FORM 10-Q

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended **June 30, 2011**
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 NOo**

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). **YESx 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	07/31/11	201,146,648

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
June 30, 2011 and December 31, 2010
(Unaudited)

	June 30, 2011	December 31, 2010
ASSETS	(In thousands)	
Investment portfolio (notes 7 and 8):		
Securities, available-for-sale, at fair value:		
Fixed maturities (amortized cost, 2011 - $6,618,208; 2010 - $7,366,808)	$ 6,743,812	$ 7,455,238
Equity securities	2,637	3,044
Total investment portfolio	6,746,449	7,458,282
Cash and cash equivalents	1,038,568	1,304,154
Accrued investment income	67,555	70,305
Reinsurance recoverable on loss reserves (note 4)	206,170	275,290
Reinsurance recoverable on paid losses	32,259	34,160
Prepaid reinsurance premiums	1,962	2,637
Premium receivable	74,717	79,567
Home office and equipment, net	28,962	28,638
Deferred insurance policy acquisition costs	7,970	8,282
Other assets	65,124	72,327
Total assets	$ 8,269,736	$ 9,333,642
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Loss reserves (note 12)	$ 5,082,902	$ 5,884,171
Premium deficiency reserve (note 13)	158,913	178,967
Unearned premiums	186,985	215,157
Senior notes (note 3)	321,621	376,329
Convertible senior notes (note 3)	345,000	345,000
Convertible junior debentures (note 3)	329,330	315,626
Other liabilities	332,125	349,337
Total liabilities	6,756,876	7,664,587
Contingencies (note 5)		
Shareholders' equity:		
Common stock ($1 par value, shares authorized 460,000,000; shares issued, 2011 - 205,046,780; 2010 - 205,046,780; shares outstanding, 2011 - 201,146,648; 2010 - 200,449,588)	205,047	205,047
Paid-in capital	1,131,557	1,138,942
Treasury stock (shares at cost, 2011 - 3,900,132; 2010 - 4,597,192)	(163,586)	(222,632)
Accumulated other comprehensive income, net of tax (note 9)	50,977	22,136
Retained earnings	288,865	525,562
Total shareholders' equity	1,512,860	1,669,055
Total liabilities and shareholders' equity	$ 8,269,736	$ 9,333,642

See accompanying notes to consolidated financial statements.

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
Three and Six Months Ended June 30, 2011 and 2010
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(In thousands of dollars, except per share data)			
Revenues:				
Premiums written:				
Direct	$ 283,471	$ 314,310	$ 571,188	$ 589,444
Assumed	700	779	1,430	1,576
Ceded	(13,772)	(19,743)	(27,756)	(39,616)
Net premiums written	270,399	295,346	544,862	551,404
Decrease in unearned premiums, net	14,055	13,828	28,138	29,722
Net premiums earned	284,454	309,174	573,000	581,126
Investment income, net of expenses	55,490	62,868	112,033	131,727
Realized investment gains, net	21,734	31,702	27,495	64,656
Total other-than-temporary impairment losses	-	-	-	(6,052)
Portion of losses recognized in other comprehensive income, before taxes	-	-	-	-
Net impairment losses recognized in earnings	-	-	-	(6,052)
Other revenue	5,329	2,611	7,592	5,668
Total revenues	367,007	406,355	720,120	777,125
Losses and expenses:				
Losses incurred, net (note 12)	459,552	320,077	769,983	774,588
Change in premium deficiency reserve (note 13)	(11,035)	(10,619)	(20,053)	(24,185)
Amortization of deferred policy acquisition costs	1,723	1,770	3,448	3,493
Other underwriting and operating expenses, net	52,320	52,280	108,145	110,502
Interest expense	26,326	25,099	52,368	46,117
Total losses and expenses	528,886	388,607	913,891	910,515
(Loss) income before tax	(161,879)	17,748	(193,771)	(133,390)
Benefit from income taxes (note 11)	(10,147)	(6,803)	(8,378)	(7,850)
Net (loss) income	$ (151,732)	$ 24,551	$ (185,393)	$ (125,540)
(Loss) earnings per share (note 6):				
Basic	$ (0.75)	$ 0.14	$ (0.92)	$ (0.82)
Diluted	$ (0.75)	$ 0.13	$ (0.92)	$ (0.82)
Weighted average common shares outstanding - diluted (note 6)	201,097	182,156	200,921	152,344

See accompanying notes to consolidated financial statements.

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
Year Ended December 31, 2010 and Six Months Ended June 30, 2011
(unaudited)

	Common stock	Paid-in capital	Treasury stock	Accumulated other comprehensive income (loss)	Retained earnings	Comprehensive loss
			(In thousands)			
Balance, December 31, 2009	$ 130,163	$ 443,294	$ (269,738)	$ 74,155	$ 924,707	
Net loss	-	-	-	-	(363,735)	$ (363,735)
Change in unrealized investment gains and losses, net	-	-	-	(69,074)	-	(69,074)
Common stock shares issued	74,884	697,492	-	-	-	
Reissuance of treasury stock, net	-	(14,425)	47,106	-	(35,410)	
Equity compensation	-	12,581	-	-	-	
Defined benefit plan adjustments, net	-	-	-	6,390	-	6,390
Unrealized foreign currency translation adjustment, net	-	-	-	10,665	-	10,665
Comprehensive loss	-	-	-	-	-	$ (415,754)
Balance, December 31, 2010	$ 205,047	$ 1,138,942	$ (222,632)	$ 22,136	$ 525,562	
Net loss	-	-	-	-	(185,393)	$ (185,393)
Change in unrealized investment gains and losses, net (notes 7 and 8)	-	-	-	24,317	-	24,317
Reissuance of treasury stock, net	-	(13,534)	59,046	-	(51,304)	
Equity compensation	-	6,149	-	-	-	
Unrealized foreign currency translation adjustment	-	-	-	4,524	-	4,524
Comprehensive loss (note 9)	-	-	-	-	-	$ (156,552)
Balance, June 30, 2011	$ 205,047	$ 1,131,557	$ (163,586)	$ 50,977	$ 288,865	

See accompanying notes to consolidated financial statements

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Six Months Ended June 30, 2011 and 2010
(Unaudited)

	Six Months Ended June 30,	
	2011	2010
	(In thousands)	
Cash flows from operating activities:		
Net loss	$ (185,393)	$ (125,540)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	39,269	27,825
Decrease in deferred insurance policy acquisition costs	312	816
Decrease in accrued investment income	2,750	9,341
Decrease (increase) in reinsurance recoverable on loss reserves	69,120	(7,315)
Decrease (increase) in reinsurance recoverable on paid losses	1,901	(7,685)
Decrease in prepaid reinsurance premiums	675	429
Decrease (increase) in premium receivable	4,850	(1,643)
Decrease in loss reserves	(801,269)	(316,061)
Decrease in premium deficiency reserve	(20,053)	(24,185)
Decrease in unearned premiums	(28,172)	(31,300)
Deferred tax benefit	(11,970)	(12,588)
Increase in income taxes payable (current)	585	294,095
Realized investment gains, excluding impairment losses	(27,495)	(64,656)
Net investment impairment losses	-	6,052
Other	(22,572)	68,624
Net cash used in operating activities	(977,462)	(183,791)
Cash flows from investing activities:		
Purchase of fixed maturities	(1,881,026)	(2,593,435)
Purchase of equity securities	(62)	(56)
Proceeds from sale of equity securities	504	-
Proceeds from sale of fixed maturities	1,818,354	2,483,172
Proceeds from maturity of fixed maturities	821,954	352,525
Net increase in payable for securities	3,921	44,664
Net cash provided by investing activities	763,645	286,870
Cash flows from financing activities:		
Net proceeds from convertible senior notes	-	334,450
Common stock shares issued	-	772,300
Repurchases of long-term debt	(51,769)	-
Net cash (used in) provided by financing activities	(51,769)	1,106,750
Net (decrease) increase in cash and cash equivalents	(265,586)	1,209,829
Cash and cash equivalents at beginning of period	1,304,154	1,185,739
Cash and cash equivalents at end of period	$ 1,038,568	$ 2,395,568

See accompanying notes to consolidated financial statements.

Note 1 - Basis of presentation

MGIC Investment Corporation is a holding company which, through Mortgage Guaranty Insurance Corporation ("MGIC") 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. These statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2010 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, 2011.

Capital

The insurance laws or regulations of 16 jurisdictions, including Wisconsin, 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 risk-to-capital requirement. While formulations of minimum capital may vary in certain jurisdictions, the most common measure applied allows for a maximum permitted risk-to-capital ratio of 25 to 1. At June 30, 2011, MGIC’s risk-to-capital ratio was 20.4 to 1. Our risk-to-capital ratio will increase if the percentage decrease in capital exceeds the percentage decrease in insured risk. Therefore, as capital decreases, the same dollar decrease in capital will cause a greater percentage decrease in capital and a greater increase in the risk-to-capital ratio. Based upon internal company estimates, MGIC’s risk-to-capital ratio over the next few years, after giving effect to any contribution to MGIC of the proceeds from our April 2010 common stock and convertible notes offerings beyond the contribution already made, could reach 40 to 1 or even higher under a stress loss scenario. Also, at June 30, 2011, MGIC’s policyholders position (policyholders position is the insurer’s net worth or surplus, contingency reserve and a portion of the reserves for unearned premiums) exceeded the required regulatory minimum of our domiciliary state by approximately $183 million, and on a combined statutory basis we exceeded the minimum by approximately $260 million. At June 30, 2011, the risk-to-capital ratio of our combined insurance operations (which includes reinsurance affiliates) was 23.4 to 1. 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 subsidiaries or subsidiaries of our holding company, additional capital contributions to the reinsurance affiliates could be needed. These reinsurance arrangements permit MGIC to write insurance with a higher coverage percentage than it could on its own under certain state-specific requirements.

In December 2009, the Office of the Commissioner of Insurance for Wisconsin ("OCI") issued an order waiving, until December 31, 2011, its risk-to-capital requirement. MGIC has also applied for waivers in all other jurisdictions that have risk-to-capital requirements. MGIC has received waivers from some of these jurisdictions which expire at various times. One waiver expired on December 31, 2010 and was not immediately renewed because the need for a waiver was not considered imminent. MGIC may reapply for the waiver. Some jurisdictions have denied the request and others may deny the request. The OCI and insurance departments of other jurisdictions, in their sole discretion, may modify, terminate or extend their waivers. If the OCI or another insurance department modifies or terminates its waiver, or if it fails to renew its waiver after expiration, depending on the circumstances, MGIC could be prevented from writing new business anywhere, in the case of the waiver from the OCI, or in the particular jurisdiction, in the case of the other waivers, if MGIC's risk-to-capital ratio exceeds 25 to 1 unless MGIC obtained additional capital to enable it to comply with the risk-to-capital requirement. New insurance written in the jurisdictions that have risk-to-capital requirements represented approximately 50% of new insurance written in 2010 and approximately 47% in the first two quarters of 2011. If we were prevented from writing new business in all jurisdictions, our insurance operations in MGIC would be in run-off (meaning no new loans would be insured but loans previously insured would continue to be covered, with premiums continuing to be received and losses continuing to be paid on those loans) until MGIC either met the applicable risk-to-capital requirement or obtained a necessary waiver to allow it to once again write new business.

We cannot assure you that the OCI or any other jurisdiction that has granted a waiver of its risk-to-capital requirements will not modify or revoke the waiver, that it will renew the waiver when it expires or that MGIC could obtain the additional capital necessary to comply with the risk-to-capital requirement. Depending on the circumstances, the amount of additional capital we might need could be substantial.

We have implemented a plan to write new mortgage insurance in MGIC Indemnity Corporation ("MIC"), a direct subsidiary of MGIC, in selected jurisdictions in order to address the likelihood that in the future MGIC will not meet the minimum regulatory capital requirements discussed above and may not be able to obtain appropriate waivers of these requirements in all jurisdictions in which minimum requirements are present. MIC has received the necessary approvals, including from the OCI, to write business in all of the jurisdictions in which MGIC would be prohibited from continuing to write new business in the event of MGIC's failure to meet applicable regulatory capital requirements and obtain waivers of those requirements.

In October 2009, we, MGIC and MIC entered into an agreement with Fannie Mae (the "Fannie Mae Agreement") under which MGIC agreed to contribute $200 million to MIC (which MGIC has done) and Fannie Mae approved MIC as an eligible mortgage insurer through December 31, 2011 subject to the terms of the Fannie Mae Agreement. Under the Fannie Mae Agreement, MIC will be eligible to write mortgage insurance only in those jurisdictions (other than Wisconsin) in which MGIC cannot write new insurance due to MGIC's failure to meet regulatory capital requirements and if MGIC fails to obtain relief from those requirements or a specific waiver of them.

On February 11, 2010, Freddie Mac notified MGIC that it may utilize MIC to write new business in jurisdictions in which MGIC does not meet minimum regulatory capital requirements to write new business and does not obtain appropriate waivers of those requirements. This conditional approval to use MIC as a "Limited Insurer" (the "Freddie Mac Notification") will expire December 31, 2012. This conditional approval includes terms substantially similar to those in the Fannie Mae Agreement.

Under the Fannie Mae Agreement, Fannie Mae approved MIC as an eligible mortgage insurer only through December 31, 2011. We expect to engage in discussions with Fannie Mae in the third quarter of 2011 regarding an extension of the Fannie Mae Agreement. Freddie Mac has approved MIC as a "Limited Insurer" only through December 31, 2012. Unless Fannie Mae and Freddie Mac extend or modify the terms of their approvals of MIC, whether MIC will continue as an eligible mortgage insurer after these dates will be determined by the applicable GSE's mortgage insurer eligibility requirements then in effect. Further, under the Fannie Mae Agreement and the Freddie Mac Notification, MGIC cannot capitalize MIC with more than the $200 million contribution already made without prior approval from each GSE, which, in future years, may limit the amount of business MIC would otherwise write. Depending on the level of losses that MGIC experiences in the future, however, it is possible that regulatory action by one or more jurisdictions, including those that do not have specific regulatory capital requirements applicable to mortgage insurers, may prevent MGIC from continuing to write new insurance in some or all of the jurisdictions in which MIC is not an eligible mortgage insurer.

In late July 2011, a competitor announced that the waiver of risk-to-capital requirements that its flagship mortgage insurer received from its domiciliary state expires August 31, 2011 and that it has not yet received approval from its domiciliary state or the GSEs to write new business in a separately capitalized subsidiary that we understand is a sister entity, and not a subsidiary, of the flagship mortgage insurer. In early August, the competitor announced that while it continued to pursue such approvals, it would discontinue writing new insurance commitments after August 31, 2011. Both Fannie Mae and Freddie Mac suspended the flagship mortgage insurer and the separately capitalized subsidiary as approved mortgage insurers. We are uncertain how such events, including the actions taken by the GSEs, will impact the status of MGIC's waivers and approvals to utilize MGIC's direct subsidiary, MIC. Because it is wholly owned by MGIC, the operating results from business written by MIC would positively (in the case of profitable business) or negatively (in the case of unprofitable business) impact MGIC.

A failure to meet the specific minimum regulatory capital requirements to insure new business does not necessarily mean that MGIC does not have sufficient resources to pay claims on its insurance liabilities. While we believe that MGIC has sufficient claims paying resources to meet its claim obligations on its insurance in force, even in scenarios in which it fails to meet regulatory capital requirements, we cannot assure you that the events that led to MGIC failing to meet regulatory capital requirements would not also result in it not having sufficient claims paying resources. Furthermore, our estimates of MGIC's claims paying resources and claim obligations are based on various assumptions. These assumptions include our anticipated rescission activity, future housing values and future unemployment rates. These assumptions are subject to inherent uncertainty and require judgment by management. Current conditions in the domestic economy make the assumptions about housing values and unemployment rates highly volatile in the sense that there is a wide range of reasonably possible outcomes. Our anticipated rescission activity is also subject to inherent uncertainty due to the difficulty of predicting the amount of claims that will be rescinded and the outcome of any legal proceedings related to rescissions that we make, including those with Countrywide (for more information about the Countrywide legal proceedings, see Note 5 – "Litigation and contingencies").

Historically, rescissions of policies for which claims have been submitted to us were not a material portion of our claims resolved during a year. However, beginning in 2008, our rescissions of policies have materially mitigated our paid losses. In each of 2009 and 2010, rescissions mitigated our paid losses by approximately $1.2 billion and in the first two quarters of 2011, rescissions mitigated our paid losses by approximately $0.4 billion (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). While we have a substantial pipeline of claims investigations that we expect will eventually result in future rescissions, we expect that rescissions will not continue at the same rates (as a percentage of claims received) we have previously experienced.

In addition, our loss reserving methodology incorporates the effects we expect rescission activity to have on the losses we will pay on our delinquent inventory. A variance between ultimate actual rescission rates and these estimates, as a result of the outcome of claims investigations, litigation, settlements or other factors, could materially affect our losses. We estimate rescissions mitigated our incurred losses by approximately $2.5 billion in 2009 and $0.2 billion in 2010. For the first two quarters of 2011, we estimate that rescissions had no significant impact on our losses incurred. All of 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 recent quarters, between 18% and 24% of claims received in a quarter have been resolved by rescissions. At June 30, 2011, we had 184,452 loans in our primary delinquency inventory; the resolution of a significant portion of these loans will not involve paid claims.

If the insured disputes our right to rescind coverage, the outcome of the dispute ultimately would be determined by legal proceedings. 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. For nearly all of our rescissions that are not subject to a settlement agreement, the period in which a dispute may be brought has not ended. We consider a rescission resolved for reporting purposes even though legal proceedings have been initiated and are ongoing. Although it is reasonably possible that, when the proceedings are completed, there will be a determination that we were not entitled to rescind in all cases, we are unable to make a reasonable estimate or range of estimates of the potential liability. Under Accounting Standards Codification ("ASC") 450-20, an estimated loss from such proceedings is accrued for only if we determine that the loss is probable and can be reasonably estimated. Therefore, when establishing our loss reserves, we do not include additional loss reserves that would reflect an adverse outcome from ongoing legal proceedings, including those with Countrywide. Countrywide has filed a lawsuit against MGIC alleging that MGIC has denied, and continues to deny, valid mortgage insurance claims. MGIC has filed an arbitration case against Countrywide regarding rescissions and Countrywide has responded seeking damages, including exemplary damages. For more information about this lawsuit and arbitration case, see Note 5 – "Litigation and contingencies."

We continue to discuss with other lenders their objections to material rescissions. In 2010, we entered into a settlement agreement with a lender-customer regarding our rescission practices and we may, subject to GSE approval, enter into additional settlement agreements with other lenders in the future. In April 2011, Freddie Mac advised its servicers that they must obtain its prior approval for rescission settlements and Fannie Mae advised its servicers that they are prohibited from entering into such settlements. In addition, in April 2011, Fannie Mae notified us that we must obtain its prior approval to enter into certain settlements. There can be no assurances that the GSEs will approve any future settlement agreements.

In addition to the proceedings involving Countrywide, we are involved in legal proceedings with respect to rescissions that we do not consider to be collectively material in amount. Although it is reasonably possible that, when these discussions or proceedings are completed, there will be a conclusion or determination that we were not entitled to rescind in all cases, we are unable to make a reasonable estimate or range of estimates of the potential liability.

Reclassifications

Certain reclassifications have been made in the accompanying financial statements to 2010 amounts to conform to 2011 presentation.

Subsequent events

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

Note 2 - New Accounting Guidance

In June 2011, new guidance was issued requiring entities to present net income and other comprehensive income in either a single continuous statement or in two separate, but consecutive, statements of net income and other comprehensive income. The option to present items of other comprehensive income in the statement of changes in equity is eliminated. The new requirements are generally effective for public entities in fiscal years (including interim periods) beginning after December 15, 2011. Early adoption is permitted. Full retrospective application is required. We are currently evaluating the provisions of this guidance and intend to meet the new requirements beginning in the first quarter of 2012.

In May 2011, new guidance was issued regarding fair value measurement. The guidance in the new standard is intended to harmonize the fair value measurement and disclosure requirements for United States and International standards. Many of the changes in the standard represent clarifications to existing guidance, but the standard also includes some new guidance and new required disclosures. The guidance is effective for interim and annual periods beginning after December 15, 2011. We are currently evaluating the provisions of this guidance and the impact on our financial statements and disclosures.

In October 2010, new guidance was issued on accounting for costs associated with acquiring or renewing insurance contracts. The new guidance will likely change how insurance companies account for acquisition costs, particularly in determining what costs are deferrable. The new requirements are effective for fiscal years beginning after December 15, 2011, either prospectively or by retrospective adjustment. We are currently evaluating the provisions of this guidance and the impact on our financial statements and disclosures.

Note 3 – Debt

Senior Notes

At June 30, 2011 we had outstanding $77.4 million, 5.625% Senior Notes due in September 2011 and $245 million, 5.375% Senior Notes due in November 2015. In the second quarter of 2011 we repurchased $55 million in par value of our 5.375% Senior Notes due in November 2015. We recognized a gain on the repurchases of approximately $3.2 million, which is included in other revenue on the Consolidated Statements of Operations for the three and six months ended June 30, 2011. At December 31, 2010 we had outstanding $77.4 million, 5.625% Senior Notes due in September 2011 and $300 million, 5.375% Senior Notes due in November 2015. Covenants in the Senior Notes include the requirement that there be no liens on the stock of the designated subsidiaries unless the Senior Notes are equally and ratably secured; that there be no disposition of the stock of designated subsidiaries unless all of the stock is disposed of for consideration equal to the fair market value of the stock; and that we and the designated subsidiaries preserve our corporate existence, rights and franchises unless we or such subsidiary determines that such preservation is no longer necessary in the conduct of its business and that the loss thereof is not disadvantageous to the Senior Notes. A designated subsidiary is any of our consolidated subsidiaries which has shareholders’ equity of at least 15% of our consolidated shareholders’ equity. We were in compliance with all covenants at June 30, 2011.

If we fail to meet any of the covenants of the Senior Notes discussed above; there is a failure to pay when due at maturity, or a default results in the acceleration of maturity of, any of our other debt in an aggregate amount of $40 million or more; or we fail to make a payment of principal of the Senior Notes when due or a payment of interest on the Senior Notes within thirty days after due and we are not successful in obtaining an agreement from holders of a majority of the applicable series of Senior Notes to change (or waive) the applicable requirement or payment default, then the holders of 25% or more of either series of our Senior Notes each would have the right to accelerate the maturity of that series. In addition, the trustee, U.S. Bank National Association, of these two issues of Senior Notes could, independent of any action by holders of Senior Notes, accelerate the maturity of the Senior Notes.

At June 30, 2011 and December 31, 2010, the fair value of the amount outstanding under our Senior Notes was $295.7 million and $355.6 million, respectively. The fair value was determined using publicly available trade information.

Interest payments on the Senior Notes were $10.3 million in each of the six months ended June 30, 2011 and 2010.

Convertible Senior Notes

At June 30, 2011 and December 31, 2010 we had outstanding $345 million principal amount of 5% Convertible Senior Notes due in 2017. Interest on the Convertible Senior Notes is payable semi-annually in arrears on May 1 and November 1 of each year. We do not have the right to defer interest payments on the Convertible Senior Notes. The Convertible Senior Notes will mature on May 1, 2017, unless earlier converted by the holders or repurchased by us. Covenants in the Convertible Senior Notes include a requirement to notify holders in advance of certain events and that we and the designated subsidiaries (defined above) preserve our corporate existence, rights and franchises unless we or such subsidiary determines that such preservation is no longer necessary in the conduct of its business and that the loss thereof is not disadvantageous to the Convertible Senior Notes.

If we fail to meet any of the covenants of the Convertible Senior Notes; there is a failure to pay when due at maturity, or a default results in the acceleration of maturity of, any of our other debt in an aggregate amount of $40 million or more; a final judgment for the payment of $40 million or more (excluding any amounts covered by insurance) is rendered against us or any of our subsidiaries which judgment is not discharged or stayed within certain time limits; or we fail to make a payment of principal of the Convertible Senior Notes when due or a payment of interest on the Convertible Senior Notes within thirty days after due and we are not successful in obtaining an agreement from holders of a majority of the Convertible Senior Notes to change (or waive) the applicable requirement or payment default, then the holders of 25% or more of the Convertible Senior Notes would have the right to accelerate the maturity of those notes. In addition, the trustee of the Convertible Senior Notes could, independent of any action by holders, accelerate the maturity of the Convertible Senior Notes.

The 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. These Convertible Senior Notes will be equal in right of payment to our existing Senior Notes, discussed above, 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 Convertible Senior Notes. The provisions of the Convertible Senior Notes are complex. The description above is not intended to be complete in all respects. Moreover, 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.

At June 30, 2011 and December 31, 2010, the fair value of the amount outstanding under our Convertible Senior Notes was $306.2 million and $400.5 million, respectively. The fair value was determined using publicly available trade information.

Interest payments on the Convertible Senior Notes were $8.6 million in the six months ended June 30, 2011. There were no interest payments on the Convertible Senior Notes in the six months ended June 30, 2010.

Convertible Junior Subordinated Debentures

At June 30, 2011 and December 31, 2010 we had outstanding $389.5 million principal amount of 9% Convertible Junior Subordinated Debentures due in 2063 (the “debentures”). The debentures have an effective interest rate of 19% that reflects our non-convertible debt borrowing rate at the time of issuance. At June 30, 2011 and December 31, 2010 the amortized value of the principal amount of the debentures is reflected as a liability on our consolidated balance sheet of $329.3 million and $315.6 million, respectively, with the unamortized discount reflected in equity. 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. Violations of the covenants under the Indenture governing the debentures, including covenants to provide certain documents to the trustee, are not events of default under the Indenture and would not allow the acceleration of amounts that we owe under the debentures. Similarly, events of default under, or acceleration of, any of our other obligations, including those described above, would not allow the acceleration of amounts that we owe under the debentures. However, violations of the events of default under the Indenture, including a failure to pay principal when due under the debentures and certain events of bankruptcy, insolvency or receivership involving our holding company would allow acceleration of amounts that we owe under the debentures.

Interest on the debentures that would have been payable on the scheduled interest payment dates of April 1, 2009, October 1, 2009 and April 1, 2010 had been deferred past the scheduled payment date. During this deferral period the deferred interest continued to accrue and compound semi-annually at an annual rate of 9%.

On October 1, 2010 we paid each of those deferred interest payments, including the compound interest on each. The interest payments, totaling approximately $57.5 million, were made from the net proceeds of our April 2010 common stock offering. We have remained current on these interest payments since October 1, 2010. We continue to have the right to defer interest that is payable on subsequent scheduled interest payment dates if we give the required 15 day notice. Any deferral of such interest would be on terms equivalent to those described above.

When interest on the debentures is deferred, we are required, not later than a specified time, to use reasonable commercial efforts to begin selling qualifying securities to persons who are not our affiliates. The specified time is one business day after we pay interest on the debentures that was not deferred, or if earlier, the fifth anniversary of the scheduled interest payment date on which the deferral started. Qualifying securities are common stock, certain warrants and certain non-cumulative perpetual preferred stock. The requirement to use such efforts to sell such securities is called the Alternative Payment Mechanism.

The net proceeds of Alternative Payment Mechanism sales are to be applied to the payment of deferred interest, including the compound portion. We cannot pay deferred interest other than from the net proceeds of Alternative Payment Mechanism sales, except at the final maturity of the debentures or at the tenth anniversary of the start of the interest deferral. The Alternative Payment Mechanism does not require us to sell common stock or warrants before the fifth anniversary of the interest payment date on which that deferral started if the net proceeds (counting any net proceeds of those securities previously sold under the Alternative Payment Mechanism) would exceed the 2% cap. The 2% cap is 2% of the average closing price of our common stock times the number of our outstanding shares of common stock. The average price is determined over a specified period ending before the issuance of the common stock or warrants being sold, and the number of outstanding shares is determined as of the date of our most recent publicly released financial statements.

We are not required to issue under the Alternative Payment Mechanism a total of more than 10 million shares of common stock, including shares underlying qualifying warrants. In addition, we may not issue under the Alternative Payment Mechanism qualifying preferred stock if the total net proceeds of all issuances would exceed 25% of the aggregate principal amount of the debentures.

The Alternative Payment Mechanism does not apply during any period between scheduled interest payment dates if there is a “market disruption event” that occurs over a specified portion of such period. Market disruption events include any material adverse change in domestic or international economic or financial conditions.

