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, 2018

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	53202
MILWAUKEE, WISCONSIN	(Zip Code)
(Address of principal executive offices)	

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

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

YES x NO o

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

YES x NO o

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

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

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

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

YES o NO x

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

CLASS OF STOCK	PAR VALUE	DATE	NUMBER OF SHARES
Common stock	$1.00	July 31, 2018	362,155,055

Forward Looking and Other Statements

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

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES

FORM 10-Q

FOR THE QUARTER ENDED JUNE 30, 2018

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Glossary of terms and acronyms

/ A

ARMs
Adjustable rate mortgages

ABS
Asset-backed securities

ASC
Accounting Standards Codification

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

/ B

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

BPMI
Borrower-paid mortgage insurance

/ C

CECL
Current expected credit losses

CFPB
Consumer Financial Protection Bureau

CLO
Collateralized loan obligations

CMBS
Commercial mortgage-backed securities

/ D

DAC
Deferred insurance policy acquisition costs

Debt-to-income (“DTI”) ratio
The ratio, expressed as a percentage, of a borrowers’ total debt payments to gross income

Direct
When referring to insurance or risk written or in force, “direct” means before giving effect to reinsurance

/ F

Fannie Mae
Federal National Mortgage Association

FCRA
Fair Credit Reporting Act

FEMA
Federal Emergency Management Agency

FHA
Federal Housing Administration

FHFA
Federal Housing Finance Agency

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

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

Freddie Mac
Federal Home Loan Mortgage Corporation

/ G

GAAP
Generally Accepted Accounting Principles in the United States

GSEs
Collectively, Fannie Mae and Freddie Mac

/ H

HAMP
Home Affordable Modification Program

HARP
Home Affordable Refinance Program

HOPA
Homeowners Protection Act

/ I

IADA
Individual Assistance Disaster Area

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IBNR
Losses incurred but not reported

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

/ J

JCT
Joint Committee on Taxation

/ L

LAE
Loss adjustment expenses

Legacy book
Mortgage insurance policies written prior to 2009

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

Long-term debt:

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

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

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

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

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

LPMI
Lender-paid mortgage insurance

/ M

MBS
Mortgage-backed securities

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

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

MIC
MGIC Indemnity Corporation, a subsidiary of MGIC

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

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

/ N

N/A
Not applicable for the period presented

NAIC
The National Association of Insurance Commissioners

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

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

NPE

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

NPL

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

NPW

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

/ O

OCI

Office of the Commissioner of Insurance of the State of Wisconsin

/ P

Persistency

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

PMI

Private Mortgage Insurance (as an industry or product type)

PMIERs

Private Mortgage Insurer Eligibility Requirements issued by the GSEs

Premium Yield

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

/ Q

QSR Transaction

Quota share reinsurance transaction

/ R

REMIC

Real Estate Mortgage Investment Conduit

RESPA

Real Estate Settlement Procedures Act

RIF

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

Risk-to-capital

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

RMBS

Residential mortgage-backed securities

/ S

State Capital Requirements

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

/ T

Tax Act

The U.S. tax reform enacted on December 22, 2017 and commonly referred to as the “Tax Cuts and Jobs Act”

/ U

Underwriting expense ratio

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

Underwriting profit

NPE minus incurred losses and underwriting expenses

USDA

U.S. Department of Agriculture

/ V

VA

U.S. Department of Veterans Affairs

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(In thousands)	Note	June 30, 2018	December 31, 2017
ASSETS		(Unaudited)	
Investment portfolio:	7 / 8		
Fixed income, available for sale, at fair value (amortized cost, 2018 - $4,983,355; 2017 - $4,946,278)		**$ 4,926,247**	$ 4,983,315
Equity securities, at fair value (cost, 2018 - $4,111; 2017 - $7,223)	2 / 7 / 8	**4,048**	7,246
Other invested assets, at cost	2 / 7 / 8	**3,100**	—
Total investment portfolio		**4,933,395**	4,990,561
Cash and cash equivalents		**191,894**	99,851
Accrued investment income		**47,125**	46,060
Reinsurance recoverable on loss reserves	4	**37,051**	48,474
Reinsurance recoverable on paid losses		**3,295**	3,872
Premiums receivable		**56,213**	54,045
Home office and equipment, net		**49,461**	44,936
Deferred insurance policy acquisition costs		**18,807**	18,841
Deferred income taxes, net	11	**161,488**	234,381
Other assets		**93,287**	78,478
Total assets		**$ 5,592,016**	$ 5,619,499
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities:			
Loss reserves	12	**$ 813,015**	$ 985,635
Unearned premiums		**406,159**	392,934
Federal Home Loan Bank advance	3	**155,000**	155,000
Senior notes	3	**419,136**	418,560
Convertible junior subordinated debentures	3	**256,872**	256,872
Other liabilities		**227,959**	255,972
Total liabilities		**2,278,141**	2,464,973
Contingencies	5		
Shareholders' equity:	13		
Common stock (one dollar par value, shares authorized 1,000,000; shares issued 2018 - 371,348; 2017 - 370,567; shares outstanding 2018 - 362,150; 2017 - 370,567)		**371,348**	370,567
Paid-in capital		**1,852,251**	1,850,582
Treasury stock at cost (shares 2018 - 9,198)		**(100,059)**	—
Accumulated other comprehensive loss, net of tax		**(117,294)**	(43,783)
Retained earnings		**1,307,629**	977,160
Total shareholders' equity		**3,313,875**	3,154,526
Total liabilities and shareholders' equity		**$ 5,592,016**	$ 5,619,499

See accompanying notes to consolidated financial statements.

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

(In thousands, except per share data)	Note	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Revenues:					
Premiums written:					
Direct		**$ 274,726**	$ 275,245	**$ 544,760**	$ 541,068
Assumed		**2,085**	685	**2,177**	1,973
Ceded	4	**(21,375)**	(30,096)	**(54,595)**	(60,505)
Net premiums written		**255,436**	245,834	**492,342**	482,536
Increase in unearned premiums, net		**(8,472)**	(14,698)	**(13,271)**	(22,297)
Net premiums earned		**246,964**	231,136	**479,071**	460,239
Investment income, net of expenses		**34,502**	29,716	**66,623**	59,193
Net realized investment losses	7	**(1,897)**	(52)	**(2,226)**	(177)
Other revenue		**2,431**	2,512	**4,302**	4,937
Total revenues		**282,000**	263,312	**547,770**	524,192
Losses and expenses:					
Losses incurred, net	12	**(13,455)**	27,339	**10,395**	54,958
Amortization of deferred policy acquisition costs		**2,845**	2,584	**5,417**	4,814
Other underwriting and operating expenses, net		**41,842**	38,511	**87,932**	79,276
Interest expense		**13,246**	14,197	**26,479**	30,506
Loss on debt extinguishment		**—**	65	**—**	65
Total losses and expenses		**44,478**	82,696	**130,223**	169,619
Income before tax		**237,522**	180,616	**417,547**	354,573
Provision for income taxes	11	**50,708**	61,994	**87,096**	146,153
Net income		**$ 186,814**	$ 118,622	**$ 330,451**	$ 208,420
Earnings per share:					
Basic	6	**$ 0.51**	$ 0.32	**$ 0.89**	$ 0.59
Diluted	6	**$ 0.49**	$ 0.31	**$ 0.87**	$ 0.55
Weighted average common shares outstanding - basic	6	**368,578**	366,918	**369,736**	354,035
Weighted average common shares outstanding - diluted	6	**388,881**	394,470	**390,236**	398,302

See accompanying notes to consolidated financial statements.

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

		Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	Note	**2018**	2017	**2018**	2017
Net income		**$ 186,814**	$ 118,622	**$ 330,451**	$ 208,420
Other comprehensive (loss) income, net of tax:	9				
Change in unrealized investment gains and losses	7	**(9,922)**	25,749	**(74,375)**	37,870
Benefit plan adjustments		**388**	(142)	**882**	(295)
Foreign currency translation adjustment		**—**	—	**—**	31
Other comprehensive (loss) income, net of tax		**(9,534)**	25,607	**(73,493)**	37,606
Comprehensive income		**$ 177,280**	$ 144,229	**$ 256,958**	$ 246,026

See accompanying notes to consolidated financial statements.

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

		Six Months Ended June 30,	
(In thousands)	Note	**2018**	2017
Common stock			
Balance, beginning of period		**$ 370,567**	$ 359,400
Net common stock issued under share-based compensation plans		**781**	771
Issuance of common stock		**—**	10,386
Balance, end of period		**371,348**	370,557
Paid-in capital			
Balance, beginning of period		**1,850,582**	1,782,337
Net common stock issued under share-based compensation plans		**(8,854)**	(7,494)
Issuance of common stock		**—**	60,903
Equity compensation		**10,523**	6,855
Balance, end of period		**1,852,251**	1,842,601
Treasury stock			
Balance, beginning of period		**—**	(150,359)
Repurchase of common stock	13	**(100,059)**	—
Reissuance of treasury stock, net	13	**—**	150,359
Balance, end of period		**(100,059)**	—
Accumulated other comprehensive (loss) income			
Balance, beginning of period	2	**(43,801)**	(75,100)
Other comprehensive (loss) income, net of tax	9	**(73,493)**	37,606
Balance, end of period		**(117,294)**	(37,494)
Retained earnings			
Balance, beginning of period	2	**977,178**	632,717
Net income		**330,451**	208,420
Reissuance of treasury stock, net		**—**	(21,740)
Balance, end of period		**1,307,629**	819,397
Total shareholders’ equity		**$ 3,313,875**	$ 2,995,061

See accompanying notes to consolidated financial statements.

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

	Six Months Ended June 30,	
(In thousands)	**2018**	2017
Cash flows from operating activities:		
Net income	**$ 330,451**	$ 208,420
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**31,395**	33,191
Deferred tax expense	**92,428**	106,163
Net realized investment losses	**2,226**	177
Loss on debt extinguishment	**—**	65
Change in certain assets and liabilities:		
Accrued investment income	**(1,065)**	43
Reinsurance recoverable on loss reserves	**11,423**	5,710
Reinsurance recoverable on paid losses	**577**	(1,187)
Premium receivable	**(2,168)**	1,048
Deferred insurance policy acquisition costs	**34**	(918)
Profit commission receivable	**(11,202)**	(4,603)
Loss reserves	**(172,620)**	(251,724)
Unearned premiums	**13,225**	22,273
Return premium accrual	**(12,200)**	(11,900)
Income taxes payable - current	**(11,321)**	32,991
Other, net	**(8,590)**	(14,193)
Net cash provided by operating activities	**262,593**	125,556
Cash flows from investing activities:		
Purchases of investments	**(516,712)**	(545,319)
Proceeds from sales of investments	**25,185**	166,606
Proceeds from maturity of fixed income securities	**423,933**	390,344
Net increase in payable for securities	**13,432**	3,447
Additions to property and equipment	**(8,256)**	(9,659)
Net cash (used in) provided by investing activities	**(62,418)**	5,419
Cash flows from financing activities:		
Proceeds from revolving credit facility	**—**	150,000
Repayment of revolving credit facility	**—**	(150,000)
Purchase or repayment of convertible senior notes	**—**	(145,620)
Payment of original issue discount - convertible senior notes	**—**	(4,504)
Repurchase of common stock	**(100,059)**	—
Payment of debt issuance costs	**—**	(1,630)
Payment of withholding taxes related to share-based compensation net share settlement	**(8,073)**	(6,723)
Net cash used in financing activities	**(108,132)**	(158,477)
Net increase (decrease) in cash and cash equivalents	**92,043**	(27,502)
Cash and cash equivalents at beginning of period	**99,851**	155,410
Cash and cash equivalents at end of period	**$ 191,894**	$ 127,908

See accompanying notes to consolidated financial statements.

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018
(Unaudited)

Note 1. Nature of Business and Basis of Presentation

MGIC Investment Corporation is a holding company which, through Mortgage Guaranty Insurance Corporation (“MGIC”), is principally engaged in the mortgage insurance business. We provide mortgage insurance to lenders throughout the United States and to government sponsored entities to protect against loss from defaults on low down payment residential mortgage loans. An insurance subsidiary of MGIC provides insurance for certain mortgages under Fannie Mae and Freddie Mac (the “GSEs”) credit risk transfer programs and is a participant in the Fannie Mae Enterprise-Paid Mortgage Insurance pilot.

The accompanying unaudited consolidated financial statements of MGIC Investment Corporation and its wholly-owned subsidiaries have been prepared in accordance with the instructions to Form 10-Q as prescribed by the Securities and Exchange Commission (“SEC”) for interim reporting and do not include all of the other information and disclosures required by accounting principles generally accepted in the United States of America (“GAAP”). These statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2017 included in our Annual Report on Form 10-K. As used below, “we,” “our” and “us” refer to MGIC Investment Corporation’s consolidated operations or to MGIC Investment Corporation, as the context requires.

In the opinion of management, the accompanying financial statements include all adjustments, consisting primarily of normal recurring accruals, necessary to fairly state our consolidated financial position and consolidated results of operations for the periods indicated. The consolidated results of operations for the interim period may not be indicative of the results that may be expected for the year ending December 31, 2018.

Substantially all of our insurance written since 2008 has been for loans purchased by the GSEs. We operate under the Private Mortgage Insurer Eligibility Requirements ("PMIERs") of the GSEs that became effective December 31, 2015 and which have been amended from time to time. The financial requirements of the PMIERs require a mortgage insurer’s "Available Assets" (generally only the most liquid assets of an insurer) to equal or exceed its "Minimum Required Assets" (which are based on an insurer's book of insurance in force, calculated from tables of factors with several risk dimensions and subject to a floor amount). Based on our interpretation of the PMIERs, as of June 30, 2018, MGIC’s Available Assets are in excess of its Minimum Required Assets; and MGIC is in compliance with the financial requirements of the PMIERs and eligible to insure loans purchased by the GSEs.

Reclassifications

Certain reclassifications to 2017 amounts have been made in the accompanying financial statements to conform to the 2018 presentation.

Subsequent events

We have considered subsequent events through the date of this filing. Refer to Note 11 - “Income Taxes,” for information regarding our tax settlement with the IRS in July 2018.

Note 2. New Accounting Pronouncements

Accounting standards effective in 2018, or early adopted, and relevant to our financial statements

Table 2.1 shows the relevant amendments to accounting standards that have been implemented for the year beginning January 1, 2018; none had a material impact on our consolidated financial statements or disclosures.

Table 2.1

Standard / Interpretation

Amended Standards		Effective date
ASC 718	Compensation - Stock Compensation • *ASU 2017-09 - Scope of Modification Accounting*	January 1, 2018
ASC 310	Receivables - Nonrefundable Fees and Other Costs • *ASU 2017-08 - Premium Amortization on Purchased Callable Debt Securities*	January 1, 2019
ASC 715	Compensation - Retirement Benefits • *ASU 2017-07 - Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*	January 1, 2018
ASC 825	Financial Instruments - Overall • *ASU 2016-01 - Recognition and Measurement of Financial Assets and Financial Liabilities*	January 1, 2018

Stock Compensation - Scope of Modification Accounting

In May 2017, the FASB issued updated guidance related to a change in the terms or conditions (modification) of a share-based award. The updated guidance provides that an entity should account for the effects of a modification unless the fair value and vesting conditions of the modified award and the classification of the award (equity or liability instrument) are the same as the original award immediately before the modification. The updated guidance addressed the diversity in practice on applying modification accounting, as some entities evaluated whether changes to awards were substantive, which is not prescribed within the current accounting guidance. The updated guidance is effective for annual periods beginning after December 15, 2017, including interim periods within those annual periods. Early adoption is permitted, including adoption in any interim period.

