by a federal, state or local government unit or agency, the Servicer shall require that the Borrower apply the maximum permissible amount of any compensation awarded in such proceedings to reduce the outstanding principal balance of the Loan, in accordance with the law of the jurisdiction where the Property is located.

Section 6 Conditions Precedent to Payment of a Claim

The submission of the reports required under this Section 6 will constitute a representation by the Servicer that all information contained in such reports is complete and accurate in all material respects. The conditions precedent to our obligations under this Policy include the following:

6.1 Default Reporting

(a) **Notice of Default**. If the Borrower fails to make two consecutive Loan Payments, the Servicer shall provide notice of the Default to us prior to the due date of the next Loan Payment (a "Notice of Default"). The Servicing Reports required by Section 5.1 (Servicing Reports; Notice of Proceedings and Loan Payoff) do not constitute the Notice of Default required under this paragraph.

(b) **Monthly Default Report**. After the date that the Notice of Default is required to be provided, the Servicer shall submit on or before the twenty-fifth (25th) day of each month a report on the status of the Loan and efforts to remedy the Default or complete Appropriate Proceedings, in accordance with the requirements in our then current Servicing Guide and including:

(i) the status of the Loan (i.e., current or Delinquent by a specified number of days);

(ii) the Servicer's efforts to remedy the Default, including all Workouts proposed to the Borrower and the status of Borrower contact efforts, if any;

(iii) the initiation date and status of any Appropriate Proceedings that have been commenced, together with copies of all notices and pleadings filed or required in connection with such proceedings;

(v) the initiation date and status of any Borrower Proceedings; and

(vi) if applicable, that the Loan has been classified as uncollectable and charged-off.

The Servicer shall continue to submit such monthly reports until a Claim is submitted or no Loan Payment is Delinquent by 30 days or more. The Servicer shall submit a final report on the resolution of the Default in the month following such resolution. The monthly reporting requirement in this paragraph is in addition to the requirement to submit Servicing Reports.

6.2 Appropriate Proceedings

(a) **Commencement**. Unless: (i) prevented 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 moratorium without a legal obligation to do so); or (ii) prohibited by Applicable Law; or (iii) the Servicer is actively and diligently pursuing a Workout or has placed a Borrower into Workout, in either case, in accordance with Section 6.3 (Mitigation of Loss); or (iv) we provide written instruction that some other action be taken, the Servicer must commence Appropriate Proceedings (by filing a complaint in the appropriate court, publishing a notice of sale or by such other process as required by Applicable Law to initiate Appropriate Proceedings) by the later of: (a) 30 days after the date the Loan remains in Default for six consecutive months, or (b) 60 days after the earliest date after such six-month period that Appropriate Proceedings may be commenced under Applicable Law. If we direct such action pursuant to clause (iv) above, the Servicer shall commence Appropriate Proceedings in the manner we direct no later than 15 days after we direct such action, if permitted by Applicable Law. If the Beneficiary is a GSE, we will not provide such written instructions to a Servicer unless we have received the GSE Beneficiary's prior written approval to do so.

If a moratorium is imposed on account of an event or condition that would permit us to rescind or cancel coverage, deny a Claim with respect to the Certificate, or reduce the Calculated Loss or Insurance Benefit pursuant to any of the Exclusions in Section 4.1 (Exclusions), any interest accruing after Appropriate Proceedings were required to be commenced in the absence of the moratorium through the date of actual commencement shall not be included under Section 9.3 (Calculated Loss) for purposes of determining the Calculated Loss.

(b) **Completion**. The Servicer shall diligently pursue completion of the Appropriate Proceedings in accordance with Applicable Law (which will be deemed not to include a government or judicially imposed moratorium to which the Servicer or Beneficiary voluntarily conforms its practices without a legal obligation to do so) and in compliance with the foreclosure sale timeframes in the Servicing Guide then in effect. In connection with Appropriate Proceedings in which a deficiency may be pursued against the Borrower, the Servicer shall bid an amount at the foreclosure sale that fully protects our rights under this Policy against the Borrower (including our right to obtain a Deficiency Judgment) if permitted by Applicable Law. The Servicer shall bid (i) in accordance with our foreclosure bidding guidelines set forth in the Servicing Guide then in effect, or (ii) in the case of a GSE Beneficiary, in accordance with the GSE Beneficiary's foreclosure bidding guidelines then in effect, or our foreclosure bidding guidelines as approved by the GSE Beneficiary.

6.3 Mitigation of Loss

The Servicer shall (a) prevent and mitigate loss in a reasonable and prudent manner and 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, and (b) comply with the Servicing Guide then in effect and any other applicable guidelines to which the Servicer or Beneficiary is subject, and as we may otherwise direct from time to time. Such prevention and mitigation efforts shall include good faith efforts to obtain a cure of any Default, including, as applicable, prompt and ongoing Borrower contact and prompt reporting of Defaults to appropriate credit
reporting agencies, collection of amounts due under the Loan, collection of rents, inspection and appraisal of the Property, effectuating the early disposition of the Property (including marketing pursuant to Section 6.5 – Marketing Efforts), offering to any Borrower who has the willingness and ability to cure the Default a Workout approved by us pursuant to Section 5.2 (Workouts), assertion of the Servicer's and Beneficiary's rights in and to any collateral or security in its custody or control, assertion of rights against the Borrower, prompt reporting to us of any Pre-Settlement Sale offers, and diligent pursuit and completion of Appropriate Proceedings in accordance with Section 6.2 (Appropriate Proceedings). The status of each Workout shall be reported to us on a monthly basis. Notwithstanding anything to the contrary herein, nothing in Section 6.2 (Appropriate Proceedings) or this Section 6.3 will prevent or restrict the Servicer or GSE Beneficiary from electing to foreclose on a Property; provided however, that if such foreclosure results in any noncompliance with the servicing requirements of this Policy, the Insurance Benefit otherwise payable for the Claim will be subject to reduction in accordance with Section 4.1(h) (Failure to Satisfy Post-Origination Conditions or Obligations).

6.4 Company's Right to Assist in Mitigation Efforts

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 the Loans. We also may engage in Borrower contact activities, including activities such as obtaining information from the Borrower, conducting Property inspections and requesting appraisals of the Property. The Servicer shall cooperate with us as reasonably necessary to enable us to engage in such mitigation and Borrower contact activities.