The provisions of the Alternative Payment Mechanism are complex. The description above is not intended to be complete in all respects. Moreover, 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 prior to April 6, 2013, in whole but not in part, only in the event of a specified tax or rating agency event, as defined in the Indenture. In any such event, the redemption price will be equal to the greater of (1) 100% of the principal amount of the debentures being redeemed and (2) the applicable make-whole amount, as defined in the Indenture, in each case plus any accrued but unpaid interest. On or after April 6, 2013, 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. We will not be able to redeem the debentures, other than in the event of a specified tax event or rating agency event, during an optional deferral period.

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 occurring after April 6, 2013, we may, at our option, make a cash payment to converting holders equal to the value of all or some of the shares of our common stock otherwise issuable upon conversion.

The fair value of the debentures was approximately $311.6 million and $432.4 million, respectively, at June 30, 2011 and December 31, 2010, as determined using available pricing for these debentures or similar instruments.

Interest payments on the debentures were $17.5 million in the six months ended June 30, 2011. There were no interest payments on the debentures in the six months ended June 30, 2010, as we were in a deferral period that ended on October 1, 2010 as discussed above.

Note 4 – Reinsurance

The reinsurance recoverable on loss reserves as of June 30, 2011 and December 31, 2010 was approximately $206 million and $275 million, respectively. Within those amounts, the reinsurance recoverable on loss reserves related to captive agreements was approximately $186 million at June 30, 2011 and $248 million at December 31, 2010. The total fair value of the trust fund assets under our captive agreements at June 30, 2011 was $451 million, compared to $510 million at December 31, 2010. Trust fund assets of $3 million were transferred to us as a result of captive terminations during the first six months of 2011.

Note 5 – Litigation and contingencies

In addition to the matters described below, we are involved in 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.

Consumers are bringing a growing number of 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 settled class action litigation against it under RESPA 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. On November 29, 2010, six mortgage insurers (including MGIC) and a large mortgage lender (which was the named plaintiffs' lender) were named as defendants in a complaint, alleged to be a class action, filed in Federal District Court for the District of Columbia. The complaint alleged various causes of action related to the captive mortgage reinsurance arrangements of this mortgage lender, including that the defendants violated RESPA by paying the lender's captive reinsurer excessive premiums in relation to the risk assumed by that captive. In March 2011, the complaint was voluntarily dismissed by the plaintiffs as to MGIC and all of the other mortgage insurers. There can be no assurance that we will not be subject to future litigation under RESPA (or FCRA) or that the outcome of any such litigation would not have a material adverse effect on us.

In June 2005, in response to a letter from the New York Insurance Department, we provided information regarding captive mortgage reinsurance arrangements and other types of arrangements in which lenders receive compensation. In February 2006, the New York Insurance Department requested MGIC to review its premium rates in New York and to file adjusted rates based on recent years' experience or to explain why such experience would not alter rates. In March 2006, MGIC advised the New York Insurance Department that it believes its premium rates are reasonable and that, given the nature of mortgage insurance risk, premium rates should not be determined only by the experience of recent years. In February 2006, in response to an administrative subpoena from the Minnesota Department of Commerce (the "MN Department"), which regulates insurance, we provided the MN Department with information about captive mortgage reinsurance and certain other matters. We subsequently provided additional information to the MN Department, and beginning in March 2008 the MN Department has sought additional information as well as answers to questions regarding captive mortgage reinsurance on several occasions, including as recently as May 2011. In addition, beginning in June 2008, we have received subpoenas from the Department of Housing and Urban Development, commonly referred to as HUD, seeking information about captive mortgage reinsurance similar to that requested by the MN Department, but not limited in scope to the state of Minnesota. Other insurance departments or other officials, including attorneys general, may also seek information about or investigate captive mortgage reinsurance.

The anti-referral fee provisions of RESPA provide that HUD as well as the insurance commissioner or attorney general of any state may bring an action to enjoin violations of these provisions 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 captive reinsurance arrangements are in conformity with applicable laws and regulations, it is not possible to predict the outcome of any such reviews or investigations nor is it possible to predict their effect on us or the mortgage insurance industry.

In September 2010, a housing discrimination complaint was filed against MGIC with the U.S. Department of Housing and Urban Development alleging that MGIC violated the Fair Housing Act and discriminated against the complainant on the basis of her sex and familial status when MGIC underwrote her loan for mortgage insurance. In May 2011, HUD commenced an administrative action against MGIC and two of its employees, seeking, among other relief, aggregate fines of $48,000. The HUD complainant elected to have charges in the administrative action proceed in federal court and on July 5, 2011, the U.S. Department of Justice ("DOJ") filed a civil complaint in the U.S. District Court for the Western District of Pennsylvania against MGIC and these employees on behalf of the complainant. The complaint seeks redress for the alleged housing discrimination, including compensatory and punitive damages for the alleged victims and a civil penalty payable to the United States. MGIC denies that any unlawful discrimination occurred and disputes many of the allegations in the complaint.

In October 2010, a separate purported class action lawsuit was filed against MGIC by the HUD complainant in the same District Court in which the DOJ action is pending alleging that MGIC discriminated against her on the basis of her sex and familial status when MGIC underwrote her loan for mortgage insurance. In May 2011, the District Court granted MGIC's motion to dismiss with respect to all claims except certain Fair Housing Act claims.

MGIC intends to vigorously defend itself against the allegations in both the class action lawsuit and the DOJ lawsuit. Based on the facts known at this time, we do not foresee the ultimate resolution of these legal proceedings having a material adverse effect on us.

Five previously-filed purported class action complaints filed against us and several of our executive officers were consolidated in March 2009 in the United States District Court for the Eastern District of Wisconsin and Fulton County Employees' Retirement System was appointed as the lead plaintiff. The lead plaintiff filed a Consolidated Class Action Complaint (the "Complaint") on June 22, 2009. Due in part to its length and structure, it is difficult to summarize briefly the allegations in the Complaint but it appears the allegations are that we and our officers named in the Complaint violated the federal securities laws by misrepresenting or failing to disclose material information about (i) loss development in our insurance in force, and (ii) C-BASS, including its liquidity. Our motion to dismiss the Complaint was granted on February 18, 2010. On March 18, 2010, plaintiffs filed a motion for leave to file an amended complaint. Attached to this motion was a proposed Amended Complaint (the "Amended Complaint"). The Amended Complaint alleged that we and two of our officers named in the Amended Complaint violated the federal securities laws by misrepresenting or failing to disclose material information about C-BASS, including its liquidity, and by failing to properly account for our investment in C-BASS. The Amended Complaint also named two officers of C-BASS with respect to the Amended Complaint's allegations regarding C-BASS. The purported class period covered by the Amended Complaint began on February 6, 2007 and ended on August 13, 2007. The Amended Complaint sought damages based on purchases of our stock during this time period at prices that were allegedly inflated as a result of the purported violations of federal securities laws. On December 8, 2010, the plaintiffs' motion to file an amended complaint was denied and the Complaint was dismissed with prejudice. On January 6, 2011, the plaintiffs appealed the February 18, 2010 and December 8, 2010 decisions to the United States Court of Appeals for the Seventh Circuit. On June 6, 2011, the plaintiffs filed a motion with the District Court for relief from that court's judgment of dismissal on the grounds that the transcripts it obtained of testimony taken by the Securities and Exchange Commission in its now-terminated investigation regarding C-BASS are newly discovered evidence showing that amending its complaint would not be futile. On August 1, 2011, we filed a response to the plaintiffs' motion seeking its dismissal. We are unable to predict the outcome of these consolidated cases or estimate our associated expenses or possible losses. Other lawsuits alleging violations of the securities laws could be brought against us.

Several law firms have 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.

On December 17, 2009, Countrywide filed a complaint for declaratory relief in the Superior Court of the State of California in San Francisco (the "California State Court") against MGIC. This complaint alleges that MGIC has denied, and continues to deny, valid mortgage insurance claims submitted by Countrywide and says it seeks declaratory relief regarding the proper interpretation of the insurance policies at issue. On January 19, 2010, we removed this case to the United States District Court for the Northern District of California (the "District Court"). On March 30, 2010, the District Court ordered the case remanded to the California State Court. We appealed this decision to the United States Court of Appeals for the Ninth Circuit (the "Court of Appeals") and asked the Court of Appeals to vacate the remand and stay proceedings in the District Court pending arbitration between the parties, discussed below. On May 17, 2010, the Court of Appeals denied a stay of the District Court's remand order. On May 28, 2010, Countrywide filed an amended complaint substantially similar to the original complaint in the California State Court. On July 2, 2010, we filed a petition in the California State Court to compel arbitration and stay the litigation in that court. On August 26, 2010, Countrywide filed an opposition to our petition. Countrywide's opposition states that there are thousands of loans for which it disputes MGIC's interpretation of the flow insurance policies at issue. On September 16, 2010, we filed a reply to Countrywide's opposition. On October 1, 2010, the California State Court stayed the litigation in that court pending a final ruling on our appeal. On June 15, 2011, the Court of Appeals reversed the District Court, holding that the District Court should not have remanded the case to the California State Court without ruling on MGIC's stay motion.

In connection with the Countrywide dispute discussed above, on February 24, 2010, we commenced an arbitration action against Countrywide seeking a determination that MGIC was entitled to deny and/or rescind coverage on the loans involved in the arbitration action, which were insured through the flow channel and numbered more than 1,400 loans as of the filing of the action. On March 16, 2010, Countrywide filed a response to our arbitration action objecting to the arbitrator's jurisdiction in view of the case initiated by Countrywide in the California State Court and asserting various defenses to the relief sought by MGIC in the arbitration. On December 20, 2010, we filed an amended demand in the arbitration proceeding. This amended demand increased the number of loans for which we denied and/or rescinded coverage and which were insured through the flow channel to more than 3,300. We continue to rescind insurance coverage on additional Countrywide loans. On December 20, 2010, Countrywide filed an amended response. In the amended response, Countrywide is seeking relief for rescissions on loans insured by MGIC through the flow channel and more than 30 bulk insurance policies. In April 2011, Countrywide indicated that it believes MGIC has improperly rescinded coverage on more than 5,000 loans. The amended response also seeks damages as a result of purported breaches of insurance policies issued by MGIC and additional damages, including exemplary damages, on account of MGIC's purported breach of an implied covenant of good faith and fair dealing. The amended response states that Countrywide seeks damages "well-exceeding" $150 million; the original response sought damages of at least $150 million. On January 17, 2011, Countrywide filed an answer to MGIC's amended demand and MGIC filed an answer to Countrywide's amended response. Countrywide and MGIC have each selected 12 loans for which a three-member arbitration panel will determine coverage. While the panel's determination will not be binding on the other loans at issue, the panel will identify the issues for these 24 "bellwether" loans and strive to set forth findings of fact and conclusions of law in such a way as to aid the parties to apply them to the other loans at issue. The hearing before the panel on the bellwether loans that had previously been scheduled to begin in October 2011 has been postponed to May 2012.

From January 1, 2008 through June 30, 2011, rescissions of Countrywide-related loans mitigated our paid losses on the order of $375 million. This is the amount we estimate we would have paid had the loans not been rescinded. On a per loan basis, the average amount that we would have paid had the loans not been rescinded was approximately $71,400. At June 30, 2011, 40,219 loans in our primary delinquency inventory were Countrywide-related loans (approximately 22% of our primary delinquency inventory). Of these 40,219 loans, some will cure their delinquency and the remainder will either become paid claims or will be rescinded. From January 1, 2008 through June 30, 2011, of the claims on Countrywide-related loans that were resolved (a claim is resolved when it is paid or rescinded; claims that are submitted but which are under review are not resolved until one of these two outcomes occurs), approximately 75% were paid and the remaining 25% were rescinded. We do not believe that the settlement agreement announced in June 2011 between Bank of America and certain investors in certain Countrywide residential mortgage backed securities will have a material impact on our Countrywide rescissions, if it becomes effective.

The flow policies at issue with Countrywide are in the same form as the flow policies that we use with all of our customers, 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. Because our rescission practices with Countrywide do not differ from our practices with other servicers with which we have not entered into settlement agreements, an adverse result in the Countrywide proceeding may adversely affect the ultimate result of rescissions involving other servicers and lenders. From January 1, 2008 through June 30, 2011, we estimate that total rescissions mitigated our incurred losses by approximately $3.1 billion, which included approximately $2.4 billion of mitigation on paid losses, excluding amounts that would have been applied to a deductible. At June 30, 2011, we estimate that our total loss reserves were benefited from rescissions by approximately $0.9 billion.

We intend to defend MGIC against Countrywide’s complaint and arbitration response, and to pursue MGIC’s claims in the arbitration, vigorously. However, we are unable to predict the outcome of these proceedings or their effect on us. Also, although it is reasonably possible that, when the proceedings are completed, there will be a determination that we were not entitled to rescind in all cases, we are unable to make a reasonable estimate or range of estimates of the potential liability. Under ASC 450-20, an estimated loss is accrued for only if we determine that the loss is probable and can be reasonably estimated. Therefore, we have not accrued any reserves that would reflect an adverse outcome in this proceeding. An accrual for an adverse outcome in this (or any other) proceeding would be a reduction to our capital.

In addition to the rescissions at issue with Countrywide, we have a substantial pipeline of claims investigations (including investigations involving loans related to Countrywide) that we expect will eventually result in future rescissions. We continue to discuss with other lenders their objections to material rescissions. In addition to the proceedings involving Countrywide, we are involved in legal proceedings with respect to rescissions that we do not consider to be collectively material in amount.

Freddie Mac, one of our pool insurance insureds, is computing the aggregate loss limit under a pool insurance policy at a higher level than we are computing this limit because we believe the original aggregate limit decreases over time while they believe the limit remains constant. At June 30, 2011, the difference was approximately $535 million. Beginning in the second quarter of 2011, this difference has had an effect on our results of operations because the aggregate paid losses plus the portion of our loss reserves attributable to this policy have exceeded our interpretation of the loss limit by $52 million. Had we not limited our losses in a manner consistent with our interpretation of the policy, our losses incurred would have been $52 million higher in the second quarter of 2011, and our capital and risk-to-capital ratio would have been negatively impacted. Absent a change in our interpretation of the policy or that of Freddie Mac, we expect the aggregate impact on losses incurred will grow in future quarters. MGIC and Freddie Mac have each advised the other of the basis for its interpretation of the policy. It is reasonably possible that any eventual resolution of this matter could have a material adverse effect on us.

Our mortgage insurance business utilizes its underwriting skills to provide an outsourced underwriting service to our customers known as contract underwriting. As part of our contract underwriting activities, we are responsible for the quality of our underwriting decisions in accordance with the terms of the contract underwriting agreements with customers. We 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 obligations. Through June 30, 2011, the cost of remedies provided by us to customers for failing to meet the standards of the contracts has not been material. However, a generally positive economic environment for residential real estate that continued until approximately 2007 may have mitigated the effect of some of these costs, and claims for remedies may be made a number of years after the underwriting work was performed. A material portion of our new insurance written through the flow channel in recent years, including for 2006 and 2007, has involved loans for which we provided contract underwriting services. We believe the rescission of mortgage insurance coverage on loans for which we provided contract underwriting services may make a claim for a contract underwriting remedy more likely to occur. Beginning in the second half of 2009, we experienced an increase in claims for contract underwriting remedies, which continued into the first half of 2011. Hence, there can be no assurance that contract underwriting remedies will not be material 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 with non-forfeitable rights to dividends of 1.0 million, 1.2 million and 1.8 million for the three months ended June 30, 2011 and the six months ended June 30, 2011 and 2010, respectively, because they were anti-dilutive due to our reported net loss. For the three months ended June 30, 2010 our basic EPS includes participating securities of 1.8 million with non-forfeitable rights to dividends. Typically, diluted EPS is based on the weighted average number of common shares outstanding plus common stock equivalents which include certain stock awards, stock options 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 always excluded from the calculation. The following includes a reconciliation of the weighted average number of shares; however for the three months ended June 30, 2011 and 2010 common stock equivalents of 55.5 million and 53.3 million, respectively, and for the six months ended June 30, 2011 and 2010 common stock equivalents of 55.5 million and 45.8 million, respectively, were not included because they were anti-dilutive.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(In thousands, except per share data)			
Basic earnings per share:				
Average common shares outstanding	201,097	181,267	200,921	152,344
Net (loss) income	$ (151,732)	$ 24,551	$ (185,393)	$ (125,540)
Basic (loss) earnings per share	$ (0.75)	$ 0.14	$ (0.92)	$ (0.82)
Diluted earnings per share:				
Weighted-average shares - Basic	201,097	181,267	200,921	152,344
Common stock equivalents	-	889	-	-
Weighted-average shares - Diluted	201,097	182,156	200,921	152,344
Net (loss) income	$ (151,732)	$ 24,551	$ (185,393)	$ (125,540)
Diluted (loss) earnings per share	$ (0.75)	$ 0.13	$ (0.92)	$ (0.82)

Note 7 – Investments

The amortized cost, gross unrealized gains and losses and fair value of the investment portfolio at June 30, 2011 and December 31, 2010 are shown below.

June 30, 2011	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	$ 873,069	$ 18,039	$ (4,736)	$ 886,372
Obligations of U.S. states and political subdivisions	3,020,694	97,550	(33,449)	3,084,795
Corporate debt securities	2,348,328	48,467	(6,530)	2,390,265
Commercial mortgage-backed	164,428	977	(657)	164,748
Residential mortgage-backed securities	64,282	2,334	-	66,616
Debt securities issued by foreign sovereign governments	147,407	3,947	(338)	151,016
Total debt securities	$ 6,618,208	$ 171,314	$ (45,710)	$ 6,743,812
Equity securities	2,602	44	(9)	2,637
Total investment portfolio	$ 6,620,810	$ 171,358	$ (45,719)	$ 6,746,449

December 31, 2010	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	$ 1,092,890	$ 16,718	$ (6,822)	$ 1,102,786
Obligations of U.S. states and political subdivisions	3,549,355	85,085	(54,374)	3,580,066
Corporate debt securities	2,521,275	54,975	(11,291)	2,564,959
Residential mortgage-backed securities	53,845	3,255	-	57,100
Debt securities issued by foreign sovereign governments	149,443	1,915	(1,031)	150,327
Total debt securities	$ 7,366,808	$ 161,948	$ (73,518)	$ 7,455,238
Equity securities	3,049	40	(45)	3,044
Total investment portfolio	$ 7,369,857	$ 161,988	$ (73,563)	$ 7,458,282

(1) At June 30, 2011 and December 31, 2010, there were no other-than-temporary impairment losses recorded in other comprehensive income.

The amortized cost and fair values of debt securities at June 30, 2011, 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 auction rate and mortgage-backed securities provide for periodic payments throughout their lives, they are listed below in separate categories.

June 30, 2011		Amortized Cost		Fair Value
		(In thousands)		
Due in one year or less	$	398,691	$	400,037
Due after one year through five years		3,111,422		3,172,929
Due after five years through ten years		1,234,168		1,279,285
Due after ten years		1,342,969		1,373,046
	$	6,087,250	$	6,225,297
Commercial mortgage-backed securities		164,428		164,748
Residential mortgage-backed securities		64,282		66,616
Auction rate securities (1)		302,248		287,151
Total at June 30, 2011	$	6,618,208	$	6,743,812

(1) At June 30, 2011, approximately 97% of auction rate securities had a contractual maturity greater than 10 years.

At June 30, 2011 and December 31, 2010, the investment portfolio had gross unrealized losses of $45.7 million and $73.6 million, respectively. For those securities in an unrealized loss position, the length of time the securities were in such a position, as measured by their month-end fair values, is as follows:

June 30, 2011	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	$ 181,707	$ 4,736	$ -	$ -	$ 181,707	$ 4,736
Obligations of U.S. states and political subdivisions	566,735	14,439	274,603	19,010	841,338	33,449
Corporate debt securities	699,173	5,359	43,853	1,171	743,026	6,530
Commercial mortgage-backed securities	69,560	657	-	-	69,560	657
Residential mortgage-backed securities	-	-	-	-	-	-
Debt issued by foreign sovereign governments	10,152	86	4,814	252	14,966	338
Equity securities	720	9	-	-	720	9
Total investment portfolio	$ 1,528,047	$ 25,286	$ 323,270	$ 20,433	$ 1,851,317	$ 45,719

December 31, 2010	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	$ 258,235	$ 6,822	$ -	$ -	$ 258,235	$ 6,822
Obligations of U.S. states and political subdivisions	1,160,877	32,415	359,629	21,959	1,520,506	54,374
Corporate debt securities	817,471	9,921	28,630	1,370	846,101	11,291
Residential mortgage-backed securities	-	-	-	-	-	-
Debt issued by foreign sovereign governments	105,724	1,031	-	-	105,724	1,031
Equity securities	2,723	45	-	-	2,723	45
Total investment portfolio	$ 2,345,030	$ 50,234	$ 388,259	$ 23,329	$ 2,733,289	$ 73,563

The unrealized losses in all categories of our investments were primarily caused by the difference in interest rates at June 30, 2011 and December 31, 2010, respectively, compared to the interest rates at the time of purchase as well as the discount rate applied in our auction rate securities discounted cash flow model. The securities in an unrealized loss position for 12 months or greater are primarily auction rate securities ("ARS") backed by student loans. See further discussion of these securities below.

We held $287.2 million in ARS backed by student loans at June 30, 2011. ARS are intended to behave like short-term debt instruments because their interest rates are reset periodically through an auction process, most commonly at intervals of 7, 28 and 35 days. The same auction process has historically provided a means by which we may rollover the investment or sell these securities at par in order to provide us with liquidity as needed. The ARS we hold are collateralized by portfolios of student loans, substantially all of which are ultimately 97% guaranteed by the United States Department of Education. At June 30, 2011, approximately 87% of our ARS portfolio was rated AAA/Aaa by one or more of the following major rating agencies: Moody's, Standard & Poor's and Fitch Ratings.

In mid-February 2008, auctions began to fail due to insufficient buyers, as the amount of securities submitted for sale in auctions exceeded the aggregate amount of the bids. For each failed auction, the interest rate on the security moves to a maximum rate specified for each security, and generally resets at a level higher than specified short-term interest rate benchmarks. At June 30, 2011, our entire ARS portfolio, consisting of 28 investments, was subject to failed auctions; however, from the period when the auctions began to fail through June 30, 2011, $235.6 million in par value of ARS was either sold or called, with the average amount we received being approximately 99% of par which approximated the aggregate fair value prior to redemption. To date, we have collected all interest due on our ARS.

As a result of the persistent failed auctions, and the uncertainty of when these investments could be liquidated at par, the investment principal associated with failed auctions will not be accessible until successful auctions occur, a buyer is found outside of the auction process, the issuers establish a different form of financing to replace these securities, or final payments come due according to the contractual maturities of the debt issues. However, we continue to believe we will have liquidity to our ARS portfolio by December 31, 2014.

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 the first six months of 2011 there were no other-than-temporary impairments (“OTTI”) recognized compared to $6.1 million during the first six months of 2010.

The following table provides a rollforward of the amount related to credit losses recognized in earnings for which a portion of an OTTI was recognized in accumulated other comprehensive income (loss) for the three and six months ended June 30, 2010.

	Three Months Ended	Six Months Ended
	June 30, 2010	
	(In thousands)	
Beginning balance	$ 1,021	$ 1,021
Addition for the amount related to the credit loss for which an OTTI was not previously recognized	-	-
Additional increases to the amount related to the credit loss for which an OTTI was previously recognized	-	-
Reductions for securities sold during the period (realized)	(1,021)	(1,021)
Ending balance	$ -	$ -

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

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
	(In thousands)			
Net realized investment gains (losses) and OTTI on investments:				
Fixed maturities	$ 21,749	$ 31,680	$ 27,478	$ 58,316
Equity securities	7	19	39	57
Other	(22)	3	(22)	231
	$ 21,734	$ 31,702	$ 27,495	$ 58,604

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six months ended June 30, 2011	Six months ended June 30, 2010
	(In thousands)			
Net realized investment gains (losses) and OTTI on investments:				
Gains on sales	$ 23,553	$ 36,608	$ 31,945	$ 72,588
Losses on sales	(1,819)	(4,906)	(4,450)	(7,932)
Impairment losses	-	-	-	(6,052)
	$ 21,734	$ 31,702	$ 27,495	$ 58,604

The net realized gains on investments during the first six months of 2010 and 2011 were a result of the continued restructuring of the portfolio into shorter duration, taxable securities. Such sales were made to reduce the proportion of our investment portfolio held in tax-exempt municipal securities and to increase the proportion held in taxable securities principally since the tax benefits of holding tax exempt municipal securities are no longer available based on our recent net operating losses and to shorten the duration of the portfolio to provide liquidity to meet our anticipated claim payment obligations.

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 have the ability to access. Financial assets utilizing Level 1 inputs primarily include certain U.S. Treasury securities and obligations of the U.S. government.

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 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 and auction rate (backed by student loans) securities. Non-financial assets which utilize Level 3 inputs include real estate acquired through claim settlement.

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 including benchmark yields, reported trades, non-binding broker/dealer quotes, issuer spreads, two sided markets, benchmark securities, bids, offers and reference data including 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 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.

Assets classified as Level 3 are as follows:

- Securities available-for-sale classified in Level 3 are not readily marketable and are valued using internally developed models based on the present value of expected cash flows. Our Level 3 securities primarily consist of auction rate securities as observable inputs or value drivers are unavailable due to events described in Note 7 – “Investments.” Due to limited market information, we utilized a discounted cash flow (“DCF”) model to derive an estimate of fair value of these assets at June 30, 2011 and December 31, 2010. The assumptions used in preparing the DCF model included estimates with respect to the amount and timing of future interest and principal payments, the probability of full repayment of the principal considering the credit quality and guarantees in place, and the rate of return required by investors to own such securities given the current liquidity risk associated with them. The DCF model is based on the following key assumptions:

    - Nominal credit risk as substantially all of the underlying collateral of these securities is ultimately guaranteed by the United States Department of Education;
    - Liquidity by December 31, 2012 through December 31, 2014;
    - Continued receipt of contractual interest; and
    - Discount rates ranging from 2.19% to 4.19%, which include a spread for liquidity risk.

- Real estate acquired through claim settlement 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.

Fair value measurements for assets measured at fair value included the following as of June 30, 2011 and December 31, 2010:

	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)			
June 30, 2011				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 886,372	$ 886,372	$ -	$ -
Obligations of U.S. states and political subdivisions	3,084,795	-	2,861,393	223,402
Corporate debt securities	2,390,265	2,610	2,317,616	70,039
Commercial mortgage-backed securities	164,748	-	164,748	-
Residential mortgage-backed securities	66,616	-	66,616	-
Debt securities issued by foreign sovereign governments	151,016	136,732	14,284	-
Total debt securities	6,743,812	1,025,714	5,424,657	293,441
Equity securities	2,637	2,316	-	321
Total investments	$ 6,746,449	$ 1,028,030	$ 5,424,657	$ 293,762
Real estate acquired (1)	$ 2,828	$ -	$ -	$ 2,828
December 31, 2010				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 1,102,786	$ 1,102,786	$ -	$ -
Obligations of U.S. states and political subdivisions	3,580,066	-	3,284,376	295,690
Corporate debt securities	2,564,959	2,563	2,492,343	70,053
Residential mortgage-backed securities	57,100	-	57,100	-
Debt securities issued by foreign sovereign governments	150,327	135,457	14,870	-
Total debt securities	7,455,238	1,240,806	5,848,689	365,743
Equity securities	3,044	2,723	-	321
Total investments	$ 7,458,282	$ 1,243,529	$ 5,848,689	$ 366,064
Real estate acquired (1)	$ 6,220	$ -	$ -	$ 6,220

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

There were no significant transfers of securities between Level 1 and Level 2 during the first six months of 2011 or 2010.