- *Adoption impact: The adoption of this guidance had no impact on our consolidated financial statements or disclosures.*

Premium Amortization on Purchased Callable Debt Securities

In March 2017, the FASB issued updated guidance to amend the amortization period for certain purchased callable debt securities held at a premium, shortening the amortization period to the earliest call date. Under current GAAP, there is diversity in practice in the amortization period for premiums of callable debt securities and in how the potential for exercise of a call is factored into current impairment assessments. This updated guidance aligns with how callable debt securities, in the United States, are generally quoted, priced, and traded, which incorporates consideration of calls (also referred to as “yield-to-worst” pricing). The updated guidance is effective for annual periods beginning after December 15, 2018, including interim periods within those annual periods.

- *Adoption impact: We adopted this guidance as of January 1, 2018 with no impact to our consolidated financial statements or disclosures as our accounting policy adhered to the updated guidance.*

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

In March 2017, the FASB issued updated guidance intended to improve the reporting of net benefit cost in the financial statements. The updated guidance requires that an employer report the service cost component of pension and post-retirement benefit costs in the same financial statement caption as other compensation costs arising from services rendered by employees during the period. The other components of net benefit cost are required to be presented in the statement of operations separately from the service cost component and outside a subtotal of income from operations, if one is presented. Previous guidance did not prescribe where the amount of net benefit cost should be presented in an employer's statement of operations and did not require entities to disclose by line item the amount of net benefit cost that is included in the statement of operations. The updated guidance is effective for annual periods beginning after December 15, 2017, including interim periods within those annual periods.

- *Adoption impact: The adoption of this guidance had no impact on our consolidated financial statements or disclosures as the service cost component is reported in the same financial statement caption as other compensation costs and we do not present a subtotal of income outside of income from operations. The service cost component of our benefit plans is disclosed in Note 10 - "Benefit Plans" to our consolidated financial statements.*

Recognition and Measurement of Financial Assets and Financial Liabilities

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

- *Adoption impact: The adoption of this guidance resulted in an immaterial cumulative effect adjustment to our 2018 beginning accumulated other comprehensive (loss) income and retained earnings to recognize unrealized gains on equity investments. At December 31, 2017, equity investments were classified as available-for-sale on the consolidated balance sheet. Upon adoption the updated guidance eliminated the available-for-sale balance sheet classification for equity securities.*

In February 2018, the FASB issued a separate update for technical corrections and improvements to clarify certain aspects of the guidance issued above. This update clarifies the presentation of investments in, among other things, Federal Home Loan Bank stock and prohibits those investments from being shown with equity securities.

- *Adoption impact: At March 31, 2018, and periods subsequent, the value of our investment in Federal Home Loan Bank of Chicago ("FHLB") stock, which is carried at cost, is presented within "Other invested assets" on our consolidated balance sheet.*

Prospective Accounting Standards

Table 2.2 shows the relevant new amendments to accounting standards, which are not yet effective or adopted.

Table 2.2

Standard / Interpretation

Amended Standards		**Effective date**
ASC 326	Financial Instruments - Credit Losses	
	• *ASU 2016-13 - Measurement of Credit Losses on Financial Instruments*	January 1, 2020

Measurement of Credit Losses on Financial Instruments

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

Note 3. Debt

Debt obligations

The par value of our long-term debt obligations and their aggregate carrying values as of June 30, 2018 and December 31, 2017 are presented in table 3.1 below.

Table 3.1

Long-term debt obligations

(In millions)		**June 30, 2018**		December 31, 2017
FHLB Advance	**$**	**155.0**	$	155.0
5.75% Notes		**425.0**		425.0
9% Debentures (1)		**256.9**		256.9
Long-term debt, par value		**836.9**		836.9
Debt issuance costs		**(5.9)**		(6.5)
Long-term debt, carrying value	**$**	**831.0**	$	830.4

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

The 5.75% Notes, 9% Debentures, and any amounts drawn on our revolving credit facility, are obligations of our holding company, MGIC Investment Corporation, and not of its subsidiaries. In addition to interest on amounts drawn, the unused portion of our revolving credit facility is subject to recurring commitment fees, which is reflected in interest payments. The Federal Home Loan Bank Advance (the "FHLB Advance") is an obligation of MGIC.

Table 3.2 below presents interest payments on our debt obligations.

Table 3.2

Interest payments on debt obligations

	Six Months Ended June 30,			
(In millions)		**2018**		2017
Revolving credit facility	**$**	**0.3**	$	0.5
FHLB Advance		**1.5**		1.5
5% Notes		**—**		3.6
2% Notes		**—**		2.1
5.75% Notes		**12.2**		12.9
9% Debentures		**11.6**		11.6
Total interest payments	**$**	**25.6**	$	32.2

Note 4. Reinsurance

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

Table 4.1

Effect of Reinsurance

(In thousands)	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Premiums earned:				
Direct	**$ 268,236**	$ 261,180	**$ 533,487**	$ 520,608
Assumed	**106**	62	**227**	160
Ceded	**(21,378)**	(30,106)	**(54,643)**	(60,529)
Net premiums earned	**$ 246,964**	$ 231,136	**$ 479,071**	$ 460,239
Losses incurred:				
Direct	**$ (16,778)**	$ 31,396	**$ 14,723**	$ 63,809
Assumed	**(100)**	61	**(10)**	166
Ceded	**3,423**	(4,118)	**(4,318)**	(9,017)
Losses incurred, net	**$ (13,455)**	$ 27,339	**$ 10,395**	$ 54,958

Quota share reinsurance

We utilize quota share reinsurance to manage our exposure to losses resulting from our mortgage guaranty insurance policies and to provide reinsurance capital credit under the PMIERs. Each of the reinsurers under our QSR Transactions has an insurer financial strength rating of A- or better by Standard and Poor's Rating Services, A.M. Best or both.

2018 QSR Transaction. We entered into a QSR transaction with a group of unaffiliated reinsurers with an effective date of January 1, 2018 ("2018 QSR Transaction"), which provides coverage on new business written in 2018 that meets certain eligibility requirements. Under the 2018 QSR Transaction, we will cede losses incurred and premiums on or after the effective date through December 31, 2029, at which time the agreement expires. Early termination of the agreement can be elected by us effective December 31, 2021, and annually thereafter, for a fee, or under specified scenarios for no fee upon prior written notice, including if we will receive less than 90% of the full credit amount under the PMIERs for the risk ceded in any required calculation period.

The structure of the 2018 QSR Transaction is a 30% quota share for all policies covered, with a 20% ceding commission as well as a profit commission. Generally, under the 2018 QSR Transaction, we will receive a profit commission provided that the loss ratio on the loans covered under the agreement remains below 62%.

2017 and 2015 QSR Transactions.

Our 2017 quota share reinsurance agreement ("2017 QSR Transaction") provides coverage on new business written January 1, 2017 through December 29, 2017 that meets certain eligibility requirements. Under the agreement we cede losses incurred and premiums on or after the effective date through December 31, 2028, at which time the agreement expires. Early termination of the agreement can be elected by us effective December 31, 2021 for a fee, or under specified scenarios for no fee upon prior written notice, including if we will receive less than 90% of the full credit amount under the PMIERs for the risk ceded in any required calculation period.

Our 2015 quota share reinsurance agreement ("2015 QSR Transaction") covers eligible risk in force written before 2017. The 2015 QSR Transaction cedes losses incurred and premiums through December 31, 2024, at which time the agreement expires. Early termination of the agreement can be elected by us effective December 31, 2018 for a fee, or under specified scenarios for no fee upon prior written notice, including if we will receive less than 90% of the full credit amount under the PMIERs for the risk ceded in any required calculation period.

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

Table 4.2 below presents a summary of our quota share reinsurance agreements, excluding captive agreements (which were immaterial), for the three and six months ended June 30, 2018 and 2017.

Table 4.2

Quota share reinsurance

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	**2018**	2017	**2018**	2017
Ceded premiums written and earned, net of profit commission (1)	**$ 21,432**	$ 28,917	**$ 54,468**	$ 57,812
Ceded losses incurred	**(3,735)**	4,424	**4,053**	9,111
Ceding commissions (2)	**12,640**	12,248	**25,285**	24,251
Profit commission	**41,769**	32,325	**71,958**	63,442

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

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

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

The reinsurance recoverable on loss reserves related to our QSR Transactions was $36.5 million as of June 30, 2018 and $39.3 million as of December 31, 2017. The reinsurance recoverable balance is secured by funds on deposit from the reinsurers which are based on the funding requirements of PMIERs that address ceded risk.

Note 5. Litigation and Contingencies

Before paying an insurance claim, we review the loan and servicing files to determine the appropriateness of the claim amount. When reviewing the files, we may determine that we have the right to rescind coverage on the loan. We refer to insurance rescissions and denials of claims collectively as “rescissions” and variations of that term. In addition, our insurance policies generally provide that we can reduce or deny a claim if the servicer did not comply with its obligations under our insurance policy. We call such reduction of claims “curtailments.” In recent quarters, an immaterial percentage of claims received in a quarter have been resolved by rescissions. In each of 2017 and the first half of 2018, curtailments reduced our average claim paid by approximately 5.6% and 6.7%, respectively.

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

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

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

In addition to matters for which we have recorded a probable loss, we are involved in other discussions and/or proceedings with insureds with respect to our claims paying practices. Although it is reasonably possible that when these matters are resolved we will not prevail in all cases, we are unable to make a reasonable estimate or range of estimates of the potential liability. We estimate the maximum exposure associated with matters where a loss is reasonably possible to be approximately $288 million. This estimate of maximum exposure is based upon currently available information and is subject to significant judgment, numerous assumptions and known and unknown uncertainties. The matters underlying the estimate of maximum exposure will change from time to time. This estimate of our maximum exposure does not include interest or consequential or exemplary damages.

Mortgage insurers, including MGIC, have been involved in litigation and regulatory actions related to alleged violations of the anti-referral fee provisions of the Real Estate Settlement Procedures Act, which is commonly known as RESPA, and the notice provisions of the Fair Credit Reporting Act, which is commonly known as FCRA. While these proceedings in the aggregate have not resulted in material liability for MGIC, there can be no assurance that the outcome of future proceedings, if any, under these laws would not have a material adverse affect on us. In addition, various regulators, including the CFPB, state insurance commissioners and state attorneys general may bring other actions seeking various forms of relief in connection with alleged violations of RESPA. The insurance law provisions of many states prohibit paying for the referral of insurance business and provide various mechanisms to enforce this prohibition. While we believe our practices are in conformity with applicable laws and regulations, it is not possible to predict the eventual scope, duration or outcome of any such reviews or investigations nor is it possible to predict their effect on us or the mortgage insurance industry.

Through a non-insurance subsidiary, we utilize our underwriting skills to provide an outsourced underwriting service to our customers known as contract underwriting. As part of the contract underwriting activities, that subsidiary is responsible for the quality of the underwriting decisions in accordance with the terms of the contract underwriting agreements with customers. That subsidiary may be required to provide certain remedies to its customers if certain standards relating to the quality of our underwriting work are not met, and we have an established reserve for such future obligations. Claims for remedies may be made a number of years after the underwriting work was performed. The underwriting remedy expense for 2017 and the first six months of 2018 was immaterial to our consolidated financial statements.

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

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

Note 6. Earnings per Share

Basic earnings per share ("EPS") is calculated by dividing net income by the weighted average number of shares of common stock outstanding. For purposes of calculating basic EPS, vested restricted stock and restricted stock units ("RSUs") are considered outstanding. Diluted EPS includes the components of basic EPS and also gives effect to dilutive common stock equivalents. We calculate diluted EPS using the treasury stock method and if-converted method. Under the treasury stock method, diluted EPS reflects the potential dilution that could occur if unvested RSU's result in the issuance of common stock. Under the if-converted method, diluted EPS reflects the potential dilution that could occur if our convertible debt instruments result in the issuance of common stock. The determination of potentially issuable shares does not consider the satisfaction of the conversion requirements and the shares are included in the determination of diluted EPS as of the beginning of the period, if dilutive. During the three and six months ended June 30, 2018, we had 9% Debentures outstanding that could result in potentially issuable shares.

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

Table 6.1

Earnings per share

	Three Months Ended June 30,				Six Months Ended June 30,			
(In thousands, except per share data)		**2018**		2017		**2018**		2017
Basic earnings per share:								
Net income	**$**	**186,814**	$	118,622	**$**	**330,451**	$	208,420
Weighted average common shares outstanding - basic		**368,578**		366,918		**369,736**		354,035
Basic earnings per share	**$**	**0.51**	$	0.32	**$**	**0.89**	$	0.59
Diluted earnings per share:								
Net income	**$**	**186,814**	$	118,622	**$**	**330,451**	$	208,420
Interest expense, net of tax (1):								
2% Notes		**—**		84		**—**		907
5% Notes		**—**		427		**—**		1,709
9% Debentures		**4,566**		3,757		**9,132**		7,514
Diluted income available to common shareholders	**$**	**191,380**	$	122,890	**$**	**339,583**	$	218,550
Weighted average common shares outstanding - basic		**368,578**		366,918		**369,736**		354,035
Effect of dilutive securities:								
Unvested RSUs		**1,275**		1,140		**1,472**		1,314
2% Notes		**—**		3,827		**—**		16,771
5% Notes		**—**		3,557		**—**		7,154
9% Debentures		**19,028**		19,028		**19,028**		19,028
Weighted average common shares outstanding - diluted		**388,881**		394,470		**390,236**		398,302
Diluted earnings per share	**$**	**0.49**	$	0.31	**$**	**0.87**	$	0.55

(1) The periods ended June 30, 2018 and 2017 were tax effected at a rate of 21% and 35%, respectively.

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Note 7. Investments

Fixed income securities

The amortized cost, gross unrealized gains and losses, and fair value of investments in fixed income securities classified as available-for-sale at June 30, 2018 and December 31, 2017 are shown in tables 7.1a and 7.1b below.

Table 7.1a

Details of fixed income securities by category - current year

(In thousands)	June 30, 2018			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized (Losses) (1)**	**Fair Value**
U.S. Treasury securities and obligations of U.S. government corporations and agencies	**$ 135,248**	**$ 210**	**$ (2,688)**	**$ 132,770**
Obligations of U.S. states and political subdivisions	**2,056,724**	**26,099**	**(16,686)**	**2,066,137**
Corporate debt securities	**2,137,543**	**1,174**	**(42,759)**	**2,095,958**
Asset backed securities (“ABS”)	**71,625**	**—**	**(333)**	**71,292**
Residential mortgage backed securities (“RMBS”)	**174,255**	**41**	**(10,570)**	**163,726**
Commercial mortgage backed securities (“CMBS”)	**294,839**	**351**	**(11,847)**	**283,343**
Collateralized loan obligations (“CLO”)	**113,121**	**64**	**(164)**	**113,021**
Total fixed income securities	**4,983,355**	**27,939**	**(85,047)**	**4,926,247**

Table 7.1b

Details of fixed income securities by category - prior year-end

(In thousands)	December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses) (1)	Fair Value
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 179,850	$ 274	$ (1,278)	$ 178,846
Obligations of U.S. states and political subdivisions	2,105,063	56,210	(8,749)	2,152,524
Corporate debt securities	2,065,475	10,532	(9,169)	2,066,838
ABS	4,925	—	(2)	4,923
RMBS	189,153	60	(7,364)	181,849
CMBS	301,014	1,204	(4,906)	297,312
CLOs	100,798	304	(79)	101,023
Total fixed income securities	4,946,278	68,584	(31,547)	4,983,315

(1) At June 30, 2018 and December 31, 2017, there were no other-than-temporary impairment losses recorded in other comprehensive income.