6.5 Marketing Efforts

The mitigation efforts required by Section 6.3 (Mitigation of Loss) include diligent efforts to market any Property for which a Servicer or Beneficiary has obtained Borrower's Title. The Servicer shall authorize and direct its broker to release to us any marketing information concerning the Property that we request.

Section 7 Property Sales

7.1 Company Approval

A Property Sale requires our prior approval, except in the case of a foreclosure or trustee's sale of a Property at a price not less than the minimum amount required to be bid pursuant to Section 6.2(b) (Appropriate Proceedings – Completion). If the Servicer or Beneficiary has acquired Borrower's Title to the Property, but an Insurance Benefit has not yet been paid for a Claim, the Servicer or Beneficiary shall promptly submit to us any offers to purchase the Property that the Servicer or Beneficiary intends to accept, together with (i) a schedule of expense items proposed to be included in the Property Sale settlement amount if the sale closes and the then-estimated amounts of such expenses, and (ii) a current Property valuation. Within 10 Business Days of our receipt of a request for approval of a proposed Property Sale, we will approve or decline to approve such request. If we fail to respond to a request to approve a Property Sale within such 10 Business Days, the proposed Property Sale is deemed to be approved. If we require additional information to evaluate the proposed Property Sale, we will deny the request within 10 Business Days, indicate the additional information required and reconsider the request if resubmitted with the required information. Notwithstanding the foregoing deemed approval provision, if there is a separate delegation agreement between us and a Servicer or GSE Beneficiary, our failure to respond to a Property Sale approval request within such 10 Business Days will not be construed to be an approval of any Property Sale which does not comply with the terms of such delegation agreement.

7.2 Settlement on Basis of Property Sale

If a Property Sale is completed and an Insurance Benefit is payable under this Policy, then, with respect to the Property Sale:

(a) **No Acquisition Option**. We will be deemed to have waived our right to exercise the Acquisition Option, and will be deemed to have waived our right to receive Good and Marketable Title or Borrower's Title to the Property.

(b) **Net Proceeds**. The Servicer or Beneficiary will have the sole right to receive the Net Proceeds of the Property Sale and acceptance of the Net Proceeds in satisfaction of the Loan will not prejudice the Beneficiary hereunder.

7.3 Pre-Settlement Sale That Does Not Close

If a Pre-Settlement Sale does not close, we may settle the Claim under either the Acquisition Option or the Percentage Option. If the Claim has not been perfected on the date we are notified that the Pre-Settlement Sale did not close, the Servicer or Beneficiary shall submit all information required by Section 9.2(a) (Initial Claim Requirements) and such Claim will be perfected and settled in accordance with Section 9.2 (Claim Requirements). If the Claim has been perfected pursuant to Section 9.2 (Claim Requirements) prior to the date we are notified that the Pre-Settlement Sale did not close, the Settlement Due Date for that Claim will be (i) 10 Business Days after we are notified that the Pre-Settlement Sale did not close; provided however, that we will not be required to pay interest pursuant to Section 10.2 (Payment After Settlement Due Date) for the period prior to the date that is 60 days after the Claim is a Perfected Claim. If we do not make a settlement election within the Claim Settlement Period provided for in this Section 7.3, we will be deemed to have elected the Percentage Option.

Section 8 Company Options Upon Notice of Default

8.1 Accelerated Claim.

(a) **Direction to Submit**. At any time after our receipt of a Notice of Default, we may by notice direct the Servicer to submit a Claim (an "Accelerated Claim"). The Servicer shall submit the Accelerated Claim in accordance with Section 9.2 (Claim Requirements), as modified by this Section 8.1, within 60 days of our notice. If we pay an Insurance Benefit on an Accelerated Claim, we will pay the Insurance Benefit under the Percentage Option. No accrued and unpaid interest due on the Loan will be included in the Calculated Loss on an Accelerated Claim for any period after the Accelerated Claim submission deadline. Whether an Accelerated Claim is deemed a Perfected Claim will be determined on the basis of information and documentation in existence on the date that the Accelerated Claim is submitted. We may pay an Insurance Benefit on an Accelerated Claim that is not a Perfected Claim.

(b) **Continuation of Mitigation Activities**. Notwithstanding our direction to submit an Accelerated Claim, the obligations of the Servicer under Section 6 (Conditions Precedent to Payment of a Claim) to pursue and complete Appropriate Proceedings and to mitigate loss will continue as if the submission of the Claim had not been accelerated. Our direction to submit an Accelerated Claim will in no way restrict any of our rights or remedies under this Policy.

(c) **Refund of Premium and Reinstatement**. If the Servicer or Beneficiary is unable to acquire Borrower's Title to the Property, or if the Default is cured after we have paid an Insurance Benefit for an Accelerated Claim, the Beneficiary, or if the Beneficiary elected that the Servicer receive the Insurance Benefit, the Servicer, shall refund any Insurance Benefit paid for the Certificate on the Accelerated Claim, and we will reinstate coverage on the Certificate, subject to our rights and remedies under this Policy. If the Beneficiary is a GSE, a refund pursuant to this paragraph (c) will not be required unless the Servicer or GSE Beneficiary has agreed in writing prior to our direction to the Servicer to submit an Accelerated Claim that a refund will be payable as provided herein.

(d) **Supplemental Claim**. Within 90 days after the acquisition of Borrower's Title by the Insured, Servicer or Beneficiary, or a Property Sale, the Servicer or Beneficiary will be entitled to submit a supplemental Claim for allowable Advances actually paid by the Servicer or Beneficiary that were not included in the Accelerated Claim, but nothing herein will be deemed to entitle the Servicer to seek a supplemental or additional payment of anything other than such Advances. Advances are allowable to the extent they would be included in the Calculated Loss under Section 9.3(c) (Advances) for, as applicable, (i) the period through which Appropriate Proceedings required to obtain Borrower's Title were required to have been completed, or (ii) the date of completion of a Property Sale. Any supplemental Claim paid pursuant to this paragraph (d) shall be paid pursuant to the Percentage Option. Any information or documentation not in existence on the date that the Accelerated Claim is submitted, but which would otherwise be required under Section 9.2(a) (Initial Claim Requirements) and, if applicable, Section 9.2(b) (Additional Claim Requirements) 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 specified 90-day period together with all required supporting documentation, we shall pay any amounts determined to be payable under this Policy within 60 days of our receipt of the supplemental Claim. Any reduction applied to the Calculated Loss or Insurance Benefit paid on the initial Claim shall be applied to the supplemental Claim.