For assets measured at fair value using significant unobservable inputs (Level 3), a reconciliation of the beginning and ending balances for the three and six months ended June 30, 2011 and 2010 is as follows:

	Obligations of U.S. States and Political Subdivisions	Corporate Debt Securities	Equity Securities	Total Investments	Real Estate Acquired
			(In thousands)		
Balance at March 31, 2011	$ 270,731	$ 70,273	$ 321	$ 341,325	$ 4,876
Total realized/unrealized gains (losses):					
Included in earnings and reported as losses incurred, net	-	-	-	-	(103)
Included in other comprehensive income	(1,720)	(234)	-	(1,954)	-
Purchases	-	-	-	-	1,427
Sales	(45,609)	-	-	(45,609)	(3,372)
Transfers into Level 3	-	-	-	-	-
Transfers out of Level 3	-	-	-	-	-
Balance at June 30, 2011	$ 223,402	$ 70,039	$ 321	$ 293,762	$ 2,828
Amount of total losses included in earnings for the three months ended June 30, 2011 attributable to the change in unrealized losses on assets still held at June 30, 2011	$ -	$ -	$ -	$ -	$ -

	Obligations of U.S. States and Political Subdivisions	Corporate Debt Securities	Equity Securities	Total Investments	Real Estate Acquired
			(In thousands)		
Balance at December 31, 2010	$ 295,690	$ 70,053	$ 321	$ 366,064	$ 6,220
Total realized/unrealized gains (losses):					
Included in earnings and reported as losses incurred, net	-	-	-	-	(95)
Included in other comprehensive income	(1,187)	(14)	-	(1,201)	-
Purchases	-	-	-	-	2,796
Sales	(71,101)	-	-	(71,101)	(6,093)
Transfers into Level 3	-	-	-	-	-
Transfers out of Level 3	-	-	-	-	-
Balance at June 30, 2011	$ 223,402	$ 70,039	$ 321	$ 293,762	$ 2,828
Amount of total losses included in earnings for the six months ended June 30, 2011 attributable to the change in unrealized losses on assets still held at June 30, 2011	$ -	$ -	$ -	$ -	$ -

	Obligations of U.S. States and Political Subdivisions	Corporate Debt Securities	Equity Securities	Total Investments	Real Estate Acquired
			(In thousands)		
Balance at March 31, 2010	$ 367,916	$ 130,066	$ 321	$ 498,303	$ 4,753
Total realized/unrealized gains (losses):					
Included in earnings and reported as realized investment losses, net	-	(1,398)	-	(1,398)	-
Included in earnings and reported as losses incurred, net	-	-	-	-	(557)
Included in other comprehensive income	(864)	(402)	-	(1,266)	-
Purchases, issuances and settlements	(46,002)	(33,702)	-	(79,704)	1,475
Transfers in and/or out of Level 3	-	-	-	-	-
Balance at June 30, 2010	$ 321,050	$ 94,564	$ 321	$ 415,935	$ 5,671
Amount of total losses included in earnings for the three months ended June 30, 2010 attributable to the change in unrealized losses on assets still held at June 30, 2010	$ -	$ -	$ -	$ -	$ -

	Obligations of U.S. States and Political Subdivisions	Corporate Debt Securities	Equity Securities	Total Investments	Real Estate Acquired
			(In thousands)		
Balance at December 31, 2009	$ 370,341	$ 129,338	$ 321	$ 500,000	$ 3,830
Total realized/unrealized gains (losses):					
Included in earnings and reported as realized investment losses, net	-	(1,398)	-	(1,398)	-
Included in earnings and reported as losses incurred, net	-	-	-	-	(933)
Included in other comprehensive income	43	326	-	369	-
Purchases, issuances and settlements	(49,334)	(33,702)	-	(83,036)	2,774
Transfers in and/or out of Level 3	-	-	-	-	-
Balance at June 30, 2010	$ 321,050	$ 94,564	$ 321	$ 415,935	$ 5,671
Amount of total losses included in earnings for the six months ended June 30, 2010 attributable to the change in unrealized losses on assets still held at June 30, 2010	$ -	$ -	$ -	$ -	$ -

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

Note 9 - Comprehensive income

Our total comprehensive income for the three and six months ended June 30, 2011 and 2010 was as follows:

	Three Months Ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
	(In thousands)			
Net (loss) income	$ (151,732)	$ 24,551	$ (185,393)	$ (125,540)
Other comprehensive income	53,528	14,384	28,841	20,174
Total comprehensive (loss) income	$ (98,204)	$ 38,935	$ (156,552)	$ (105,366)
Other comprehensive income (net of tax):				
Change in unrealized gains and losses on investments	$ 49,921	$ 21,118	$ 24,317	$ 27,324
Unrealized foreign currency translation adjustment	3,607	(6,734)	4,524	(7,150)
Other comprehensive income	$ 53,528	$ 14,384	$ 28,841	$ 20,174

The tax expense on other comprehensive income was $14.6 million and $7.5 million for the three months ended June 30, 2011 and 2010 respectively. The tax expense on other comprehensive income was $15.3 million and $10.4 million for the six months ended June 30, 2011 and 2010 respectively.

At June 30, 2011, accumulated other comprehensive income of $51.0 million included $56.8 million of net unrealized gains on investments and $24.9 million of gains related to foreign currency translation adjustment, offset by a $30.8 million loss relating to defined benefit plans. At December 31, 2010, accumulated other comprehensive income of $22.1 million included $32.5 million of net unrealized gains on investments and $20.4 million of gains related to foreign currency translation adjustment, offset by a $30.8 million loss relating to defined benefit plans.

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 June 30,			
	Pension and Supplemental Executive Retirement Plans		Other Postretirement Benefits	
	2011	2010	2011	2010
	(In thousands)			
Service cost	$ 2,287	$ 2,082	$ 291	$ 239
Interest cost	3,927	3,946	321	252
Expected return on plan assets	(4,493)	(3,654)	(827)	(726)
Recognized net actuarial loss	789	1,524	129	126
Amortization of prior service cost	169	185	(1,555)	(1,534)
Net periodic benefit cost	$ 2,679	$ 4,083	$ (1,641)	$ (1,643)

	Six Months Ended June 30,			
	Pension and Supplemental Executive Retirement Plans		Other Postretirement Benefits	
	2011	2010	2011	2010
	(In thousands)			
Service cost	$ 4,459	$ 4,266	$ 545	$ 563
Interest cost	8,049	7,767	675	592
Expected return on plan assets	(8,687)	(7,251)	(1,650)	(1,446)
Recognized net actuarial loss	2,006	2,962	316	382
Amortization of prior service cost	331	325	(3,109)	(3,069)
Net periodic benefit cost	$ 6,158	$ 8,069	$ (3,223)	$ (2,978)

In April 2011 we contributed approximately $10.0 million to our pension plan. We currently do not intend to make any further contributions to the plan during 2011.

Note 11 – Income Taxes

We review the need to adjust the deferred tax asset valuation allowance on a quarterly basis. We analyze several factors, among which are the severity and frequency of operating losses, our capacity for the carryback or carryforward of any losses, the expected occurrence of future income or loss and available tax planning alternatives. Based on our analysis and the level of cumulative operating losses, we have reduced our benefit from income tax by establishing a valuation allowance.

For the six months ended June 30, 2011 and 2010, our deferred tax valuation allowance was reduced by the change in the deferred tax liability related to $34.6 million and $35.7 million, respectively of unrealized gains on investments that were recorded in other comprehensive income. In the event of future operating losses, it is likely that the valuation allowance will be adjusted by any taxes recorded to equity for changes in unrealized gains or losses or other items in other comprehensive income.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(In thousands)			
Benefit from income taxes	$ (63,859)	$ (3,508)	$ (83,093)	$ (64,222)
Change in valuation allowance	53,712	(3,295)	74,715	56,372
Tax benefit	$ (10,147)	$ (6,803)	$ (8,378)	$ (7,850)

The decrease in the valuation allowance that was included in other comprehensive income was $9.2 million and $0 million for the three months ended June 30, 2011 and 2010, respectively. There was no change in the valuation allowance included in other comprehensive income for the six months ended June 30, 2011 and 2010. The total valuation allowance as of June 30, 2011 and December 31, 2010 was $485.0 million and $410.3 million, respectively.

We have approximately $1,097 million of net operating loss carryforwards on a regular tax basis and $255 million of net operating loss carryforwards for computing the alternative minimum tax as of June 30, 2011. The net operating loss carryforwards decreased in the second quarter of 2011 as the loss from operations was more than offset by a onetime inclusion of taxable income. The taxable income related to the cancellation of indebtedness triggered by the conclusion of bankruptcy proceedings for C-BASS, a joint venture investment. Any unutilized carryforwards are scheduled to expire at the end of tax years 2029 through 2031.

The Internal Revenue Service ("IRS") completed separate examinations of our federal income tax returns for the years 2000 through 2004 and 2005 through 2007 and issued assessments for unpaid taxes, interest and penalties. The primary adjustment in both examinations 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"). This portfolio has been managed and maintained during years prior to, during and subsequent to the examination period. 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 those adjustments and, in August 2010, we reached a tentative settlement agreement with the IRS. The settlement agreement is subject to review by the Joint Committee on Taxation of Congress because net operating losses incurred in 2009 were carried back to taxable years that were included in the agreement. A final agreement is expected to be entered into when the review is complete, although we do not expect there will be any substantive change in the terms of a final agreement from those in the tentative agreement. We adjusted our tax provision and liabilities for the effects of this agreement in 2010 and believe that they accurately reflect our exposure in regard to this issue.

The IRS is currently conducting an examination of our federal income tax returns for the years 2008 and 2009, which is scheduled to be completed in 2011.

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 that we will pay in the future 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 further 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 further drop in housing values, which expose us to greater losses on resale of properties obtained through the claim settlement process and 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.

The following table provides a reconciliation of beginning and ending loss reserves for the six months ended June 30, 2011 and 2010:

	Six Months Ended June 30, 2011	2010
	(In thousands)	
Reserve at beginning of year	$ 5,884,171	$ 6,704,990
Less reinsurance recoverable	275,290	332,227
Net reserve at beginning of year (1)	5,608,881	6,372,763
Losses incurred:		
Losses and LAE incurred in respect of default notices received in:		
Current year	855,253	894,282
Prior years (2)	(85,270)	(119,694)
Subtotal (3)	769,983	774,588
Losses paid:		
Losses and LAE paid in respect of default notices received in:		
Current year	8,330	2,250
Prior years	1,496,727	1,095,898
Reinsurance terminations (4)	(2,925)	(184)
Subtotal (5)	1,502,132	1,097,964
Net reserve at end of period (6)	4,876,732	6,049,387
Plus reinsurance recoverables	206,170	339,542
Reserve at end of period	$ 5,082,902	$ 6,388,929

(1) At December 31, 2010 and 2009, the estimated reduction in loss reserves related to rescissions approximated $1.3 billion and $2.1 billion, respectively.
(2) 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.
(3) Rescissions did not have a significant impact on incurred losses in the six months ended June 30, 2011. Rescissions mitigated our incurred losses by an estimated $0.6 billion in the six months ended June 30, 2010.
(4) 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.
(5) Rescissions mitigated our paid losses by an estimated $0.4 billion in each of the six months ended June 30, 2011 and 2010, which excludes amounts that may have been applied to a deductible.
(6) At June 30, 2011 and 2010, the estimated reduction in loss reserves related to rescissions approximated $0.9 billion and $2.3 billion, respectively.

The “Losses incurred” section of the table above shows losses incurred on defaults that occurred in the current year and in prior years, respectively. The amount of losses incurred relating to defaults that occurred in the current year represents the estimated amount to be ultimately paid on such defaults. The amount of losses incurred relating to defaults that occurred in prior years represents the actual claim rate and severity associated with those defaults resolved in the current year differing from the estimated liability at the prior year-end, as well as a re-estimation of amounts to be ultimately paid on defaults 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 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.

Current year losses incurred decreased slightly in the first half of 2011 compared to the same period in 2010 primarily due to a decrease in the number of new default notices received, net of cures, from 5,074 in the first half of 2010 to 1,696 in the first half of 2011.

The development of the reserves in the first half of 2011 and 2010 is reflected in the “Prior years” line in the table above. The $85 million decrease in losses incurred in the first half of 2011 was related to defaults that occurred in prior periods. This decrease in losses incurred primarily related to a decrease in estimated loss adjustment expenses which approximated $80 million as well as a decrease in severity on primary defaults which approximated $80 million. These decreases in losses incurred were offset by an increase in the estimated claim rate which approximated $65 million. The decrease in estimated loss adjustment expense was based on recent historical trends in the costs associated with resolving a claim. The decrease in the severity was based on the resolution of approximately 37% of the prior year default inventory. The increase in the claim rate was also based on this resolution, 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. The additional offsetting increase in losses incurred related to prior years of approximately $10 million related to pool reserves and reinsurance.

The $120 million decrease in losses incurred in the first half of 2010 was related to defaults that occurred in prior periods. This decrease in losses incurred primarily related to a decrease in the claim rate on primary defaults which approximated $330 million. The decrease in the claim rate was based on the resolution of approximately 34% of the prior year default inventory. The decrease in the claim rate was due to greater cures experienced during the first half of 2010, a portion of which resulted from loan modifications. The decrease in the claim rate on prior year defaults was offset by an increase in primary severity which approximated $150 million and pool defaults which approximated $50 million. The increase in severity was based on the re-estimation of amounts to be ultimately paid on defaults remaining in inventory from the end of the prior year. The additional offsetting increase in losses incurred related to prior years of approximately $10 million related to LAE reserves and reinsurance.

The “Losses paid” section of the table above shows the breakdown between claims paid on default notices received in the current year and default notices received in prior years. It has historically taken, on average, approximately twelve months for a default which is not cured to develop into a paid claim, therefore, most losses paid relate to default notices received in prior years. Due to a combination of reasons that have slowed the rate at which claims are received and paid, including foreclosure moratoriums and suspensions, servicing delays, court delays, loan modifications, our fraud investigations and our claim rescissions and denials for misrepresentation, 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 June 30, 2011 and December 31, 2010 and approximated $112 million and $113 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.

The decrease in the primary default inventory experienced during the first half of 2011 was generally across all markets and all book years. However the number of consecutive months a loan remains in the primary default inventory (the age of the item in default) has continued to increase, as shown in the table below. Historically as a default ages it becomes more likely to result in a claim.

Aging of the Primary Default Inventory

	June 30, 2011		December 31, 2010		June 30, 2010	
Consecutive months in default						
3 months or less	30,107	16%	37,640	18%	35,838	16%
4 - 11 months	48,148	26%	58,701	27%	71,089	31%
12 months or more	106,197	58%	118,383	55%	121,528	53%
Total primary default inventory	184,452	100%	214,724	100%	228,455	100%
Primary claims received inventory included in ending default inventory	14,504	8%	20,898	10%	19,724	9%

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

Number of Payments Delinquent

	June 30, 2011		December 31, 2010		June 30, 2010	
3 payments or less	40,968	22%	51,003	24%	49,308	22%
4 - 11 payments	51,523	28%	65,797	31%	80,224	35%
12 payments or more	91,961	50%	97,924	45%	98,923	43%
Total primary default inventory	184,452	100%	214,724	100%	228,455	100%

Before paying a claim, we can review the loan file to determine whether we are required, under the applicable insurance policy, to pay the claim or whether we are entitled to reduce the amount of the claim. For example, all of our insurance policies provide that we can reduce or deny a claim if the servicer did not comply with its obligation to mitigate our loss by performing reasonable loss mitigation efforts or diligently pursuing a foreclosure or bankruptcy relief in a timely manner. We also do not cover losses resulting from property damage that has not been repaired. We are currently reviewing the loan files for the majority of the claims submitted to us.

In addition, subject to rescission caps in certain of our Wall Street bulk transactions, all of our insurance policies allow us to rescind coverage under certain circumstances. Because we can review the loan origination documents and information as part of our normal processing when a claim is submitted to us, rescissions occur on a loan by loan basis most often after we have received a claim. Historically, claim rescissions and denials, which we collectively refer to as rescissions, were not a material portion of our claims resolved during a year. However, beginning in 2008 our rescissions of policies have materially mitigated our paid and incurred losses. While we have a substantial pipeline of claims investigations that we expect will eventually result in future rescissions, we expect that rescissions will not continue to mitigate paid and incurred losses at the same level we have recently experienced. In each of 2009 and 2010, rescissions mitigated our paid losses by approximately $1.2 billion, and in the first half of 2011, rescissions mitigated our paid losses by approximately $0.4 billion. These figures include amounts that would have resulted in either a claim payment or been charged to a deductible or aggregate loss limit under a bulk or pool policy, and may have been charged to a captive reinsurer. The amounts that would have been applied to a deductible do not take into account previous rescissions that may have been applied to a deductible.

Our loss reserving methodology incorporates the effect that rescission activity is expected to have on the losses we will pay on our delinquent inventory. 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. A variance between ultimate actual rescission rates and these estimates could materially affect our losses incurred. 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, as shown in the table below, must be considered together with the various other factors impacting incurred losses and not in isolation.

The table below represents our estimate of the impact rescissions have had on reducing our loss reserves, paid losses and losses incurred.

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
	(In billions)			
Estimated rescission reduction - beginning reserve	$ 1.1	$ 2.4	$ 1.3	$ 2.1
Estimated rescission reduction - losses incurred	-	-	-	0.6
Rescission reduction - paid claims	0.2	0.2	0.4	0.6
Amounts that may have been applied to a deductible	-	(0.1)	-	(0.2)
Net rescission reduction - paid claims	0.2	0.1	0.4	0.4
Estimated rescission reduction - ending reserve	$ 0.9	$ 2.3	$ 0.9	$ 2.3

The decrease in the estimated rescission reduction to losses incurred in the first half of 2011 compared to the same period in 2010 is due to a decline in the expected rescission rate for loans in our default inventory, compared to an increasing expected rescission rate in the first half of 2010.

At June 30, 2011, our loss reserves continued to be significantly impacted by expected rescission activity. We expect that the reduction of our loss reserves due to rescissions will continue to decline because our recent experience indicates new notices in our default inventory have a lower likelihood of being rescinded than those already in the inventory.

The liability associated with our estimate of premiums to be refunded on expected future rescissions is accrued for separately. At June 30, 2011 and December 31, 2010 the estimate of this liability totaled $75 million and $101 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.

If the insured disputes our right to rescind coverage, the outcome of the dispute ultimately would be determined by legal proceedings. 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. For nearly all of our rescissions that are not subject to a settlement agreement, the period in which a dispute may be brought has not ended. We consider a rescission resolved for reporting purposes even though legal proceedings have been initiated and are ongoing. Although it is reasonably possible that, when the proceedings are completed, there will be a determination that we were not entitled to rescind in all cases, we are unable to make a reasonable estimate or range of estimates of the potential liability. Under Accounting Standards Codification (“ASC”) 450-20, an estimated loss from such proceedings is accrued for only if we determine that the loss is probable and can be reasonably estimated. Therefore, when establishing our loss reserves, we do not include additional loss reserves that would reflect an adverse outcome from ongoing legal proceedings, including those with Countrywide. Countrywide has filed a lawsuit against MGIC alleging that MGIC has denied, and continues to deny, valid mortgage insurance claims. MGIC has filed an arbitration case against Countrywide regarding rescissions and Countrywide has responded seeking damages, including exemplary damages. For more information about this lawsuit and arbitration case, see Note 5 – “Litigation and contingencies.”

We continue to discuss with other lenders their objections to material rescissions. In 2010, we entered into a settlement agreement with a lender-customer regarding our rescission practices and we may, subject to GSE approval, enter into additional settlement agreements with other lenders in the future. In April 2011, Freddie Mac advised its servicers that they must obtain its prior approval for rescission settlements and Fannie Mae advised its servicers that they are prohibited from entering into such settlements. In addition, in April 2011, Fannie Mae notified us that we must obtain its prior approval to enter into certain settlements. There can be no assurances that the GSEs will approve any future settlement agreements.

In addition to the proceedings involving Countrywide, we are involved in legal proceedings with respect to rescissions that we do not consider to be collectively material in amount. Although it is reasonably possible that, when these discussions or proceedings are completed, there will be a conclusion or determination that we were not entitled to rescind in all cases, we are unable to make a reasonable estimate or range of estimates of the potential liability.

A rollforward of our primary default inventory for the three and six months ended June 30, 2011 and 2010 appears in the table below. The information concerning new default 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 and by transfers of servicing between loan servicers.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Default inventory at beginning of period	195,885	241,244	214,724	250,440
Plus: New Notices	39,972	48,181	83,167	101,574
Less: Cures	(35,832)	(47,290)	(81,471)	(96,500)
Less: Paids (including those charged to a deductible or captive)	(13,553)	(10,653)	(27,019)	(19,847)
Less: Rescissions and denials	(2,020)	(3,027)	(4,949)	(7,212)
Default inventory at end of period	184,452	228,455	184,452	228,455

Pool insurance notice inventory decreased from 43,329 at December 31, 2010 to 36,552 at June 30, 2011. The pool insurance notice inventory was 42,872 at June 30, 2010.

Note 13 – Premium Deficiency Reserve

The components of the premium deficiency reserve at June 30, 2011, December 31, 2010 and June 30, 2010 appear in the table below.

	June 30, 2011	December 31, 2010	June 30, 2010
		(In millions)	
Present value of expected future paid losses and expenses, net of expected future premium	$ (1,060)	$ (1,254)	$ (1,421)
Established loss reserves	901	1,075	1,252
Net deficiency	$ (159)	$ (179)	$ (169)

The decrease in the premium deficiency reserve for the three and six months ended June 30, 2011 was $11 million and $20 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 second quarter and first six months of 2011 is primarily related to lower estimated ultimate losses and higher estimated ultimate premiums.

	Three Months Ended		Six Months Ended	
	June 30, 2011			
	(In millions)			
Premium Deficiency Reserve at beginning of period		$ (170)		$ (179)
Paid claims and loss adjustment expenses	$ 97		$ 172	
Decrease in loss reserves	(99)		(174)	
Premium earned	(29)		(61)	
Effects of present valuing on future premiums, losses and expenses	2		(10)	
Change in premium deficiency reserve to reflect actual premium, losses and expenses recognized		(29)		(73)
Change in premium deficiency reserve to reflect change in assumptions relating to future premiums, losses, expenses and discount rate (1)		40		93
Premium Deficiency Reserve at end of period		$ (159)		$ (159)

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

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

Overview

Through our subsidiary MGIC, we are the leading provider of private mortgage insurance in the United States 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, 2010. 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

At this time, we are facing the following particularly significant challenges:

- Whether private mortgage insurance will remain a significant credit enhancement alternative for low down payment single family mortgages. A definition of “qualified residential mortgages” (“QRM”) that significantly impacts the volume of low down payment mortgages available to be insured or a possible restructuring or change in the charters of the GSEs could significantly affect our business. This challenge is discussed under “Qualified Residential Mortgages” and “Fannie Mae and Freddie Mac” below.

- Whether we may continue to write insurance on new residential mortgage loans due to actions our regulators or the GSEs could take due to an actual or projected deterioration in our capital position. This challenge is discussed under “Capital” below.

- Whether we will prevail in legal proceedings challenging whether our rescissions were proper. For additional information about this challenge see “Rescissions” below. An adverse outcome in these legal proceedings would negatively impact our capital position. See discussion of this challenge under “Capital” below.

Qualified Residential Mortgages

The financial reform legislation that was passed in July 2010 (the “Dodd-Frank Act” or “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. This risk retention requirement does not apply to mortgage loans that are Qualified Residential Mortgages (“QRMs”) or that are insured by the FHA or another federal agency. In March 2011, federal regulators issued the proposed risk retention rule that includes a definition of QRM. The proposed definition of QRM contains many underwriting requirements, including a maximum loan-to-value ratio (“LTV”) of 80% on a home purchase transaction, a prohibition on seller contributions toward a borrower’s down payment or closing costs, and certain limits on a borrower’s debt-to-income ratio. The LTV is to be calculated without including mortgage insurance. The following table shows the percentage of our new risk written by LTV for the first two quarters of 2011 and for the year ended December 31, 2010.

	Percentage of new risk written	
	YTD June 30, 2011	Full Year 2010
LTV:		
80% and under	0%	0%
80.1% - 85%	6%	7%
85.1 - 90%	43%	48%
90.1 - 95%	49%	44%
95.1 - 97%	2%	1%
> 97%	0%	0%

The regulators requested public comments regarding an alternative QRM definition, the underwriting requirements of which would allow loans with 90% LTVs, higher debt-to-income ratios than allowed under the proposed QRM definition, and that may consider mortgage insurance in determining whether the LTV requirement is met. We estimate that approximately 22% of our new risk written in 2011 was on loans that would have met the alternative QRM definition.

The regulators also requested that the public comments include information that may be used to assess whether mortgage insurance reduces the risk of default. We submitted a comment letter, including studies to the effect that mortgage insurance reduces the risk of default.

The public comment period for the proposed rule expired on August 1, 2011. At this time we do not know when a final rule will be issued. Under the proposed rule, because of the capital support provided by the U.S. Government, the GSEs satisfy the Dodd-Frank risk-retention requirements while they are in conservatorship. Therefore, lenders that originate loans that are sold to the GSEs while they are in conservatorship will not be required to retain risk associated with those loans.

Depending on, among other things, (a) the final definition of QRM and its requirements for LTV, seller contribution and debt-to-income ratio, (b) to what extent, if any, the presence of mortgage insurance would allow for a higher LTV in the definition of QRM, and (c) whether lenders choose mortgage insurance for non-QRM loans, the amount of new insurance that we write may be materially adversely affected. See also our risk factor titled “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.”

Fannie Mae and Freddie Mac

In September 2008, the Federal Housing Finance Agency (“FHFA”) was appointed as the conservator of the GSEs. As their conservator, FHFA controls and directs the operations of the GSEs. The appointment of FHFA as conservator, the increasing role that the federal government has assumed in the residential mortgage market, our industry’s inability, due to capital constraints, to write sufficient business to meet the needs of the GSEs or other factors may increase the likelihood that the business practices of the GSEs change in ways that may 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 Dodd-Frank Act required the U.S. Department of the Treasury to report its recommendations regarding options for ending the conservatorship of the GSEs. This report was released on February 11, 2011 and while it does not provide any definitive timeline for GSE reform, it does recommend using a combination of federal housing policy changes to wind down the GSEs, shrink the government’s footprint in housing finance, and help bring private capital back to the mortgage market. Members of the House of Representatives and the Senate have since introduced several bills intended to scale back the GSEs. The bills include proposals to abolish the GSEs’ affordable housing goals, reduce the conforming loan limits, increase guarantee fees and set annual limits on the size of each GSE’s retained portfolio. 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 on our business is uncertain. Any 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.

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. Beginning in the second quarter of 2010, more than 95% of our volume was on loans with GSE standard coverage. We charge higher premium rates for higher coverage percentages. To the extent lenders selling loans to GSEs in the future choose charter coverage for loans that we insure, our revenues would be reduced and we could experience other adverse effects. The pricing changes we implemented in 2010 (see our risk factor titled “The premiums we charge may not be adequate to compensate us for our liabilities for losses and as a result any inadequacy could materially affect our financial condition and results of operations”) may eliminate a lender’s incentive to use GSE charter coverage in place of standard coverage.

Both of the GSEs have guidelines on terms under which they can conduct business with mortgage insurers, such as MGIC, with financial strength ratings below Aa3/AA-. (MGIC's financial strength rating from Moody's is Ba3, with a positive outlook and from Standard & Poor's is B+, with a negative outlook.) For information about how these guidelines could affect us, see "Capital – GSEs" below and our risk factor titled "MGIC may not continue to meet the GSEs' mortgage insurer eligibility requirements."

Capital

Insurance regulators

Although we currently meet the minimum capital requirements of the jurisdictions in which we write business, in 2009, we requested and received from the Office of the Commissioner of Insurance for Wisconsin ("OCI") and insurance departments in certain other jurisdictions, waivers from their minimum capital requirements in order to prepare for the possibility that we would not meet those requirements in the future. We also funded MGIC Indemnity Corporation ("MIC"), a direct subsidiary of MGIC, and obtained the required state and GSE approvals for MIC to write new business in jurisdictions where MGIC no longer met, or was not able to obtain a waiver of, the capital requirements. The GSEs have only approved MIC for use in certain states. The OCI or other insurance departments may modify or terminate MGIC's existing waivers or fail to renew them when they expire. For additional information see our risk factor titled "Even though our plan to write new insurance in MGIC Indemnity Corporation ("MIC") has received approval from the Office of the Commissioner of Insurance of the State of Wisconsin ("OCI") and the GSEs, we cannot guarantee that the implementation of our plan will allow us to continue to write new insurance on an uninterrupted basis."