We had $13.4 million and $13.6 million of investments at fair value on deposit with various states as of June 30, 2018 and December 31, 2017, respectively, due to regulatory requirements of those state insurance departments.

The amortized cost and fair values of fixed income securities at June 30, 2018, by contractual maturity, are shown in table 7.2 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 ABS, RMBS, CMBS, and CLOs provide for periodic payments throughout their lives, they are listed in separate categories.

Table 7.2

Fixed income securities maturity schedule

(In thousands)	June 30, 2018 Amortized Cost	June 30, 2018 Fair Value
Due in one year or less	$ 493,653	$ 492,697
Due after one year through five years	1,560,626	1,538,297
Due after five years through ten years	984,376	961,805
Due after ten years	1,290,860	1,302,066
	$ 4,329,515	$ 4,294,865
ABS	71,625	71,292
RMBS	174,255	163,726
CMBS	294,839	283,343
CLOs	113,121	113,021
Total as of June 30, 2018	$ 4,983,355	$ 4,926,247

Proceeds from sales of fixed income securities classified as available-for-sale were $25.1 million and $166.6 million during the six months ended June 30, 2018 and 2017, respectively. Gross gains of $0.2 million and $0.8 million and gross losses of $1.0 million and $1.0 million were realized on those sales during the six months ended June 30, 2018 and 2017, respectively.

During the three months ended June 30, 2018, we recorded other-than-temporary impairment ("OTTI") losses of $1.3 million in earnings due to our intent to sell certain fixed income securities that are in an unrealized loss position. During each of the three and six months ended June 30, 2017, there were no OTTI losses recognized.

Equity securities

The cost and fair value of investments in equity securities at June 30, 2018 and December 31, 2017 are shown in tables 7.3a and 7.3b below. As described in Note 2 - "New Accounting Pronouncements," under updated guidance regarding the "*Recognition and Measurement of Financial Assets and Financial Liabilities" which* became effective on January 1, 2018, the amount of our FHLB stock investment has been reclassified and presented in *"Other invested assets"* on our consolidated balance sheet as of June 30, 2018.

Table 7.3a

Details of equity security investments - current year

(In thousands)	June 30, 2018 Cost	Gross Gains	Gross Losses	Fair Value
Equity securities	$ 4,111	$ 8	$ (71)	$ 4,048

Table 7.3b

Details of equity security investments - prior year-end

(In thousands)	December 31, 2017 Cost	Gross Gains	Gross Losses	Fair Value
Equity securities	$ 7,223	$ 39	$ (16)	$ 7,246

For the six months ended June 30, 2018, we recognized $0.1 million of net losses on equity securities still held as of June 30, 2018.

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Other invested assets

Other invested assets include an investment in FHLB stock that is carried at cost, which due to its nature approximates fair value. Ownership of FHLB stock provides access to a secured lending facility, and our current FHLB Advance amount is secured by eligible collateral whose fair value is maintained at a minimum of 102% of the outstanding principal balance. As of June 30, 2018, that collateral consisting of fixed income securities included in our total investment portfolio, and cash and cash equivalents, had a total fair value of $166.1 million.

Unrealized investment losses

Tables 7.4a and 7.4b below summarize, for all available-for-sale investments in an unrealized loss position at June 30, 2018 and December 31, 2017, the aggregate fair value and gross unrealized loss by the length of time those securities have been continuously in an unrealized loss position. The fair value amounts reported in tables 7.4a and 7.4b are estimated using the process described in Note 8 - "Fair Value Measurements" to these consolidated financial statements and in Note 3 - "Significant Accounting Policies" of the notes to the consolidated financial statements in our 2017 Annual Report on Form 10-K.

Table 7.4a

Investments unrealized losses - current year

	June 30, 2018					
	Less Than 12 Months		12 Months or Greater		**Total**	
(In thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	**Fair Value**	**Unrealized Losses**
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 85,817	$ (1,826)	$ 34,027	$ (862)	**$ 119,844**	**$ (2,688)**
Obligations of U.S. states and political subdivisions	778,354	(9,776)	207,827	(6,910)	**986,181**	**(16,686)**
Corporate debt securities	1,787,815	(34,534)	176,254	(8,225)	**1,964,069**	**(42,759)**
ABS	71,293	(333)	—	—	**71,293**	**(333)**
RMBS	5,099	(163)	158,215	(10,407)	**163,314**	**(10,570)**
CMBS	121,944	(3,098)	130,590	(8,749)	**252,534**	**(11,847)**
CLOs	57,962	(138)	1,182	(26)	**59,144**	**(164)**
Total	$ 2,908,284	$ (49,868)	$ 708,095	$ (35,179)	**$ 3,616,379**	**$ (85,047)**

Table 7.4b

Investments unrealized losses - prior year-end

	December 31, 2017					
	Less Than 12 Months		12 Months or Greater		Total	
(In thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 144,042	$ (796)	$ 31,196	$ (482)	$ 175,238	$ (1,278)
Obligations of U.S. states and political subdivisions	505,311	(3,624)	211,684	(5,125)	716,995	(8,749)
Corporate debt securities	932,350	(4,288)	200,716	(4,881)	1,133,066	(9,169)
ABS	4,923	(2)	—	—	4,923	(2)
RMBS	14,979	(280)	166,329	(7,084)	181,308	(7,364)
CMBS	51,096	(358)	138,769	(4,548)	189,865	(4,906)
CLOs	14,243	(7)	3,568	(72)	17,811	(79)
Equity securities	226	(2)	431	(14)	657	(16)
Total	$ 1,667,170	$ (9,357)	$ 752,693	$ (22,206)	$ 2,419,863	$ (31,563)

The unrealized losses in all categories of our investments at June 30, 2018 and December 31, 2017 were primarily caused by changes in interest rates between the time of purchase and the respective fair value measurement date. There were 867 and 586 securities in an unrealized loss position at June 30, 2018 and December 31, 2017, respectively.

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Note 8. Fair Value Measurements

Recurring fair value measurements

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

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

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

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

Assets measured at fair value, by hierarchy level, as of June 30, 2018 and December 31, 2017 are shown in tables 8.1a and 8.1b below. The fair value of the assets is estimated using the process described above, and more fully in Note 3 - “Significant Accounting Policies” of the notes to the consolidated financial statements in our 2017 Annual Report on Form 10-K.

Table 8.1a

Fair value hierarchy - current year

	June 30, 2018			
(In thousands)	**Total Fair Value**	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Treasury securities and obligations of U.S. government corporations and agencies	**$ 132,770**	$ 18,922	$ 113,848	$ —
Obligations of U.S. states and political subdivisions	**2,066,137**	—	2,065,945	192
Corporate debt securities	**2,095,958**	—	2,095,958	—
ABS	**71,292**	—	71,292	—
RMBS	**163,726**	—	163,726	—
CMBS	**283,343**	—	283,343	—
CLOs	**113,021**	—	113,021	—
Total fixed income securities	**4,926,247**	18,922	4,907,133	192
Equity securities (1)	**4,048**	2,880	—	1,168
Total investments at fair value	**$ 4,930,295**	$ 21,802	$ 4,907,133	$ 1,360
Real estate acquired (2)	**$ 13,321**	$ —	$ —	$ 13,321

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Table 8.1b

Fair value hierarchy - prior year-end

(In thousands)	December 31, 2017 Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 178,846	$ 81,598	$ 97,248	$ —
Obligations of U.S. states and political subdivisions	2,152,524	—	2,152,253	271
Corporate debt securities	2,066,838	—	2,066,838	—
ABS	4,923	—	4,923	—
RMBS	181,849	—	181,849	—
CMBS	297,312	—	297,312	—
CLOs	101,023	—	101,023	—
Total fixed income securities	4,983,315	81,598	4,901,446	271
Equity securities (1)	7,246	2,978	—	4,268
Total investments at fair value	$ 4,990,561	$ 84,576	$ 4,901,446	$ 4,539
Real estate acquired (2)	$ 12,713	$ —	$ —	$ 12,713

(1) Equity securities in Level 3 are carried at cost, which approximates fair value. See *"Reconciliations of Level 3 assets"* below for information regarding a change in presentation of amounts previously included in Level 3 Equity securities.

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

Reconciliations of Level 3 assets

For assets measured at fair value using significant unobservable inputs (Level 3), a reconciliation of the beginning and ending balances for the three and six months ended June 30, 2018 and 2017 is shown in tables 8.2a and 8.2b and 8.3a and 8.3b below. As described in Note 2 - "New Accounting Pronouncements," under updated guidance regarding the *Recognition and Measurement of Financial Assets and Financial Liabilities* which became effective on January 1, 2018, our investment in FHLB stock is no longer presented with equity securities. Prior to the updated guidance, our FHLB stock was included in our Level 3 equity securities. As shown in table 8.3a below, for the six months ended June 30, 2018, we have transferred our FHLB stock out of Level 3 assets, and it is carried at cost, which approximates fair value, on our consolidated balance sheet in *"Other invested assets"* as of June 30, 2018. There were no losses included in earnings for those periods attributable to the change in unrealized losses on assets still held at the end of the applicable period.

Table 8.2a

Development of assets and liabilities classified within level 3 - current year quarter

(In thousands)	**Three Months Ended June 30, 2018** Debt Securities	Equity Securities	Total Investments	Real Estate Acquired
Balance at March 31, 2018	$ 254	$ 1,168	$ 1,422	$ 10,078
Total realized gains (losses):				
Included in earnings and reported as losses incurred, net	—	—	—	**(996)**
Purchases	—	—	—	**10,869**
Sales	**(62)**	—	**(62)**	**(6,630)**
Balance at June 30, 2018	**$ 192**	**$ 1,168**	**$ 1,360**	**$ 13,321**

Table 8.2b

Development of assets and liabilities classified within level 3 - prior year quarter

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

Table 8.3a

Development of assets and liabilities classified within level 3 - current year to date

(In thousands)	**Six Months Ended June 30, 2018** Debt Securities	Equity Securities	Total Investments	Real Estate Acquired
Balance at December 31, 2017	$ 271	$ 4,268	$ 4,539	$ 12,713
Transfers out of Level 3	—	(3,100)	(3,100)	—
Total realized gains (losses):				
Included in earnings and reported as losses incurred, net	**—**	**—**	**—**	**(655)**
Purchases	**—**	**—**	**—**	**16,763**
Sales	**(79)**	**—**	**(79)**	**(15,500)**
Balance at June 30, 2018	**$ 192**	**$ 1,168**	**$ 1,360**	**$ 13,321**

Table 8.3b

Development of assets and liabilities classified within level 3 - prior year to date

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

Certain financial instruments, including insurance contracts, are excluded from these fair value disclosure requirements. The carrying values of cash and cash equivalents (Level 1) and accrued investment income (Level 2) approximated their fair values. Additional fair value disclosures related to our investment portfolio are included in Note 7 – “Investments.”

Financial liabilities not measured at fair value

We incur financial liabilities in the normal course of our business. Table 8.4 presents the carrying value and fair value of our financial liabilities disclosed, but not carried, at fair value at June 30, 2018 and December 31, 2017. The fair values of our 5.75% Notes and 9% Debentures were based on observable market prices. The fair value of the FHLB Advance was estimated using discounted cash flows on current incremental borrowing rates for similar borrowing arrangements. In all cases the fair values of the financial liabilities below are categorized as Level 2.

Table 8.4

Fair value measurements - liabilities

(In thousands)	June 30, 2018 Carrying Value	June 30, 2018 Fair Value	December 31, 2017 Carrying Value	December 31, 2017 Fair Value
FHLB Advance	**$ 155,000**	**$ 149,135**	$ 155,000	$ 152,124
5.75% Notes	**419,136**	**434,422**	418,560	465,473
9% Debentures	**256,872**	**344,946**	256,872	353,507
Total financial liabilities	**$ 831,008**	**$ 928,503**	$ 830,432	$ 971,104

Note 9. Other Comprehensive Income

The pretax and related income tax (expense) benefit components of our other comprehensive income (loss) for the three and six months ended June 30, 2018 and 2017 are included in table 9.1 below.

Table 9.1

Components of other comprehensive (loss) income

(In thousands)	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Net unrealized investment (losses) gains arising during the period	**$ (12,558)**	$ 39,614	**$ (94,145)**	$ 58,261
Income tax benefit (expense)	**2,636**	(13,865)	**19,770**	(20,391)
Net of taxes	**(9,922)**	25,749	**(74,375)**	37,870
Net changes in benefit plan assets and obligations	**491**	(220)	**1,116**	(454)
Income tax (expense) benefit	**(103)**	78	**(234)**	159
Net of taxes	**388**	(142)	**882**	(295)
Net changes in unrealized foreign currency translation adjustment	**—**	—	**—**	45
Income tax (expense)	**—**	—	**—**	(14)
Net of taxes	**—**	—	**—**	31
Total other comprehensive (loss) income	**(12,067)**	39,394	**(93,029)**	57,852
Total income tax benefit (expense)	**2,533**	(13,787)	**19,536**	(20,246)
Total other comprehensive (loss) income, net of tax	**$ (9,534)**	$ 25,607	**$ (73,493)**	$ 37,606

The pretax and related income tax benefit (expense) components of the amounts reclassified from our accumulated other comprehensive loss (“AOCL”) to our consolidated statements of operations for the three and six months ended June 30, 2018 and 2017 are included in table 9.2 below.

Table 9.2

Reclassifications from AOCL

(In thousands)	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Reclassification adjustment for net realized (losses) (1)	**$ (3,621)**	$ (1,392)	**$ (3,712)**	$ (2,139)
Income tax benefit	**760**	487	**779**	748
Net of taxes	**(2,861)**	(905)	**(2,933)**	(1,391)
Reclassification adjustment related to benefit plan assets and obligations (2)	**(491)**	220	**(1,116)**	454
Income tax benefit (expense)	**103**	(78)	**234**	(159)
Net of taxes	**(388)**	142	**(882)**	295
Total reclassifications	**(4,112)**	(1,172)	**(4,828)**	(1,685)
Total income tax benefit	**863**	409	**1,013**	589
Total reclassifications, net of tax	**$ (3,249)**	$ (763)	**$ (3,815)**	$ (1,096)

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

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

A rollforward of AOCL for the six months ended June 30, 2018, including amounts reclassified from AOCL, are included in table 9.3 below.

Table 9.3

Rollforward of AOCL

(In thousands)	Six Months Ended June 30, 2018 Net unrealized gains and losses on available-for-sale securities	Net benefit plan assets and obligations recognized in shareholders' equity	Total AOCL
Balance, December 31, 2017, net of tax	$ 29,257	$ (73,058)	$ (43,801)
Other comprehensive income before reclassifications	**(77,308)**	**—**	**(77,308)**
Less: Amounts reclassified from AOCL	**(2,933)**	**(882)**	**(3,815)**
Balance, June 30, 2018, net of tax	**$ (45,118)**	**$ (72,176)**	**$ (117,294)**

Note 10. Benefit Plans

Tables 10.1 and 10.2 provide the components of net periodic benefit cost for our pension, supplemental executive retirement and other postretirement benefit plans for the three and six months ended June 30, 2018 and 2017.