8.2 Pre-Claim Advance

At any time after a Notice of Default is provided for a Loan, we may pay a Pre-Claim Advance to the Servicer subject to conditions we may determine and for purposes of mitigating loss. Any amount of the Pre-Claim Advance not repaid to us will be deducted from any future Insurance Benefit paid on the Certificate. If we deny a Claim (whether arising from circumstances before or after the Pre-Claim Advance is made) or rescind or cancel coverage on a Certificate for which a Pre-Claim Advance has been made, we will have the right to recover, and the Servicer shall be obligated to pay to us within 30 days after such denial, rescission or cancellation, the full amount of the Pre-Claim Advance not previously repaid to us; provided however, that if there is a GSE Beneficiary, payment of a Pre-Claim Advance to the Servicer will only be permitted if approved in advance and in writing by the GSE Beneficiary.

8.3 Option to Acquire Loan

(a) **Exercise of Option**. At any time after a Notice of Default is provided for a Loan, and prior to either the curing of the Default or the completion of Appropriate Proceedings, we have the option to acquire the Loan. Within 60 days after our notice to the Servicer and Beneficiary of our intent to acquire the Loan, the Servicer shall provide a statement of the acquisition cost of the Loan in a form or format we approve, together with all supporting documentation that we reasonably require to complete the acquisition transaction. The acquisition cost will be computed in the same manner as the computation of Calculated Loss under Section 9.3 (Calculated Loss), except that interest on the Loan will be paid only through the date of acquisition. An election to exercise our option to acquire a Loan, and the payment of the acquisition cost so computed, will be made to the Servicer or Beneficiary within 30 days after our receipt of the statement from the Servicer, together with all required supporting documentation.

(b) **Obligations of Servicer or Beneficiary**. Contemporaneously with the payment required by paragraph (a) above:

(i) the Servicer or Beneficiary shall execute and deliver to us or our designated nominee such instruments or documentation that we may reasonably require to effect or confirm (i) the assignment or transfer of the Loan and any right, title or interest of the Servicer or Beneficiary in and to the Property, Appropriate Proceedings and any other collateral or security, including the Loan File, the Servicing File and any documentation held by any custodian or other Person, free and clear of all liens and encumbrances, (ii) the termination of any Person's right to service the Loan, and (iii) that the transfer was made properly in accordance with Applicable Law;

(ii) the Servicer or Beneficiary shall assign and deliver to us or our designated nominee existing fire, hazard and title insurance policies relating to the Property and an assignment of the coverage under this Policy on the Certificate; and

(iii) the Servicer will be released from any further obligation to service the Loan.

(c) Failure to Transfer Loan. If we are unable to exercise our rights to acquire a Loan under this Section 8.3 due to the action or failure to act on the part of the Servicer or Beneficiary, then we may reduce the Insurance Benefit otherwise payable on a subsequently submitted Claim arising from the Default by the amount of damage we reasonably determine resulted from such action or inaction.

Section 9 Claim Settlement Procedure

9.1 Submission of Claim

(a) Time for Submission. Except in the case of a Property Sale, an Accelerated Claim or an election by the Servicer or Beneficiary to submit a Claim prior to expiration of the redemption period, a Claim may not be submitted prior to the Servicer's or Beneficiary's acquisition of Borrower's Title. The Servicer or Beneficiary shall submit a Claim no later than 60 days after the earliest to occur of (i) acquisition of Borrower's Title, (ii) the consummation of a Property Sale, (iii) expiration of the redemption period, and (iv) our notice to the Servicer to submit an Accelerated Claim. If a Claim is submitted after such period, then we may reduce the Insurance Benefit or deny the Claim in full in accordance with Section 4.1(n) (Late Claim Submission).

(b) Redemption. If any Person exercises his, her or its redemption rights, within 60 days thereafter (i) the Servicer or Beneficiary shall notify us of the redemption, and (ii) the Beneficiary, or, if the Beneficiary elected that the Servicer receive the Insurance Benefit, the Servicer, shall reimburse us for the amount (if any) by which the sum of the Insurance Benefit paid plus the amount realized by the Servicer or Beneficiary from the redemption of the Property exceeds the Calculated Loss. If the Servicer or Beneficiary submits a Claim prior to the expiration of any applicable redemption period, and if we elect the Acquisition Option or the Loss on Property Sale Option, we have no obligation to pay an Insurance Benefit unless and until the redemption period has expired. No interest on an unpaid Insurance Benefit pursuant to Section 10.2 (Payment After Settlement Due Date) will be payable with respect to the period prior to expiration of the redemption period. The Claim settlement periods set forth in Section 9 (Claim Settlement Procedure) and Section 10 (Claim Settlement) will govern regardless of whether the redemption period has expired.

(c) Supplemental Claim. Within 90 days after payment of an Insurance Benefit, the Servicer or Beneficiary will be entitled to submit a supplemental Claim for allowable Advances incurred prior to the date the initial Claim was submitted and paid prior to submission of the supplemental Claim but not included in the initial Claim; provided however, nothing herein will be deemed to entitle the Servicer or Beneficiary to seek a supplemental or additional payment of anything other than such Advances. Advances are allowable if they would be included in the Calculated Loss under Section 9.3(c) (Advances). If the supplemental Claim for Advances and all required documentation related thereto are submitted within the 90-day period required by this paragraph, we will pay any such amounts determined to be payable under this Policy within 60 days of receipt of the supplemental Claim. The Percentage Option shall apply to payment of the supplemental Claim if the Insurance Benefit is calculated using the Percentage Option. Any reduction applied to the Calculated Loss or Insurance Benefit paid on the initial Claim shall be applied to the supplemental Claim.