GSEs

The GSEs have approved us as an eligible mortgage insurer, under remediation plans, even though our insurer financial strength (IFS) rating is below the published GSE minimum. The GSEs may change the requirements under our remediation plans or fail to renew, when they expire, their approvals of MIC as an eligible insurer during periods when MGIC does not meet insurance department requirements. These possibilities could result from changes imposed on the GSEs by their regulator or due to an actual or GSE-projected deterioration in our capital position. For additional information about this challenge see our risk factors titled "MGIC may not continue to meet the GSEs' mortgage insurer eligibility requirements" and "We have reported losses for the last four years, expect to continue to report annual net losses, and cannot assure you when we will return to profitability."

Rescissions

Subject to rescission caps in certain of our Wall Street bulk transactions, all of our insurance policies allow us to rescind coverage under certain circumstances. Because we can review the loan origination documents and information as part of our normal processing when a claim is submitted to us, rescissions occur on a loan by loan basis most often after we have received a claim. Historically, claim rescissions and denials, which we collectively refer to as rescissions, were not a material portion of our claims resolved during a year. However, beginning in 2008 our rescissions of policies have materially mitigated our paid and incurred losses. While we have a substantial pipeline of claims investigations that we expect will eventually result in future rescissions, we expect that rescissions will not continue to mitigate paid and incurred losses at the same level we have recently experienced. In each of 2009 and 2010, rescissions mitigated our paid losses by approximately $1.2 billion, and in the first half of 2011, rescissions mitigated our paid losses by approximately $0.4 billion. These figures include amounts that would have resulted in either a claim payment or been charged to a deductible or aggregate loss limit under a bulk or pool policy, and may have been charged to a captive reinsurer. The amounts that would have been applied to a deductible do not take into account previous rescissions that may have been applied to a deductible.

Our loss reserving methodology incorporates the effect that rescission activity is expected to have on the losses we will pay on our delinquent inventory. 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. A variance between ultimate actual rescission rates and these estimates could materially affect our losses incurred. 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 losses incurred, included in the table below, must be considered together with the various other factors impacting losses incurred and not in isolation.

The table below represents our estimate of the impact rescissions have had on reducing our loss reserves, paid losses and losses incurred.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(In billions)			
Estimated rescission reduction - beginning reserve	$ 1.1	$ 2.4	$ 1.3	$ 2.1
Estimated rescission reduction - losses incurred	-	-	-	0.6
Rescission reduction - paid claims	0.2	0.2	0.4	0.6
Amounts that may have been applied to a deductible	-	(0.1)	-	(0.2)
Net rescission reduction - paid claims	0.2	0.1	0.4	0.4
Estimated rescission reduction - ending reserve	$ 0.9	$ 2.3	$ 0.9	$ 2.3

If the insured disputes our right to rescind coverage, the outcome of the dispute ultimately would be determined by legal proceedings. 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. For nearly all of our rescissions that are not subject to a settlement agreement, the period in which a dispute may be brought has not ended. We consider a rescission resolved for reporting purposes even though legal proceedings have been initiated and are ongoing. Although it is reasonably possible that, when the proceedings are completed, there will be a determination that we were not entitled to rescind in all cases, we are unable to make a reasonable estimate or range of estimates of the potential liability. Under Accounting Standards Codification ("ASC") 450-20 an estimated loss from such proceedings is accrued for only if we determine that the loss is probable and can be reasonably estimated. Therefore, when establishing our loss reserves, we do not include additional loss reserves that would reflect an adverse outcome from ongoing legal proceedings, including those with Countrywide. Countrywide has filed a lawsuit against MGIC alleging that MGIC has denied, and continues to deny, valid mortgage insurance claims. MGIC has filed an arbitration case against Countrywide regarding rescissions and Countrywide has responded seeking damages, including exemplary damages. For more information about this lawsuit and arbitration case, see Note 5 – "Litigation and contingencies" to our consolidated financial statements.

We continue to discuss with other lenders their objections to material rescissions. In 2010, we entered into a settlement agreement with a lender-customer regarding our rescission practices and we may, subject to GSE approval, enter into additional settlement agreements with other lenders in the future. In April 2011, Freddie Mac advised its servicers that they must obtain its prior approval for rescission settlements and Fannie Mae advised its servicers that they are prohibited from entering into such settlements. In addition, in April 2011, Fannie Mae notified us that we must obtain its prior approval to enter into certain settlements. There can be no assurances that the GSEs will approve any future settlement agreements.

In addition to the proceedings involving Countrywide, we are involved in legal proceedings with respect to rescissions that we do not consider to be collectively material in amount. Although it is reasonably possible that, when these discussions or proceedings are completed, there will be a conclusion or determination that we were not entitled to rescind in all cases, we are unable to make a reasonable estimate or range of estimates of the potential liability.

Loan Modification and Other Similar Programs

Beginning in the fourth quarter of 2008, the federal government, including through the Federal Deposit Insurance Corporation (the "FDIC") and the GSEs, and several lenders have adopted programs to modify loans to make them more affordable to borrowers with the goal of reducing the number of foreclosures. During 2010 and the first two quarters of 2011, we were notified of modifications that cured delinquencies that had they become paid claims would have resulted in approximately $3.2 billion and $1.0 billion, respectively, of estimated claim payments. As noted below, we cannot predict with a high degree of confidence what the ultimate re-default rate will be. For internal reporting purposes, we assume approximately 50% of those 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; less than 5% resulted in principal forgiveness.

One loan modification program is the Home Affordable Modification Program ("HAMP"). Some of HAMP's eligibility criteria relate to the borrower's current income and non-mortgage debt payments. Because the GSEs and servicers do not share such information with us, we cannot determine with certainty the number of loans in our delinquent inventory that are eligible to participate in HAMP. 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, or have successfully completed, HAMP. We are aware of approximately 14,300 loans in our primary delinquent inventory at June 30, 2011 for which the HAMP trial period has begun and which trial periods have not been reported to us as completed or cancelled. Through June 30, 2011 approximately 31,300 delinquent primary loans have cured their delinquency after entering HAMP and are not in default. 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 over time.

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. At this point, we cannot predict with a high degree of confidence what the ultimate re-default rate will be. In addition, because we do not have information in our database for all of the parameters used to determine which loans are eligible for modification programs, our estimates of the number of loans qualifying for modification programs are inherently uncertain. 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.

Eligibility under 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.

Various government entities and private parties have from time to time enacted foreclosure (or equivalent) moratoriums and suspensions (which we collectively refer to as moratoriums). Recently, various government agencies have been investigating large mortgage servicers and other parties to determine whether they acted improperly in foreclosure proceedings. We do not know what effect improprieties that may have occurred in a particular foreclosure have on the validity of that foreclosure, once it was completed and the property transferred to the lender. Under our policy, in general, completion of a foreclosure is a condition precedent to the filing of a claim.

Past moratoriums, which were imposed to afford time to determine whether loans could be modified, did not stop the accrual of interest or affect other expenses on a loan, and we cannot predict whether any future moratorium would do so. Therefore, unless a loan is cured during a moratorium, at the expiration of a moratorium, additional interest and expenses may be due to the lender from the borrower. For certain moratoriums (e.g., those imposed in order to afford time to modify loans), our paid claim amount may include some additional interest and expenses. For moratoriums or delays resulting from investigations into servicers and other parties’ actions in foreclosure proceedings, our willingness to pay additional interest and expenses may be different, subject to the terms of our mortgage insurance policies. The various moratoriums and delays may temporarily delay our receipt of claims and may increase the length of time a loan remains in our delinquent loan inventory.

In early January 2011, the highest court in Massachusetts, a state in which foreclosures are accomplished by private sale rather than judicial action, held the foreclosure laws of that state required a person seeking to foreclose a mortgage to be the holder of the mortgage at the time notice of foreclosure was published. The servicers who had foreclosed in this case did not provide sufficient evidence that they were the holders of the mortgages and therefore they lacked authority to foreclose. Courts in other jurisdictions have considered similar issues and reached different conclusions. These decisions have not had a direct impact on our claims processes or rescissions.

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 the Home Affordable Refinance Program.

- 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 canceled 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 the risk characteristics of the loans insured and the percentage of coverage on the loans.

- Premiums ceded to reinsurance subsidiaries of certain mortgage lenders (“captives”) and risk sharing arrangements with the GSEs.

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 rescissions and premiums ceded to captives or the GSEs. 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 fixed income securities rated “A” or higher. 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 two 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.

- 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."

- Interest expense

Interest expense reflects the interest associated with our outstanding debt obligations. The principal amount of our long-term debt obligations at June 30, 2011 is comprised of $77.4 million of 5.625% Senior Notes due in September 2011, $245 million of 5.375% Senior Notes due in November 2015, $345 million of 5% Convertible Senior Notes due in 2017 and $389.5 million of 9% Convertible Junior Subordinated Debentures due in 2063 (interest on these debentures accrues and compounds even if we defer the payment of interest), as discussed in Note 3 – "Debt" to our consolidated financial statements and under "Liquidity and Capital Resources" below. At June 30, 2011, the convertible debentures are reflected as a liability on our consolidated balance sheet at the current amortized value of $329.3 million, with the unamortized discount reflected in equity.

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. 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 2011 Second Quarter Results

Our results of operations for the second quarter of 2011 were principally affected by the factors referred to below.

- Net premiums written and earned

Net premiums written and earned during the second quarter of 2011 decreased when compared to the same period in 2010. The decrease was due to our lower average insurance in force, offset by lower levels of premium refunds related to rescissions and the continued decline of premiums ceded to captives.

- Investment income

Investment income in the second quarter of 2011 was lower when compared to the same period in 2010 due to a decrease in our average invested assets as we continue to liquidate our investment portfolio to meet our claim obligations.

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

Net realized gains for the second quarter of 2011 included $21.7 million in net realized gains on the sale of fixed income investments, compared to $31.7 million in net gains on sales during the second quarter of 2010.

- Losses incurred

Losses incurred for the second quarter of 2011 increased compared to the same period in 2010 primarily due to new default notices exceeding cures. The primary default inventory decreased by 11,433 delinquencies in the second quarter of 2011, compared to a decrease of 12,789 in the second quarter of 2010. The estimated severity remained flat in both the second quarters of 2011 and 2010 and the estimated claim rate increased slightly in both quarters.

- Change in premium deficiency reserve

During the second quarter of 2011 the premium deficiency reserve on Wall Street bulk transactions declined by $11 million from $170 million, as of March 31, 2011, to $159 million as of June 30, 2011. 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 second quarter of 2011 is primarily related to lower estimated ultimate losses and higher estimated ultimate premiums. The $159 million premium deficiency reserve as of June 30, 2011 reflects the present value of expected future losses and expenses that exceeds the present value of expected future premium and already established loss reserves.

- Underwriting and other expenses

Underwriting and other expenses for the second quarter of 2011 remained flat when compared to the same period in 2010.

· Interest expense

Interest expense for the second quarter of 2011 increased when compared to the same period in 2010. The increase is due to the issuance of our 5% Convertible Senior Notes in April 2010 as well as an increase in amortization on our junior debentures.

· Benefit from income taxes

We had a benefit from income taxes of ($10.1) million in the second quarter of 2011, compared to a benefit from income taxes of ($6.8) million in the second quarter of 2010. During the second quarter of 2011, the benefit from income taxes was reduced by $53.7 million due to an increase in the amount of valuation allowance. During the second quarter of 2010, the benefit from income taxes was increased by $3.3 million due to a decrease in the amount of the valuation allowance.

Results of Consolidated Operations

New insurance written

The amount of our primary new insurance written during the three and six months ended June 30, 2011 and 2010 was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Total Primary NIW (In billions)	$ 3.1	$ 2.7	$ 6.1	$ 4.5
Refinance volume as a % of primary NIW	16%	13%	26%	18%

The increase in new insurance written in the second quarter and first six months of 2011, compared to the same periods in 2010, was primarily due to a modest increase in the private mortgage insurance industry market share. The absolute levels of new insurance written continue to remain low due to lower home sales, the continued strong but diminishing market share of FHA and the fees the GSEs impose on borrowers.

The FHA substantially increased its market share beginning in 2008. 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 delivery fees 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. However, the FHA's 2010 and 2011 pricing, when compared to our credit-tiered pricing introduced in 2010 (and considering the effects of GSE pricing changes), may allow us to be more competitive with the FHA than in the recent past for loans with high FICO credit scores. We cannot predict, however, what impact these premium changes will have on new insurance written in the future.

As a result of their dissatisfaction with our rescission practices, in late 2009, Countrywide commenced litigation against us and Countrywide and its Bank of America affiliates stopped purchasing insurance from MGIC for the loans they originated. See our risk factor titled "We are subject to the risk of private litigation and regulatory proceedings" for more information about this litigation and the arbitration case we filed against Countrywide regarding rescissions. Bank of America recently informed us that it intends, at some point in the future, to implement procedures to enable them to cancel MGIC's coverage on loans Bank of America purchases from correspondent lenders and substitute coverage from our competitors. In general, a correspondent lender funds loans and then sells them servicing-released to another lender who retains the servicing and either sells the loans to an investor or retains them in portfolio. Traditionally a correspondent lender's selection of which mortgage insurer insures the loans it funds has not been changed by the lender to which those loans were sold. We estimate that loans purchased by Bank of America from correspondent lenders accounted for approximately 10% and 9% of our new insurance written in 2010 and the first two quarters of 2011, respectively. The effect of Bank of America's actions on us may depend on the reaction of correspondent lenders and any reaction from the GSEs, as well as other factors. While we will be taking various actions to seek to retain this business, we cannot predict the extent to which Bank of America's actions will adversely affect us.

We continue to expect new insurance written in 2011 to increase modestly over the $12 billion written in 2010. Our level of new insurance written could also be affected by other items, including those noted in our Risk Factors.

From time to time, in response to market conditions, we change the types of loans that we insure and the guidelines under which we insure them. In addition, we make exceptions to our underwriting guidelines on a loan-by-loan basis and for certain customer programs. Together these exceptions accounted for fewer than 5% of the loans we insured in the second half of 2010 and fewer than 6% of the loans we insured in the first half of 2011. A large percentage of the exceptions were made for loans with debt-to-income ratios slightly above our guideline. Beginning in September 2009, we have made changes to our underwriting guidelines that have allowed certain loans to be eligible for insurance that were not eligible prior to those changes and we expect to continue to make changes in appropriate circumstances in the future. Our underwriting guidelines are available on our website at http://www.mgic.com/guides/underwriting.html.

Cancellations, insurance in force and risk in force

New insurance written and cancellations of primary insurance in force during the three and six months ended June 30, 2011 and 2010 were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(In billions)			
NIW	$ 3.1	$ 2.7	$ 6.1	$ 4.5
Cancellations	(7.6)	(7.4)	(15.0)	(14.3)
Change in primary insurance in force	$ (4.5)	$ (4.7)	$ (8.9)	$ (9.8)
Direct primary insurance in force as of June 30,	$ 182.4	$ 202.4		
Direct primary risk in force as of June 30,	$ 46.8	$ 51.8		

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. Since 2009, cancellations due to rescissions and claim payments have comprised a significant amount of our cancellations.

Our persistency rate was 83.3% at June 30, 2011 compared to 84.4% at December 31, 2010 and 86.4% at June 30, 2010. These persistency rates reflect the more restrictive credit policies of lenders (which make it more difficult for homeowners to refinance loans), as well as declines in housing values.

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. We expect the volume of any future business written through the bulk channel will be insignificant. Wall Street bulk transactions, as of June 30, 2011, included approximately 84,300 loans with insurance in force of approximately $13.2 billion and risk in force of approximately $3.9 billion, which is approximately 64% of our bulk risk in force.

In bulk transactions, the individual loans in the insured portfolio are generally insured to specified levels of coverage. Some of our bulk transactions (approximately 20% of our bulk risk in force) contain aggregate loss limits on the insured portfolio. If claim payments associated with a specific bulk portfolio reach the aggregate loss limit the remaining insurance in force within the deal may be cancelled and any remaining defaults under the deal are removed from our default inventory.

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 $2.2 billion ($0.9 billion on pool policies with aggregate loss limits and $1.3 billion on pool policies without aggregate loss limits) at June 30, 2011 compared to $2.7 billion ($1.2 billion on pool policies with aggregate loss limits and $1.5 billion on pool policies without aggregate loss limits) at December 31, 2010.

Freddie Mac, one of our pool insurance insureds, is computing the aggregate loss limit under a pool insurance policy at a higher level than we are computing this limit because we believe the original aggregate limit decreases over time while they believe the limit remains constant At June 30, 2011, the difference was approximately $535 million. Beginning in the second quarter of 2011, this difference has had an effect on our results of operations because the aggregate paid losses plus the portion of our loss reserves attributable to this policy have exceeded our interpretation of the loss limit by $52 million. Had we not limited our losses in a manner consistent with our interpretation of the policy, our losses incurred would have been $52 million higher in the second quarter of 2011, and our capital and risk-to-capital ratio would have been negatively impacted. Absent a change in our interpretation of the policy or that of Freddie Mac, we expect the aggregate impact on losses incurred will grow in future quarters. MGIC and Freddie Mac have each advised the other of the basis for its interpretation of the policy. It is reasonably possible that any eventual resolution of this matter could have material adverse effect on us.

Net premiums written and earned

Net premiums written and earned during the second quarter and first six months of 2011 decreased when compared to the same periods in 2010. The decrease was due to our lower average insurance in force, offset by lower levels of premium refunds related to rescissions and the continued decline of premiums ceded to captives.

We expect our average insurance in force to continue to decline through 2011 because our expected new insurance written levels are not expected to exceed our cancellation activity. We expect our premium yields (net premiums written or earned, expressed on an annual basis, divided by the average insurance in force) for the remainder of 2011 to continue at approximately the level experienced during the first half of 2011.

Risk sharing arrangements

For the quarter ended June 30, 2011, approximately 5% of our flow new insurance written was subject to arrangements with captives which was comparable to the year ended December 31, 2010. We expect the percentage of new insurance written subject to risk sharing arrangements to continue to approximate 5% in 2011 for the reasons discussed below.

Effective January 1, 2009, we are no longer ceding new business under excess of loss reinsurance treaties with lender captive reinsurers. Loans reinsured through December 31, 2008 under excess of loss agreements will run off pursuant to the terms of the particular captive arrangement. New business will continue to be ceded under quota share reinsurance arrangements, limited to a 25% cede rate. Beginning in 2008, many of our captive arrangements have either been terminated or placed into run-off.

We anticipate that our ceded premiums related to risk sharing agreements will continue to decline in 2011 for the reasons discussed above.

See discussion under “-Losses—Losses incurred” regarding losses assumed by captives.

Investment income

Investment income in the second quarter and first six months of 2011 was lower when compared to the same periods in 2010 due to a decrease in our average invested assets as we continue to liquidate our investment portfolio to meet our claim obligations. The average maturity of our investments has continued to decrease, as discussed under “Liquidity and Capital Resources” below. The portfolio’s average pre-tax investment yield was 2.7% at June 30, 2011 and 2.5% at June 30, 2010. The portfolio’s average pre-tax investment yield, excluding cash and cash equivalents, was 3.1% at June 30, 2011 and 3.3% at June 30, 2010.

We continue to expect a decline in investment income throughout 2011, compared to 2010, as the average amortized cost of invested assets decreases due to claim payments exceeding premiums received in future periods. See further discussion under “Liquidity and Capital Resources” below.

Realized gains and other-than-temporary impairments

Net realized gains for the second quarter and first six months of 2011 included $21.7 million and $27.5 million, respectively, in net realized gains on the sale of fixed income investments. Net realized gains for the second quarter of 2010 included $31.7 million in net realized gains on the sale of fixed income investments and net realized gains for the six months ended June 30, 2010 included $64.7 million in net realized gains on the sale of fixed income investments, offset by $6.1 million in OTTI losses.

Other revenue

Other revenue for the second quarter and first six months of 2011 increased, when compared to the same periods in 2010, due to a $3.2 million gain recognized in the second quarter of 2011 on the repurchase of $55 million in par value of our 5.375% Senior Notes due in November 2015.

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 and are defined as an insured loan with a mortgage payment that is 45 days or more 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. Historically, a substantial majority of borrowers have eventually cured their delinquent loans by making their overdue payments, but this percentage has decreased significantly in recent years.

Estimation of losses that we will pay in the future is inherently judgmental. The conditions that affect the claim rate and claim severity include the current and future state of the economy, including unemployment and 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 further 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 further drop in housing values, which expose us to greater losses on resale of properties obtained through the claim settlement process 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 claim payments, such as the settlement agreement discussed below under "Losses incurred." Changes to our estimates could result in a material impact to our results of operations, even in a stable economic environment.

In addition, our loss reserving methodology incorporates the effects rescission activity is expected to have on the losses we will pay on our delinquent inventory. A variance between ultimate actual rescission rates and these estimates could materially affect our losses. See our risk factor titled "We may not continue to realize benefits from rescissions at the levels we have recently experienced and we may not prevail in proceedings challenging whether our rescissions were proper."

Our estimates could also be positively affected by efforts to assist current borrowers in refinancing to new loans, assisting delinquent borrowers in reducing their mortgage payments, and forestalling foreclosures. If these benefits occur, we anticipate they will do so under non-HAMP programs. See discussion of HAMP under "Overview – Loan Modification and Other Similar Programs."

Losses incurred

Losses incurred for the second quarter of 2011 increased compared to the same period in 2010 primarily due to new notices exceeding cures. The primary default inventory decreased by 11,433 delinquencies in the second quarter of 2011, compared to a decrease of 12,789 in the second quarter of 2010. The estimated severity remained flat in both the second quarters of 2011 and 2010 and the estimated claim rate increased slightly in both quarters.

In the first half of 2011, net losses incurred were $770 million, which represented $855 million related to current year loss development and $85 million related to favorable prior years' loss development. In the first half of 2010, net losses incurred were $774 million, which represented $894 million related to current year loss development offset by $120 million related to favorable prior years' loss development. See Note 12 – "Loss Reserves" to our consolidated financial statements.

Current year losses incurred decreased slightly in the first half of 2011 compared to the same period in 2010 primarily due to a decrease in the number of new default notices received, net of cures, from 5,074 in the first half of 2010 to 1,696 in the first half of 2011.

The amount of losses incurred relating to defaults that occurred in prior years represents the actual claim rate and severity associated with those defaults resolved in the current period to the extent it differs 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 claim rate and severity is the result of our review of current trends in 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. The $85 million decrease in losses incurred in the first half of 2011 was related to defaults that occurred in prior periods. This decrease in losses incurred primarily related to a decrease in estimated loss adjustment expenses which approximated $80 million as well as a decrease in severity on primary defaults which approximated $80 million. These decreases in losses incurred were offset by an increase in the estimated claim rate which approximated $65 million. The decrease in estimated loss adjustment expense was based on recent historical trends in the costs associated with resolving a claim. The decrease in the severity was based on the resolution of approximately 37% of the prior year default inventory. The increase in the claim rate was also based on this resolution, 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. The additional offsetting increase in losses incurred related to prior years of approximately $10 million related to pool reserves and reinsurance.

The $120 million decrease in losses incurred in the first half of 2010 was related to defaults that occurred in prior periods. This decrease in losses incurred primarily related to a decrease in the claim rate on primary defaults which approximated $330 million. The decrease in the claim rate was based on the resolution of approximately 34% of the prior year default inventory. The decrease in the claim rate was due to greater cures experienced during the first half of 2010, a portion of which resulted from loan modifications. The decrease in the claim rate on prior year defaults was offset by an increase in primary severity which approximated $150 million and pool defaults which approximated $50 million. The increase in severity was based on the re-estimation of amounts to be ultimately paid on defaults remaining in inventory from the end of the prior year. The additional offsetting increase in losses incurred related to prior years of approximately $10 million related to LAE reserves and reinsurance.

The decrease in the primary default inventory experienced during the first half of 2011 was generally across all markets and all book years. However the number of consecutive months a loan remains in the primary default inventory (the age of the item in default) has continued to increase, as shown in the table below. Historically as a default ages it becomes more likely to result in a claim.

Aging of the Primary Default Inventory

	June 30, 2011		December 31, 2010		June 30, 2010	
Consecutive months in default						
3 months or less	30,107	16%	37,640	18%	35,838	16%
4 - 11 months	48,148	26%	58,701	27%	71,089	31%
12 months or more	106,197	58%	118,383	55%	121,528	53%
Total primary default inventory	184,452	100%	214,724	100%	228,455	100%

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

Number of Payments Delinquent

	June 30, 2011		December 31, 2010		June 30, 2010	
3 payments or less	40,968	22%	51,003	24%	49,308	22%
4 - 11 payments	51,523	28%	65,797	31%	80,224	35%
12 payments or more	91,961	50%	97,924	45%	98,923	43%
Total primary default inventory	184,452	100%	214,724	100%	228,455	100%

Before paying a claim, we can review the loan file to determine whether we are required, under the applicable insurance policy, to pay the claim or whether we are entitled to reduce the amount of the claim. For example, all of our insurance policies provide that we can reduce or deny a claim if the servicer did not comply with its obligation to mitigate our loss by performing reasonable loss mitigation efforts or diligently pursuing a foreclosure or bankruptcy relief in a timely manner. We also do not cover losses resulting from property damage that has not been repaired. We are currently reviewing the loan files for the majority of the claims submitted to us.

In addition, subject to rescission caps in certain of our Wall Street bulk transactions, all of our insurance policies allow us to rescind coverage under certain circumstances. Because we can review the loan origination documents and information as part of our normal processing when a claim is submitted to us, rescissions occur on a loan by loan basis most often after we have received a claim. Historically, claim rescissions and denials, which we collectively refer to as rescissions, were not a material portion of our claims resolved during a year. However, beginning in 2008 our rescissions of policies have materially mitigated our paid and incurred losses. While we have a substantial pipeline of claims investigations that we expect will eventually result in future rescissions, we expect that rescissions will not continue to mitigate paid and incurred losses at the same level we have recently experienced. In each of 2009 and 2010, rescissions mitigated our paid losses by approximately $1.2 billion, and in the first half of 2011, rescissions mitigated our paid losses by approximately $0.4 billion. These figures include amounts that would have resulted in either a claim payment or been charged to a deductible or aggregate loss limit under a bulk or pool policy, and may have been charged to a captive reinsurer. The amounts that would have been applied to a deductible do not take into account previous rescissions that may have been applied to a deductible.

Our loss reserving methodology incorporates the effect that rescission activity is expected to have on the losses we will pay on our delinquent inventory. 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. A variance between ultimate actual rescission rates and these estimates could materially affect our losses incurred. 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 losses incurred, as shown in the table below, must be considered together with the various other factors impacting losses incurred and not in isolation.

The table below represents our estimate of the impact rescissions have had on reducing our loss reserves, paid losses and losses incurred.

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
	(In billions)			
Estimated rescission reduction - beginning reserve	$ 1.1	$ 2.4	$ 1.3	$ 2.1
Estimated rescission reduction - losses incurred	-	-	-	0.6
Rescission reduction - paid claims	0.2	0.2	0.4	0.6
Amounts that may have been applied to a deductible	-	(0.1)	-	(0.2)
Net rescission reduction - paid claims	0.2	0.1	0.4	0.4
Estimated rescission reduction - ending reserve	$ 0.9	$ 2.3	$ 0.9	$ 2.3

The decrease in the estimated rescission reduction to losses incurred in the first half of 2011 compared to the same period in 2010 is due to a decline in the expected rescission rate for loans in our default inventory, compared to an increasing expected rescission rate in the first half of 2010.

At June 30, 2011, our loss reserves continued to be significantly impacted by expected rescission activity. We expect that the reduction of our loss reserves due to rescissions will continue to decline because our recent experience indicates new notices in our default inventory have a lower likelihood of being rescinded than those already in the inventory.

The liability associated with our estimate of premiums to be refunded on expected future rescissions is accrued for separately. At June 30, 2011 and December 31, 2010 the estimate of this liability totaled $75 million and $101 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.