Table 10.1

Components of net periodic benefit cost

	Three Months Ended June 30,			
	Pension and Supplemental Executive Retirement Plans		Other Postretirement Benefit Plans	
(In thousands)	**2018**	2017	**2018**	2017
Service cost	**$ 2,703**	$ 2,484	**$ 310**	$ 220
Interest cost	**3,765**	3,879	**203**	186
Expected return on plan assets	**(5,555)**	(5,013)	**(1,591)**	(1,312)
Recognized net actuarial loss	**1,684**	1,549	**(79)**	—
Amortization of prior service cost	**(88)**	(106)	**(1,026)**	(1,663)
Net periodic benefit cost (benefit)	**$ 2,509**	$ 2,793	**$ (2,183)**	$ (2,569)

Table 10.2

Components of net periodic benefit cost

	Six Months Ended June 30,			
	Pension and Supplemental Executive Retirement Plans		Other Postretirement Benefit Plans	
(In thousands)	**2018**	2017	**2018**	2017
Service cost	**$ 5,265**	$ 4,778	**$ 580**	$ 407
Interest cost	**7,547**	7,737	**417**	353
Expected return on plan assets	**(11,125)**	(10,049)	**(3,179)**	(2,624)
Recognized net actuarial loss	**3,469**	3,084	**(125)**	—
Amortization of prior service cost	**(175)**	(213)	**(2,052)**	(3,325)
Net periodic benefit cost (benefit)	**$ 4,981**	$ 5,337	**$ (4,359)**	$ (5,189)

We currently intend to make contributions totaling $11 million to our qualified pension plan and supplemental executive retirement plan in 2018.

Note 11. Income Taxes

We have approximately $344.0 million of net operating loss ("NOL") carryforwards as of June 30, 2018. Any unutilized carryforwards are scheduled to expire at the end of tax years 2032 through 2033.

We evaluate the realizability of our deferred tax assets including our NOL carryforwards on a quarterly basis. Based on our analysis, we have concluded that all of our deferred tax assets are fully realizable and therefore no valuation allowance existed at June 30, 2018 and December 31, 2017.

Tax Contingencies

As previously disclosed, the Internal Revenue Service ("IRS") completed examinations of our federal income tax returns for the years 2000 through 2007 and issued proposed assessments for taxes, interest and penalties related to our treatment of the flow-through income and loss from an investment in a portfolio of residual interests of Real Estate Mortgage Investment Conduits.

In July 2018, we finalized an agreement with the IRS to settle all issues in the examination and related U.S. Tax Court case; the settlement has been approved by the U.S. Tax Court. The expected impact of the agreed upon settlement was previously reflected in our consolidated financial statements.

Our total amount of unrecognized tax benefits as of June 30, 2018 is $144.9 million, which represents the tax benefits generated by the REMIC portfolio included in our tax returns that we have not taken benefit for in our financial statements, including any related interest. Based on the finalized agreement with the IRS, our total unrecognized tax benefits will be reduced by $144.9 million during the second half of 2018. After taking into account prior payments and the effect of available net operating loss carrybacks, we expect net cash outflows for federal and state income taxes and interest associated with our settlement will be approximately $57 million.

Note 12. Loss Reserves

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

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

The "Losses incurred" section of table 12.1 below shows losses incurred on delinquencies that occurred in the current year and in prior years. The amount of losses incurred relating to delinquencies that occurred in the current year represents the estimated amount to be ultimately paid on such delinquencies. The amount of losses incurred relating to delinquencies that occurred in prior years represents the difference between the actual claim rate and severity associated with those delinquencies resolved in the current year compared to the estimated claim rate and severity at the prior year-end, as well as a re-estimation of amounts to be ultimately paid on delinquencies continuing from the end of the prior year. This re-estimation of the claim rate and severity is the result of our review of current trends in the delinquent inventory, such as percentages of delinquencies that have resulted in a claim, the amount of the claims relative to the average loan exposure, changes in the relative level of delinquencies by geography and changes in average loan exposure.

Losses incurred on delinquencies that occurred in the current year decreased in the first six months of 2018 compared to the same period in 2017, primarily due to a decrease in the estimated claim rate on delinquencies that occurred in the current year and a decrease in the number of new delinquencies, net of related cures.

For the six months ended June 30, 2018 and 2017, we experienced favorable loss reserve development on previously received delinquencies, in large part, due to the resolution of approximately 51% and 48%, respectively, of the prior year delinquent inventory, with improved cure rates. The favorable loss reserve development resulting from a reduction in the estimated claim rate was partially offset in each of the six months ended June 30, 2018 and 2017 by an increase in our severity assumption on previously received delinquencies.

The “Losses paid” section of table 12.1 below shows the amount of losses paid on delinquencies that occurred in the current year and losses paid on delinquencies that occurred in prior years. For several years, the average time it took to receive a claim associated with a delinquency had increased significantly from our historical experience of approximately twelve months. This was, in part, due to new loss mitigation protocols established by servicers and to changes in some state foreclosure laws that may include, for example, a requirement for additional review and/or mediation processes. In recent quarters, we have experienced a decline in the average time servicers are utilizing to process foreclosures, which has reduced the average time to receive a claim associated with new delinquent notices that do not cure. All else being equal, the longer the period between delinquency and claim filing, the greater the severity.

During the first six months of 2018 and 2017, our losses paid included amounts paid upon commutation of coverage of pools of non-performing loans (“NPLs”) and/or amounts paid in connection with disputes concerning our claims paying practices. The impacts of the settlements were as follows:

- 2018 - 662 items were removed from the delinquent inventory with an amount paid of $21 million.
- 2017 - 1,128 items were removed from the delinquent inventory with amount paid of $45 million.

Our estimate of premiums to be refunded on expected claim payments is accrued for separately in “Other Liabilities” on our consolidated balance sheets and approximated $50 million and $61 million at June 30, 2018 and December 31, 2017, respectively.

Table 12.1 provides a reconciliation of beginning and ending loss reserves as of and for the six months ended June 30, 2018 and 2017.

Table 12.1

Development of reserves for losses and loss adjustment expenses

	Six months ended June 30,	
(In thousands)	**2018**	2017
Reserve at beginning of period	**$ 985,635**	$ 1,438,813
Less reinsurance recoverable	**48,474**	50,493
Net reserve at beginning of period	**937,161**	1,388,320
Losses incurred:		
Losses and LAE incurred in respect of delinquency notices received in:		
Current year	**108,361**	158,906
Prior years (1)	**(97,966)**	(103,948)
Total losses incurred	**10,395**	54,958
Losses paid:		
Losses and LAE paid in respect of delinquency notices received in:		
Current year	**263**	2,125
Prior years	**173,313**	298,847
Reinsurance terminations	**(1,984)**	—
Total losses paid	**171,592**	300,972
Net reserve at end of period	**775,964**	1,142,306
Plus reinsurance recoverables	**37,051**	44,783
Reserve at end of period	**$ 813,015**	$ 1,187,089

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

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The prior year development of the reserves in the first six months of 2018 and 2017 is reflected in table 12.2 below.

Table 12.2

Reserve development on previously received delinquencies

(in millions)	Six months ended June 30, 2018	Six months ended June 30, 2017
Decrease in estimated claim rate on primary defaults	**$ (120)**	$ (104)
Increase in estimated severity on primary defaults	**19**	2
Change in estimates related to pool reserves, LAE reserves and reinsurance	**3**	(2)
Total prior year loss development (1)	**$ (98)**	$ (104)

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

Delinquent inventory

A rollforward of our primary delinquent inventory for the three and six months ended June 30, 2018 and 2017 appears in table 12.3 below. The information concerning new notices and cures is compiled from monthly reports received from loan servicers. The level of new notice and cure activity reported in a particular month can be influenced by, among other things, the date on which a servicer generates its report, the accuracy of the data provided by servicers, the number of business days in a month, transfers of servicing between loan servicers and whether all servicers have provided the reports in a given month.

Table 12.3

Delinquent inventory rollforward

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	**2018**	2017
Delinquent inventory at beginning of period	**41,243**	45,349	**46,556**	50,282
New notices	**12,159**	14,463	**26,782**	29,402
Cures	**(15,350)**	(14,708)	**(33,423)**	(31,836)
Paids (including those charged to a deductible or captive)	**(1,501)**	(2,573)	**(3,072)**	(5,208)
Rescissions and denials	**(76)**	(100)	**(144)**	(195)
Other items removed from inventory	**(438)**	(1,114)	**(662)**	(1,128)
Delinquent inventory at end of period	**36,037**	41,317	**36,037**	41,317

The decrease in the primary delinquent inventory experienced during 2018 and 2017 was generally across all markets and primarily in book years 2008 and prior. Historically as a default ages it becomes more likely to result in a claim.

Hurricane activity

New delinquent notice activity increased in the fourth quarter of 2017 because of hurricane activity that primarily impacted Puerto Rico, Texas, and Florida in the third quarter of 2017. In response to the hurricanes, the Federal Emergency Management Agency has declared Individual Assistance Disaster Areas (“IADA”), and during the fourth quarter of 2017 we received 9,294 new notices from the IADA. As a result, the number of loans delinquent three months or less was a higher percentage of our total inventory as of December 31, 2017 than it had been as of June 30, 2017. A majority of the loans in the IADA first reported as delinquent in the fourth quarter of 2017 remained delinquent through the period ending June 30, 2018 and are shown as 4-11 months delinquent in table 12.4 below. Correspondingly, the number of loans in our delinquent inventory shown as 4-11 months delinquent was elevated as of June 30, 2018, compared to December 31, 2017 and June 30, 2017.

Table 12.4 below shows the number of consecutive months a borrower is delinquent.

Table 12.4

Delinquent inventory - consecutive months in default

	June 30, 2018		December 31, 2017		June 30, 2017	
3 months or less	**8,554**	**24%**	17,119	37%	10,299	25%
4-11 months	**12,506**	**35%**	12,050	26%	11,018	27%
12 months or more (1) (2)	**14,977**	**41%**	17,387	37%	20,000	48%
Total primary delinquent inventory	**36,037**	**100%**	46,556	100%	41,317	100%
Primary claims received inventory included in ending delinquent inventory:	**827**	**2%**	954	2%	1,258	3%

(1) Approximately 43%, 45%, and 46% of the primary delinquent inventory delinquent for 12 consecutive months or more has been delinquent for at least 36 consecutive months as of June 30, 2018, December 31, 2017, and June 30, 2017, respectively.

(2) The majority of items removed from our delinquent inventory due to commutations of NPLs during the six months ended June 30, 2018 were delinquent for 12 consecutive months or more as of December 31, 2017.

The number of months a loan is in the delinquent 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. Table 12.5 below shows the number of payments that a borrower is delinquent.

Table 12.5

Delinquent inventory - number of payments delinquent

	June 30, 2018		December 31, 2017		June 30, 2017	
3 payments or less	**14,178**	**39%**	21,678	46%	15,858	38%
4-11 payments	**11,429**	**32%**	12,446	27%	10,560	26%
12 payments or more (1) (2)	**10,430**	**29%**	12,432	27%	14,899	36%
Total primary delinquent inventory	**36,037**	**100%**	46,556	100%	41,317	100%

(1) Approximately 41%, 43%, and 44% of the primary delinquent inventory with 12 payments or more delinquent has at least 36 payments delinquent as of June 30, 2018, December 31, 2017, and June 30, 2017, respectively.

(2) The majority of items removed from our delinquent inventory due to commutations of NPLs during the six months ended June 30, 2018 had 12 or more payments delinquent as of December 31, 2017.

Pool insurance delinquent inventory decreased to 1,067 at June 30, 2018 from 1,309 at December 31, 2017, and 1,511 at June 30, 2017.

Claims paying practices

Our loss reserving methodology incorporates our estimates of future rescissions and curtailments. A variance between ultimate actual rescission and curtailment rates and our estimates, as a result of the outcome of litigation, settlements or other factors, could materially affect our losses. Our estimate of premiums to be refunded on expected future rescissions is accrued for separately and is included in “Other liabilities” on our consolidated balance sheets. For information about discussions and legal proceedings with customers with respect to our claims paying practices see Note 5 – “Litigation and Contingencies.”

Note 13. Shareholders' Equity

Share repurchase program

On April 26, 2018, our Board of Directors authorized a share repurchase program under which we may repurchase up to $200 million of our common stock through the end of 2019. Repurchases may be made from time to time on the open market or through privately negotiated transactions. The repurchase program may be suspended for periods or discontinued at any time.

During the second quarter, we repurchased approximately 9.2 million shares of our common stock at a weighted average price per share of $10.88, which included commissions.

Change in accounting principle

As described in Note 2 - "New Accounting Pronouncements," during the first quarter of 2018 the updated guidance of *"Recognition and Measurement of Financial Assets and Financial Liabilities"* became effective. The application of this guidance resulted in an immaterial cumulative effect adjustment to our 2018 beginning accumulated other comprehensive (loss) income and retained earnings to recognize unrealized gains on equity securities.

Shareholders Rights Agreement

Our Amended and Restated Rights Agreement dated August 1, 2018 ("the 2018 Agreement") seeks to diminish the risk that our ability to use our NOLs to reduce potential future federal income tax obligations may become substantially limited and to deter certain abusive takeover practices. The benefit of the NOLs would be substantially limited, and the timing of the usage of the NOLs could be substantially delayed, if we were to experience an "ownership change" as defined by Section 382 of the Internal Revenue Code.

Under the 2018 Agreement, each outstanding share of our Common Stock is accompanied by one Right. The "Distribution Date" occurs on the earlier of ten days after a public announcement that a person has become an "Acquiring Person," or ten business days after a person announces or begins a tender offer in which consummation of such offer would result in a person becoming an "Acquiring Person." An "Acquiring Person" is any person that becomes, by itself or together with its affiliates and associates, a beneficial owner of 5% or more of the shares of our Common Stock then outstanding, but excludes, among others, certain exempt and grandfathered persons as defined in the Agreement. The Rights are not exercisable until the Distribution Date. Each Right will initially entitle shareholders to buy one-tenth of one share of our Common Stock at a Purchase Price of $45 per full share (equivalent to $4.50 for each one-tenth share), subject to adjustment. Each exercisable Right (subject to certain limitations) will entitle its holder to purchase, at the Rights' then-current Purchase Price, a number of our shares of Common Stock (or if after the Shares Acquisition Date, we are acquired in a business combination, common shares of the acquiror) having a market value at the time equal to twice the Purchase Price. The Rights will expire on March 1, 2020, or earlier as described in the 2018 Agreement. The Rights are redeemable at a price of $0.001 per Right at any time prior to the time a person becomes an Acquiring Person. Other than certain amendments, the Board of Directors may amend the Rights in any respect without the consent of the holders of the Rights.

Note 14. Share-Based Compensation

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

Table 14.1 shows the number of shares granted to employees and the weighted average fair value per share during the periods presented (shares in thousands).

Table 14.1

Restricted stock grants

	Six months ended June 30,			
	2018		2017	
	Shares Granted	**Weighted Average Share Fair Value**	Shares Granted	Weighted Average Share Fair Value
RSUs subject to performance conditions	**1,239**	**$ 15.80**	1,237	$ 10.41
RSUs subject only to service conditions	**412**	**15.71**	395	10.41

Note 15. Statutory Information

Statutory Capital Requirements

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

At June 30, 2018, MGIC’s risk-to-capital ratio was 9.1 to 1, below the maximum allowed by the jurisdictions with State Capital Requirements, and its policyholder position was $2.4 billion above the required MPP of $1.2 billion. In calculating our risk-to-capital ratio and MPP, we are allowed full credit for the risk ceded under our reinsurance transactions with a group of unaffiliated reinsurers. It is possible that under the revised State Capital Requirements discussed below, MGIC will not be allowed full credit for the risk ceded to the reinsurers. If MGIC is not allowed an agreed level of credit under either the State Capital Requirements or the financial requirements of the PMIERs, MGIC may terminate the reinsurance transactions, without penalty. At this time, we expect MGIC to continue to comply with the current State Capital Requirements; however, you should read the rest of these financial statement footnotes for information about matters that could negatively affect such compliance.