9.2 Claim Requirements

(a) Initial Claim Requirements. The submission of a Claim is a representation that the Claim and all materials submitted therewith are complete and accurate and that all conditions precedent to Claim submission under this Policy have been met. If any information submitted in support of a Claim is incomplete, we must be so advised at the time of submission; otherwise we will be entitled to consider the information submitted complete in determining whether the Claim is a Perfected Claim. When a Claim is submitted, the Servicer shall provide us with the following:

(i) a properly completed Claim on a form with all information and documentation required by the Servicing Guide in effect on (1) the Certificate Effective Date, with respect to information and documentation relating specifically to Origination of the Loan, and (2) the date of Default with respect to all other information and documentation;

(ii) the Servicing File; and

(iii) information and documentation specified in the Servicing Guide demonstrating that the Servicer or Beneficiary has acquired Borrower's Title to the Property, if applicable.

(b) Additional Claim Requirements. We may, within 20 days after our receipt of a Claim under paragraph (a), request that the Servicer provide us with the following documentation as specified in the Servicing Guide:

(i) documentation demonstrating the amount of consideration the Beneficiary (other than a GSE Beneficiary) paid to acquire the Loan;

(ii) if we notify the Servicer that we intend to exercise our right to pursue a Deficiency Judgment prior to the date that the Claim is a Perfected Claim, a limited power of attorney that meets the requirements specified in the Servicing Guide; and

(iii) any information or documentation required under paragraph (a) that was not submitted.

In addition, upon our request made within 40 days after our receipt of the Claim, the Servicer shall provide us with access to the Property. If we do not receive such information, documentation or Property access within 30 days of our request, we will provide a reminder notice to the Servicer that the required information, documentation or Property access is still outstanding.

(c) **Claim Perfection**. A Claim will be a Perfected Claim upon our receipt of all of the information, documentation and Property access, if applicable, described in paragraphs (a) and, if applicable, (b) above.

(d) **Information Requested After Perfection**. We may request additional information or documentation within 10 Business Days after a Claim becomes a Perfected Claim, and the Servicer shall use reasonable efforts to satisfy such requests. If we do not receive any information or documentation requested pursuant to this paragraph (d) within 30 days, we will provide a reminder notice to the Servicer that the request is outstanding. No information or documentation requests made after a Claim becomes a Perfected Claim will extend the Claim Settlement Period or affect our obligation to pay interest as described in Section 10.2 (Payment After Settlement Due Date) if we do not pay the Claim on or before the Settlement Due Date.

(e) **Failure to Perfect Claim**. If, at the end of the 120-day period following the submission of a Claim under paragraph (a) the Claim has not become a Perfected Claim, we will issue a Claim Denial Notice denying the Claim. If the sole reason the Claim is then not a Perfected Claim is the Servicer's or Beneficiary's failure to provide access to the Property, the Claim will be deemed 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 submission of the Claim. If at the end of such 210-day period Property access has not been provided, we will settle the Claim under the Anticipated Loss Option, subject to the terms and conditions of this Policy. If a Claim is denied without payment under this paragraph (e), we will have the right to retain all Premium paid in connection with the Certificate. The Beneficiary or Servicer may appeal the denial pursuant to Section 4.4 (Appeal of Rescission, Cancellation, Denial or Reduction in Insurance Benefit).

(f) **Acquisition Option Requirements**. If not already provided or requested pursuant to Section 9.2(b) (Additional Claim Requirements), we will notify the Servicer or Beneficiary of our needs for access to the Property for purposes of determining its condition and value to evaluate a potential acquisition by us within 20 days after the Claim becomes a Perfected Claim. If the required Property access is not timely provided, or if eviction proceedings are needed in order to convey Good and Marketable Title, the Claim Settlement Period will be suspended until the Servicer or Beneficiary provides the required access; provided however, that if such access is not provided by the end of the 210-day period following submission of the Claim, we will settle the Claim under the Anticipated Loss Option, subject to the terms and conditions of this Policy.

Within 20 days of obtaining access to the Property, we will notify the Servicer or Beneficiary if we will elect the Acquisition Option. Within 20 days following such notice, the Servicer or Beneficiary shall provide us with a recordable but unrecorded deed, usual and customary for the Property location, containing the customary warranties and covenants applicable to the entire term of the Loan and conveying to us or our designee Good and Marketable Title, together with any and all other documents required to complete the transfer of title to the Property in the jurisdiction where the Property is located, all of which shall be executed. If we elect the Acquisition Option in settlement of the Claim, we will: (i) pay the Insurance Benefit within five Business Days of our receipt of the required title transfer documentation; and (ii) submit the title transfer documents relating to the Property for recording within 60 days of receiving them.

(g) Effect of Pre-Settlement Sale. Notwithstanding anything in this Policy to the contrary:

(i) if a Pre-Settlement Sale is submitted for our approval after a Claim has been submitted but before the Claim becomes a Perfected Claim, the Claim will not become a Perfected Claim unless the Servicer or Beneficiary provides information and documentation evidencing the terms and conditions of the closing of the sale, as specified in the Servicing Guide;

(ii) if a Pre-Settlement Sale is submitted for our approval after the Claim becomes a Perfected Claim, the Servicer or Beneficiary shall provide information and documentation evidencing the terms and conditions of the sale, as required by the Servicing Guide. The Settlement Due Date will be 10 Business Days following our receipt of all such information and documentation. If we do not pay the Insurance Benefit on or before the Settlement Due Date, we will pay interest in accordance with Section 10.2 (Payment After Settlement Due Date).

9.3 Calculated Loss

Subject to any reduction provided for elsewhere in this Policy, the "Calculated Loss" with respect to any Claim will be determined as the sum of (a) through (c) below, less the sum of (d) through (m) below:

Additions to Calculated Loss:

(a) Principal. The unpaid principal balance due under the Loan as of the date of Default, including any capitalized interest resulting from a Workout that we approved, and any negative amortization to the extent provided for in the Loan documents. For purposes of determining the unpaid principal balance of the Loan:

(i) if the Loan has been divided into secured and unsecured portions pursuant to proceedings under the federal bankruptcy laws, the unpaid principal balance will include both the unpaid secured and unsecured portions of the Loan, even if the Borrower has been released from the unsecured portion of such debt, so long as the Premium required to be paid for coverage on the Certificate was calculated and paid based on both the secured and unsecured portions of the Loan balance; and

(ii) if a portion of the unpaid principal balance of the Loan has been forgiven as part of a Workout we approved, the amount calculated pursuant to this paragraph (a) will be the unpaid principal balance prior to such forgiveness; provided however, that the Insurance Benefit will be reduced by the incremental amount of additional Premium that would have been payable for the Certificate had the unpaid principal balance not been so reduced.