If the insured disputes our right to rescind coverage, the outcome of the dispute ultimately would be determined by legal proceedings. 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. For nearly all of our rescissions that are not subject to a settlement agreement, the period in which a dispute may be brought has not ended. We consider a rescission resolved for reporting purposes even though legal proceedings have been initiated and are ongoing. Although it is reasonably possible that, when the proceedings are completed, there will be a determination that we were not entitled to rescind in all cases, we are unable to make a reasonable estimate or range of estimates of the potential liability. Under ASC 450-20, an estimated loss from such proceedings is accrued for only if we determine that the loss is probable and can be reasonably estimated. Therefore, when establishing our loss reserves, we do not include additional loss reserves that would reflect an adverse outcome from ongoing legal proceedings, including those with Countrywide. Countrywide has filed a lawsuit against MGIC alleging that MGIC has denied, and continues to deny, valid mortgage insurance claims. MGIC has filed an arbitration case against Countrywide regarding rescissions and Countrywide has responded seeking damages, including exemplary damages. For more information about this lawsuit and arbitration case, see Note 5 – “Litigation and contingencies” to our consolidated financial statements.

We continue to discuss with other lenders their objections to material rescissions. In 2010, we entered into a settlement agreement with a lender-customer regarding our rescission practices and we may, subject to GSE approval, enter into additional settlement agreements with other lenders in the future. In April 2011, Freddie Mac advised its servicers that they must obtain its prior approval for rescission settlements and Fannie Mae advised its servicers that they are prohibited from entering into such settlements. In addition, in April 2011, Fannie Mae notified us that we must obtain its prior approval to enter into certain settlements. There can be no assurances that the GSEs will approve any future settlement agreements.

In addition to the proceedings involving Countrywide, we are involved in legal proceedings with respect to rescissions that we do not consider to be collectively material in amount. Although it is reasonably possible that, when these discussions or proceedings are completed, there will be a conclusion or determination that we were not entitled to rescind in all cases, we are unable to make a reasonable estimate or range of estimates of the potential liability.

Information regarding the ever-to-date rescission rates by the quarter in which the claim was received appears in the table below. No information is presented for claims received in the most recent two quarters to allow sufficient time for a substantial percentage of the claims received in those two quarters to reach resolution.

As of June 30, 2011
Ever to Date Rescission Rates on Primary Claims Received
(based on count)

Quarter in Which the Claim was Received	ETD Rescission Rate (1)	ETD Claims Resolution Percentage (2)
Q4 2009	23.8%	100.0%
Q1 2010	21.1%	99.8%
Q2 2010	20.1%	99.7%
Q3 2010	18.4%	98.3%
Q4 2010	15.1%	91.4%

(1) This percentage is claims received during the quarter shown that have been rescinded as of our most recently completed quarter divided by the total claims received during the quarter shown. In certain cases we rescind coverage before a claim is received. Such rescissions, which have not been material, are not included in the statistics in this table.
(2) This percentage is claims received during the quarter shown that have been resolved as of our most recently completed quarter divided by the total claims received during the quarter shown. Claims resolved principally consist of claims paid plus claims for which we have informed the insured of our decision not to pay the claim. Although our decision to not pay a claim is made after we have given the insured an opportunity to dispute the facts underlying our decision to not pay the claim, these decisions are sometimes reversed after further discussion with the insured. The number of rescission reversals has been immaterial.

We anticipate that the ever-to-date rescission rate on the more recent quarters will increase, to a greater or lesser degree, as the ever-to-date resolution percentage moves closer to 100%.

As discussed under "–Risk sharing arrangements," approximately 5% of our flow new insurance written is subject to reinsurance arrangements with lender captives. Captive agreements are 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 approximately $186 million at June 30, 2011 which was supported by $424 million of trust assets, while at December 31, 2010 the reinsurance recoverable on loss reserves related to captives was $248 million which was supported by $484 million of trust assets. As of June 30, 2011 and December 31, 2010 there was an additional $27 million and $26 million, respectively, of trust assets in captive agreements where there was no related reinsurance recoverable on loss reserves. For additional discussion regarding our captive arrangements see "Losses—Losses incurred" in our 10-K MD&A.

In the second quarter and first six months of 2011 the captive arrangements reduced our losses incurred by approximately $16 million and $29 million, respectively, compared to a $22 million and $47 million, respectively, in the second quarter and first six months of 2010. We anticipate that the reduction in losses incurred will continue to be lower in 2011, as some of our captive arrangements were terminated in 2010.

A rollforward of our primary default inventory for the three and six months ended June 30, 2011 and 2010 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 default 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 and by transfers of servicing between loan servicers.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Default inventory at beginning of period	195,885	241,244	214,724	250,440
Plus: New Notices	39,972	48,181	83,167	101,574
Less: Cures	(35,832)	(47,290)	(81,471)	(96,500)
Less: Paids (including those charged to a deductible or captive)	(13,553)	(10,653)	(27,019)	(19,847)
Less: Rescissions and denials	(2,020)	(3,027)	(4,949)	(7,212)
Default inventory at end of period	184,452	228,455	184,452	228,455

Information about the composition of the primary default inventory at June 30, 2011, December 31, 2010 and June 30, 2010 appears in the table below.

	June 30, 2011	December 31, 2010	June 30, 2010
Total loans delinquent (1)	184,452	214,724	228,455
Percentage of loans delinquent (default rate)	15.80%	17.48%	17.59%
Prime loans delinquent (2)	115,980	134,787	141,857
Percentage of prime loans delinquent (default rate)	11.80%	13.11%	13.05%
A-minus loans delinquent (2)	26,878	31,566	32,384
Percent of A-minus loans delinquent (default rate)	33.50%	36.69%	37.10%
Subprime credit loans delinquent (2)	9,725	11,132	11,782
Percentage of subprime credit loans delinquent (default rate)	42.36%	45.66%	46.19%
Reduced documentation loans delinquent (3)	31,869	37,239	42,432
Percentage of reduced documentation loans delinquent (default rate)	39.04%	41.66%	43.14%

General Notes: (a) For the information presented for June 30, 2011 and December 31, 2010, the FICO credit score for a loan with multiple borrowers is the lowest of the borrowers' "decision FICO scores." For the information presented for June 30, 2010, the FICO score for a loan with multiple borrowers was the income weighted average of the "decision FICO scores" for each borrower. 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 10,841 defaults with a risk of $538.6 million as of June 30, 2011.

(1) At June 30, 2011, December 31, 2010 and June 30, 2010 31,902, 36,066 and 38,911 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 June 30, 2011, December 31, 2010 and June 30, 2010 appear in the table below.

Gross Reserves	June 30, 2011	December 31, 2010	June 30, 2010
Primary:			
Direct loss reserves (in millions)	$ 4,504	$ 5,146	$ 5,699
Ending default inventory	184,452	214,724	228,455
Average direct reserve per default	$ 24,416	$ 23,966	$ 24,946
Primary claims received inventory included in ending default inventory	14,504	20,898	19,724
Pool (1):			
Direct loss reserves (in millions):			
With aggregate loss limits (2)	$ 535	$ 700	$ 649
Without aggregate loss limits	35	30	35
Total pool direct loss reserves	$ 570	$ 730	$ 684
Ending default inventory:			
With aggregate loss limits (2)	35,136	41,786	41,454
Without aggregate loss limits	1,416	1,543	1,418
Total pool ending default inventory	36,552	43,329	42,872
Pool claims received inventory included in ending default inventory	1,836	2,510	2,023
Other gross reserves (in millions)	$ 9	$ 8	$ 6

(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 "Pool insurance" above for a discussion of our interpretation of the appropriate aggregate loss on a pool policy we have with Freddie Mac. At June 30, 2011 our loss reserves under this policy have been limited under our interpretation of the aggregate. The default inventory includes all items in default under this policy.

The primary default inventory and primary loss reserves by region at June 30, 2011, December 31, 2010 and June 30, 2010 appears in the table below.

Losses by Region

Primary Default Inventory

Region	June 30, 2011	December 31, 2010	June 30, 2010
Great Lakes	23,020	27,663	29,387
Mid-Atlantic	8,342	9,660	10,301
New England	7,047	7,702	8,139
North Central	21,261	24,192	25,507
Northeast	17,572	19,056	19,135
Pacific	21,375	25,438	28,796
Plains	5,981	7,045	7,279
South Central	22,934	28,984	31,062
Southeast	56,920	64,984	68,849
Total	184,452	214,724	228,455

Primary Loss Reserves
(In millions)

Region	June 30, 2011	December 31, 2010	June 30, 2010
Great Lakes	$ 366	$ 426	$ 485
Mid-Atlantic	204	231	246
New England	145	174	199
North Central	422	495	506
Northeast	334	374	422
Pacific	813	886	948
Plains	90	107	111
South Central	485	555	588
Southeast	1,265	1,395	1,585
Total before IBNR and LAE	$ 4,124	$ 4,643	$ 5,090
IBNR and LAE	380	503	609
Total	$ 4,504	$ 5,146	$ 5,699

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

The primary loss reserves (before IBNR and LAE) at June 30, 2011, December 31, 2010 and June 30, 2010 separated between our flow and bulk business appears in the table below.

Primary loss reserves (In millions)	June 30, 2011	December 31, 2010	June 30, 2010
Flow	$ 2,921	$ 3,329	$ 3,524
Bulk	1,203	1,314	1,566
Total primary reserves	$ 4,124	$ 4,643	$ 5,090

The average claim paid, as shown in the table below, 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 2011 paid claims) for the three and six months ended June 30, 2011 and 2010 appears in the table below.

Primary average claim paid	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
California	$ 85,831	$ 91,617	$ 83,370	$ 93,229
Florida	59,970	64,365	58,662	65,308
Arizona	54,190	58,949	54,887	61,271
Michigan	36,107	36,073	34,994	36,074
Georgia	41,449	42,282	41,240	42,807
All other states	45,727	45,762	44,896	46,444
All states	$ 49,853	$ 50,926	$ 48,890	$ 51,917

The primary average loan size of our insurance in force at June 30, 2011, December 31, 2010 and June 30, 2010 appears in the table below.

Primary average loan size	June 30, 2011	December 31, 2010	June 30, 2010
Total insurance in force	$ 156,220	$ 155,700	$ 155,860
Prime (FICO 620 & >)	156,030	155,050	154,770
A-Minus (FICO 575-619)	129,570	130,360	129,490
Subprime (FICO < 575)	116,730	117,410	117,690
Reduced doc (All FICOs)	195,710	198,000	201,190

The primary average loan size of our insurance in force at June 30, 2011, December 31, 2010 and June 30, 2010 for the top 5 states (based on 2011 paid claims) appears in the table below.

Primary average loan size	June 30, 2011	December 31, 2010	June 30, 2010
California	$ 282,167	$ 283,459	$ 286,096
Florida	173,453	174,203	176,497
Arizona	183,210	184,508	186,998
Michigan	121,410	121,282	121,333
Georgia	148,370	148,002	148,375
All other states	149,996	149,182	148,871

Information about net paid claims during the three and six months ended June 30, 2011 and 2010 appears in the table below.

Net paid claims (In millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Prime (FICO 620 & >)	$ 472	$ 339	$ 923	$ 627
A-Minus (FICO 575-619)	77	70	153	132
Subprime (FICO < 575)	20	20	39	41
Reduced doc (All FICOs)	108	110	208	223
Pool	170	44	242	78
Other	1	1	2	2
Direct losses paid	848	584	1,567	1,103
Reinsurance	(44)	(22)	(92)	(39)
Net losses paid	804	562	1,475	1,064
LAE	14	18	30	35
Net losses and LAE paid before terminations	818	580	1,505	1,099
Reinsurance terminations	(2)	-	(3)	-
Net losses and LAE paid	$ 816	$ 580	$ 1,502	$ 1,099

Primary claims paid for the top 15 states (based on 2011 paid claims) and all other states for the three and six months ended June 30, 2011 and 2010 appears in the table below.

Primary paid claims by state (In millions)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
California	$ 96	$ 72	$ 176	$ 138
Florida	75	72	158	143
Arizona	52	38	99	76
Michigan	42	35	77	63
Georgia	32	23	69	42
Nevada	31	19	63	43
Texas	29	24	61	43
Illinois	28	22	54	43
Ohio	21	16	43	33
Washington	19	10	35	20
Virginia	17	13	35	29
Minnesota	20	16	33	27
Maryland	14	11	31	24
Colorado	13	11	27	17
North Carolina	11	10	23	16
All other states	177	147	339	266
	$ 677	$ 539	$ 1,323	$ 1,023
Other (Pool, LAE, Reinsurance)	139	41	179	76
	$ 816	$ 580	$ 1,502	$ 1,099

Beginning in 2008, the rate at which claims are received and paid slowed for a combination of reasons, including foreclosure moratoriums, servicing delays, court delays, loan modifications and our claims investigations. Although these factors continue to affect our paid claims, we believe that paid claims for 2011 will be higher than 2010 given the large number of loans that are 12 months or more past due and the approximately 14,500 primary claims that have been received but not yet paid. Even though we anticipate paid claims to be higher in 2011, we believe paid claims, on a quarterly basis, have peaked in the second quarter of 2011 assuming recent foreclosure patterns continue. We expect the portion of our paid claims that are pool paid claims in the second half of 2011 to approximate the level experienced in the first half of 2011 or increase slightly.

The primary default inventory in those same states at June 30, 2011, December 31, 2010 and June 30, 2010 appears in the table below.

Primary default inventory by state

	June 30, 2011	December 31, 2010	June 30, 2010
California	11,440	14,070	16,681
Florida	29,300	32,788	35,965
Arizona	5,098	6,781	7,587
Michigan	8,069	10,278	11,335
Georgia	7,403	9,117	10,067
Nevada	3,853	4,729	5,397
Texas	8,985	11,602	12,131
Illinois	11,370	12,548	13,136
Ohio	8,375	9,850	10,151
Washington	3,606	3,888	3,829
Virginia	2,924	3,627	3,911
Minnesota	3,045	3,672	4,078
Maryland	3,830	4,264	4,572
Colorado	2,327	2,917	3,218
North Carolina	4,885	5,641	5,883
All other states	69,942	78,952	80,514
	184,452	214,724	228,455

The primary default inventory at June 30, 2011, December 31, 2010 and June 30, 2010 separated between our flow and bulk business appears in the table below.

Primary default inventory

	June 30, 2011	December 31, 2010	June 30, 2010
Flow	139,032	162,621	172,057
Bulk	45,420	52,103	56,398
	184,452	214,724	228,455

The flow default inventory by policy year at June 30, 2011, December 31, 2010 and June 30, 2010 appears in the table below.

Flow default inventory by policy year

Policy year:	June 30, 2011	December 31, 2010	June 30, 2010
2002 and prior	12,502	14,914	15,650
2003	7,512	9,069	9,477
2004	10,239	12,077	12,683
2005	16,057	18,789	19,736
2006	24,169	28,284	30,209
2007	53,547	62,855	67,870
2008	14,332	16,059	16,114
2009	603	546	315
2010	67	28	3
2011	4	-	-
	139,032	162,621	172,057

The liability associated with our estimate of premiums to be refunded on expected claim payments is accrued for separately at June 30, 2011 and December 31, 2010 and approximated $112 million and $113 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, respectively.

As of June 30, 2011, 60% of our primary insurance in force was written subsequent to December 31, 2006. 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 have the effect of accelerating 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

During the second quarter of 2011, the premium deficiency reserve on Wall Street bulk transactions declined by $11 million from $170 million, as of March 31, 2011, to $159 million as of June 30, 2011. During the first six months of 2011 the premium deficiency reserve on Wall Street bulk transactions declined by $20 million from $179 million at December 31, 2010. The $159 million premium deficiency reserve as of June 30, 2011 reflects the present value of expected future losses and expenses that exceeded the present value of expected future premium and already established loss reserves. The discount rate used in the calculation of the premium deficiency reserve at June 30, 2011 was 2.7%. During the second quarter of 2010, the premium deficiency reserve on Wall Street bulk transactions declined by $11 million from $180 million, as of March 31, 2010, to $169 million as of June 30, 2010. During the first six months of 2010 the premium deficiency reserve on Wall Street bulk transactions declined by $24 million from $193 million at December 31, 2009.

The components of the premium deficiency reserve at June 30, 2011, December 31, 2010 and June 30, 2010 appear in the table below.

	June 30, 2011	December 31, 2010	June 30, 2010
		(In millions)	
Present value of expected future paid losses and expenses, net of expected future premium	$ (1,060)	$ (1,254)	$ (1,421)
Established loss reserves	901	1,075	1,252
Net deficiency	$ (159)	$ (179)	$ (169)

The decrease in the premium deficiency reserve for the three and six months ended June 30, 2011 was $11 million and $20 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 second quarter and first six months of 2011 is primarily related to lower estimated ultimate losses and higher estimated ultimate premiums.

	Three Months Ended		Six Months Ended	
	June 30, 2011			
	(In millions)			
Premium Deficiency Reserve at beginning of period		$ (170)		$ (179)
Paid claims and loss adjustment expenses	$ 97		$ 172	
Decrease in loss reserves	(99)		(174)	
Premium earned	(29)		(61)	
Effects of present valuing on future premiums, losses and expenses	2		(10)	
Change in premium deficiency reserve to reflect actual premium, losses and expenses recognized		(29)		(73)
Change in premium deficiency reserve to reflect change in assumptions relating to future premiums, losses, expenses and discount rate (1)		40		93
Premium Deficiency Reserve at end of period		$ (159)		$ (159)

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

Each quarter we perform a premium deficiency analysis on the portion of our book of business not covered by the premium deficiency described above. As of June 30, 2011, the analysis concluded that there was no premium deficiency on such portion of our book of business. For the reasons discussed below, our analysis of any potential deficiency reserve is subject to inherent uncertainty and requires significant judgment by management. To the extent, in a future period, expected losses are higher or expected premiums are lower than the assumptions we used in our analysis, we could be required to record a premium deficiency reserve on this portion of our book of business in such period.

The calculation of premium deficiency reserves requires the use of significant judgments and estimates to determine the present value of future premium and present value of expected losses and expenses on our business. The present value of future premium relies on, among other things, assumptions about persistency and repayment patterns on underlying loans. The present value of expected losses and expenses depends on assumptions relating to severity of claims and claim rates on current defaults, and expected defaults in future periods. These assumptions also include an estimate of expected rescission activity. Similar to our loss reserve estimates, our estimates for premium deficiency reserves could be adversely affected by several factors, including a deterioration of regional or economic conditions leading to a reduction in borrowers' income and thus their ability to make mortgage payments, and a drop in housing values that could expose us to greater losses. Assumptions used in calculating the deficiency reserves can also be affected by volatility in the current housing and mortgage lending industries. To the extent premium patterns and actual loss experience differ from the assumptions used in calculating the premium deficiency reserves, the differences between the actual results and our estimates will affect future period earnings and could be material.

Underwriting and other expenses

Underwriting and other expenses for the second quarter of 2011 were flat compared to the second quarter of 2010. Underwriting and other expenses for the first six months of 2011 decreased when compared to the same period in 2010. The decrease reflects our lower contract underwriting volume as well as reductions in headcount.

Ratios

The table below presents our loss, expense and combined ratios for our combined insurance operations for the three and six months ended June 30, 2011 and 2010.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Loss ratio	161.6%	103.5%	134.4%	133.3%
Expense ratio	16.5%	15.0%	16.3%	16.6%
Combined ratio	178.1%	118.5%	150.7%	149.9%

The loss ratio is the ratio, expressed as a percentage, of the sum of incurred losses and loss adjustment expenses to net premiums earned. The loss ratio does not reflect any effects due to premium deficiency. The increase in the loss ratio in the second quarter of 2011, compared to the same period in 2010, was due to an increase in losses incurred, as well as a decrease in premiums earned. The loss ratio for the first six months of 2011 was comparable to the loss ratio experienced in the first six months of 2010. The expense ratio is the ratio, expressed as a percentage, of underwriting expenses to net premiums written. The increase in the expense ratio in the second quarter of 2011, compared to the same period in 2010, was due to a decrease in premiums written. The decrease in the expense ratio in the first six months of 2011, compared to the same period in 2010, was due to a decrease in underwriting and other expenses, partially offset by a decrease in premiums written. The combined ratio is the sum of the loss ratio and the expense ratio.

Interest expense

Interest expense for the second quarter and first six months of 2011 increased when compared to the same period in 2010. The increase is due to the issuance of our 5% Convertible Senior Notes in April 2010 as well as an increase in amortization on our junior debentures.

Income taxes

The effective tax rate (benefit) on our pre-tax loss was (6.3%) in the second quarter of 2011, compared to the effective tax rate (benefit) of (38.3%) on our pre-tax income in the second quarter of 2010. During the second quarter of 2011, the benefit from income taxes was reduced by $53.7 million due to the increase in the amount of the valuation allowance. During the second quarter of 2010, the benefit from income taxes was increased by $3.3 million due to a decrease in the amount of the valuation allowance.

The effective tax rate (benefit) on our pre-tax loss was (4.3%) in the first six months of 2011, compared to (5.9%) in the first six months of 2010. During those periods the benefit from income taxes was reduced by the increase in the amount of the valuation allowance.

We review the need to adjust the deferred tax asset valuation allowance on a quarterly basis. We analyze several factors, among which are the severity and frequency of operating losses, our capacity for the carryback or carryforward of any losses, the expected occurrence of future income or loss and available tax planning alternatives. Based on our analysis and the level of cumulative operating losses, we have reduced our benefit from income tax by establishing a valuation allowance.

For the six months ended June 30, 2011 and 2010, our deferred tax valuation allowance was reduced by the change in the deferred tax liability related to $34.6 million and $35.7 million, respectively of unrealized gains on investments that were recorded in other comprehensive income. In the event of future operating losses, it is likely that the valuation allowance will be adjusted by any taxes recorded to equity for changes in unrealized gains or losses or other items in other comprehensive income.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(In thousands)			
Benefit from income taxes	$ (63,859)	$ (3,508)	$ (83,093)	$ (64,222)
Change in valuation allowance	53,712	(3,295)	74,715	56,372
Tax benefit	$ (10,147)	$ (6,803)	$ (8,378)	$ (7,850)

The decrease in the valuation allowance that was included in other comprehensive income was $9.2 million and $0 million for the three months ended June 30, 2011 and 2010, respectively. There was no change in the valuation allowance included in other comprehensive income for the six months ended June 30, 2011 and 2010. The total valuation allowance as of June 30, 2011 and December 31, 2010 was $485.0 million and $410.3 million, respectively.

We have approximately $1,097 million of net operating loss carryforwards on a regular tax basis and $255 million of net operating loss carryforwards for computing the alternative minimum tax as of June 30, 2011. The net operating loss carryforwards decreased in the second quarter of 2011 as the loss from operations was more than offset by a onetime inclusion of taxable income. The taxable income related to the cancellation of indebtedness triggered by the conclusion of bankruptcy proceedings for C-BASS, a joint venture investment. Any unutilized carryforwards are scheduled to expire at the end of tax years 2029 through 2031.

Financial Condition

At June 30, 2011, based on fair value, approximately 95% of our fixed income securities and cash and cash equivalents were invested in ‘A’ rated and above, readily marketable securities, concentrated in maturities of less than 15 years. The composition of ratings at June 30, 2011, December 31, 2010 and June 30, 2010 are shown in the table below.

Investment Portfolio Ratings

	At June 30, 2011	At December 31, 2010	At June 30, 2010
AAA	49%	51%	56%
AA	24%	25%	23%
A	22%	20%	16%
A or better	95%	96%	95%
BBB and below	5%	4%	5%
Total	100%	100%	100%

Approximately 13% of our investment portfolio, excluding cash and cash equivalents, is guaranteed by financial guarantors. We evaluate the credit risk of securities through analysis of the underlying fundamentals. The extent of our analysis depends on a variety of factors, including the issuer’s sector, scale, profitability, debt cover, ratings and the tenor of the investment. A breakdown of the portion of our investment portfolio covered by a financial guarantor by credit rating, including the rating without the guarantee is shown below. The ratings are provided by one or more of the following major rating agencies: Moody’s, Standard & Poor’s and Fitch Ratings.

June 30, 2011 (In millions)	Guarantor Rating				
	AA-	BBB	NR	R	All
Underlying Rating:					
AAA	$ -	$ -	$ -	$ 18	$ 18
AA	76	215	-	117	408
A	76	178	-	127	381
BBB	1	21	10	25	57
	$ 153	$ 414	$ 10	$ 287	$ 864

NR – not rated
R – in regulatory receivership

At June 30, 2011, there was $1 million of fixed income securities relying on financial guaranty insurance to elevate their rating to ‘A’ and above. Any future downgrades of these financial guarantor ratings would leave the percentage of fixed income securities ‘A’ and above effectively unchanged.

We primarily place our investments in instruments that meet high credit quality standards, as specified in 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 June 30, 2011, the modified duration of our fixed income investment portfolio, including cash and cash equivalents, was 2.9 years, which means that an instantaneous parallel shift in the yield curve of 100 basis points would result in a change of 2.9% 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.

We held $287.2 million in auction rate securities (“ARS”) backed by student loans at June 30, 2011. ARS are intended to behave like short-term debt instruments because their interest rates are reset periodically through an auction process, most commonly at intervals of 7, 28 and 35 days. The same auction process has historically provided a means by which we may rollover the investment or sell these securities at par in order to provide us with liquidity as needed. The ARS we hold are collateralized by portfolios of student loans, substantially all of which are ultimately 97% guaranteed by the United States Department of Education. At June 30, 2011, approximately 87% of our ARS portfolio was rated AAA/Aaa by one or more of the following major rating agencies: Moody’s, Standard & Poor’s and Fitch Ratings.

In mid-February 2008, auctions began to fail due to insufficient buyers, as the amount of securities submitted for sale in auctions exceeded the aggregate amount of the bids. For each failed auction, the interest rate on the security moves to a maximum rate specified for each security, and generally resets at a level higher than specified short-term interest rate benchmarks. At June 30, 2011, our entire ARS portfolio, consisting of 28 investments, was subject to failed auctions; however, from the period when the auctions began to fail through June 30, 2011, $235.6 million in par value of ARS was either sold or called, with the average amount we received being approximately 99% of par which approximated the aggregate fair value prior to redemption. To date, we have collected all interest due on our ARS.

As a result of the persistent failed auctions, and the uncertainty of when these investments could be liquidated at par, the investment principal associated with failed auctions will not be accessible until successful auctions occur, a buyer is found outside of the auction process, the issuers establish a different form of financing to replace these securities, or final payments come due according to the contractual maturities of the debt issues. However, we continue to believe we will have liquidity to our ARS portfolio by December 31, 2014.

At June 30, 2011, our total assets included $1.0 billion of cash and cash equivalents as shown on our consolidated balance sheet.

At June 30, 2011, we had $77.4 million, 5.625% Senior Notes due in September 2011 and $245 million, 5.375% Senior Notes due in November 2015, with a combined fair value of $295.7 million, outstanding. At June 30, 2011, we also had $345 million principal amount of 5% Convertible Senior Notes outstanding due in 2017, with a fair value of $306.2 million and $389.5 million principal amount of 9% Convertible Junior Subordinated Debentures due in 2063 outstanding, which at June 30, 2011 are reflected as a liability on our consolidated balance sheet at the current amortized value of $329.3 million, with the unamortized discount reflected in equity. The fair value of the convertible debentures was approximately $311.6 million at June 30, 2011.

The Internal Revenue Service ("IRS") completed separate examinations of our federal income tax returns for the years 2000 through 2004 and 2005 through 2007 and issued assessments for unpaid taxes, interest and penalties. The primary adjustment in both examinations 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"). This portfolio has been managed and maintained during years prior to, during and subsequent to the examination period. 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 those adjustments and, in August 2010, we reached a tentative settlement agreement with the IRS. The settlement agreement is subject to review by the Joint Committee on Taxation of Congress because net operating losses incurred in 2009 were carried back to taxable years that were included in the agreement. A final agreement is expected to be entered into when the review is complete, although we do not expect there will be any substantive change in the terms of a final agreement from those in the tentative agreement. We adjusted our tax provision and liabilities for the effects of this agreement in 2010 and believe that they accurately reflect our exposure in regard to this issue.

The IRS is currently conducting an examination of our federal income tax returns for the years 2008 and 2009, which is scheduled to be completed in 2011.

The total amount of unrecognized tax benefits as of June 30, 2011 is $109.7 million. The total amount of the unrecognized tax benefits that would affect our effective tax rate is $97.1 million. We recognize interest accrued and penalties related to unrecognized tax benefits in income taxes. We have accrued $26.3 million for the payment of interest as of June 30, 2011. Based on our tentative agreement with the IRS, we expect our total amount of unrecognized tax benefits to be reduced by $103.8 million during 2011, while after taking into account prior payments and the effect of available net operating loss carrybacks, we expect net cash outflows to equal approximately $22 million.