At June 30, 2018, the risk-to-capital ratio of our combined insurance operations (which includes a reinsurance affiliate) was 10.0 to 1. Reinsurance agreements with an affiliate permit MGIC to write insurance with a higher coverage percentage than it could on its own under certain state-specific requirements. A higher risk-to-capital ratio on a combined basis may indicate that, in order for MGIC to continue to utilize reinsurance agreements with its affiliate, additional capital contributions to the reinsurance affiliate could be needed.

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

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

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

Dividend restrictions

In the second quarter of 2018, MGIC paid a $50 million dividend to our holding company. MGIC is subject to statutory regulations as to payment of dividends. The maximum amount of dividends that MGIC may pay in any twelve-month period without such dividends being subject to regulatory disapproval by the OCI is the lesser of adjusted statutory net income or 10% of statutory policyholders' surplus as of the preceding calendar year end. Adjusted statutory net income is defined for this purpose to be the greater of statutory net income, net of realized investment gains, for the calendar year preceding the date of the dividend or statutory net income, net of realized investment gains, for the three calendar years preceding the date of the dividend less dividends paid within the first two of the preceding three calendar years. The OCI recognizes only statutory accounting principles prescribed, or practices permitted by the State of Wisconsin for determining and reporting the financial condition and results of operations of an insurance company. The OCI has adopted certain prescribed accounting practices that differ from those found in other states. Specifically, Wisconsin domiciled companies record changes in the contingency reserves through the income statement as a change in underwriting deduction. As a result, in periods in which MGIC is increasing contingency reserves, statutory net income is lowered. For the year ended December 31, 2017, MGIC's statutory net income was reduced by $473 million to account for the increase in contingency reserves.

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

Introduction

The following is management's discussion and analysis of the financial condition and results of operations of MGIC Investment Corporation for the second quarter and first six months of 2018. As used below, "we" and "our" refer to MGIC Investment Corporation's consolidated operations. This form 10-Q should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the year ended December 31, 2017. See the "Glossary of terms and acronyms" for definitions and descriptions of terms used throughout this MD&A. The Risk Factors referred to under "Forward Looking Statements and Risk Factors" below, discuss trends and uncertainties affecting us and are an integral part of the MD&A.

Forward Looking and Other Statements

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

Through our subsidiary MGIC, we are a leading provider of PMI in the United States, as measured by $200.7 billion of primary IIF at June 30, 2018.

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Overview

Summary financial results of MGIC Investment Corporation

(In millions, except per share data, unaudited)	Three Months Ended June 30, **2018**	2017	% Change	Six Months Ended June 30, 2018 **2018**	2017	% Change
Selected statement of operations data						
Total revenues	**$ 282.0**	$ 263.3	7	**$ 547.8**	$ 524.2	4
Losses incurred, net	**(13.5)**	27.3	(149)	**10.4**	55.0	(81)
Other underwriting and operating expenses, net	**41.8**	38.5	9	**87.9**	79.3	11
Income before tax	**237.5**	180.6	32	**417.5**	354.6	18
Provision for income taxes	**50.7**	62.0	(18)	**87.1**	146.2	(40)
Net income	**186.8**	118.6	57	**330.5**	208.4	59
Diluted income per share	**$ 0.49**	$ 0.31	58	**$ 0.87**	$ 0.55	58
Non-GAAP Financial Measures (1)						
Adjusted pre-tax operating income	**$ 239.4**	$ 180.7	32	**$ 419.8**	$ 354.8	18
Adjusted net operating income	**189.2**	119.3	59	**333.8**	236.4	41
Adjusted net operating income per diluted share	**$ 0.50**	$ 0.31	60	**$ 0.88**	$ 0.62	42

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

Summary of second quarter and year to date 2018 results

Comparative quarterly results

We recorded second quarter 2018 net income of $186.8 million, or $0.49 per diluted share. Net income increased by $68.2 million compared with net income of $118.6 million in the prior year, primarily reflecting decreases in our losses incurred, net and our provision for income taxes. The decline in our losses incurred, net also had the effect of reducing our ceded premiums due to an increase in our reinsurance profit commission. In addition, our diluted weighted average shares outstanding decreased from the prior year. These factors resulted in a 58% increase in diluted income per share.

Adjusted net operating income for the second quarter 2018 was $189.2 million (Q2 2017: $119.3 million) and adjusted net operating income per diluted share was $0.50 (Q2 2017: $0.31). The 59% increase in adjusted net operating income primarily reflects the increase in net income. The increase in adjusted net operating income and decrease in diluted weighted average shares outstanding resulted in a 60% increase in adjusted net operating income per diluted share.

Losses incurred, net for the second quarter of 2018 were $(13.5) million, a $40.8 million improvement compared to the prior year, primarily due to 16% fewer new delinquent notices received in the current year period and a decline in the estimated claim rate on those notices, to 9.5% from 11% in the prior year period. Our estimated claim rate on new notices reflects the current economic environment and anticipated cure activity on the notices received. In addition, favorable development on previously received delinquencies was higher in the current year period.

Other underwriting and operating expenses, net were $41.8 million, an increase of 9% compared to the prior year primarily driven by higher share-based compensation expenses, which resulted from a higher stock price at the grant date, and non-executive compensation.

The decrease in our provision for income taxes in the second quarter of 2018 as compared to the same period in the prior year was due to the decrease in the statutory income tax rate, offset in part by an increase in income before tax.

In June 2018, MGIC paid a dividend of $50 million to our holding company and we expect MGIC to continue to pay quarterly dividends of at least that amount.

Comparative year to date results

We recorded net income of $330.5 million, or $0.87 per diluted share, during the first six months of 2018. Net income increased by $122.0 million compared with net income of $208.4 million in the prior year, primarily reflecting decreases in our losses incurred, net and our provision for income taxes. The decline in our losses incurred, net also had the effect of reducing our ceded premiums due to an increase in our reinsurance profit commission. In addition, our diluted weighted average shares outstanding decreased from the prior year. These factors resulted in a 58% increase in diluted income per share.

Adjusted net operating income for the first six months of 2018 was $333.8 million (YTD 2017: $236.4 million) and adjusted net operating income per diluted share was $0.88 (YTD 2017: $0.62). The 41% increase in adjusted net operating income primarily reflects the increase in net income in the current year period. The increase in adjusted net operating income and decrease in diluted weighted average shares outstanding resulted in a 42% increase in adjusted net operating income per diluted share.

Losses incurred, net for the first six months of 2018 were $10.4 million, down 81.1% compared to the prior year due to 9% fewer new delinquent notices received in the current year period and a decrease in the estimated claim rate of on those notices, to 9% from 11% in the prior year period. Our estimated claim rate on new notices reflects the current economic environment and anticipated cure activity on the notices received.

Other underwriting and operating expenses, net were $87.9 million, an increase of 11% compared to the prior year primarily driven by higher share-based compensation expenses, which resulted from a higher stock price at the grant date, and non-executive compensation.

The decrease in our provision for income taxes in the first six months of 2018 as compared to the same period in the prior year was due in part to the decrease in the statutory income tax rate, offset in part by an increase in income before tax. In addition, the provision for income tax in the prior year period included an additional provision of $27.8 million for the expected settlement of our IRS litigation.

See "Consolidated Results of Operations" below for additional discussion of our results for the three and six months ended June 30, 2018 compared to the respective prior year periods.

Capital

Share repurchase program

On April 26, 2018, our board of directors authorized a share repurchase program under which we may repurchase up to $200 million of our common stock through the end of 2019. Repurchases may be made from time to time on the open market or through privately negotiated transactions. The repurchase program may be suspended for periods or discontinued at any time. During the second quarter of 2018, we utilized approximately $100.1 million of cash at our holding company to repurchase approximately 9.2 million shares of our common stock. As of June 30, 2018, our holding company had approximately $191 million in cash and investments and we expect to fund any additional purchases with these resources. As of June 30, 2018, we had approximately 362.1 million shares of common stock outstanding.

GSEs

We must comply with the PMIERs to be eligible to insure loans purchased by the GSEs and insured with PMI. In addition to their financial requirements, the PMIERs include business, quality control and certain transaction approval requirements.

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

- In December 2017, we received from the GSEs a summary of proposed changes to the PMIERs. In June 2018, we received a revised draft of proposed changes to the PMIERs that we expect will be finalized in the third quarter of 2018 and become effective at the end of the first quarter of 2019 (the revised PMIERs are referred to as "PMIERs 2.0"). Upon effectiveness of PMIERs 2.0, we expect that MGIC would continue to have a significant excess of Available Assets over Minimum Required Assets ("PMIERs Excess"), although our PMIERs Excess would be materially lower than it was at June 30, 2018 under the existing PMIERs, and that MGIC would continue to be able to pay quarterly dividends to our holding company of at least the $50 million quarterly rate at which they were paid in the first and second quarters of 2018.

We have non-disclosure obligations to each of the GSEs and cannot provide further comment on the draft of PMIERs 2.0, other than as described above. Until the GSEs and/or FHFA provide public disclosure of the final version of PMIERs 2.0, we do not plan to update or correct any of the disclosures above.

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

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

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

State Regulations

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

At June 30, 2018, MGIC’s risk-to-capital ratio was 9.1 to 1, below the maximum allowed by the jurisdictions with State Capital Requirements, and its policyholder position was $2.4 billion above the required MPP of $1.2 billion. In calculating our risk-to-capital ratio and MPP, we are allowed full credit for the risk ceded under our reinsurance transactions with a group of unaffiliated reinsurers. It is possible that under the revised State Capital Requirements discussed below, MGIC will not be allowed full credit for the risk ceded to the reinsurers. If MGIC is not allowed an agreed level of credit under either the State Capital Requirements or the PMIERs, MGIC may terminate the reinsurance transactions, without penalty. At this time, we expect MGIC to continue to comply with the current State Capital Requirements; however, refer to our risk factor titled “State capital requirements may prevent us from continuing to write new insurance on an uninterrupted basis” for more information about matters that could negatively affect such compliance.

At June 30, 2018, the risk-to-capital ratio of our combined insurance operations (which includes a reinsurance affiliate) was 10.0 to 1. Reinsurance transactions with our affiliate permit MGIC to write insurance with a higher coverage percentage than it could on its own under certain state-specific requirements.

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

GSE reform

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

The Administration issued a June 2018 report indicating that the conservatorship of the GSEs should end and that the GSEs should transition to fully private entities, competing on a level playing field with private issuers of MBS (such issuers, collectively with the GSEs, referred to in the report as the "guarantors"). The report further indicated that a federal entity should regulate the guarantors, including their capital adequacy, and that guarantors should have access to an explicit federal guarantee on the MBS that is only exposed after substantial losses are incurred by the private market, including the guarantors. The report also indicated that a fee on the outstanding volume of MBS would be transferred to the Department of Housing and Urban Development (of which the FHA is a part) to be used for affordable housing purposes. As a result of the matters referred to above, it is uncertain what role the GSEs, FHA and private capital, including PMI, will play in the residential housing finance system in the future or the impact of any such changes on our business. In addition, the timing of the impact of any resulting changes on our business is uncertain. Most meaningful changes would require Congressional action to implement and it is difficult to estimate when Congressional action would be final and how long any associated phase-in period may last.

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

Loan modifications and other similar programs

The federal government, including through the U.S. Department of the Treasury and the GSEs, and several lenders have modification and refinance programs to make outstanding loans more affordable to borrowers with the goal of reducing the number of foreclosures. These programs included HAMP, which expired at the end of 2016, and HARP, which is scheduled to expire at the end of 2018. The GSEs have introduced other loan modifications programs to replace HAMP.

From 2008 through 2012, we were notified of modifications that cured delinquencies that, had they become paid claims, would have resulted in a material increase in our incurred losses. More recently, the number of modifications has decreased significantly. Nearly all of the reported loan modifications were for loans insured in 2009 and prior.

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

As shown in the following table, as of June 30, 2018 approximately 14% of our primary RIF has been modified.

Modifications

Policy year	HARP Modifications (1)	HAMP & Other Modifications
2003 and prior	10.8%	42.5%
2004	18.7%	45.8%
2005	25.4%	44.0%
2006	28.9%	41.4%
2007	40.6%	32.2%
2008	56.2%	19.5%
2009	39.0%	6.5%
2010 - Q2 2018	—%	0.4%
Total	7.1%	7.0%

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

As of June 30, 2018, based on loan count, the loans associated with 97.4% of HARP modifications and 79.3% of HAMP and other modifications were current.

Factors affecting our results

Our results of operations are affected by:

Premiums written and earned

Premiums written and earned in a year are influenced by:

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

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

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

- Premiums ceded, net of a profit commission, under reinsurance agreements. See Note 4 - "Reinsurance" to our consolidated financial statements for a discussion of our reinsurance agreements.

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

Investment income

Our investment portfolio is composed principally of investment grade fixed income securities. The principal factors that influence investment income are the size of the portfolio and its yield. As measured by amortized cost (which excludes changes in fair value, such as from changes in interest rates), the size of the investment portfolio is mainly a function of cash generated from (or used in) operations, such as NPW, investment income, net claim payments and expenses, and cash provided by (or used for) non-operating activities, such as debt or stock issuances or repurchases.

Losses incurred

Losses incurred are the current expense that reflects estimated payments that will ultimately be made as a result of delinquencies on insured loans. As explained under “Critical Accounting Policies” in our 10-K MD&A, except in the case of a premium deficiency reserve, we recognize an estimate of this expense only for delinquent loans. The level of new delinquencies has historically followed a seasonal pattern, with new delinquencies in the first part of the year lower than new delinquencies in the latter part of the year, though this pattern can be affected by the state of the economy and local housing markets. Losses incurred are generally affected by:

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

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

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

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

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

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

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

Underwriting and other expenses

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

Interest expense

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

Other

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

Net realized investment gains (losses)

Realized gains and losses are a function of the difference between the amount received on the sale of a security and the security’s cost basis, as well as any “other than temporary” impairments (“OTTI”) recognized in earnings. The amount received on the sale of fixed income securities is affected by the coupon rate of the security compared to the yield of comparable securities at the time of sale.

Loss on debt extinguishment

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

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

Mortgage insurance earnings and cash flow cycle

In general, the majority of any underwriting profit that a book generates occurs in the early years of the book, with the largest portion of any underwriting profit realized in the first year following the year the book was written. Subsequent years of a book may result in either underwriting profit or underwriting losses. This pattern of results typically occurs because relatively few of the incurred losses on delinquencies that a book will ultimately experience typically occur in the first few years of the book, when premium revenue is highest, while subsequent years are affected by declining premium revenues, as the number of insured loans decreases (primarily due to loan prepayments) and increasing losses. The typical pattern is also a function of premium rates generally resetting to lower levels after ten years.

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

Non-GAAP financial measures

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

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

Adjusted net operating income (loss) is defined as GAAP net income (loss) excluding the after-tax effects of net realized investment gains (losses), gain (loss) on debt extinguishment, net impairment losses recognized in income (loss), and infrequent or unusual non-operating items where applicable. The amounts of adjustments to components of pre-tax operating income (loss) are tax effected using a federal statutory tax rate of 21% for 2018 and 35% for 2017.