(b) **Interest**. The amount of unpaid accumulated interest due under the Loan, computed at the Loan contract rate or rates (without giving effect to any increase in the interest rate based on the Default or any other default with respect to the Loan) through the earlier of (x) the date the Claim is submitted under Section 9.1(a) (Time for Submission) and (y) the date the Claim is required to be submitted under such Section; provided however, that:

(i) if a Loan has been divided into secured and unsecured portions pursuant to proceedings under the federal bankruptcy law, the calculated interest will include interest on both the secured and unsecured portions, computed at the Loan contract rate or rates (without giving effect to any increase in the interest rate based on the Default), from the date of Default through such date, so long as the Premium paid for coverage on the Certificate was calculated and paid based on both the secured and unsecured portions of the Loan balance;

(ii) if a portion of the unpaid principal balance of the Loan has been forgiven as part of an approved Workout, no interest will accrue on the forgiven amount;

(iii) if we elect the Acquisition Option or Anticipated Loss Option, interest will be payable through the date that we pay the Insurance Benefit, except that interest will not be included for any period during which the Claim Settlement Period is suspended; and

(iv) if the Claim is settled under the Loss on Property Sale Option, interest will be payable through the date of closing of the Property sale.

Notwithstanding the foregoing provisions, in no case will the amount of interest included pursuant to this paragraph (b) exceed the amount of unpaid interest accumulated under the Loan during the first 36 months that the Loan was in Default.

(c) **Advances**. The amount of (i) any Advances actually paid by the Servicer or Beneficiary and incurred for the period from the date of Default through the day before the later of (x) the date the Claim is submitted under Section 9.1(a) (Time for Submission), and (y) the date the Claim is required to be submitted under such Section, plus (ii) any other reasonable and customary expenses necessary for the preservation of the Property during the period set forth in (i) above that we approve, but excluding any expenditures that would avoid an Exclusion from coverage under this Policy. Notwithstanding the foregoing, Advances will be includable pursuant to this Section 9.3(c) only to the extent that such Advances (a) were in fact paid by the Servicer or Beneficiary, and (b) were incurred during the period for which unpaid accumulated interest due under the Loan would be includable pursuant to Section 9.3(b) (Interest), except as set forth in Section 8.1(d) (Accelerated Claim – Supplemental Claim); provided however, that in the case of a Claim settled under the Acquisition Option Advances by the Servicer or Beneficiary in connection with eviction proceedings required to obtain Good and Marketable Title to the Property shall be included in the Calculated Loss through the date such eviction proceedings were completed.

Subtractions from Calculated Loss:

(d) The amount of all rent and other payments (excluding the proceeds of any insurance policy for damages sustained by the Property) which are in any way related to the Property and which have been received by the Servicer or Beneficiary for the period for which interest and Advances are included in the Calculated Loss;

(e) Any amount remaining in the Loan escrow accounts or security deposits in the custody or control of the Servicer or Beneficiary as of the date that the last Loan Payment was made;

(f) The amount of any payments received but not applied to the Loan;

(g) The amount of any benefits paid or pending to the Servicer, Beneficiary or the Borrower under any insurance policy for damages sustained by the Property which is in excess of the actual cost of, or which has not been applied to, restoring and repairing the Property, or which has not been applied to the payment of the Loan;

(h) The remaining amount, if any, of unused interest buydown funds, discounts, or similar features of the Loan;

(i) The Net Proceeds of any Property Sale if we elect the Loss on Property Sale Option;

(j) The full amount of the proceeds awarded in or resulting from an eminent domain proceeding or other condemnation of the Property or a sale of the Property in lieu of condemnation, to the extent not applied to reduce the unpaid principal balance of the Loan;

(k) Any amount realized as a result of the redemption of the Property;

(l) If we elect the Percentage Option or use the Percentage Option to calculate the Insurance Benefit payable under Section 7.2 (Settlement on Basis of Property Sale) and all or a portion of the Premium was included in the original principal amount of the Loan, an amount equal to (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 paragraph (a) above, divided by the original principal amount of the Loan; and

(m) If the Servicer or Beneficiary has received from any Person any cash amount in settlement of litigation or other claims arising in respect of the Loan, other than as set forth in Section 5.2 (Workouts), then the amount of such cash settlement will be shared pro rata by the Beneficiary and us. Our pro rata share of the settlement will be calculated using a quotient, the numerator of which shall be the Insurance Benefit that would be payable without regard to such cash settlement, and the denominator of which shall be the Total Loss, unless we otherwise agree; provided however, that if the amount received was in settlement of litigation or other claims in respect of such Loan and one or more other loans not insured under this Policy, then the amount referred to above will first be allocated to the Loan and such other loans on a pro rata basis based on the number of loans (including the Loan) involved in the settlement.

Section 10 Claim Settlement

10.1 Company Options

The Insurance Benefit in settlement of a Claim will be:

(a) If we elect the Acquisition Option, the entire Calculated Loss, upon the conveyance to us or our designated nominee of Good and Marketable Title to the Property; or

(b) If we elect the Percentage Option, the percentage of the Calculated Loss specified in the applicable Certificate; or

(c) In the case of the Loss on Property Sale Option, which shall apply in the case of a sale pursuant to Section 7.2 (Settlement on Basis of Property Sale), the lesser of:

(i) the entire Calculated Loss; and

(ii) the amount of the Insurance Benefit that would have been payable had we elected the Percentage Option immediately prior to the Property Sale; or

(d) In the case of the Anticipated Loss Option, which shall apply if (x) the Servicer or Beneficiary is unable to provide Property access as set forth in Section 9.2(e) (Failure to Perfect Claim) or Section 9.2(f) (Acquisition Option Requirements), or fails to comply with the other requirements of Section 9.2(f), or (y) we are unable to reasonably determine the estimated restoration costs or the extent of Physical Damage to the Property as required by Section 4.1(p)(iii) (Cost of Repair) or Section 4.1(o) (Non-Residential Property), the lesser of:

(i) the Calculated Loss, minus the amount of Net Proceeds we reasonably anticipate would be generated if the Property were sold to a third party for fair market value and the Property were in the condition it was in on the Commitment date, reasonable wear and tear excepted; and

(ii) the amount that would have been payable if we had elected the Percentage Option.