Our principal exposure to loss is our obligation to pay claims under MGIC's mortgage guaranty insurance policies. At June 30, 2011, 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 $49.0 billion. In addition, as part of our contract underwriting activities, we are responsible for the quality of our underwriting decisions in accordance with the terms of the contract underwriting agreements with customers. We 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 obligations. Through June 30, 2011, the cost of remedies provided by us to customers for failing to meet the standards of the contracts has not been material. However, a generally positive economic environment for residential real estate that continued until approximately 2007 may have mitigated the effect of some of these costs, and claims for remedies may be made a number of years after the underwriting work was performed. A material portion of our new insurance written through the flow channel in recent years, including for 2006 and 2007, has involved loans for which we provided contract underwriting services. We believe the rescission of mortgage insurance coverage on loans for which we provided contract underwriting services may make a claim for a contract underwriting remedy more likely to occur. Beginning in the second half of 2009, we experienced an increase in claims for contract underwriting remedies, which continued into the first half of 2011. Hence, there can be no assurance that contract underwriting remedies will not be material in the future.

Liquidity and Capital Resources

Overview

At June 30, 2011, our sources of funds consisted primarily of:

- our investment portfolio (which is discussed in "Financial Condition" above), and interest income on the portfolio,

- net premiums 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 captives (which is discussed in “Results of Consolidated Operations – Risk sharing arrangements” and “Results of Consolidated Operations – Losses – Losses incurred” above).

At June 30, 2011, our obligations consisted primarily of:

- claim payments under MGIC’s mortgage guaranty insurance policies,

- $77.4 million of 5.625% Senior Notes due in September 2011,

- $245 million of 5.375% Senior Notes due in November 2015,

- $345 million of Convertible Senior Notes due in 2017,

- $389.5 million of Convertible Junior Debentures due in 2063,

- interest on the foregoing debt instruments, and

- the other costs and operating expenses of our business.

Holders of both of the convertible 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.

For the first time in many years, beginning in 2009, claim payments exceeded premiums received. We expect that this trend will continue. Due to the uncertainty regarding how certain factors, such as foreclosure moratoriums, servicing and court delays, failures by servicers to follow proper procedures in foreclosure proceedings, loan modifications and claims investigations and rescissions, 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.

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. We are a holding company and the payment of dividends from our insurance subsidiaries, which prior to raising capital in the public markets in 2008 and 2010 had been the principal source of our holding company cash inflow, is restricted by insurance regulation. MGIC is the principal source of dividend-paying capacity. In 2009, 2010 and the first half of 2011, MGIC has not paid any dividends to our holding company. Through 2011, MGIC cannot pay any dividends to our holding company without approval from the OCI.

At June 30, 2011, we had $823 million in cash and investments at our holding company. As of June 30, 2011, our holding company's obligations included $77.4 million of debt which is scheduled to mature in September 2011, $245 million of Senior Notes due in November 2015 and $345 million in Convertible Senior Notes due in 2017, all of which must be serviced pending scheduled maturity. On an annual basis, as of June 30, 2011 our use of funds at the holding company for interest payments on our Senior Notes and Convertible Senior Notes approximated $35 million. As of June 30, 2011, our holding company's obligations also include $389.5 million in Convertible Junior Debentures due in 2063 and interest on these debentures. See Note 3 – "Debt" to our consolidated financial statements for additional information about this indebtedness, including our right to defer interest on our Convertible Junior Debentures.

In the second quarter of 2011, we repurchased for cash approximately $55 million in par value of our 5.375% Senior Notes due in November 2015. We recognized a $3.2 million gain on the repurchases, which is included in other revenue on the Consolidated Statements of Operations for the six months ended June 30, 2011. 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 and is our net risk in force divided by our policyholders' position. Our net risk in force includes both primary and pool risk in force, and excludes risk on policies that are currently in default and for which loss reserves have been established. The risk amount includes pools of loans or bulk deals with contractual aggregate loss limits and in some cases without these limits. Policyholders' position consists primarily of statutory policyholders' surplus (which increases as a result of statutory net income and decreases as a result of statutory net loss and dividends paid), plus the statutory contingency reserve. The statutory contingency reserve is reported as a liability on the statutory balance sheet. A mortgage insurance company is required to make annual contributions to the contingency reserve of approximately 50% of net earned premiums. These contributions must generally be maintained for a period of ten years. However, with regulatory approval a mortgage insurance company may make early withdrawals from the contingency reserve when incurred losses exceed 35% of net earned premium in a calendar year.

The premium deficiency reserve discussed under "Results of Consolidated Operations – Losses – Premium deficiency" above 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, additionally policies are grouped based on how they are acquired, serviced and measured.

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

	June 30, 2011	December 31, 2010
	(In millions, except ratio)	
Risk in force - net (1)	$ 33,201	$ 33,817
Statutory policyholders' surplus	$ 1,628	$ 1,709
Statutory contingency reserve	-	-
Statutory policyholders' position	$ 1,628	$ 1,709
Risk-to-capital	20.4:1	19.8:1

(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' risk-to-capital calculation appears in the table below.

	June 30, 2011	December 31, 2010
	(In millions, except ratio)	
Risk in force - net (1)	$ 38,544	$ 39,369
Statutory policyholders' surplus	$ 1,637	$ 1,692
Statutory contingency reserve	12	5
Statutory policyholders' position	$ 1,649	$ 1,697
Risk-to-capital	23.4:1	23.2:1

(1) Risk in force – net, as shown in the table above, is net of reinsurance and exposure on policies currently in default ($9.3 billion at June 30, 2011 and $11.0 billion at December 31, 2010) and for which loss reserves have been established.

Our risk-to-capital ratio will increase if the percentage decrease in capital exceeds the percentage decrease in insured risk. Therefore, as capital decreases, the same dollar decrease in capital will cause a greater percentage decrease in capital and a greater increase in the risk-to-capital ratio.

For additional information regarding regulatory capital see "Overview-Capital" above as well as our Risk Factor titled "Even though our plan to write new insurance in MGIC Indemnity Corporation has received approval from the Office of the Commissioner of Insurance of the State of Wisconsin ("OCI") and the GSEs, because MGIC is not expected to meet statutory risk-to-capital requirements to write new business in various states, we cannot guarantee that the implementation of our plan will allow us to continue 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 positive outlook. Standard & Poor's Rating Services' insurer financial strength rating of MGIC is B+ and the outlook for this rating is negative.

For further information about the importance of MGIC's ratings, see our Risk Factor titled "MGIC may not continue to meet the GSEs' mortgage insurer eligibility requirements".

Contractual Obligations

At June 30, 2011, 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	$ 3,045	$ 145	$ 131	$ 369	$ 2,400
Operating lease obligations	6	3	2	1	-
Tax obligations	17	17	-	-	-
Purchase obligations	1	1	-	-	-
Pension, SERP and other post-retirement benefit plans	169	10	25	32	102
Other long-term liabilities	5,083	2,338	2,287	458	-
Total	$ 8,321	$ 2,514	$ 2,445	$ 860	$ 2,502

Our long-term debt obligations at June 30, 2011 include our $77.4 million of 5.625% Senior Notes due in September 2011, $245 million of 5.375% Senior Notes due in November 2015, $345 million of 5% Convertible Senior Notes due in 2017 and $389.5 million in convertible debentures due in 2063, including related interest, as discussed in Note 3 – "Debt" to our consolidated financial statements and under "Liquidity and Capital Resources" above. Our operating lease obligations include operating leases on certain office space, data processing equipment and autos, as discussed in Note 19 – "Leases" to our consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2010. 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, 2010 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 foreclosure moratoriums, servicing and court delays, failures by servicers to follow proper procedures in foreclosure proceedings, loan modifications, claims investigations and claim rescissions, 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, 2010, as supplemented by Part II, Item 1 A of our Quarterly Report on Form 10-Q for the Quarter Ended March 31, 2011 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 June 30, 2011, 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 June 30, 2011, the modified duration of our fixed income investment portfolio was 2.9 years, which means that an instantaneous parallel shift in the yield curve of 100 basis points would result in a change of 2.9% 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 second quarter of 2011 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

On June 6, 2011, the plaintiffs in the class action lawsuit filed against us in the United States District Court for the Eastern District of Wisconsin, in which Fulton County Employees' Retirement System was appointed as the lead plaintiff, filed a motion with the District Court for relief from that court's judgment of dismissal on the grounds that the transcripts they obtained of testimony taken by the Securities and Exchange Commission in its now-terminated investigation regarding C-BASS are newly discovered evidence showing that amending their complaint would not be futile. On August 1, 2011, we filed a response to the plaintiffs' motion seeking its dismissal.

On June 15, 2011, the United States Court of Appeals for the Ninth Circuit reversed an order by the United States District Court for the Northern District of California in our Countrywide proceedings, holding that the District Court should not have remanded the case to the California State Court without ruling on a motion by MGIC to stay proceedings pending arbitration between the parties.

In addition to the above litigation, we face other litigation and regulatory risks. For additional information about such other litigation and regulatory risks you should review our Risk Factor titled "We are subject to the risk of private litigation and regulatory proceedings."

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, 2010 as supplemented by Part II, Item 1 A of our Quarterly Report on Form 10-Q for the Quarter Ended March 31, 2011. 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 their entirety in Exhibit 99 to this Quarterly Report on Form 10-Q.

The amount of insurance we write could be adversely affected if the definition of Qualified Residential Mortgage results in a reduction of the number of low down payment loans available to be insured or if lenders and investors select alternatives to private mortgage insurance.

The financial reform legislation that was passed in July 2010 (the "Dodd-Frank Act" or "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. This risk retention requirement does not apply to mortgage loans that are Qualified Residential Mortgages ("QRMs") or that are insured by the FHA or another federal agency. In March 2011, federal regulators issued the proposed risk retention rule that includes a definition of QRM. The proposed definition of QRM contains many underwriting requirements, including a maximum loan-to-value ratio ("LTV") of 80% on a home purchase transaction, a prohibition on seller contributions toward a borrower's down payment or closing costs, and certain limits on a borrower's debt-to-income ratio. The LTV is to be calculated without including mortgage insurance. The following table shows the percentage of our new risk written by LTV for the first two quarters of 2011 and for the year ended December 31, 2010.

	Percentage of new risk written	
	YTD 6/30/11	**Full Year 2010**
LTV:		
80% and under	0%	0%
80.1% - 85%	6%	7%
85.1% - 90%	43%	48%
90.1% - 95%	49%	44%
95.1% - 97%	2%	1%
> 97%	0%	0%

The regulators requested public comments regarding an alternative QRM definition, the underwriting requirements of which would allow loans with 90% LTVs, higher debt-to-income ratios than allowed under the proposed QRM definition, and that may consider mortgage insurance in determining whether the LTV requirement is met. We estimate that approximately 22% of our new risk written in 2011 was on loans that would have met the alternative QRM definition.

The regulators also requested that the public comments include information that may be used to assess whether mortgage insurance reduces the risk of default. We submitted a comment letter, including studies to the effect that mortgage insurance reduces the risk of default.

The public comment period for the proposed rule expired on August 1, 2011. At this time we do not know when a final rule will be issued. Under the proposed rule, because of the capital support provided by the U.S. Government, the GSEs satisfy the Dodd-Frank risk-retention requirements while they are in conservatorship. Therefore, lenders that originate loans that are sold to the GSEs while they are in conservatorship will not be required to retain risk associated with those loans.

Depending on, among other things, (a) the final definition of QRM and its requirements for LTV, seller contribution and debt-to-income ratio, (b) to what extent, if any, the presence of mortgage insurance would allow for a higher LTV in the definition of QRM, and (c) whether lenders choose mortgage insurance for non-QRM loans, the amount of new insurance that we write may be materially adversely affected. See also "— 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."

Alternatives to private mortgage insurance include:

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

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

- investors using credit enhancements other than private mortgage insurance, using other credit enhancements 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. 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 delivery fees 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. However, the FHA's 2010 and 2011 pricing, when compared to our credit-tiered pricing introduced in 2010 (and considering the effects of GSE pricing changes), may allow us to be more competitive with the FHA than in the recent past for loans with high FICO credit scores. We cannot predict, however, what impact these premium changes will have on new insurance written in the future.

We have reported net losses for the last four years, expect to continue to report annual net losses, and cannot assure you when we will return to profitability.

For the years ended December 31, 2010, 2009, 2008 and 2007, we had a net loss of $0.4 billion, $1.3 billion, $0.5 billion and $1.7 billion, respectively. For the first two quarters of 2011, we reported a net loss of $185.4 million. We currently expect to continue to report annual net losses, the size of which will depend primarily on the amount of our incurred and paid losses from our existing business and to a lesser extent on the amount and profitability of our new business. Our incurred and paid losses are dependent on factors that make prediction of their amounts difficult and any forecasts are subject to significant volatility. Although we currently expect to return to profitability on an annual basis, we cannot assure you when, or if, this will occur. Among the assumptions underlying our forecasts are that loan modification programs will only modestly mitigate losses; the cure rate steadily improves but does not return to historic norms until after the first half of 2013; there is no change to our current rescission practices and any foreclosure moratoriums will have no significant effect on earnings. In this regard, see "— It is uncertain what effect foreclosure moratoriums and issues arising from the investigation of servicers' foreclosure procedures will have on us" and "— We may not continue to realize benefits from rescissions at the rates we have recently experienced and we may not prevail in proceedings challenging whether our rescissions were proper." The net losses we have experienced have eroded, and any future net losses will erode, our shareholders' equity and could result in equity being negative.

Even though our plan to write new insurance in MGIC Indemnity Corporation ("MIC") has received approval from the Office of the Commissioner of Insurance of the State of Wisconsin ("OCI") and the GSEs, we cannot guarantee that the implementation of our plan will allow us to continue to write new insurance on an uninterrupted basis.

The insurance laws or regulations of 16 jurisdictions, including Wisconsin, 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 risk-to-capital requirement. While formulations of minimum capital may vary in certain jurisdictions, the most common measure applied allows for a maximum permitted risk-to-capital ratio of 25 to 1. At June 30, 2011, MGIC's risk-to-capital ratio was 20.4 to 1. Our risk-to-capital ratio will increase if the percentage decrease in capital exceeds the percentage decrease in insured risk. Therefore, as capital decreases, the same dollar decrease in capital will cause a greater percentage decrease in capital and a greater increase in the risk-to-capital ratio. Based upon internal company estimates, MGIC's risk-to-capital ratio over the next few years, after giving effect to any contribution to MGIC of the proceeds from our April 2010 common stock and convertible notes offerings beyond the contribution already made, could reach 40 to 1 or even higher under a stress loss scenario. At June 30, 2011, the risk-to-capital ratio of our combined insurance operations (which includes reinsurance affiliates) was 23.4 to 1. 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 subsidiaries or subsidiaries of our holding company, additional capital contributions to the reinsurance affiliates could be needed. These reinsurance arrangements permit MGIC to write insurance with a higher coverage percentage than it could on its own under certain state-specific requirements. For more information regarding the assumptions underlying our forecasts, see "— We have reported net losses for the last four years, expect to continue to report annual net losses, and cannot assure you when we will return to profitability."

In December 2009, the OCI issued an order waiving, until December 31, 2011, its risk-to-capital requirement. MGIC has also applied for waivers in all other jurisdictions that have risk-to-capital requirements. MGIC has received waivers from some of these jurisdictions which expire at various times. One waiver expired on December 31, 2010 and was not immediately renewed because the need for a waiver was not considered imminent. MGIC may reapply for the waiver. Some jurisdictions have denied the request and others may deny the request. The OCI and insurance departments of other jurisdictions, in their sole discretion, may modify, terminate or extend their waivers. If the OCI or another insurance department modifies or terminates its waiver, or if it fails to renew its waiver after expiration, depending on the circumstances, MGIC could be prevented from writing new business anywhere, in the case of the waiver from the OCI, or in the particular jurisdiction, in the case of the other waivers, if MGIC's risk-to-capital ratio exceeds 25 to 1 unless MGIC obtained additional capital to enable it to comply with the risk-to-capital requirement. New insurance written in the jurisdictions that have risk-to-capital requirements represented approximately 50% of new insurance written in 2010 and approximately 47% in the first two quarters of 2011. If we were prevented from writing new business in all jurisdictions, our insurance operations in MGIC would be in run-off (meaning no new loans would be insured but loans previously insured would continue to be covered, with premiums continuing to be received and losses continuing to be paid on those loans) until MGIC either met the applicable risk-to-capital requirement or obtained a necessary waiver to allow it to once again write new business.

We cannot assure you that the OCI or any other jurisdiction that has granted a waiver of its risk-to-capital requirements will not modify or revoke the waiver, that it will renew the waiver when it expires or that MGIC could obtain the additional capital necessary to comply with the risk-to-capital requirement. Depending on the circumstances, the amount of additional capital we might need could be substantial. See "— 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."

We have implemented a plan to write new mortgage insurance in MIC in selected jurisdictions in order to address the likelihood that in the future MGIC will not meet the minimum regulatory capital requirements discussed above and may not be able to obtain appropriate waivers of these requirements in all jurisdictions in which minimum requirements are present. MIC has received the necessary approvals, including from the OCI, to write business in all of the jurisdictions in which MGIC would be prohibited from continuing to write new business in the event of MGIC's failure to meet applicable regulatory capital requirements and obtain waivers of those requirements.

In October 2009, we, MGIC and MIC entered into an agreement with Fannie Mae (the "Fannie Mae Agreement") under which MGIC agreed to contribute $200 million to MIC (which MGIC has done) and Fannie Mae approved MIC as an eligible mortgage insurer through December 31, 2011 subject to the terms of the Fannie Mae Agreement. Under the Fannie Mae Agreement, MIC will be eligible to write mortgage insurance only in those jurisdictions (other than Wisconsin) in which MGIC cannot write new insurance due to MGIC's failure to meet regulatory capital requirements and if MGIC fails to obtain relief from those requirements or a specific waiver of them. The Fannie Mae Agreement, including certain restrictions imposed on us, MGIC and MIC, is summarized more fully in, and included as an exhibit to, our Form 8-K filed with the Securities and Exchange Commission (the "SEC") on October 16, 2009.

On February 11, 2010, Freddie Mac notified MGIC that it may utilize MIC to write new business in jurisdictions in which MGIC does not meet minimum regulatory capital requirements to write new business and does not obtain appropriate waivers of those requirements. This conditional approval to use MIC as a "Limited Insurer" (the "Freddie Mac Notification") will expire December 31, 2012. This conditional approval includes terms substantially similar to those in the Fannie Mae Agreement and is summarized more fully in our Form 8-K filed with the SEC on February 16, 2010.

Under the Fannie Mae Agreement, Fannie Mae approved MIC as an eligible mortgage insurer only through December 31, 2011. We expect to engage in discussions with Fannie Mae in the third quarter of 2011 regarding an extension of the Fannie Mae Agreement. Freddie Mac has approved MIC as a "Limited Insurer" only through December 31, 2012. Unless Fannie Mae and Freddie Mac extend or modify the terms of their approvals of MIC, whether MIC will continue as an eligible mortgage insurer after these dates will be determined by the applicable GSE's mortgage insurer eligibility requirements then in effect. For more information, see "— MGIC may not continue to meet the GSEs' mortgage insurer eligibility requirements." Further, under the Fannie Mae Agreement and the Freddie Mac Notification, MGIC cannot capitalize MIC with more than the $200 million contribution already made without prior approval from each GSE, which, in future years, may limit the amount of business MIC would otherwise write. Depending on the level of losses that MGIC experiences in the future, however, it is possible that regulatory action by one or more jurisdictions, including those that do not have specific regulatory capital requirements applicable to mortgage insurers, may prevent MGIC from continuing to write new insurance in some or all of the jurisdictions in which MIC is not an eligible mortgage insurer.

In late July 2011, a competitor announced that the waiver of risk-to-capital requirements that its flagship mortgage insurer received from its domiciliary state expires August 31, 2011 and that it has not yet received approval from its domiciliary state or the GSEs to write new business in a separately capitalized subsidiary that we understand is a sister entity, and not a subsidiary, of the flagship mortgage insurer. In early August, the competitor announced that while it continued to pursue such approvals, it would discontinue writing new insurance commitments after August 31, 2011. Both Fannie Mae and Freddie Mac suspended the flagship mortgage insurer and the separately capitalized subsidiary as approved mortgage insurers. We are uncertain how such events, including the actions taken by the GSEs, will impact the status of MGIC's waivers and approvals to utilize MGIC's direct subsidiary, MIC. Because it is wholly owned by MGIC, the operating results from business written by MIC would positively (in the case of profitable business) or negatively (in the case of unprofitable business) impact MGIC.

A failure to meet the specific minimum regulatory capital requirements to insure new business does not necessarily mean that MGIC does not have sufficient resources to pay claims on its insurance liabilities. While we believe that MGIC has sufficient claims paying resources to meet its claim obligations on its insurance in force, even in scenarios in which it fails to meet regulatory capital requirements, we cannot assure you that the events that led to MGIC failing to meet regulatory capital requirements would not also result in it not having sufficient claims paying resources. Furthermore, our estimates of MGIC's claims paying resources and claim obligations are based on various assumptions. These assumptions include our anticipated rescission activity, future housing values and future unemployment rates. These assumptions are subject to inherent uncertainty and require judgment by management. Current conditions in the domestic economy make the assumptions about housing values and unemployment rates highly volatile in the sense that there is a wide range of reasonably possible outcomes. Our anticipated rescission activity is also subject to inherent uncertainty due to the difficulty of predicting the amount of claims that will be rescinded and the outcome of any legal proceedings related to rescissions that we make, including those with Countrywide (for more information about the Countrywide legal proceedings, see "— We are subject to the risk of private litigation and regulatory proceedings").

We are subject to the risk of private litigation and regulatory proceedings.

Consumers are bringing a growing number of 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 settled class action litigation against it under RESPA 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. On November 29, 2010, six mortgage insurers (including MGIC) and a large mortgage lender (which was the named plaintiffs' lender) were named as defendants in a complaint, alleged to be a class action, filed in Federal District Court for the District of Columbia. The complaint alleged various causes of action related to the captive mortgage reinsurance arrangements of this mortgage lender, including that the defendants violated RESPA by paying the lender's captive reinsurer excessive premiums in relation to the risk assumed by that captive. In March 2011, the complaint was voluntarily dismissed by the plaintiffs as to MGIC and all of the other mortgage insurers. There can be no assurance that we will not be subject to future litigation under RESPA (or FCRA) or that the outcome of any such litigation would not have a material adverse effect on us.

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. Given the recent significant losses incurred by many insurers in the mortgage and financial guaranty industries, our insurance subsidiaries have been subject to heightened scrutiny by insurance regulators. State insurance regulatory authorities could take actions, including changes in capital requirements or termination of waivers of capital requirements, that could have a material adverse effect on us. In addition, the Dodd-Frank Act establishes the Bureau of Consumer Financial Protection to regulate the offering and provision of consumer financial products or services under federal law. We are uncertain whether this Bureau will issue any rules or regulations that affect our business. Such rules and regulations could have a material adverse effect on us.

In June 2005, in response to a letter from the New York Insurance Department, we provided information regarding captive mortgage reinsurance arrangements and other types of arrangements in which lenders receive compensation. In February 2006, the New York Insurance Department requested MGIC to review its premium rates in New York and to file adjusted rates based on recent years' experience or to explain why such experience would not alter rates. In March 2006, MGIC advised the New York Insurance Department that it believes its premium rates are reasonable and that, given the nature of mortgage insurance risk, premium rates should not be determined only by the experience of recent years. In February 2006, in response to an administrative subpoena from the Minnesota Department of Commerce (the "MN Department"), which regulates insurance, we provided the MN Department with information about captive mortgage reinsurance and certain other matters. We subsequently provided additional information to the MN Department, and beginning in March 2008 the MN Department has sought additional information as well as answers to questions regarding captive mortgage reinsurance on several occasions, including as recently as May 2011. In addition, beginning in June 2008, we have received subpoenas from the Department of Housing and Urban Development, commonly referred to as HUD, seeking information about captive mortgage reinsurance similar to that requested by the MN Department, but not limited in scope to the state of Minnesota. Other insurance departments or other officials, including attorneys general, may also seek information about or investigate captive mortgage reinsurance.

The anti-referral fee provisions of RESPA provide that HUD as well as the insurance commissioner or attorney general of any state may bring an action to enjoin violations of these provisions 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 captive reinsurance arrangements are in conformity with applicable laws and regulations, it is not possible to predict the outcome of any such reviews or investigations nor is it possible to predict their effect on us or the mortgage insurance industry.

In September 2010, a housing discrimination complaint was filed against MGIC with the U.S. Department of Housing and Urban Development ("HUD") alleging that MGIC violated the Fair Housing Act and discriminated against the complainant on the basis of her sex and familial status when MGIC underwrote her loan for mortgage insurance. In May 2011, HUD commenced an administrative action against MGIC and two of its employees, seeking, among other relief, aggregate fines of $48,000. The HUD complainant elected to have charges in the administrative action proceed in federal court and on July 5, 2011, the U.S. Department of Justice ("DOJ") filed a civil complaint in the U.S. District Court for the Western District of Pennsylvania against MGIC and these employees on behalf of the complainant. The complaint seeks redress for the alleged housing discrimination, including compensatory and punitive damages for the alleged victims and a civil penalty payable to the United States. MGIC denies that any unlawful discrimination occurred and disputes many of the allegations in the complaint.

In October 2010, a separate purported class action lawsuit was filed against MGIC by the HUD complainant in the same District Court in which the DOJ action is pending alleging that MGIC discriminated against her on the basis of her sex and familial status when MGIC underwrote her loan for mortgage insurance. In May 2011, the District Court granted MGIC's motion to dismiss with respect to all claims except certain Fair Housing Act claims.

MGIC intends to vigorously defend itself against the allegations in both the class action lawsuit and the DOJ lawsuit. Based on the facts known at this time, we do not foresee the ultimate resolution of these legal proceedings having a material adverse effect on us.

Five previously-filed purported class action complaints filed against us and several of our executive officers were consolidated in March 2009 in the United States District Court for the Eastern District of Wisconsin and Fulton County Employees' Retirement System was appointed as the lead plaintiff. The lead plaintiff filed a Consolidated Class Action Complaint (the "Complaint") on June 22, 2009. Due in part to its length and structure, it is difficult to summarize briefly the allegations in the Complaint but it appears the allegations are that we and our officers named in the Complaint violated the federal securities laws by misrepresenting or failing to disclose material information about (i) loss development in our insurance in force, and (ii) C-BASS, including its liquidity. Our motion to dismiss the Complaint was granted on February 18, 2010. On March 18, 2010, plaintiffs filed a motion for leave to file an amended complaint. Attached to this motion was a proposed Amended Complaint (the "Amended Complaint"). The Amended Complaint alleged that we and two of our officers named in the Amended Complaint violated the federal securities laws by misrepresenting or failing to disclose material information about C-BASS, including its liquidity, and by failing to properly account for our investment in C-BASS. The Amended Complaint also named two officers of C-BASS with respect to the Amended Complaint's allegations regarding C-BASS. The purported class period covered by the Amended Complaint began on February 6, 2007 and ended on August 13, 2007. The Amended Complaint sought damages based on purchases of our stock during this time period at prices that were allegedly inflated as a result of the purported violations of federal securities laws. On December 8, 2010, the plaintiffs' motion to file an amended complaint was denied and the Complaint was dismissed with prejudice. On January 6, 2011, the plaintiffs appealed the February 18, 2010 and December 8, 2010 decisions to the United States Court of Appeals for the Seventh Circuit. On June 6, 2011, the plaintiffs filed a motion with the District Court for relief from that court's judgment of dismissal on the grounds that the transcripts it obtained of testimony taken by the Securities and Exchange Commission in its now-terminated investigation regarding C-BASS are newly discovered evidence showing that amending its complaint would not be futile. On August 1, 2011, we filed a response to the plaintiffs' motion seeking its dismissal. We are unable to predict the outcome of these consolidated cases or estimate our associated expenses or possible losses. Other lawsuits alleging violations of the securities laws could be brought against us.

Several law firms have 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.