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

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

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

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

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

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

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Non-GAAP reconciliations

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

	Three Months Ended June 30,					
	2018			2017		
(In thousands, except per share amounts)	Pre-tax	Tax provision (benefit)	Net (after-tax)	Pre-tax	Tax provision (benefit)	Net (after-tax)
Income before tax / Net income	$ 237,522	$ 50,708	$ 186,814	$ 180,616	$ 61,994	$ 118,622
Adjustments:						
Additional income tax provision related to IRS litigation	—	(923)	923	—	(559)	559
Net realized investment losses	1,897	398	1,499	52	18	34
Loss on debt extinguishment	—	—	—	65	23	42
Adjusted pre-tax operating income / Adjusted net operating income	$ 239,419	$ 50,183	$ 189,236	$ 180,733	$ 61,476	$ 119,257

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

	2018	2017
Weighted average diluted shares outstanding	388,881	394,470
Net income per diluted share	$ 0.49	$ 0.31
Additional income tax provision related to IRS litigation	— (1)	—
Net realized investment losses	— (1)	—
Loss on debt extinguishment	—	—
Adjusted net operating income per diluted share	$ 0.50	$ 0.31

(1) For the three months ended June 30, 2018, the individual adjustments are each less than $0.01 per diluted share, but collectively aggregate to $0.01 per diluted share.

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

	Six Months Ended June 30,					
	2018			2017		
(In thousands, except per share amounts)	Pre-tax	Tax provision (benefit)	Net (after-tax)	Pre-tax	Tax provision (benefit)	Net (after-tax)
Income before tax / Net income	$ 417,547	$ 87,096	$ 330,451	$ 354,573	$ 146,153	$ 208,420
Adjustments:						
Additional income tax provision related to IRS litigation	—	(1,631)	1,631	—	(27,783)	27,783
Net realized investment losses	2,226	467	1,759	177	62	115
Loss on debt extinguishment	—	—	—	65	23	42
Adjusted pre-tax operating income / Adjusted net operating income	$ 419,773	$ 85,932	$ 333,841	$ 354,815	$ 118,455	$ 236,360

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

	2018	2017
Weighted average diluted shares outstanding	390,236	398,302
Net income per diluted share	$ 0.87	$ 0.55
Additional income tax provision related to IRS litigation	— (2)	0.07
Net realized investment losses	— (2)	—
Loss on debt extinguishment	—	—
Adjusted net operating income per diluted share	$ 0.88	$ 0.62

(2) For the six months ended June 30, 2018, individual adjustments are each less than $0.01 per diluted share, but collectively aggregate to $0.01 per diluted share.

Mortgage Insurance Portfolio

New insurance written

According to *Inside Mortgage Finance* and GSE estimates, total mortgage originations for the second quarter and first six months of 2018 decreased from the respective prior year period primarily due to a decline in refinance transactions. The total amount of mortgage originations is generally influenced by the level of new and existing home sales, the percentage of homes purchased for cash, and the level of refinance activity. PMI market share of total mortgage originations is influenced by the mix of purchase and refinance originations as PMI market share is 3-4 times higher for purchase originations than refinance originations. PMI market share is also impacted by the market share of total originations of the FHA, VA, USDA, and other alternatives to mortgage insurance; and in the future, PMI market share may also be impacted by GSE programs that may reduce or eliminate the demand for mortgage insurance.

NIW for the second quarter of 2018 was $13.2 billion (Q2 2017: $12.9 billion) and for the first six months of 2018 was $23.8 billion (YTD 2017: $22.2 billion) and continued to have what we believe are favorable underlying risk characteristics. The percentage of NIW with DTI ratios greater than 45% was approximately 19% during the second quarter of 2018, and 20% for the first six months of 2018, up significantly from approximately 6% in the second quarter of 2017, and 10% in the first six months of 2017. Under our 2018 QSR Transactions, we may cede risk associated with NIW with DTI ratios between 45% and 50%; however, the amount of risk we may cede in connection with such NIW in any quarter is limited to a percentage of all risk written and that percentage is materially below the percentage of risk written represented by such loans in the second quarter and first six months of 2018, respectively. To mitigate our risk from the increase in NIW written on loans with DTI ratios greater than 45%, effective in March 2018 we changed our underwriting guidelines to require loans with DTI ratios greater than 45% to have a FICO score of at least 700. Further, effective July 2018, we added risk-based adjustments to our premium rates for loans with DTI ratios greater than 45%. As a result of these changes and a change in GSE underwriting requirements, we expect loans with DTI ratios greater than 45% will be a lower percentage of our future NIW. We are continuing to monitor our exposure to such loans and may take further action. The percentage of purchase mortgages insured increased in the three and six months ended June 30, 2018 compared to the same period of the prior year because the level of refinance transactions declined as mortgage interest rates, on average, have increased during the first six months of 2018.

The following tables present characteristics of our NIW for the three and six months ended June 30, 2018 and 2017.

Primary NIW by FICO score

	Three Months Ended June 30,		Six Months Ended June 30,	
(% of primary NIW)	**2018**	2017	**2018**	2017
760 and greater	**43.1%**	42.8%	**42.4%**	42.6%
740 - 759	**17.3%**	16.2%	**17.2%**	16.3%
720 - 739	**14.6%**	14.0%	**14.6%**	14.1%
700 - 719	**11.8%**	11.9%	**11.7%**	11.9%
680 - 699	**6.9%**	8.0%	**7.2%**	7.9%
660 - 679	**3.4%**	3.9%	**3.7%**	4.0%
640 - 659	**2.1%**	2.3%	**2.2%**	2.3%
639 and less	**0.8%**	0.9%	**1.0%**	0.9%

Loan-to-Value

	Three Months Ended June 30,		Six Months Ended June 30,	
(% of primary NIW)	**2018**	2017	**2018**	2017
95.01% and above	**15.4%**	9.7%	**14.4%**	9.0%
90.01% to 95.00%	**44.1%**	48.1%	**44.1%**	47.7%
85.01% to 90.00%	**28.8%**	29.9%	**28.9%**	30.1%
80.01% to 85%	**11.7%**	12.3%	**12.6%**	13.2%

Policy payment type

(% of primary NIW)	Three Months Ended June 30, 2018	2017	Six Months Ended June 30, 2018	2017
Monthly premiums	**83.9%**	81.7%	**82.3%**	82.3%
Single premiums	**15.9%**	18.0%	**17.5%**	17.4%
Annual premiums	**0.2%**	0.3%	**0.2%**	0.3%

Type of mortgage

(% of primary NIW)	Three Months Ended June 30, 2018	2017	Six Months Ended June 30, 2018	2017
Purchases	**94.1%**	91.3%	**91.5%**	87.9%
Refinances	**5.9%**	8.7%	**8.5%**	12.1%

Insurance and risk in force

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

Persistency

Our persistency was 80.1% at June 30, 2018 compared to 80.1% at December 31, 2017 and 77.8% at June 30, 2017. Since 2000, our year-end persistency ranged from a high of 84.7% at December 31, 2009 to a low of 47.1% at December 31, 2003. With the current and expected level of mortgage interest rates we expect a low level of refinance activity and that our persistency will increase gradually in subsequent periods.

IIF and RIF

(In billions)	Three Months Ended June 30, 2018	2017	Six Months Ended June 30, 2018	2017
NIW	**$ 13.2**	$ 12.9	**$ 23.8**	$ 22.2
Cancellations	**(10.0)**	(9.1)	**(18.0)**	(16.9)
Increase in primary IIF	**$ 3.2**	$ 3.8	**$ 5.8**	$ 5.3

(In billions)	2018	2017
Direct primary IIF as of June 30,	**$ 200.7**	$ 187.3
Direct primary RIF as of June 30,	**$ 51.7**	$ 48.5

Credit profile of our primary RIF

The proportion of our total primary RIF that was written after 2008 has been steadily increasing. Our 2009 and later books possess significantly improved risk characteristics when compared to our 2005-2008 origination years. The loans we insured beginning in 2009, on average, have substantially higher FICO scores and lower LTVs than those insured in 2005-2008. The credit profile of our pre-2009 RIF has benefited from programs such as HARP. HARP allows borrowers who are not delinquent, but who may not otherwise be able to refinance their loans under the current GSE underwriting standards due to, for example, the current LTV exceeding 100%, to refinance and lower their note rate. Loans associated with 97.4% of all of our HARP modifications were current as of June 30, 2018. The aggregate of our 2009-2018 books and our HARP modifications accounted for approximately 88% of our total primary RIF at June 30, 2018.

Primary RIF	*($ in millions)*	**June 30, 2018**		December 31, 2017		June 30, 2017	
	Policy Year	**RIF**	**% of RIF**	RIF	% of RIF	RIF	% of RIF
	2009+	**$ 41,799**	**81%**	$ 39,248	78%	$ 35,996	74%
	2005 - 2008 (HARP)	**3,425**	**6%**	3,773	7%	4,169	8%
	Other years (HARP)	**266**	**1%**	308	1%	354	1%
	Subtotal	**45,490**	**88%**	43,330	86%	40,519	83%
	2005- 2008 (Non-HARP)	**5,289**	**10%**	5,894	12%	6,660	14%
	Other years (Non-HARP)	**965**	**2%**	1,095	2%	1,292	3%
	Subtotal	**6,254**	**12%**	6,989	14%	7,952	17%
	Total Primary RIF	**$ 51,744**	**100%**	$ 50,319	100%	$ 48,471	100%

Pool and other insurance

MGIC has written no new pool insurance since 2008; however, for a variety of reasons, including responding to capital market alternatives to PMI and customer demands, MGIC may write pool risk in the future. Our direct pool risk in force was $443 million ($233 million on pool policies with aggregate loss limits and $210 million on pool policies without aggregate loss limits) at June 30, 2018 compared to $471 million ($236 million on pool policies with aggregate loss limits and $235 million on pool policies without aggregate loss limits) at December 31, 2017. If claim payments associated with a specific pool reach the aggregate loss limit, the remaining IIF within the pool would be cancelled and any remaining delinquencies under the pool would be removed from our delinquent inventory.

In the second quarter of 2018 we participated in GSE credit risk transfer transactions through a subsidiary of MGIC. The transactions involve insurance policies with a pool structure that cover loans upon delivery to the GSE over a period of twelve months. Our committed participation in these transactions is an aggregate of $50 million of RIF. The transactions were immaterial to our financial statements for the three and six months ended June 30, 2018.

In the third quarter of 2018 we participated in the Fannie Mae Enterprise-Paid Mortgage Insurance pilot through a subsidiary of MGIC. The transaction involves primary loan-level mortgage insurance, consistent with the loans we insure on a flow basis, that covers loans to be delivered to the GSE over a period of fourteen months. Our committed participation in this pilot is an aggregate of approximately $114 million of RIF.

Consolidated Results of Operations

The following section of the MD&A provides a comparative discussion of MGIC Investment Corporation's Consolidated Results of Operations for the three and six months ended June 30, 2018 and 2017.

Revenues

Revenues

	Three Months Ended June 30,			Six Months Ended June 30,		
(in millions)	**2018**	2017	% Change	**2018**	2017	% Change
Net premiums written	**$ 255.4**	$ 245.8	4	**$ 492.3**	$ 482.5	2
Net premiums earned	**$ 247.0**	$ 231.1	7	**$ 479.1**	$ 460.2	4
Investment income, net of expenses	**34.5**	29.7	16	**66.6**	59.2	13
Net realized investment losses	**(1.9)**	(0.1)	N/M	**(2.2)**	(0.2)	N/M
Other revenue	**2.4**	2.5	(3)	**4.3**	4.9	(13)
Total revenues	**$ 282.0**	$ 263.3	7	**$ 547.8**	$ 524.2	5

Net premiums written and earned

Comparative quarterly and year to date results

NPW and NPE each increased from the prior year period primarily due to lower ceded premiums, net, as the increase in profit commission more than offset the increase in gross ceded premiums. The profit commission increased due to a decrease in ceded losses, driven by primary loss reserve development. The increase in gross ceded premiums resulted from a higher percentage of our covered NIW having LTVs 95% or greater and/or DTI ratios greater than 45%, both of which have higher premiums. The increase in NPW and NPE also reflects an increase in our IIF compared to the prior year, however this impact is being offset in part by a lower premium yield.

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

Premium yield

Premium yield (NPE divided by average IIF) decreased from the prior year periods to 49.6 and 48.5 basis points for Q2 and YTD 2018, respectively, (Q2 2017: 49.9 basis points, YTD 2017 50.0) and is influenced by a number of key drivers, which have a varying impact from period to period.

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

- A larger percentage of our IIF from book years with lower premium rates due to a decline in premium rates in recent periods and certain policies undergoing premium rate resets on their ten-year anniversaries; offset in part by,
- less of an adverse impact from our reinsurance driven by favorable primary loss reserve development, which resulted in a higher profit commission, and
- less of an adverse impact from premium refunds primarily due to lower claim activity.

We changed our BPMI premium rates with effective dates in the second and third quarters of 2018. Based upon the mix of our NIW in the first quarter of 2018, the changed premiums would have resulted in an overall direct premium rate decrease for all NIW in the first quarter of 2018 of approximately 8.5%. Lender-paid single premium rates were not changed by our announcement. This premium rate decrease will affect our premium yield over time as older insurance policies with higher premium rates run off and new insurance policies with lower premium rates are written.

The following table reconciles our premium yield for the three and six months ended June 30, 2018 from the respective prior year periods.

Premium yield

(in basis points)	Three Months Ended	Six Months Ended
Premium yield - June 30, 2017	49.9	50.0
Reconciliation:		
Change in premium rates	**(3.5)**	**(3.5)**
Change in premium refunds and accruals	**1.3**	**1.0**
Single premium policy persistency	**(0.3)**	**—**
Reinsurance	**2.2**	**1.0**
Premium yield - June 30, 2018	**49.6**	**48.5**

Reinsurance agreements

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

- We cede a fixed percentage of premiums on insurance covered by the agreements.
- We receive the benefit of a profit commission through a reduction in the premiums we cede. The profit commission varies directly and inversely with the level of losses on a "dollar for dollar" basis and is eliminated at levels of losses that we do not expect to occur. As a result, lower levels of losses result in a higher profit commission and less benefit from ceded losses; higher levels of losses result in more benefit from ceded losses and a lower profit commission (or for levels of losses we do not expect, its elimination).
- We receive the benefit of a ceding commission through a reduction in underwriting expenses equal to 20% of premiums ceded (before the effect of the profit commission).
- We cede a fixed percentage of losses incurred on insurance covered by the agreements.

The blended pre-tax cost of reinsurance under our different transactions is less than 6% (but will decrease if losses are materially higher than we expect). This blended pre-tax cost is derived by dividing the reduction in our pre-tax net income on loans covered by reinsurance by our direct (that is, without reinsurance) premiums from such loans. Although the pre-tax cost of the reinsurance under each transaction is generally constant, the effect of the reinsurance on the various components of pre-tax income discussed above will vary from period to period, depending on the level of ceded losses.

The amount of our NIW subject to our QSR Transactions as shown in table below will vary from period to period in part due to coverage limits that may be triggered depending on the mix of our risk written during the period. For example, our 2018 QSR Transaction excludes loans with LTV ratios of 85% and below, but increases the coverage limit for risk written with the following loan level characteristics when compared to our 2017 QSR Transaction: (1) LTV ratios of 95% and greater, and (2) DTI ratios greater than 45%. The number of loans we insured with DTI ratios greater than 45% increased in the second half of 2017 after the requirements of the GSE underwriting guidelines were made more liberal, and remained elevated through the first half of 2018. Despite the increased coverage limit in our 2018 QSR Transaction, the risk written in the first six months of 2018 on loans with DTI ratios greater than 45% exceeded the coverage limit under our 2018 QSR Transaction which contributed to the decline in the percentage of NIW covered in first six months of 2018 compared with the prior year period.

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The following tables provide additional information related to our reinsurance agreements for 2018 and 2017.