The Insurance Benefit will be payable to the Servicer, or upon a GSE Beneficiary's election, to the GSE Beneficiary, on or before the Settlement Due Date. The calculation of the Insurance Benefit will be subject to adjustment for deficiency-related expenses as described in Section 11.3 (Deficiency Judgments). In addition to any reductions provided for elsewhere in this Policy, the Insurance Benefit will be reduced by the amount of: (i) any Pre-Claim Advance not already repaid to us; and (ii) any Premium due but unpaid for the period prior to the Default giving rise to the Claim or Premium previously returned to the Servicer or Beneficiary; provided however, that if the Beneficiary is a GSE, a Pre-Claim Advance will be deducted only if the Pre-Claim Advance was approved by the GSE Beneficiary in advance and in writing. If all or any portion of the Premium was included in the original principal amount of a Loan, in addition to the sum due under the Percentage Option or Loss on Property Sale Option, the Insurance Benefit will include the amount calculated in Section 9.3(l).

10.2 Payment After Settlement Due Date

If we do not pay the Insurance Benefit on or before the Settlement Due Date, we will pay, in addition to the Insurance Benefit, simple interest on the Insurance Benefit calculated at a rate per annum equal to the Loan contract rate, without giving effect to any increase in the interest rate based on the Default or any other default with respect to the Loan, accruing from the Settlement Due Date through the date the Insurance Benefit is paid. If, however, the Insurance Benefit is not paid within 60 days after the Settlement Due Date, interest will accrue and be payable after such sixtieth (60th) day at a per annum rate equal to the contract rate plus 10 percentage points, without giving effect to any increase in the interest rate based on the Default or any other default with respect to the Loan. Interest will not be payable on the Insurance Benefit pursuant to the foregoing provisions in the event of a failure of payment systems beyond our control or during the period of rescission or cancellation if we later reinstate coverage.

10.3 Repayment of Insurance Benefit

If we pay any Insurance Benefit and based on circumstances arising or discovered within 180 days thereafter we determine that the Insurance Benefit should not have been paid because the Claim should have been denied because (a) the transfer of Borrower's Title pursuant to Appropriate Proceedings is reversed or found to have been invalid, or (b) Borrower's Title was never validly acquired by the Servicer or Beneficiary, or (c) the indebtedness under the Loan is discharged or reduced, in whole or in part, for whatever reason, including Borrower Proceedings, other judicial or legal action or defects in the foreclosure procedure, then the Servicer, or the GSE Beneficiary (if the GSE Beneficiary elected to receive the Insurance Benefit) shall repay to us within 60 days of such determination any amounts for which we would not have been liable under this Policy had we known of the circumstances described above. In addition, if after payment of an Insurance Benefit, we, the Servicer or the Beneficiary receive any cash settlements related to the Loan of the type described in Section 9.3(m), or payment on any promissory note or other evidence of indebtedness (other than in connection with a Workout) provided by a Borrower with respect to the Loan, then the party receiving such amount shall, within such time period as agreed by the parties, share in such payment with the other parties pro rata. Our pro rata share of the payment 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 Loss.

Section 11 Subrogation and Deficiency Judgments

11.1 Subrogation

We will be subrogated, upon payment of an Insurance Benefit, in the amount thereof in equal priority to all of the Beneficiary's rights of recovery against a Borrower or any other Person relating to the applicable Loan or Property. Upon our request, the Servicer and Beneficiary shall provide such information and execute and deliver to us such documents and instruments and undertake such actions as may be necessary to transfer, assign and secure such rights. The Servicer and Beneficiary shall not, and shall cause their agents not to, either before or after payment of an Insurance Benefit, prejudice such rights.

11.2 Deficiency Collection Activities

Outside of the pursuit of a Deficiency Judgment in accordance with Section 11.3 (Deficiency Judgments), we and a Beneficiary are free, subject to Section 11.1 (Subrogation), to independently pursue collection activities against the Borrower, in compliance with Applicable Law, for the recovery of any post-foreclosure deficiency.

11.3 Deficiency Judgments

In addition to our rights under Section 11.2 (Deficiency Collection Activities), where permitted by Applicable Law, if we, the Beneficiary, or the Servicer, desire to pursue a Deficiency Judgment against a Borrower in connection with an insured Loan, the party seeking to pursue a Deficiency Judgment will determine with the other parties with an interest in such Loan whether the Deficiency Judgment will be sought jointly or for its own account.

(a) **Pursuit by Company**. If we elect to pursue a Deficiency Judgment and the Servicer and Beneficiary elect not to participate, even in the case of an Accelerated Claim or payment of the Insurance Benefit under the Percentage Option, we will bear all additional 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 preservation and pursuit of the Deficiency Judgment in excess of those expenses associated with the normal and customary foreclosure process in the absence of Deficiency Judgment proceedings, and at the time of our payment of the Insurance Benefit, we will pay to the Beneficiary, regardless of which settlement option we have selected, the full amount of such additional expenses. The Beneficiary or the Servicer will not be subrogated to any of our rights of recovery against the Borrower or any other Person relating to the Loan or the Property with respect to which we have paid a Claim.

(b) **Joint Pursuit**. If we elect to pursue a Deficiency Judgment jointly with the Beneficiary, or the Servicer acting on behalf of the Beneficiary, 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 Loss.

(c) **Pursuit by Beneficiary**. 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 no additional expenses associated with obtaining a Deficiency Judgment.

(d) **Joint Agreement**. We and a Beneficiary may enter into a separate agreement with respect to the matters covered by this Section 11.3.

Section 12 Discharge of Obligation

Upon our payment of the Insurance Benefit, including any applicable supplemental Claim amount, to either the Servicer or the Beneficiary, our liability under the Certificate is fully and finally discharged.