On December 17, 2009, Countrywide filed a complaint for declaratory relief in the Superior Court of the State of California in San Francisco (the "California State Court") against MGIC. This complaint alleges that MGIC has denied, and continues to deny, valid mortgage insurance claims submitted by Countrywide and says it seeks declaratory relief regarding the proper interpretation of the insurance policies at issue. On January 19, 2010, we removed this case to the United States District Court for the Northern District of California (the "District Court"). On March 30, 2010, the District Court ordered the case remanded to the California State Court. We appealed this decision to the United States Court of Appeals for the Ninth Circuit (the "Court of Appeals") and asked the Court of Appeals to vacate the remand and stay proceedings in the District Court pending arbitration between the parties, discussed below. On May 17, 2010, the Court of Appeals denied a stay of the District Court's remand order. On May 28, 2010, Countrywide filed an amended complaint substantially similar to the original complaint in the California State Court. On July 2, 2010, we filed a petition in the California State Court to compel arbitration and stay the litigation in that court. On August 26, 2010, Countrywide filed an opposition to our petition. Countrywide's opposition states that there are thousands of loans for which it disputes MGIC's interpretation of the flow insurance policies at issue. On September 16, 2010, we filed a reply to Countrywide's opposition. On October 1, 2010, the California State Court stayed the litigation in that court pending a final ruling on our appeal. On June 15, 2011, the Court of Appeals reversed the District Court, holding that the District Court should not have remanded the case to the California State Court without ruling on MGIC's stay motion.

In connection with the Countrywide dispute discussed above, on February 24, 2010, we commenced an arbitration action against Countrywide seeking a determination that MGIC was entitled to deny and/or rescind coverage on the loans involved in the arbitration action, which were insured through the flow channel and numbered more than 1,400 loans as of the filing of the action. On March 16, 2010, Countrywide filed a response to our arbitration action objecting to the arbitrator's jurisdiction in view of the case initiated by Countrywide in the California State Court and asserting various defenses to the relief sought by MGIC in the arbitration. On December 20, 2010, we filed an amended demand in the arbitration proceeding. This amended demand increased the number of loans for which we denied and/or rescinded coverage and which were insured through the flow channel to more than 3,300. We continue to rescind insurance coverage on additional Countrywide loans. On December 20, 2010, Countrywide filed an amended response. In the amended response, Countrywide is seeking relief for rescissions on loans insured by MGIC through the flow channel and more than 30 bulk insurance policies. In April 2011, Countrywide indicated that it believes MGIC has improperly rescinded coverage on more than 5,000 loans. The amended response also seeks damages as a result of purported breaches of insurance policies issued by MGIC and additional damages, including exemplary damages, on account of MGIC's purported breach of an implied covenant of good faith and fair dealing. The amended response states that Countrywide seeks damages "well-exceeding" $150 million; the original response sought damages of at least $150 million. On January 17, 2011, Countrywide filed an answer to MGIC's amended demand and MGIC filed an answer to Countrywide's amended response. Countrywide and MGIC have each selected 12 loans for which a three-member arbitration panel will determine coverage. While the panel's determination will not be binding on the other loans at issue, the panel will identify the issues for these 24 "bellwether" loans and strive to set forth findings of fact and conclusions of law in such a way as to aid the parties to apply them to the other loans at issue. The hearing before the panel on the bellwether loans that had previously been scheduled to begin in October 2011 has been postponed to May 2012.

From January 1, 2008 through June 30, 2011, rescissions of Countrywide-related loans mitigated our paid losses on the order of $375 million. This amount is the amount we estimate we would have paid had the loans not been rescinded. On a per loan basis, the average amount that we would have paid had the loans not been rescinded was approximately $71,400. At June 30, 2011, 40,219 loans in our primary delinquency inventory were Countrywide-related loans (approximately 22% of our primary delinquency inventory). Of these 40,219 loans, some will cure their delinquency and the remainder will either become paid claims or will be rescinded. From January 1, 2008 through June 30, 2011, of the claims on Countrywide-related loans that were resolved (a claim is resolved when it is paid or rescinded; claims that are submitted but which are under review are not resolved until one of these two outcomes occurs), approximately 75% were paid and the remaining 25% were rescinded. We do not believe that the settlement agreement announced in June 2011 between Bank of America and certain investors in certain Countrywide residential mortgage backed securities will have a material impact on our Countrywide rescissions, if it becomes effective.

The flow policies at issue with Countrywide are in the same form as the flow policies that we use with all of our customers, 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. Because our rescission practices with Countrywide do not differ from our practices with other servicers with which we have not entered into settlement agreements, an adverse result in the Countrywide proceeding may adversely affect the ultimate result of rescissions involving other servicers and lenders. From January 1, 2008 through June 30, 2011, we estimate that total rescissions mitigated our incurred losses by approximately $3.1 billion, which included approximately $2.4 billion of mitigation on paid losses, excluding amounts that would have been applied to a deductible. At June 30, 2011, we estimate that our total loss reserves were benefited from rescissions by approximately $0.9 billion.

We intend to defend MGIC against Countrywide's complaint and arbitration response, and to pursue MGIC's claims in the arbitration, vigorously. However, we are unable to predict the outcome of these proceedings or their effect on us. Also, although it is reasonably possible that, when the proceedings are completed, there will be a determination that we were not entitled to rescind in all cases, we are unable to make a reasonable estimate or range of estimates of the potential liability. Under ASC 450-20, an estimated loss is accrued for only if we determine that the loss is probable and can be reasonably estimated. Therefore, we have not accrued any reserves that would reflect an adverse outcome in this proceeding. An accrual for an adverse outcome in this (or any other) proceeding would be a reduction to our capital. In this regard, see "— Even though our plan to write new insurance in MGIC Indemnity Corporation ("MIC") has received approval from the Office of the Commissioner of Insurance of the State of Wisconsin ("OCI") and the GSEs, we cannot guarantee that the implementation of our plan will allow us to continue to write new insurance on an uninterrupted basis."

In addition to the rescissions at issue with Countrywide, we have a substantial pipeline of claims investigations (including investigations involving loans related to Countrywide) that we expect will eventually result in future rescissions. In 2010, we entered into a settlement agreement with a lender-customer regarding our rescission practices. We continue to discuss with other lenders their objections to material rescissions. In addition to the proceedings involving Countrywide, we are involved in legal proceedings with respect to rescissions that we do not consider to be collectively material in amount. For additional information about rescissions as well as the rescission settlement agreements, see "— We may not continue to realize benefits from rescissions at the rates we have recently experienced and we may not prevail in proceedings challenging whether our rescissions were proper."

Freddie Mac, one of our pool insurance insureds, is computing the aggregate loss limit under a pool insurance policy at a higher level than we are computing this limit because we believe the original aggregate limit decreases over time while they believe the limit remains constant. At June 30, 2011, the difference was approximately $535 million. Beginning in the second quarter of 2011, this difference has had an effect on our results of operations because the aggregate paid losses plus the portion of our loss reserves attributable to this policy have exceeded our interpretation of the loss limit by $52 million. Had we not limited our losses in a manner consistent with our interpretation of the policy, our losses incurred would have been $52 million higher in the second quarter of 2011, and our capital and risk-to-capital ratio would have been negatively impacted. Absent a change in our interpretation of the policy or that of Freddie Mac, we expect the aggregate impact on losses incurred will grow in future quarters. MGIC and Freddie Mac have each advised the other of the basis for its interpretation of the policy. It is reasonably possible that any eventual resolution of this matter could have a material adverse effect on us.

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.

Item 6. Exhibits

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

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized, on August 9, 2011.

MGIC INVESTMENT CORPORATION

By: /s/ J. Michael Lauer
J. Michael Lauer
Executive Vice President and
Chief Financial Officer

By: /s/ Timothy J. Mattke
Timothy J. Mattke
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 1 A of our Annual Report on Form 10-K for the year ended December 31, 2010, as supplemented by Part II, Item 1A of our Quarterly Reports on Form 10-Q for the quarters ended March 31 and June 30, 2011, and through updating of various statistical and other information
101	The following financial information from MGIC Investment Corporation's Quarterly Report on Form 10-Q for the quarter ended June 30, 2011, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets as of June 30, 2011 and December 31, 2010, (ii) Consolidated Statements of Operations for the three and six months ended June 30, 2011 and 2010, (iii) Consolidated Statements of Shareholders' Equity for the year ended December 31, 2010 and the six months ended June 30, 2011, (iv) Consolidated Statements of Cash Flows for the six months ended June 30, 2011 and 2010, and (v) 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: August 9, 2011

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

Exhibit 31.2

CERTIFICATIONS

I, J. Michael Lauer, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: August 9, 2011

/s/ J. Michael Lauer
J. Michael Lauer
Chief Financial Officer

Exhibit 32

SECTION 1350 CERTIFICATIONS

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

(1) the Quarterly Report on Form 10-Q of the Company for the three months ended June 30, 2011 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 9, 2011

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

/s/ J. Michael Lauer
J. Michael Lauer
Chief Financial Officer

Risk Factors included in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2010, as supplemented by Part II, Item 1A of our Quarterly Reports on Form 10-Q for the quarters ended March 31 and June 30, 2011 and through updating of various statistical and other information.

The amount of insurance we write could be adversely affected if the definition of Qualified Residential Mortgage results in a reduction of the number of low down payment loans available to be insured or if lenders and investors select alternatives to private mortgage insurance.

The financial reform legislation that was passed in July 2010 (the “Dodd-Frank Act” or “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. This risk retention requirement does not apply to mortgage loans that are Qualified Residential Mortgages (“QRMs”) or that are insured by the FHA or another federal agency. In March 2011, federal regulators issued the proposed risk retention rule that includes a definition of QRM. The proposed definition of QRM contains many underwriting requirements, including a maximum loan-to-value ratio (“LTV”) of 80% on a home purchase transaction, a prohibition on seller contributions toward a borrower’s down payment or closing costs, and certain limits on a borrower’s debt-to-income ratio. The LTV is to be calculated without including mortgage insurance. The following table shows the percentage of our new risk written by LTV for the first two quarters of 2011 and for the year ended December 31, 2010.

	Percentage of new risk written	
	YTD 6/30/11	**Full Year 2010**
LTV:		
80% and under	0%	0%
80.1% - 85%	6%	7%
85.1% - 90%	43%	48%
90.1% - 95%	49%	44%
95.1% - 97%	2%	1%
> 97%	0%	0%

The regulators requested public comments regarding an alternative QRM definition, the underwriting requirements of which would allow loans with 90% LTVs, higher debt-to-income ratios than allowed under the proposed QRM definition, and that may consider mortgage insurance in determining whether the LTV requirement is met. We estimate that approximately 22% of our new risk written in 2011 was on loans that would have met the alternative QRM definition.

The regulators also requested that the public comments include information that may be used to assess whether mortgage insurance reduces the risk of default. We submitted a comment letter, including studies to the effect that mortgage insurance reduces the risk of default.

The public comment period for the proposed rule expired on August 1, 2011. At this time we do not know when a final rule will be issued. Under the proposed rule, because of the capital support provided by the U.S. Government, the GSEs satisfy the Dodd-Frank risk-retention requirements while they are in conservatorship. Therefore, lenders that originate loans that are sold to the GSEs while they are in conservatorship will not be required to retain risk associated with those loans.

Depending on, among other things, (a) the final definition of QRM and its requirements for LTV, seller contribution and debt-to-income ratio, (b) to what extent, if any, the presence of mortgage insurance would allow for a higher LTV in the definition of QRM, and (c) whether lenders choose mortgage insurance for non-QRM loans, the amount of new insurance that we write may be materially adversely affected. See also "— 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."

Alternatives to private mortgage insurance include:

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

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

- investors using credit enhancements other than private mortgage insurance, using other credit enhancements 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. 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 delivery fees 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. However, the FHA's 2010 and 2011 pricing, when compared to our credit-tiered pricing introduced in 2010 (and considering the effects of GSE pricing changes), may allow us to be more competitive with the FHA than in the recent past for loans with high FICO credit scores. We cannot predict, however, what impact these premium changes will have on new insurance written in the future.

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

The majority of our insurance written is 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 delivery 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, and

- the extent to which the GSEs intervene in mortgage insurers' rescission practices or rescission settlement practices with lenders. For additional information, see "— We may not continue to realize benefits from rescissions at the rates we have recently experienced and we may not prevail in proceedings challenging whether our rescissions were proper."

In September 2008, the Federal Housing Finance Agency ("FHFA") was appointed as the conservator of the GSEs. As their conservator, FHFA controls and directs the operations of the GSEs. The appointment of FHFA as conservator, the increasing role that the federal government has assumed in the residential mortgage market, our industry's inability, due to capital constraints, to write sufficient business to meet the needs of the GSEs or other factors may increase the likelihood that the business practices of the GSEs change in ways that may 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 Dodd-Frank Act required the U.S. Department of the Treasury to report its recommendations regarding options for ending the conservatorship of the GSEs. This report was released on February 11, 2011 and while it does not provide any definitive timeline for GSE reform, it does recommend using a combination of federal housing policy changes to wind down the GSEs, shrink the government's footprint in housing finance, and help bring private capital back to the mortgage market. Members of the House of Representatives and the Senate have since introduced several bills intended to scale back the GSEs. The bills include proposals to abolish the GSEs' affordable housing goals, reduce the conforming loan limits, increase guarantee fees and set annual limits on the size of each GSE's retained portfolio. 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 on our business is uncertain. Any 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.

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. Beginning in the second quarter of 2010, more than 95% of our volume was on loans with GSE standard coverage. We charge higher premium rates for higher coverage percentages. To the extent lenders selling loans to GSEs in the future choose charter coverage for loans that we insure, our revenues would be reduced and we could experience other adverse effects. The pricing changes we implemented in 2010 (see "— 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") may eliminate a lender's incentive to use GSE charter coverage in place of standard coverage.

MGIC may not continue to meet the GSEs' mortgage insurer eligibility requirements.

The majority of our insurance written is for loans sold to Fannie Mae and Freddie Mac, each of which has mortgage insurer eligibility requirements to maintain the highest level of eligibility, including a financial strength rating of Aa3/AA-. Because MGIC does not meet such financial strength rating requirements of Fannie Mae and Freddie Mac (its financial strength rating from Moody's is Ba3, with a positive outlook and from Standard & Poor's is B+, with a negative outlook), MGIC is currently operating with each GSE as an eligible insurer under a remediation plan. We believe that the GSEs view remediation plans as a continuing process of interaction with a mortgage insurer and MGIC will continue to operate under a remediation plan for the foreseeable future. There can be no assurance that MGIC will be able to continue to operate as an eligible mortgage insurer under a remediation plan. In particular, the GSEs are currently in discussions with mortgage insurers regarding their standard mortgage insurer eligibility requirements and may make changes to them in the near future that may make them more stringent than the current requirements. The GSEs may include the eligibility requirements, as finally adopted, as part of our current remediation plan. 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.

We have reported net losses for the last four years, expect to continue to report annual net losses, and cannot assure you when we will return to profitability.

For the years ended December 31, 2010, 2009, 2008 and 2007, we had a net loss of $0.4 billion, $1.3 billion, $0.5 billion and $1.7 billion, respectively. For the first two quarters of 2011, we reported a net loss of $185.4 million. We currently expect to continue to report annual net losses, the size of which will depend primarily on the amount of our incurred and paid losses from our existing business and to a lesser extent on the amount and profitability of our new business. Our incurred and paid losses are dependent on factors that make prediction of their amounts difficult and any forecasts are subject to significant volatility. Although we currently expect to return to profitability on an annual basis, we cannot assure you when, or if, this will occur. Among the assumptions underlying our forecasts are that loan modification programs will only modestly mitigate losses; the cure rate steadily improves but does not return to historic norms until after the first half of 2013; there is no change to our current rescission practices and any foreclosure moratoriums will have no significant effect on earnings. In this regard, see "— It is uncertain what effect foreclosure moratoriums and issues arising from the investigation of servicers' foreclosure procedures will have on us" and "— We may not continue to realize benefits from rescissions at the rates we have recently experienced and we may not prevail in proceedings challenging whether our rescissions were proper." The net losses we have experienced have eroded, and any future net losses will erode, our shareholders' equity and could result in equity being negative.

Even though our plan to write new insurance in MGIC Indemnity Corporation ("MIC") has received approval from the Office of the Commissioner of Insurance of the State of Wisconsin ("OCI") and the GSEs, we cannot guarantee that the implementation of our plan will allow us to continue to write new insurance on an uninterrupted basis.

The insurance laws or regulations of 16 jurisdictions, including Wisconsin, 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 risk-to-capital requirement. While formulations of minimum capital may vary in certain jurisdictions, the most common measure applied allows for a maximum permitted risk-to-capital ratio of 25 to 1. At June 30, 2011, MGIC's risk-to-capital ratio was 20.4 to 1. Our risk-to-capital ratio will increase if the percentage decrease in capital exceeds the percentage decrease in insured risk. Therefore, as capital decreases, the same dollar decrease in capital will cause a greater percentage decrease in capital and a greater increase in the risk-to-capital ratio. Based upon internal company estimates, MGIC's risk-to-capital ratio over the next few years, after giving effect to any contribution to MGIC of the proceeds from our April 2010 common stock and convertible notes offerings beyond the contribution already made, could reach 40 to 1 or even higher under a stress loss scenario. At June 30, 2011, the risk-to-capital ratio of our combined insurance operations (which includes reinsurance affiliates) was 23.4 to 1. 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 subsidiaries or subsidiaries of our holding company, additional capital contributions to the reinsurance affiliates could be needed. These reinsurance arrangements permit MGIC to write insurance with a higher coverage percentage than it could on its own under certain state-specific requirements. For more information regarding the assumptions underlying our forecasts, see "— We have reported net losses for the last four years, expect to continue to report annual net losses, and cannot assure you when we will return to profitability."

In December 2009, the OCI issued an order waiving, until December 31, 2011, its risk-to-capital requirement. MGIC has also applied for waivers in all other jurisdictions that have risk-to-capital requirements. MGIC has received waivers from some of these jurisdictions which expire at various times. One waiver expired on December 31, 2010 and was not immediately renewed because the need for a waiver was not considered imminent. MGIC may reapply for the waiver. Some jurisdictions have denied the request and others may deny the request. The OCI and insurance departments of other jurisdictions, in their sole discretion, may modify, terminate or extend their waivers. If the OCI or another insurance department modifies or terminates its waiver, or if it fails to renew its waiver after expiration, depending on the circumstances, MGIC could be prevented from writing new business anywhere, in the case of the waiver from the OCI, or in the particular jurisdiction, in the case of the other waivers, if MGIC's risk-to-capital ratio exceeds 25 to 1 unless MGIC obtained additional capital to enable it to comply with the risk-to-capital requirement. New insurance written in the jurisdictions that have risk-to-capital requirements represented approximately 50% of new insurance written in 2010 and approximately 47% in the first two quarters of 2011. If we were prevented from writing new business in all jurisdictions, our insurance operations in MGIC would be in run-off (meaning no new loans would be insured but loans previously insured would continue to be covered, with premiums continuing to be received and losses continuing to be paid on those loans) until MGIC either met the applicable risk-to-capital requirement or obtained a necessary waiver to allow it to once again write new business.

We cannot assure you that the OCI or any other jurisdiction that has granted a waiver of its risk-to-capital requirements will not modify or revoke the waiver, that it will renew the waiver when it expires or that MGIC could obtain the additional capital necessary to comply with the risk-to-capital requirement. Depending on the circumstances, the amount of additional capital we might need could be substantial. See "— 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."

We have implemented a plan to write new mortgage insurance in MIC in selected jurisdictions in order to address the likelihood that in the future MGIC will not meet the minimum regulatory capital requirements discussed above and may not be able to obtain appropriate waivers of these requirements in all jurisdictions in which minimum requirements are present. MIC has received the necessary approvals, including from the OCI, to write business in all of the jurisdictions in which MGIC would be prohibited from continuing to write new business in the event of MGIC’s failure to meet applicable regulatory capital requirements and obtain waivers of those requirements.

In October 2009, we, MGIC and MIC entered into an agreement with Fannie Mae (the “Fannie Mae Agreement”) under which MGIC agreed to contribute $200 million to MIC (which MGIC has done) and Fannie Mae approved MIC as an eligible mortgage insurer through December 31, 2011 subject to the terms of the Fannie Mae Agreement. Under the Fannie Mae Agreement, MIC will be eligible to write mortgage insurance only in those jurisdictions (other than Wisconsin) in which MGIC cannot write new insurance due to MGIC’s failure to meet regulatory capital requirements and if MGIC fails to obtain relief from those requirements or a specific waiver of them. The Fannie Mae Agreement, including certain restrictions imposed on us, MGIC and MIC, is summarized more fully in, and included as an exhibit to, our Form 8-K filed with the Securities and Exchange Commission (the “SEC”) on October 16, 2009.

On February 11, 2010, Freddie Mac notified MGIC that it may utilize MIC to write new business in jurisdictions in which MGIC does not meet minimum regulatory capital requirements to write new business and does not obtain appropriate waivers of those requirements. This conditional approval to use MIC as a “Limited Insurer” (the “Freddie Mac Notification”) will expire December 31, 2012. This conditional approval includes terms substantially similar to those in the Fannie Mae Agreement and is summarized more fully in our Form 8-K filed with the SEC on February 16, 2010.

Under the Fannie Mae Agreement, Fannie Mae approved MIC as an eligible mortgage insurer only through December 31, 2011. We expect to engage in discussions with Fannie Mae in the third quarter of 2011 regarding an extension of the Fannie Mae Agreement. Freddie Mac has approved MIC as a “Limited Insurer” only through December 31, 2012. Unless Fannie Mae and Freddie Mac extend or modify the terms of their approvals of MIC, whether MIC will continue as an eligible mortgage insurer after these dates will be determined by the applicable GSE’s mortgage insurer eligibility requirements then in effect. For more information, see “— MGIC may not continue to meet the GSEs’ mortgage insurer eligibility requirements.” Further, under the Fannie Mae Agreement and the Freddie Mac Notification, MGIC cannot capitalize MIC with more than the $200 million contribution already made without prior approval from each GSE, which, in future years, may limit the amount of business MIC would otherwise write. Depending on the level of losses that MGIC experiences in the future, however, it is possible that regulatory action by one or more jurisdictions, including those that do not have specific regulatory capital requirements applicable to mortgage insurers, may prevent MGIC from continuing to write new insurance in some or all of the jurisdictions in which MIC is not an eligible mortgage insurer.

In late July 2011, a competitor announced that the waiver of risk-to-capital requirements that its flagship mortgage insurer received from its domiciliary state expires August 31, 2011 and that it has not yet received approval from its domiciliary state or the GSEs to write new business in a separately capitalized subsidiary that we understand is a sister entity, and not a subsidiary, of the flagship mortgage insurer. In early August, the competitor announced that while it continued to pursue such approvals, it would discontinue writing new insurance commitments after August 31, 2011. Both Fannie Mae and Freddie Mac suspended the flagship mortgage insurer and the separately capitalized subsidiary as approved mortgage insurers. We are uncertain how such events, including the actions taken by the GSEs, will impact the status of MGIC's waivers and approvals to utilize MGIC's direct subsidiary, MIC. Because it is wholly owned by MGIC, the operating results from business written by MIC would positively (in the case of profitable business) or negatively (in the case of unprofitable business) impact MGIC.

A failure to meet the specific minimum regulatory capital requirements to insure new business does not necessarily mean that MGIC does not have sufficient resources to pay claims on its insurance liabilities. While we believe that MGIC has sufficient claims paying resources to meet its claim obligations on its insurance in force, even in scenarios in which it fails to meet regulatory capital requirements, we cannot assure you that the events that led to MGIC failing to meet regulatory capital requirements would not also result in it not having sufficient claims paying resources. Furthermore, our estimates of MGIC's claims paying resources and claim obligations are based on various assumptions. These assumptions include our anticipated rescission activity, future housing values and future unemployment rates. These assumptions are subject to inherent uncertainty and require judgment by management. Current conditions in the domestic economy make the assumptions about housing values and unemployment rates highly volatile in the sense that there is a wide range of reasonably possible outcomes. Our anticipated rescission activity is also subject to inherent uncertainty due to the difficulty of predicting the amount of claims that will be rescinded and the outcome of any legal proceedings related to rescissions that we make, including those with Countrywide (for more information about the Countrywide legal proceedings, see "— We are subject to the risk of private litigation and regulatory proceedings").

We may not continue to realize benefits from rescissions at the rates we have recently experienced and we may not prevail in proceedings challenging whether our rescissions were proper.

Historically, rescissions of policies for which claims have been submitted to us were not a material portion of our claims resolved during a year. However, beginning in 2008, our rescissions of policies have materially mitigated our paid losses. In each of 2009 and 2010, rescissions mitigated our paid losses by approximately $1.2 billion and in the first two quarters of 2011, rescissions mitigated our paid losses by approximately $0.4 billion (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). While we have a substantial pipeline of claims investigations that we expect will eventually result in future rescissions, we expect that rescissions will not continue at the same rates (as a percentage of claims received) we have previously experienced.

In addition, our loss reserving methodology incorporates the effects we expect rescission activity to have on the losses we will pay on our delinquent inventory. A variance between ultimate actual rescission rates and these estimates, as a result of the outcome of claims investigations, litigation, settlements or other factors, could materially affect our losses. See "—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 estimate rescissions mitigated our incurred losses by approximately $2.5 billion in 2009 and $0.2 billion in 2010. For the first two quarters of 2011, we estimate that rescissions had no significant impact on our losses incurred. All of 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 recent quarters, between 18% and 24% of claims received in a quarter have been resolved by rescissions. At June 30, 2011, we had 184,452 loans in our primary delinquency inventory; the resolution of a significant portion of these loans will not involve paid claims.

If the insured disputes our right to rescind coverage, the outcome of the dispute ultimately would be determined by legal proceedings. 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. For nearly all of our rescissions that are not subject to a settlement agreement, the period in which a dispute may be brought has not ended. We consider a rescission resolved for reporting purposes even though legal proceedings have been initiated and are ongoing. Although it is reasonably possible that, when the proceedings are completed, there will be a determination that we were not entitled to rescind in all cases, we are unable to make a reasonable estimate or range of estimates of the potential liability. Under Accounting Standards Codification ("ASC") 450-20, an estimated loss from such proceedings is accrued for only if we determine that the loss is probable and can be reasonably estimated. Therefore, when establishing our loss reserves, we do not include additional loss reserves that would reflect an adverse outcome from ongoing legal proceedings, including those with Countrywide. Countrywide has filed a lawsuit against MGIC alleging that MGIC has denied, and continues to deny, valid mortgage insurance claims. MGIC has filed an arbitration case against Countrywide regarding rescissions and Countrywide has responded seeking damages, including exemplary damages. For more information about this lawsuit and arbitration case, see"— We are subject to the risk of private litigation and regulatory proceedings."

We continue to discuss with other lenders their objections to material rescissions. In 2010, we entered into a settlement agreement with a lender-customer regarding our rescission practices and we may, subject to GSE approval, enter into additional settlement agreements with other lenders in the future. In April 2011, Freddie Mac advised its servicers that they must obtain its prior approval for rescission settlements and Fannie Mae advised its servicers that they are prohibited from entering into such settlements. In addition, in April 2011, Fannie Mae notified us that we must obtain its prior approval to enter into certain settlements. There can be no assurances that the GSEs will approve any future settlement agreements.

In addition to the proceedings involving Countrywide, we are involved in legal proceedings with respect to rescissions that we do not consider to be collectively material in amount. Although it is reasonably possible that, when these discussions or proceedings are completed, there will be a conclusion or determination that we were not entitled to rescind in all cases, we are unable to make a reasonable estimate or range of estimates of the potential liability.

We are subject to the risk of private litigation and regulatory proceedings.

Consumers are bringing a growing number of 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 settled class action litigation against it under RESPA 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. On November 29, 2010, six mortgage insurers (including MGIC) and a large mortgage lender (which was the named plaintiffs' lender) were named as defendants in a complaint, alleged to be a class action, filed in Federal District Court for the District of Columbia. The complaint alleged various causes of action related to the captive mortgage reinsurance arrangements of this mortgage lender, including that the defendants violated RESPA by paying the lender's captive reinsurer excessive premiums in relation to the risk assumed by that captive. In March 2011, the complaint was voluntarily dismissed by the plaintiffs as to MGIC and all of the other mortgage insurers. There can be no assurance that we will not be subject to future litigation under RESPA (or FCRA) or that the outcome of any such litigation would not have a material adverse effect on us.