Quota share reinsurance

($ in thousands, unless otherwise stated)	As of and For the Six Months Ended June 30, 2018	2017
NIW subject to quota share reinsurance agreements	**75%**	87%
IIF subject to quota share reinsurance agreements	**78%**	78%
Statements of operations:		
Ceded premiums written, net	**$ 54,468**	$ 57,812
% of direct premiums written	**10%**	11%
Ceded premiums earned, net	**$ 54,468**	$ 57,812
% of direct premiums earned	**10%**	11%
Profit commission	**$ 71,958**	$ 63,442
Ceding commissions	**$ 25,285**	$ 24,251
Ceded losses incurred	**$ 4,053**	$ 9,111
Mortgage insurance portfolio:		
Ceded RIF *(in millions)*	**$ 12,236**	$ 11,286

Captive reinsurance

($ in thousands)	As of and For the Six Months Ended June 30, 2018	2017
IIF subject to captive reinsurance agreements	**—%**	1%
Statements of operations:		
Ceded premiums written	**$ 37**	$ 2,519
% of direct premiums written	**—%**	0.5%
Ceded premiums earned	**$ 84**	$ 2,542
% of direct premiums earned	**—%**	0.5%
Ceded losses incurred	**$ 266**	$ (37)

Investment income

Comparative quarterly and year to date results

Net investment income in the second quarter and first six months of 2018 was $34.5 million and $66.6 million, respectively, up from $29.7 million and $59.2 million in the respective prior year periods. The increases in investment income were due to an increase in the average balance of the investment portfolio along with higher investment yields over the periods.

Net realized investment losses

Comparative quarterly and year to date results

Net realized investment losses in the second quarter and first six months of 2018 were $1.9 million and $2.2 million, respectively, primarily due to the impairment of certain municipal debt securities that we intend to sell at a loss. Net realized investment losses in each of the second quarter and first six months of 2017 were immaterial to our consolidated financial statements.

Other revenue

Comparative quarterly and year to date results

Other revenue for the second quarter and first six months of 2018 was $2.4 million and $4.3 million, down from $2.5 million and $4.9 million in the respective prior year periods primarily due to a decline in contract underwriting fees.

Losses and expenses

Losses and expenses

(in millions)	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Losses incurred, net	**$ (13.5)**	$ 27.3	**$ 10.4**	$ 55.0
Amortization of deferred policy acquisition costs	**2.8**	2.6	**5.4**	4.8
Other underwriting and operating expenses, net	**41.8**	38.5	**87.9**	79.3
Interest expense	**13.3**	14.2	**26.5**	30.5
Loss on debt extinguishment	**—**	0.1	**—**	0.1
Total losses and expenses	**$ 44.5**	$ 82.7	**$ 130.2**	$ 169.6

Losses incurred, net

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

Estimation of losses is inherently judgmental. The conditions that affect the claim rate and claim severity include the current and future state of the domestic economy, including unemployment, and the current and future strength of local housing markets. The actual amount of the claim payments may be substantially different than our loss reserve estimates. Our estimates could be adversely affected by several factors, including a deterioration of regional or national economic conditions, including unemployment, leading to a reduction in borrower income and thus their ability to make mortgage payments, and a drop in housing values that could result in, among other things, greater losses on loans, and may affect borrower willingness to continue to make mortgage payments when the value of the home is below the mortgage balance. Historically, losses incurred have followed a seasonal trend in which the second half of the year has weaker credit performance than the first half, with higher new notice activity and a lower cure rate. Our estimates are also affected by any agreements we enter into regarding our claims paying practices, such as the settlement agreements discussed in Note 5 – "Litigation and Contingencies" to our consolidated financial statements. Changes to our estimates could result in a material impact to our consolidated results of operations and financial position, even in a stable economic environment.

Comparative quarterly results

Losses incurred, net in the second quarter of 2018 were ($13) million compared to $27 million in the prior year period. The decrease was primarily due to a decrease in losses and LAE incurred on defaults reported in the current year. Losses incurred on current year defaults declined due to 16% fewer new delinquent notices received and a lower estimated claim rate on those notices compared to the prior year period. Favorable development on prior year defaults occurred in the second quarter of 2018 and 2017 primarily due to a lower claim rate on previously received delinquencies.

Comparative year to date results

Losses incurred, net in the six months ended June 30, 2018 were $10.4 million compared to $55.0 million in the prior year period. The decrease was due to a decrease in losses and LAE incurred on defaults reported in the current year. Losses incurred on current year defaults declined due to 9% fewer new delinquent notices received and a lower estimated claim rate on those notices compared to the prior year period. Favorable development on prior year defaults occurred in the first six months of 2018 and 2017 primarily due to a lower claim rate on previously received delinquencies.

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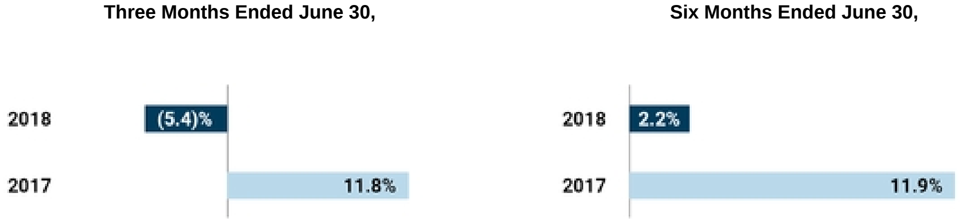
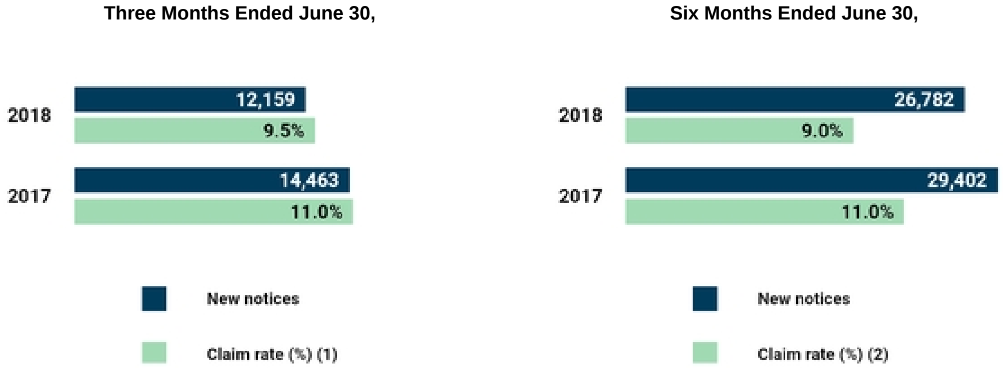
Composition of losses incurred		Three Months Ended June 30,			Six Months Ended June 30,		
		2018	2017	% Change	**2018**	2017	% Change
	Current year / New notices	**$ 49.3**	$ 78.5	(37)	**$ 108.4**	$ 158.9	(32)
	Prior year reserve development	**(62.7)**	(51.2)	23	**(98.0)**	(103.9)	(6)
	Losses incurred, net	**$ (13.5)**	$ 27.3	(149)	**$ 10.4**	$ 55.0	(81)

Loss ratio



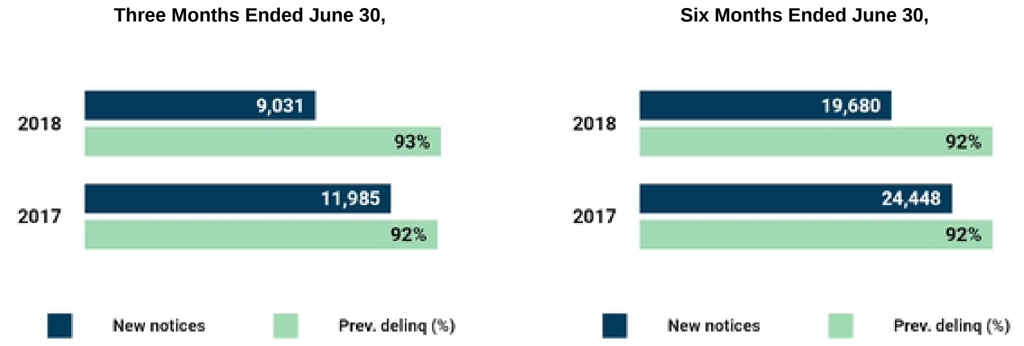
The loss ratio is the ratio, expressed as a percentage, of the sum of incurred losses and loss adjustment expenses to net premiums earned. The decline in the loss ratio in the three and six months ended June 30, 2018 compared to the respective prior year periods was primarily due to a lower level of losses incurred, net.

New notice claim rate - total



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

New notice claim rate - loans insured 2008 and prior



New notice activity continues to be primarily driven by loans insured in 2008 and prior, which continue to experience a cycle whereby many loans default, cure, and re-default. This cycle, along with the duration that defaults may ultimately remain in our notice inventory, results in significant judgment in establishing the estimated claim rate.

Claims severity

Factors that impact claim severity include the exposure on the loan (the unpaid principal balance of the loan times our insurance coverage percentage), the amount of time between delinquency and claim filing (which impacts the amount of interest and expenses, with a longer period between delinquency and claim filing generally increasing severity), and curtailments. As discussed in Note 12 - “Loss Reserves”, the average time for servicers to process foreclosures has recently shortened. Therefore, we expect the average number of missed payments at the time a claim is received to be approximately 18 to 24 for new notices received, compared to an average of 35 to 39 missed payments for claims received in recent periods. Our loss reserves estimates take into consideration trends over time, because the development of the delinquencies may vary from period to period without establishing a meaningful trend.

The majority of loans insured prior to 2009 (which represent the majority of loans in the delinquent inventory) are covered by master policy terms that, except under certain circumstances, do not limit the number of years of interest that an insured may include when filing a claim. Under our current master policy terms, an insured may include accumulated interest when filing a claim only for the first three years the loan is delinquent. In each case, the insured must comply with its obligations under the terms of the applicable master policy.

Claims severity trend

Period	Average exposure on claim paid	Average claim paid	% Paid to exposure	Average number of missed payments at claim received date
Q2 2018	**$ 44,522**	**$ 50,175**	**112.7%**	**39**
Q1 2018	45,597	51,069	112.0%	38
Q4 2017	44,437	49,177	110.7%	36
Q3 2017	43,313	46,389	107.1%	35
Q2 2017	44,747	49,105	109.7%	35
Q1 2017	44,238	49,110	111.0%	35
Q4 2016	43,200	48,297	111.8%	35
Q3 2016	43,747	48,050	109.8%	34
Q2 2016	43,709	47,953	109.7%	35
Q1 2016	44,094	49,281	111.8%	34

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

In considering the potential sensitivity of the factors underlying our estimate of loss reserves, it is possible that even a relatively small change in our estimated claim rate or severity could have a material impact on reserves and, correspondingly, on our consolidated results of operations even in a stable economic environment. For example, as of June 30, 2018, assuming all other factors remain constant, a $1,000 increase/decrease in the average severity reserve factor would change the reserve amount by approximately +/- $15 million. A 1 percentage point increase/decrease in the average claim rate reserve factor would change the reserve amount by approximately +/- $20 million.

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

Net losses and LAE paid

Net losses and LAE paid in the three and six months ended June 30, 2018 declined 49% and 43%, respectively, compared to the same periods in the prior year primarily due to lower claim activity on our primary business and a decrease in claims paying practices and NPL settlement activity. We believe losses and LAE paid will continue to decline as the credit profile of our RIF continues to improve and our delinquent inventory declines.

The following table presents our net losses and LAE paid for the three and six months ended June 30, 2018 and 2017.

Net losses and LAE paid

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	**2018**	2017	**2018**	2017
Total primary (excluding settlements)	**$ 75**	$ 126	**$ 155**	$ 256
Claims paying practices and NPL settlements [1]	**14**	45	**21**	45
Pool	**1**	4	**3**	6
Direct losses paid	**90**	175	**179**	307
Reinsurance	**(3)**	(6)	**(14)**	(15)
Net losses paid	**87**	169	**165**	292
LAE	**4**	4	**8**	9
Net losses and LAE paid before terminations	**91**	173	**173**	301
Reinsurance terminations	**(2)**	—	**(2)**	—
Net losses and LAE paid	**$ 89**	$ 173	**$ 171**	$ 301

(1) See Note 12 - “Loss Reserves” for additional information on our settlements of disputes for claims paying practices and commutations of NPLs.

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Primary claims paid for the top 15 jurisdictions (based on 2018 losses paid) and all other jurisdictions for the three and six months ended June 30, 2018 and 2017 appears in the following table.

Paid losses by jurisdiction

(In millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	**2018**	2017
New Jersey	**$ 12**	$ 18	**$ 26**	$ 35
New York	**8**	11	**18**	21
Florida	**9**	14	**15**	30
Illinois	**6**	7	**11**	15
Maryland	**5**	7	**10**	14
Pennsylvania	**3**	6	**6**	14
California	**4**	6	**6**	10
Ohio	**2**	4	**4**	8
Massachusetts	**2**	4	**4**	8
Connecticut	**2**	3	**4**	6
Virginia	**2**	2	**4**	5
Puerto Rico	**2**	5	**3**	10
Georgia	**1**	2	**3**	6
Texas	**2**	2	**3**	4
Michigan	**1**	2	**2**	4
All other jurisdictions	**14**	33	**36**	66
Total primary (excluding settlements)	**$ 75**	$ 126	**$ 155**	256

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

2017 hurricane activity

Hurricane activity primarily impacting Texas, Florida, and Puerto Rico in the third quarter of 2017 increased the number of new notices of delinquency reported to us in the fourth quarter of 2017. The number of delinquent loans remain elevated in those jurisdictions while the amount of paid losses for the six months ended June 30, 2018 decreased in each of those jurisdictions compared to the same period of the prior year. Paid losses on all loans in those jurisdictions decreased in part because foreclosure moratoriums in the Texas and Florida IADAs through December 31, 2017 and Puerto Rico through May 31, 2018, impacted all delinquent loans in those areas, including those not affected by hurricanes. Based on our analysis and past experience, we expect the majority of delinquencies that we estimated to be caused by the hurricanes to cure and to not result in a material increase in our incurred losses or losses paid.

The primary average claim paid for the top 5 states (based on 2018 losses paid) for the three and six months ended June 30, 2018 and 2017 appears in the following table.

Primary average claim paid

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	**2018**	2017
New Jersey*	**$ 90,885**	$ 85,846	$ 92,096	$ 86,363
New York*	**96,747**	79,821	97,145	82,911
Florida*	**61,281**	64,355	58,893	65,712
Illinois*	**47,734**	43,363	44,412	46,506
Maryland	**76,823**	78,315	77,482	78,820
All other jurisdictions	**37,407**	39,680	38,291	39,229
All jurisdictions	**50,175**	49,105	50,632	49,108

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

The primary average RIF on delinquent loans at June 30, 2018, December 31, 2017 and June 30, 2017 and for the top 5 jurisdictions (based on 2018 losses paid) appears in the following table.

Primary average RIF - delinquent loans

	June 30, 2018	December 31, 2017	June 30, 2017
New Jersey	**$ 66,450**	$ 65,684	$ 65,473
New York	**71,933**	71,260	70,241
Florida	**55,041**	54,872	54,029
Illinois	**40,501**	40,794	41,692
Maryland	**66,720**	66,266	65,647
All other jurisdictions	**40,204**	39,848	39,732
All jurisdictions	**45,305**	45,153	44,828

The primary average RIF on all loans was $50,075, $49,142, and $48,163 at June 30, 2018, December 31, 2017 and June 30, 2017, respectively.