Section 13 Notices

13.1 Delivery

All Claims, notices, reports, directions, requests, approvals, documents or other communications required or permitted to be given under this Policy (collectively, "communications") shall be in writing and will be deemed received five days after such communication is sent in the manner and to the location required by this Section 13.1, unless actually received earlier. Any requirement in this Policy that information or documentation be "submitted" to us will be deemed submitted on the date received by us. All communications to be given by us will be deemed given (i) if delivered to the last known address of the Servicer or Beneficiary, as the case may be, or (ii) if delivered in a legally compliant electronic manner, including e-mail, to the last known e-mail or other electronic address of the Servicer or Beneficiary, as the case may be, or (iii) upon publication on a website of ours that regularly makes such material available to lenders and Servicers. All communications to us will be deemed given if delivered to our address specified on the first page of this Policy unless we specify a different address in our Servicing Guide. 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 Servicing Guide. We shall be entitled to rely upon, and shall not incur any liability for relying upon, any communication we receive believed by us to be genuine and to have been signed, sent or otherwise authenticated by the proper Person.

13.2 Duplicate Notice to GSE Beneficiary

Other than as specifically set forth in this Policy, we may fulfill any notice obligation to the Beneficiary by giving such notice to the Servicer; provided however, that, upon the written request of a GSE Beneficiary, we will provide the GSE Beneficiary a copy of any notices given to the Servicer.

Section 14 Entire Agreement; Endorsement

14.1 Entire Agreement

This Policy constitutes the entire agreement between or among the Insured, Beneficiary and us with respect to the subject matter hereof and thereof.

14.2 Endorsement

Any endorsement we issue to the Initial Insured and applicable to any Certificate issued under this Policy will be deemed to modify the coverage under this Policy with respect to the Loan described in such Certificate to the extent shown in such endorsement.

Section 15 Dispute Resolution

15.1 Arbitration

All controversies, disputes or other assertions of liability or rights arising out of or relating to this Policy, including the breach, interpretation or construction thereof, will be settled exclusively by arbitration. No controversy, dispute or other assertion of liability, including any dispute relating to arbitrability, will be resolved in any other forum or venue. All arbitrations under this Policy will be conducted in accordance with the Commercial Rules of the American Arbitration Association in effect on the date the demand for arbitration is made, or if such rules are not then in effect, such other rules of the American Arbitration Association as we may designate as replacement rules. Milwaukee, Wisconsin will be the seat of the arbitration and the locale for all hearings or other in person proceedings. Except to the extent otherwise approved by the Company, each arbitration proceeding will be confidential.

The arbitrator(s) will be neutral person(s) selected from the American Arbitration Association's National Panel of Arbitrators. If possible, the arbitrator(s) will be familiar with the mortgage lending or mortgage insurance business. Any proposed arbitrator may be disqualified during the selection process, at the option of any party to the arbitration, if they are, or during the previous two years have been, an employee, officer, director or consultant of any mortgage insurer, of any entity engaged in the Origination, purchase, sale or servicing of mortgage loans or mortgage-backed securities, or of any Person that is an affiliate of such an insurer or entity. Any proposed arbitrator may be disqualified during the selection process by the Company if such arbitrator has served as an arbitrator in any arbitration involving the Company or another mortgage insurer.

No arbitration may, without our consent, be brought with respect to Loans insured under different forms of master policies of ours unless the Initial Insured is the same under all such master policies. All arbitrations will be conducted only on an individual Loan basis and not in a class or representative action or as a named or unnamed member in a class, consolidated, representative or private attorney general legal action, nor will any arbitration use statistical sampling as a means of proof against us, unless in each case we consent following initiation of the arbitration. Any consent under either of the preceding two sentences must be in writing and be given by an officer of the Company whose primary job responsibility is for legal matters. Upon our request, the American Arbitration Association or arbitrator(s) will consolidate into one proceeding separate arbitrations that arise under this Policy or different master policies. In the event of consolidation, all arbitrators will be appointed pursuant to the applicable American Arbitration Association rules.

15.2 Applicability to GSE Beneficiary

Notwithstanding anything to the contrary in this Policy, unless expressly agreed to in writing by a GSE Beneficiary, neither Section 15.1 (Arbitration) nor any other provision of this Policy shall be construed to require any GSE Beneficiary to submit to arbitration hereunder and any decision rendered by an arbitrator relating to this Policy will have no applicability to or be of any force or effect against any GSE Beneficiary, unless such GSE Beneficiary consented in writing to the arbitration.

15.3 Conditions Precedent; Limitation of Actions

(a) **Generally**. No arbitration, suit or other proceeding arising from any right under this Policy of a Person not the Company will be entitled to be commenced unless the Insured, Servicer and Beneficiary have complied with all material conditions of this Policy (excepting conditions we expressly waive in accordance with this Policy), and unless commenced within two years after such right shall first arise. In the case of rescission, cancellation of coverage, denial of a Claim, or a reduction of the Calculated Loss or the Insurance Benefit, the two-year period will begin on the date on which we give notice of such action for the particular Certificate(s) covered by such notice. With respect to a Claim, no arbitration, suit or other proceeding may be brought against us until 60 days after acquisition of Borrower’s Title or consummation of a Property Sale.

(b) **State-Specific Limitations**. Notwithstanding the foregoing paragraph (a) of this Section 15.3, if the principal business address of the Initial Insured, as indicated on the Declaration Page of this Policy, is located in the state indicated below, the following shall apply:

Alaska, and Utah: The two-year period described in paragraph (a) of this Section 15.3 shall be extended to three years.

Arkansas and Kansas: The two-year period described in paragraph (a) of this Section 15.3 shall be extended to five years.

Michigan: The two-year period described in paragraph (a) of this Section 15.3 shall be extended to six years.

Missouri: The two-year period described in paragraph (a) of this Section 15.3 shall be extended to 10 years.

15.4 Company Defense of Interests

If a dispute arises concerning a Loan, Property, Mortgage, Beneficiary or Servicer, we may protect our interests by defending such interests in the suit. We are not required to defend any suit involving the Loan, Property, Mortgage, Beneficiary or Servicer.

Section 16 File Retention; Access to Information

16.1 File Retention

With respect to each Loan, the Servicer shall maintain and preserve a complete and accurate Loan File and Servicing File for the latest of (i) two years after settlement of the Claim or the date the Loan is no longer insured under this Policy, (ii) the period required by the Servicer's records retention policy, and (iii) the period required by Applicable Law.