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. Given the recent significant losses incurred by many insurers in the mortgage and financial guaranty industries, our insurance subsidiaries have been subject to heightened scrutiny by insurance regulators. State insurance regulatory authorities could take actions, including changes in capital requirements or termination of waivers of capital requirements, that could have a material adverse effect on us. In addition, the Dodd-Frank Act establishes the Bureau of Consumer Financial Protection to regulate the offering and provision of consumer financial products or services under federal law. We are uncertain whether this Bureau will issue any rules or regulations that affect our business. Such rules and regulations could have a material adverse effect on us.

In June 2005, in response to a letter from the New York Insurance Department, we provided information regarding captive mortgage reinsurance arrangements and other types of arrangements in which lenders receive compensation. In February 2006, the New York Insurance Department requested MGIC to review its premium rates in New York and to file adjusted rates based on recent years' experience or to explain why such experience would not alter rates. In March 2006, MGIC advised the New York Insurance Department that it believes its premium rates are reasonable and that, given the nature of mortgage insurance risk, premium rates should not be determined only by the experience of recent years. In February 2006, in response to an administrative subpoena from the Minnesota Department of Commerce (the "MN Department"), which regulates insurance, we provided the MN Department with information about captive mortgage reinsurance and certain other matters. We subsequently provided additional information to the MN Department, and beginning in March 2008 the MN Department has sought additional information as well as answers to questions regarding captive mortgage reinsurance on several occasions, including as recently as May 2011. In addition, beginning in June 2008, we have received subpoenas from the Department of Housing and Urban Development, commonly referred to as HUD, seeking information about captive mortgage reinsurance similar to that requested by the MN Department, but not limited in scope to the state of Minnesota. Other insurance departments or other officials, including attorneys general, may also seek information about or investigate captive mortgage reinsurance.

The anti-referral fee provisions of RESPA provide that HUD as well as the insurance commissioner or attorney general of any state may bring an action to enjoin violations of these provisions 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 captive reinsurance arrangements are in conformity with applicable laws and regulations, it is not possible to predict the outcome of any such reviews or investigations nor is it possible to predict their effect on us or the mortgage insurance industry.

In September 2010, a housing discrimination complaint was filed against MGIC with the U.S. Department of Housing and Urban Development ("HUD") alleging that MGIC violated the Fair Housing Act and discriminated against the complainant on the basis of her sex and familial status when MGIC underwrote her loan for mortgage insurance. In May 2011, HUD commenced an administrative action against MGIC and two of its employees, seeking, among other relief, aggregate fines of $48,000. The HUD complainant elected to have charges in the administrative action proceed in federal court and on July 5, 2011, the U.S. Department of Justice ("DOJ") filed a civil complaint in the U.S. District Court for the Western District of Pennsylvania against MGIC and these employees on behalf of the complainant. The complaint seeks redress for the alleged housing discrimination, including compensatory and punitive damages for the alleged victims and a civil penalty payable to the United States. MGIC denies that any unlawful discrimination occurred and disputes many of the allegations in the complaint.

In October 2010, a separate purported class action lawsuit was filed against MGIC by the HUD complainant in the same District Court in which the DOJ action is pending alleging that MGIC discriminated against her on the basis of her sex and familial status when MGIC underwrote her loan for mortgage insurance. In May 2011, the District Court granted MGIC's motion to dismiss with respect to all claims except certain Fair Housing Act claims.

MGIC intends to vigorously defend itself against the allegations in both the class action lawsuit and the DOJ lawsuit. Based on the facts known at this time, we do not foresee the ultimate resolution of these legal proceedings having a material adverse effect on us.

Five previously-filed purported class action complaints filed against us and several of our executive officers were consolidated in March 2009 in the United States District Court for the Eastern District of Wisconsin and Fulton County Employees' Retirement System was appointed as the lead plaintiff. The lead plaintiff filed a Consolidated Class Action Complaint (the "Complaint") on June 22, 2009. Due in part to its length and structure, it is difficult to summarize briefly the allegations in the Complaint but it appears the allegations are that we and our officers named in the Complaint violated the federal securities laws by misrepresenting or failing to disclose material information about (i) loss development in our insurance in force, and (ii) C-BASS, including its liquidity. Our motion to dismiss the Complaint was granted on February 18, 2010. On March 18, 2010, plaintiffs filed a motion for leave to file an amended complaint. Attached to this motion was a proposed Amended Complaint (the "Amended Complaint"). The Amended Complaint alleged that we and two of our officers named in the Amended Complaint violated the federal securities laws by misrepresenting or failing to disclose material information about C-BASS, including its liquidity, and by failing to properly account for our investment in C-BASS. The Amended Complaint also named two officers of C-BASS with respect to the Amended Complaint's allegations regarding C-BASS. The purported class period covered by the Amended Complaint began on February 6, 2007 and ended on August 13, 2007. The Amended Complaint sought damages based on purchases of our stock during this time period at prices that were allegedly inflated as a result of the purported violations of federal securities laws. On December 8, 2010, the plaintiffs' motion to file an amended complaint was denied and the Complaint was dismissed with prejudice. On January 6, 2011, the plaintiffs appealed the February 18, 2010 and December 8, 2010 decisions to the United States Court of Appeals for the Seventh Circuit. On June 6, 2011, the plaintiffs filed a motion with the District Court for relief from that court's judgment of dismissal on the grounds that the transcripts it obtained of testimony taken by the Securities and Exchange Commission in its now-terminated investigation regarding C-BASS are newly discovered evidence showing that amending its complaint would not be futile. On August 1, 2011, we filed a response to the plaintiffs' motion seeking its dismissal. We are unable to predict the outcome of these consolidated cases or estimate our associated expenses or possible losses. Other lawsuits alleging violations of the securities laws could be brought against us.

Several law firms have 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.

On December 17, 2009, Countrywide filed a complaint for declaratory relief in the Superior Court of the State of California in San Francisco (the "California State Court") against MGIC. This complaint alleges that MGIC has denied, and continues to deny, valid mortgage insurance claims submitted by Countrywide and says it seeks declaratory relief regarding the proper interpretation of the insurance policies at issue. On January 19, 2010, we removed this case to the United States District Court for the Northern District of California (the "District Court"). On March 30, 2010, the District Court ordered the case remanded to the California State Court. We appealed this decision to the United States Court of Appeals for the Ninth Circuit (the "Court of Appeals") and asked the Court of Appeals to vacate the remand and stay proceedings in the District Court pending arbitration between the parties, discussed below. On May 17, 2010, the Court of Appeals denied a stay of the District Court's remand order. On May 28, 2010, Countrywide filed an amended complaint substantially similar to the original complaint in the California State Court. On July 2, 2010, we filed a petition in the California State Court to compel arbitration and stay the litigation in that court. On August 26, 2010, Countrywide filed an opposition to our petition. Countrywide's opposition states that there are thousands of loans for which it disputes MGIC's interpretation of the flow insurance policies at issue. On September 16, 2010, we filed a reply to Countrywide's opposition. On October 1, 2010, the California State Court stayed the litigation in that court pending a final ruling on our appeal. On June 15, 2011, the Court of Appeals reversed the District Court, holding that the District Court should not have remanded the case to the California State Court without ruling on MGIC's stay motion.

In connection with the Countrywide dispute discussed above, on February 24, 2010, we commenced an arbitration action against Countrywide seeking a determination that MGIC was entitled to deny and/or rescind coverage on the loans involved in the arbitration action, which were insured through the flow channel and numbered more than 1,400 loans as of the filing of the action. On March 16, 2010, Countrywide filed a response to our arbitration action objecting to the arbitrator's jurisdiction in view of the case initiated by Countrywide in the California State Court and asserting various defenses to the relief sought by MGIC in the arbitration. On December 20, 2010, we filed an amended demand in the arbitration proceeding. This amended demand increased the number of loans for which we denied and/or rescinded coverage and which were insured through the flow channel to more than 3,300. We continue to rescind insurance coverage on additional Countrywide loans. On December 20, 2010, Countrywide filed an amended response. In the amended response, Countrywide is seeking relief for rescissions on loans insured by MGIC through the flow channel and more than 30 bulk insurance policies. In April 2011, Countrywide indicated that it believes MGIC has improperly rescinded coverage on more than 5,000 loans. The amended response also seeks damages as a result of purported breaches of insurance policies issued by MGIC and additional damages, including exemplary damages, on account of MGIC's purported breach of an implied covenant of good faith and fair dealing. The amended response states that Countrywide seeks damages "well-exceeding" $150 million; the original response sought damages of at least $150 million. On January 17, 2011, Countrywide filed an answer to MGIC's amended demand and MGIC filed an answer to Countrywide's amended response. Countrywide and MGIC have each selected 12 loans for which a three-member arbitration panel will determine coverage. While the panel's determination will not be binding on the other loans at issue, the panel will identify the issues for these 24 "bellwether" loans and strive to set forth findings of fact and conclusions of law in such a way as to aid the parties to apply them to the other loans at issue. The hearing before the panel on the bellwether loans that had previously been scheduled to begin in October 2011 has been postponed to May 2012.

From January 1, 2008 through June 30, 2011, rescissions of Countrywide-related loans mitigated our paid losses on the order of $375 million. This amount is the amount we estimate we would have paid had the loans not been rescinded. On a per loan basis, the average amount that we would have paid had the loans not been rescinded was approximately $71,400. At June 30, 2011, 40,219 loans in our primary delinquency inventory were Countrywide-related loans (approximately 22% of our primary delinquency inventory). Of these 40,219 loans, some will cure their delinquency and the remainder will either become paid claims or will be rescinded. From January 1, 2008 through June 30, 2011, of the claims on Countrywide-related loans that were resolved (a claim is resolved when it is paid or rescinded; claims that are submitted but which are under review are not resolved until one of these two outcomes occurs), approximately 75% were paid and the remaining 25% were rescinded. We do not believe that the settlement agreement announced in June 2011 between Bank of America and certain investors in certain Countrywide residential mortgage backed securities will have a material impact on our Countrywide rescissions, if it becomes effective.

The flow policies at issue with Countrywide are in the same form as the flow policies that we use with all of our customers, 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. Because our rescission practices with Countrywide do not differ from our practices with other servicers with which we have not entered into settlement agreements, an adverse result in the Countrywide proceeding may adversely affect the ultimate result of rescissions involving other servicers and lenders. From January 1, 2008 through June 30, 2011, we estimate that total rescissions mitigated our incurred losses by approximately $3.1 billion, which included approximately $2.4 billion of mitigation on paid losses, excluding amounts that would have been applied to a deductible. At June 30, 2011, we estimate that our total loss reserves were benefited from rescissions by approximately $0.9 billion.

We intend to defend MGIC against Countrywide's complaint and arbitration response, and to pursue MGIC's claims in the arbitration, vigorously. However, we are unable to predict the outcome of these proceedings or their effect on us. Also, although it is reasonably possible that, when the proceedings are completed, there will be a determination that we were not entitled to rescind in all cases, we are unable to make a reasonable estimate or range of estimates of the potential liability. Under ASC 450-20, an estimated loss is accrued for only if we determine that the loss is probable and can be reasonably estimated. Therefore, we have not accrued any reserves that would reflect an adverse outcome in this proceeding. An accrual for an adverse outcome in this (or any other) proceeding would be a reduction to our capital. In this regard, see "— Even though our plan to write new insurance in MGIC Indemnity Corporation ("MIC") has received approval from the Office of the Commissioner of Insurance of the State of Wisconsin ("OCI") and the GSEs, we cannot guarantee that the implementation of our plan will allow us to continue to write new insurance on an uninterrupted basis."

In addition to the rescissions at issue with Countrywide, we have a substantial pipeline of claims investigations (including investigations involving loans related to Countrywide) that we expect will eventually result in future rescissions. In 2010, we entered into a settlement agreement with a lender-customer regarding our rescission practices. We continue to discuss with other lenders their objections to material rescissions. In addition to the proceedings involving Countrywide, we are involved in legal proceedings with respect to rescissions that we do not consider to be collectively material in amount. For additional information about rescissions as well as the rescission settlement agreements, see "— We may not continue to realize benefits from rescissions at the rates we have recently experienced and we may not prevail in proceedings challenging whether our rescissions were proper."

Freddie Mac, one of our pool insurance insureds, is computing the aggregate loss limit under a pool insurance policy at a higher level than we are computing this limit because we believe the original aggregate limit decreases over time while they believe the limit remains constant. At June 30, 2011, the difference was approximately $535 million. Beginning in the second quarter of 2011, this difference has had an effect on our results of operations because the aggregate paid losses plus the portion of our loss reserves attributable to this policy have exceeded our interpretation of the loss limit by $52 million. Had we not limited our losses in a manner consistent with our interpretation of the policy, our losses incurred would have been $52 million higher in the second quarter of 2011, and our capital and risk-to-capital ratio would have been negatively impacted. Absent a change in our interpretation of the policy or that of Freddie Mac, we expect the aggregate impact on losses incurred will grow in future quarters. MGIC and Freddie Mac have each advised the other of the basis for its interpretation of the policy. It is reasonably possible that any eventual resolution of this matter could have a material adverse effect on us.

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.

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

In accordance with generally accepted accounting principles in the United States, commonly referred to as GAAP, we establish loss reserves only for loans in default. Reserves are established for reported insurance losses and loss adjustment expenses based on when notices of default on insured mortgage loans are received. Reserves are also established for estimated losses incurred on notices of default that 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 in estimating the ultimate loss. 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, except in the case where a premium deficiency exists. As a result, future losses may have a material impact on future results as 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 policies 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 an adverse development from ongoing dispute resolution proceedings, including those with Countrywide, or from ongoing disagreements over the interpretation of our policy, including those with Freddie Mac related to the computation of the aggregate loss limit under a pool insurance policy. For more information regarding Countrywide and the Freddie Mac disagreement, see “— We are subject to the risk of private litigation and regulatory proceedings.”

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, a drop in housing values that could materially reduce our ability to mitigate potential loss through property acquisition and resale or expose us to greater loss on resale of properties obtained through the claim settlement process and mitigation from rescissions being materially less than assumed. Changes to our estimates could result in material impact to our results of operations, even in a stable economic environment, and there can be no assurance that actual claims paid by us will not be substantially different than our loss reserves.

Loan modification and other similar programs may not continue to provide material 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 (the "FDIC") and the GSEs, and several lenders have adopted programs to modify loans to make them more affordable to borrowers with the goal of reducing the number of foreclosures. During 2010 and the first two quarters of 2011, we were notified of modifications that cured delinquencies that had they become paid claims would have resulted in approximately $3.2 billion and $1.0 billion, respectively, of estimated claim payments. As noted below, we cannot predict with a high degree of confidence what the ultimate re-default rate will be. For internal reporting purposes, we assume approximately 50% of those 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; less than 5% resulted in principal forgiveness.

One loan modification program is the Home Affordable Modification Program ("HAMP"). Some of HAMP's eligibility criteria relate to the borrower's current income and non-mortgage debt payments. Because the GSEs and servicers do not share such information with us, we cannot determine with certainty the number of loans in our delinquent inventory that are eligible to participate in HAMP. 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, or have successfully completed, HAMP. We are aware of approximately 14,300 loans in our primary delinquent inventory at June 30, 2011 for which the HAMP trial period has begun and which trial periods have not been reported to us as completed or cancelled. Through June 30, 2011 approximately 31,300 delinquent primary loans have cured their delinquency after entering HAMP and are not in default. 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 over time.

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. At this point, we cannot predict with a high degree of confidence what the ultimate re-default rate will be. In addition, because we do not have information in our database for all of the parameters used to determine which loans are eligible for modification programs, our estimates of the number of loans qualifying for modification programs are inherently uncertain. 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.

Eligibility under 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 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 refinance loans have loan-to-value ratios that require private mortgage insurance, and
- government housing policy encouraging loans to first-time homebuyers.

The Dodd-Frank Act establishes the Bureau of Consumer Financial Protection to regulate the offering and provision of consumer financial products or services under federal law. We are uncertain whether this Bureau will issue any 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. Such a decline could be caused by, among other things, the definition of “qualified residential mortgages” by regulators implementing the Dodd-Frank Act. See “— The amount of insurance we write could be adversely affected if the definition of Qualified Residential Mortgage results in a reduction of the number of low down payment loans available to be insured or if lenders and investors select alternatives to private mortgage insurance.”

Competition or changes in our relationships with our customers could reduce our revenues or increase our losses.

In recent years, the level of competition within the private mortgage insurance industry has been intense as many large mortgage lenders reduced the number of private mortgage insurers with whom they do business. At the same time, consolidation among mortgage lenders has increased the share of the mortgage lending market held by large lenders. During 2010 and the first two quarters of 2011, approximately 11% and 9%, respectively, of our new insurance written was for loans for which one lender was the original insured, although revenue from such loans was significantly less than 10% of our revenues during each of those periods. Our private mortgage insurance competitors include:

- PMI Mortgage Insurance Company,
- Genworth Mortgage Insurance Corporation,
- United Guaranty Residential Insurance Company,
- Radian Guaranty Inc.,
- Republic Mortgage Insurance Company, whose parent, based on information filed with the SEC through August 3, 2011, is our largest shareholder,
- CMG Mortgage Insurance Company, and
- Essent Guaranty, Inc.

Until recently, the mortgage insurance industry had not had new entrants in many years. In 2010, Essent Guaranty, Inc. began writing new mortgage insurance. Essent has publicly reported that one of its investors is JPMorgan Chase which is one of our customers. The perceived increase in credit quality of loans that are being insured today combined with the deterioration of the financial strength ratings of the existing mortgage insurance companies could encourage new entrants. The FHA, which in recent years was not viewed by us as a significant competitor, substantially increased its market share beginning in 2008.

Our relationships with our customers could be adversely affected by a variety of factors, including tightening of and adherence to our underwriting guidelines, which have resulted in our declining to insure some of the loans originated by our customers and rescission of loans that affect the customer. We have ongoing discussions with lenders who are significant customers regarding their objections to our rescissions. In the fourth quarter of 2009, Countrywide commenced litigation against us as a result of its dissatisfaction with our rescission practices shortly after Countrywide ceased doing business with us. See "— We are subject to the risk of private litigation and regulatory proceedings" for more information about this litigation and the arbitration case we filed against Countrywide regarding rescissions. Countrywide and its Bank of America affiliates were the original insured for 12.0% of our flow new insurance written in 2008 and 8.3% of our new insurance written in the first three quarters of 2009. Bank of America recently informed us that it intends, at some point in the future, to implement procedures to enable them to cancel MGIC's coverage on loans Bank of America purchases from correspondent lenders and substitute coverage from our competitors. In general, a correspondent lender funds loans and then sells them servicing-released to another lender who retains the servicing and either sells the loans to an investor or retains them in portfolio. Traditionally a correspondent lender's selection of which mortgage insurer insures the loans it funds has not been changed by the lender to which those loans were sold. We estimate that loans purchased by Bank of America from correspondent lenders accounted for approximately 10% and 9% of our new insurance written in 2010 and the first two quarters of 2011, respectively. The effect of Bank of America's actions on MGIC may depend on the reaction of correspondent lenders and any reaction from the GSEs, as well as other factors. While we will be taking various actions to seek to retain this business, we cannot predict the extent to which Bank of America's actions will adversely affect us.

We believe some lenders assess a mortgage insurer's financial strength rating as an important element of the process through which they select mortgage insurers. As a result of MGIC's less than investment grade financial strength rating, MGIC may be competitively disadvantaged with these lenders. MGIC's financial strength rating from Moody's is Ba3 with a positive outlook and from Standard & Poor's is B+ with a negative outlook. It is possible that MGIC's financial strength ratings could decline from these levels.

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 has for some time experienced a variety of poor or worsening economic conditions, including a material nationwide decline in housing values, with declines continuing in 2011 in a number of geographic areas. Home values may continue to deteriorate and unemployment levels may remain elevated or increase.

The mix of business we write also affects the likelihood of losses occurring.

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 June 30, 2011, approximately 26.5% of our primary risk in force consisted of loans with loan-to-value ratios greater than 95%, 8.5% had FICO credit scores below 620, and 10.7% 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."

From time to time, in response to market conditions, we change the types of loans that we insure and the guidelines under which we insure them. In addition, we make exceptions to our underwriting guidelines on a loan-by-loan basis and for certain customer programs. Together these exceptions accounted for fewer than 5% of the loans we insured in the second half of 2010 and fewer than 6% of the loans we insured in the first half of 2011. A large percentage of the exceptions were made for loans with debt-to-income ratios slightly above our guideline. Beginning in September 2009, we have made changes to our underwriting guidelines that have allowed certain loans to be eligible for insurance that were not eligible prior to those changes and we expect to continue to make changes in appropriate circumstances in the future. Our underwriting guidelines are available on our website at http://www.mgic.com/guides/underwriting.html.

As of June 30, 2011, approximately 2.7% of our primary risk in force written through the flow channel, and 35.2% 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. We believe that when the reset interest rate significantly exceeds the interest rate at loan origination, claims on ARMs would be substantially higher than for fixed rate loans. Moreover, even if interest rates remain unchanged, claims on ARMs with a “teaser rate” (an initial interest rate that does not fully reflect the index which determines subsequent rates) may also be substantially higher because of the increase in the mortgage payment that will occur when the fully indexed rate becomes effective. 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 guidelines. We do, however, believe that given the various changes in our underwriting guidelines 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 the 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.

During 2010, we began pricing our new insurance written considering, among other things, the borrower's credit score ("credit-tiered pricing"). We made these rate changes to be more competitive with insurance programs offered by the FHA. These rate changes have resulted in lower premiums being charged for a substantial majority of our new insurance written. However, beginning in the fourth quarter of 2009, the average coverage percentage of our new insurance written increased. We believe the increased coverage was due in part to the elimination of the GSEs' reduced coverage programs. Because we charge higher premiums for higher coverages, the effect of lower premium rates under our new pricing plan has been mitigated by the increase in premiums due to higher coverages. We cannot predict whether our new business written in the future will continue to have higher coverages. For more information about our rate changes, see our Form 8-K that was filed with the SEC on February 23, 2010.

In January 2008, we announced that we had decided to stop writing the portion of our bulk business that insures loans which are included in Wall Street securitizations because the performance of loans included in such securitizations deteriorated materially in the fourth quarter of 2007 and this deterioration was materially worse than we experienced for loans insured through the flow channel or loans insured through the remainder of our bulk channel. As of December 31, 2007 we established a premium deficiency reserve of approximately $1.2 billion. As of June 30, 2011, the premium deficiency reserve was $158.9 million, which reflects the present value of expected future losses and expenses that exceeds the present value of expected future premium and already established loss reserves on these bulk transactions.

The mortgage insurance industry is experiencing 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, however, is that these books will continue to generate material incurred and paid losses for a number of years. There can be no assurance that additional premium deficiency reserves on Wall Street Bulk or on other portions of our insurance portfolio will not be required.

It is uncertain what effect foreclosure moratoriums and issues arising from the investigation of servicers' foreclosure procedures will have on us.

Various government entities and private parties have from time to time enacted foreclosure (or equivalent) moratoriums and suspensions (which we collectively refer to as moratoriums). Recently, various government agencies have been investigating large mortgage servicers and other parties to determine whether they acted improperly in foreclosure proceedings. We do not know what effect improprieties that may have occurred in a particular foreclosure have on the validity of that foreclosure, once it was completed and the property transferred to the lender. Under our policy, in general, completion of a foreclosure is a condition precedent to the filing of a claim.

Past moratoriums, which were imposed to afford time to determine whether loans could be modified, did not stop the accrual of interest or affect other expenses on a loan, and we cannot predict whether any future moratorium would do so. Therefore, unless a loan is cured during a moratorium, at the expiration of a moratorium, additional interest and expenses may be due to the lender from the borrower. For certain moratoriums (e.g., those imposed in order to afford time to modify loans), our paid claim amount may include some additional interest and expenses. For moratoriums or delays resulting from investigations into servicers and other parties' actions in foreclosure proceedings, our willingness to pay additional interest and expenses may be different, subject to the terms of our mortgage insurance policies. The various moratoriums and delays may temporarily delay our receipt of claims and may increase the length of time a loan remains in our delinquent loan inventory.

In early January 2011, the highest court in Massachusetts, a state in which foreclosures are accomplished by private sale rather than judicial action, held the foreclosure laws of that state required a person seeking to foreclose a mortgage to be the holder of the mortgage at the time notice of foreclosure was published. The servicers who had foreclosed in this case did not provide sufficient evidence that they were the holders of the mortgages and therefore they lacked authority to foreclose. Courts in other jurisdictions have considered similar issues and reached different conclusions. These decisions have not had a direct impact on our claims processes or rescissions.

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. A recent trend in the mortgage lending and mortgage loan servicing industry has been towards consolidation of loan servicers. This reduction in the number of servicers could lead to disruptions in the servicing of mortgage loans covered by our insurance policies. In addition, current 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. Future housing market conditions could lead to additional increases in delinquencies. Managing a substantially higher volume of non-performing loans could lead to disruptions in the servicing of mortgages. Investigations into whether servicers have acted improperly in foreclosure proceedings may further strain the resources of servicers.

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.

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. 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 "— Even though our plan to write new insurance in MGIC Indemnity Corporation ("MIC") has received approval from the Office of the Commissioner of Insurance of the State of Wisconsin ("OCI") and the GSEs, we cannot guarantee that the implementation of our plan will allow us to continue to write new insurance on an uninterrupted basis," we may be required to raise additional equity capital. Any such future sales would 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. On October 1, 2010, we paid interest that we had previously elected to defer on these debentures. We continue to 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 converted 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 also have $345 million principal amount of 5% Convertible Senior Notes outstanding. The 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. We do not have the right to defer interest on these Senior Notes.

While we believe we have settled this matter on a preliminary basis, the Internal Revenue Service had proposed significant adjustments to our taxable income for 2000 through 2007.

The Internal Revenue Service ("IRS") completed separate examinations of our federal income tax returns for the years 2000 through 2004 and 2005 through 2007 and issued assessments for unpaid taxes, interest and penalties. The primary adjustment in both examinations 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"). This portfolio has been managed and maintained during years prior to, during and subsequent to the examination period. 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 those adjustments and, in August 2010, we reached a tentative settlement agreement with the IRS. The settlement agreement is subject to review by the Joint Committee on Taxation of Congress because net operating losses incurred in 2009 were carried back to taxable years that were included in the agreement. A final agreement is expected to be entered into when the review is complete, although we do not expect there will be any substantive change in the terms of a final agreement from those in the tentative agreement. We adjusted our tax provision and liabilities for the effects of this agreement in 2010 and believe that they accurately reflect our exposure in regard to this issue.

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.

The implementation of the Basel II capital accord, or other changes to our customers' capital requirements, may discourage the use of mortgage insurance.

In 1988, the Basel Committee on Banking Supervision (the "Basel Committee") developed the Basel Capital Accord (Basel I), which set out international benchmarks for assessing banks' capital adequacy requirements. In June 2005, the Basel Committee issued an update to Basel I (as revised in November 2005, Basel II). Basel II was implemented by many banks in the United States and many other countries in 2009 and 2010. Basel II affects the capital treatment provided to mortgage insurance by domestic and international banks in both their origination and securitization activities.

The Basel II provisions related to residential mortgages and mortgage insurance, or other changes to our customers' capital requirements, may provide incentives to certain of our bank customers not to insure mortgages having a lower risk of claim and to insure mortgages having a higher risk of claim. The Basel II provisions may also alter the competitive positions and financial performance of mortgage insurers in other ways.

The discussion above does not reflect the release by the Basel Committee in December 2010 of the nearly final version of Basel III or the subsequent guidance issued in January 2011.   Basel III will increase the capital requirements of certain banking organizations. Implementation of Basel III will require formal regulations, which have not yet been proposed by the federal banking agencies and will involve a substantial phase-in period. We are continuing to evaluate the potential effects of the Basel III guidelines on our business.

Our Australian operations may suffer significant losses.

We committed significant resources to begin international operations, primarily in Australia, where we started to write business in June 2007. In view of our need to dedicate capital to our domestic mortgage insurance operations, we have reduced our Australian headcount and 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.