16.2 Duty of Cooperation

(a) **Access to Records**. Subject to Section 4.3(d) (Effect on Investigation and Documentation Requests), the Beneficiary and Servicer shall cooperate with us and provide us with all reasonable aid, evidence and information that we request from time to time regarding any Loan(s), whether in Default or not, including access to or a complete and accurate copy of the Loan File, the Servicing File and such other records, information or documents as we may determine are related to or in connection with Loans insured under this Policy. Such aid, evidence and information shall be provided no later than 30 days after our request for such information. If such aid, evidence and information are 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. We will pursue any investigations related to a Claim expeditiously and in good faith.

(b) **Access to Premises**. Subject to Section 4.3(d) (Effect on Investigation and Documentation Requests), the Beneficiary and Servicer shall cooperate with us and provide us and our representatives, at any time and from time to time upon at least 30 days' notice, access during normal business hours to the premises of the Servicer or Beneficiary or any other Person or place where Loan 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.

Section 17 Amendment and Waiver

17.1 Endorsements

We reserve the right to amend the terms and conditions of this Policy from time to time; provided however, that any such amendment will be effective only with respect to Commitments issued after we have given the Initial Insured notice thereof by endorsement setting forth the amendment.

17.2 Waiver; Modification; Severability

No condition or requirement of this Policy will be deemed waived, modified or otherwise compromised by us unless that waiver, modification or compromise is stated in a writing properly executed on our behalf. 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. No delay or failure on our part to exercise any right, remedy, power or privilege under this Policy will operate as a waiver thereof, and no single or partial exercise of any such right, remedy, power or privilege precludes other or further exercise thereof or the exercise of any other right, remedy, power or privilege.

17.3 No Exclusivity

None of our rights or remedies provided for by this Policy will be exclusive of, or limit, any other rights or remedies available under Applicable Law.

Section 18 Governing Law; Conformity to Statute

All matters arising under or relating to this Policy will be determined exclusively in accordance with the laws of Delaware applicable to contracts made and to be performed in such state, without regard to any choice of law provisions. Any provision of this Policy which is in conflict with law that governs this Policy is hereby amended to conform to the minimum requirements of that law, it being the intention of the Initial Insured and the Company that the specific provisions of this Policy will be controlling whenever possible.

Section 19 Interpretation

When a reference is made in this Policy to a Section, a clause or a paragraph, that reference is to a Section, or a clause or paragraph of this Policy unless otherwise indicated. The table of contents and headings contained in this Policy are for reference purposes only and will not affect in any way the meaning or interpretation of this Policy, including when such headings are set forth as part of cross references. Any reference to the Eligibility Criteria, Servicing Guide or Underwriting Requirements will be to the version in effect at the time specified in this Policy and if no time is specified will be to the version in effect at the time when an action is taken by reference to the Eligibility Criteria, Servicing Guide or Underwriting Requirements. Whenever a provision of this Policy requires that approval be requested or given, such request or approval shall be made in any form of written communication and may be requested or given in any manner and format approved for such communication in our Servicing Guide. If this Policy provides for an exception to an Exclusion, by satisfaction of a condition or otherwise, the Insured will be responsible to demonstrate all circumstances necessary to establish such exception actually exist. Whenever the words “may” or “in our discretion” are used in reference to an action, decision or right on our part, they will be deemed to refer to such action, decision or right as being taken or made in our sole and absolute discretion, including our entitlement to refrain from such action. Whenever the words “include,” “includes” or “including” are used in this Policy, they will be deemed to be followed by the words “without limitation,” whether or not they are in fact followed by those words or words of like import. The words “hereof,” “herein” and “hereunder” and words of like import used in this Policy shall refer to this Policy as a whole and not to any particular provision of this Policy. The words “shall” and “will” as used in this Policy have the same meaning, which is to create an obligation, requirement or rule. Whenever the singular is used herein, the same will include the plural, and whenever the plural is used herein, the same will include the singular, where appropriate. Any reference to “days” means calendar days unless Business Days are specified. If any action under this Policy is required to be done or taken on a day that is not a Business Day, then such action shall be required to be done or taken not on such day but on the first succeeding Business Day thereafter. References from or through any date mean, unless otherwise specified, from and including or through and including, respectively. References to any statute, rule, standard, regulation or other law will be deemed to include a reference to the corresponding rules and regulations, if any, and each of them as amended, modified, supplemented, consolidated, replaced or rewritten from time to time. References to any section of any statute, rule, standard, regulation or other law will be deemed to include any successor to such section. By obtaining insurance for any Loan under this Policy, the Initial Insured agrees, and by becoming a Beneficiary, any Beneficiary agrees, that no provision of this Policy will be used to seek to establish any proposition about the meaning of any other insurance policy of the Company.

Section 20 Additional Provisions and Disclosures

20.1 Location of Insured

The following provisions and disclosures apply when the principal place of business of the Initial Insured, as indicated on the Declaration Page of this Policy, is located in the state indicated.

Oklahoma: 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.

Texas: 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.

Georgia: IMPORTANT NOTICE: The laws of the State of Georgia prohibit insurers from unfairly discriminating against any person based upon his or her status as a victim of family violence.

20.2 No Subrogation Rights

The following provision applies with respect to Loans for which the Property subject to the Mortgage is located in any of the following jurisdictions: 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.

20.3 Construction Loans

In the event of an Insurance Application submitted by the Initial Insured that identifies the subject Loan as a loan transaction that is consummated prior to completion of, or the restoration of substantial Physical Damage to the Property, the following is added to Section 4.1(c) (Balloon Payment):

In addition, any Claim involving a Construction Loan where the Default arose from the failure of the Initial Insured or Servicer to rollover or convert the Construction Loan to a permanent Loan as specified in the Insurance Application, or prior to the due date of the Balloon Payment, to extend a written offer to the Borrower for an extension or renewal of such Construction Loan, or a new loan at the then current market rates, in an amount not less than the then outstanding principal balance and all anticipated accrued interest, for a term not shorter than that specified in the Insurance Application for the permanent financing of the Property. If no term is specified in the Insurance Application for the permanent financing of the Property, then the term will be presumed to be 30 years from the date the Loan closes.