Loss reserves

Our primary delinquency rate at June 30, 2018 was 3.49% (YE 2017: 4.55%, June 30, 2017: 4.11%). Our primary delinquent inventory was 36,037 loans at June 30, 2018, representing a decrease of 23% from December 31, 2017 and 13% from June 30, 2017. The reduction in our primary delinquent inventory is the result of the total number of delinquent loans: (1) that have cured; (2) for which claim payments have been made; or (3) that have resulted in rescission, claim denial, or removal from inventory due to settlements of claims paying disputes or commutations of coverage of pools of NPLs, collectively, exceeding the total number of new delinquencies on insured loans. In recent periods, we have experienced improved cure rates and the number of delinquencies in inventory with twelve or more missed payments has been declining. Generally, a defaulted loan with fewer missed payments is less likely to result in a claim.

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The gross reserves at June 30, 2018, December 31, 2017, and June 30, 2017 appear in the table below.

Gross reserves

	June 30, 2018		December 31, 2017		June 30, 2017	
Primary:						
Direct loss reserves (in millions)	**$ 746**		$ 913		$ 1,093	
IBNR and LAE	**53**		58		72	
Total primary loss reserves	**$ 799**		$ 971		$ 1,165	
Ending delinquent inventory		**36,037**		46,556		41,317
Percentage of loans delinquent (delinquency rate)		**3.49%**		4.55%		4.11%
Average total primary loss reserves per delinquency		**$ 22,178**		$ 20,851		$ 28,206
Primary claims received inventory included in ending delinquent inventory		**827**		954		1,258
Pool (1):						
Direct loss reserves (in millions):						
With aggregate loss limits	**$ 9**		$ 10		$ 15	
Without aggregate loss limits	**4**		4		6	
Total pool direct loss reserves	**$ 13**		$ 14		$ 21	
Ending default inventory:						
With aggregate loss limits		**779**		952		1,124
Without aggregate loss limits		**288**		357		387
Total pool ending delinquent inventory		**1,067**		1,309		1,511
Pool claims received inventory included in ending delinquent inventory		**49**		42		63
Other gross reserves (in millions)	**$ 1**		$ 1		$ 1	

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

2017 hurricane activity

Hurricane activity primarily impacting Texas, Florida, and Puerto Rico in the third quarter of 2017 increased the number of new notices of delinquency reported to us in the fourth quarter of 2017. Based on our analysis and past experience, we expect the majority of the delinquent notices in the hurricane affected areas that we estimated to be caused by the hurricanes to cure and to not result in a material increase in our incurred losses or losses paid. For those notices we estimated to be caused by the hurricanes, we established our loss reserves with a lower estimated claim rate than the claim rate we applied to other notices in our delinquent inventory. The decline in the average total primary reserves per delinquency as of June 30, 2018 and December 31, 2017, respectively, when compared to June 30, 2017, was due in part to the reserving on the estimated hurricane notices. When excluding the impact of those notices we estimated to be caused by the hurricanes, the average total primary loss reserves per delinquency was approximately $24,000 at both June 30, 2018 and December 31, 2017. See our risk factors titled "*Our financial results may be adversely impacted by natural disasters; certain 2017 hurricanes may impact our incurred losses, the amount and timing of paid claims, our inventory of notices of default and our Minimum Required Assets under PMIERs.*" and *"Downturns in the domestic economy or declines in the value of borrowers' homes from their value at the time their loans closed may result in more homeowners defaulting and our losses increasing, with a corresponding decrease in our returns"* for factors that could cause our actual results to differ from our expectations expressed in this paragraph.

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The primary delinquent inventory for the top 15 jurisdictions (based on 2018 losses paid) at June 30, 2018, December 31, 2017 and June 30, 2017 appears in the following table.

Primary delinquent inventory by jurisdiction

	June 30, 2018	December 31, 2017	June 30, 2017
New Jersey*	**1,318**	1,749	2,003
New York*	**2,034**	2,387	2,587
Florida*	**4,101**	6,501	3,311
Illinois*	**1,797**	2,136	2,195
Maryland	**876**	1,026	1,098
Pennsylvania*	**2,049**	2,403	2,488
California	**1,236**	1,402	1,371
Ohio*	**1,648**	2,025	2,096
Massachusetts	**629**	759	867
Connecticut*	**505**	574	577
Virginia	**627**	731	705
Puerto Rico*	**2,377**	3,761	1,614
Georgia	**1,252**	1,550	1,577
Texas	**2,682**	3,975	2,775
Michigan	**1,032**	1,260	1,256
All other jurisdictions	**11,874**	14,317	14,797
Total primary delinquent inventory	**36,037**	46,556	41,317

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

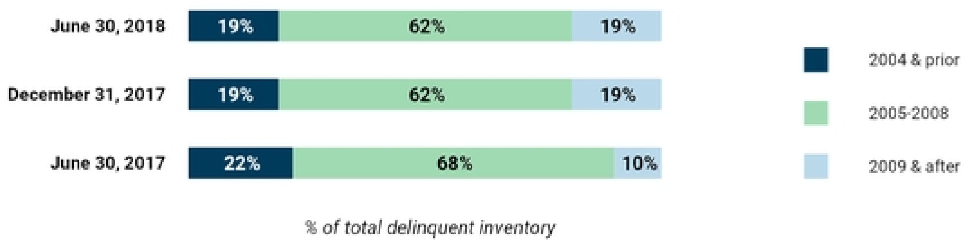
The primary delinquent inventory by policy year at June 30, 2018, December 31, 2017 and June 30, 2017 appears in the following table.

Primary delinquent inventory by policy year

	June 30, 2018	December 31, 2017	June 30, 2017
Policy year:			
2004 and prior	**6,949**	8,739	9,016
2005	**3,893**	4,916	4,739
2006	**5,987**	7,719	7,476
2007	**9,837**	12,807	12,642
2008	**2,688**	3,455	3,352
2009	**204**	315	319
2010	**151**	199	178
2011	**193**	266	203
2012	**386**	549	327
2013	**689**	957	581
2014	**1,272**	1,757	1,044
2015	**1,447**	1,992	947
2016	**1,449**	1,930	469
2017	**860**	955	24
2018	**32**	—	—
Total primary delinquent inventory	**36,037**	46,556	41,317

The delinquent inventory for most policy years includes delinquencies from hurricane impacted areas that have not cured. As a result, delinquencies, including in our most recent policy years, were greater than they otherwise would have been as of June 30, 2018 and December 31, 2017. Within the hurricane impacted areas, there were 7,828, 12,446, and 5,958 loans in our ending primary delinquent inventory as of June 30, 2018, December 31, 2017, and June 30, 2017, respectively.

Delinquent inventory mix by book year



The losses we have incurred on our 2005 through 2008 books have exceeded our premiums from those books. Although uncertainty remains with respect to the ultimate losses we may experience on those books, as we continue to write new insurance, those books have become a smaller percentage of our total mortgage insurance portfolio. Our 2005 through 2008 books represented approximately 17% and 19% of our total primary RIF at June 30, 2018 and December 31, 2017, respectively. Approximately 39% of the remaining primary RIF on our 2005 through 2008 books of business benefited from HARP as of both June 30, 2018 and December 31, 2017.

On our primary business, the highest claim frequency years have typically been the third and fourth year after loan origination. However, the pattern of claim frequency can be affected by many factors, including persistency and deteriorating economic conditions. Deteriorating economic conditions can result in increasing claims following a period of declining claims. As of June 30, 2018, 51% of our primary RIF was written subsequent to December 31, 2015, 64% of our primary RIF was written subsequent to December 31, 2014, and 72% of our primary RIF was written subsequent to December 31, 2013.

Underwriting and other expenses, net

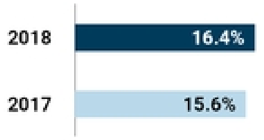
Underwriting and other expenses includes items such as employee compensation costs, fees for professional services, depreciation and maintenance expense, and premium taxes, and are reported net of ceding commissions.

Comparative quarterly and year to date results

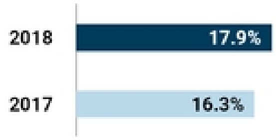
Underwriting and other expenses, net for the three and six months ended June 30, 2018 were $41.8 million and $87.9 million, respectively, up from $38.5 million and $79.3 million in the respective prior year periods. The increase was primarily due to higher share-based compensation, due to a higher share price on the grant date, and non-executive compensation.

Underwriting expense ratio

Three Months Ended June 30,



Six Months Ended June 30,



The underwriting expense ratio is the ratio, expressed as a percentage, of the underwriting and operating expenses, net and amortization of DAC of our combined insurance operations (which excludes underwriting and operating expenses of our non-insurance subsidiaries) to NPW. The underwriting expense ratio in the three and six months ended June 30, 2018 increased compared to the respective prior year periods. The increase in the ratio was primarily due to higher compensation expenses in the current year periods, offset in part by higher NPW in both current year periods.

Interest expense

Comparative quarterly and year to date results

Interest expense for the three and six months ended June 30, 2018 was $13.2 million and $26.5 million, respectively, down from $14.2 million and $30.5 million in the respective prior year periods. The decreases were due to the maturity of the 5% Notes and conversion of the 2% Notes in 2017.

Provision for income taxes and effective tax rate

Income tax provision and effective tax rate

	Three Months Ended June 30,			Six Months Ended June 30,		
(in millions, except rate)	**2018**	2017	% Change	**2018**	2017	% Change
Income before tax	**$ 237.5**	$ 180.6	32	**$ 417.5**	$ 354.6	18
Provision for income taxes	**$ 50.7**	$ 62.0	(18)	**$ 87.1**	$ 146.2	(40)
Effective tax rate	**21.3%**	34.3%	N/M	**20.9%**	41.2%	N/M

The decrease in the effective tax rate for the second quarter of 2018 and for the six months ended June 30, 2018 as compared to the same periods in the prior year is primarily due to the decrease in the statutory income tax rate to 21% in 2018 from 35% in 2017. The six months ended June 30, 2017 also included an additional provision for the expected settlement of our IRS litigation.

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

Balance Sheet Review

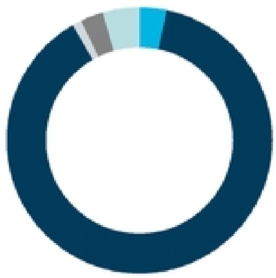
Total assets, liabilities, and shareholders' equity

As of June 30, 2018, total assets were $5.6 billion, approximately the same as year-end 2017, and total liabilities were $2.3 billion, down approximately $0.2 billion from year-end 2017. Shareholders' equity increased approximately $0.2 billion primarily due to net income in the first six months of 2018, offset in part by repurchases of shares of our common stock and a decrease in the fair value of our investment portfolio.

The following sections mainly focus on our cash and cash equivalents, deferred income taxes, net, and loss reserves as these reflect the major developments in our assets and liabilities since December 31, 2017.

Consolidated balance sheets - Assets

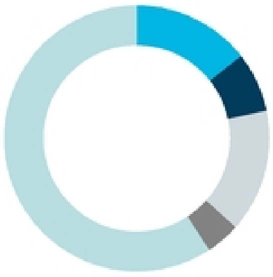
as of June 30, 2018 *(In thousands)*



Cash and cash equivalents	$ 191,894
Investments	4,933,395
Premiums receivable	56,213
Deferred income taxes, net	161,488
Other assets	249,026

Consolidated balance sheets - Liabilities and equity

as of June 30, 2018 *(In thousands)*



Loss reserves	$ 813,015
Unearned premiums	406,159
Long-term debt	831,008
Other liabilities	227,959
Shareholders' equity	3,313,875

Cash and cash equivalents - Our cash and cash equivalents balance increased to $192 million as of June 30, 2018, from $100 million as of December 31, 2017, as net cash generated from operating activities was only partly offset by net cash used in investing and financing activities.

Deferred income taxes, net - The decrease in our deferred income taxes, net, to $161 million as of June 30, 2018, from $234 million as of December 31, 2017, was primarily due to the utilization of federal net operating loss carryforwards as we generated net income during the first six months of 2018.

Loss reserves - Our loss reserves include: (1) reserves representing estimates of losses and settlement expenses on reported delinquencies and (2) IBNR. Our gross reserves are reduced by reinsurance recoverable on our estimated losses and settlement expenses to calculate a net reserve balance. The net reserve balance decreased by 17% to $776 million as of June 30, 2018, from $937 million as of December 31, 2017. Reinsurance recoverables on our estimated losses and settlement expenses were $37 million and $48 million as of June 30, 2018 and December 31, 2017, respectively. The overall decrease in our loss reserves during the first six months of 2018 was due to a higher level of losses paid relative to losses incurred.

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Investment portfolio

The average duration and investment yield of our investment portfolio as of June 30, 2018, December 31, 2017, and June 30, 2017 are shown in the table below.

Portfolio duration and embedded investment yield

	June 30, 2018	December 31, 2017	June 30, 2017
Duration (in years)	**4.2**	4.3	4.6
Pre-tax yield (1) (% of average investment portfolio assets)	**2.9%**	2.7%	2.7%
After-tax yield (1) (% of average investment portfolio assets)	**2.4%**	2.0%	2.0%

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

The increase in the investment portfolio's after-tax yield as of June 30, 2018, relative to the prior periods presented is primarily being driven by the decrease in the statutory income tax rate.

The security ratings of our fixed income investments as of June 30, 2018, December 31, 2017, and June 30, 2017 are shown in the table below.

Fixed income security ratings

	Security Ratings (1)			
Period	**AAA**	**AA**	**A**	**BBB**
June 30, 2018	**21%**	**24%**	**35%**	**20%**
December 31, 2017	21%	26%	36%	17%
June 30, 2017	23%	28%	35%	14%

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

The decrease in the statutory tax rate reduced the after-tax yield benefit that tax exempt municipal securities provided when compared to taxable fixed income securities. We will continue to evaluate the benefits of tax exempt securities relative to taxable securities, and to the investment portfolio as a whole, and their concentration may vary over time.

Liquidity and Capital Resources

Consolidated Cash Flow Analysis

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

Summary of consolidated cash flows

	Six Months Ended June 30,	
(In thousands)	**2018**	2017
Total cash provided by (used in):		
Operating activities	**$ 262,593**	$ 125,556
Investing activities	**(62,418)**	5,419
Financing activities	**(108,132)**	(158,477)
Increase (decrease) in cash and cash equivalents	**$ 92,043**	$ (27,502)

Net cash provided by operating activities for the six months ended June 30, 2018 increased compared to the same period of 2017 primarily due to a lower level of losses paid, net.

Net cash used in investing activities for the six months ended June 30, 2018 reflects purchases of fixed income securities in an amount that exceeded our proceeds from sales and maturities of fixed income securities during the quarter as cash from operations was available for additional investment, as well as amounts spent on property and equipment.

Net cash from investing activities for the six months ended June 30, 2017 reflects proceeds from sales and maturities of fixed income securities, and unsettled investment activity, that exceeded purchases of fixed income securities during the quarter, offset in part by amounts spent on property and equipment.

Net cash used in financing activities for the six months ended June 30, 2018 reflects repurchases of our common stock during the second quarter and the payment of withholding taxes related to share-based compensation net share settlement.

Net cash used in financing activities for the six months ended June 30, 2017 includes the repayment at maturity of our 5% Notes and redemption of a portion of our 2% Notes, as well as, expenses paid to establish the revolving credit facility and the payment of withholding taxes related to share-based compensation net share settlement.

Capitalization

Debt at our holding company and holding company liquidity

Debt - holding company

As of June 30, 2018, our holding company's debt obligations were $814.5 million in aggregate principal consisting of our 5.75% Notes and 9% Debentures. MGIC's ownership of $132.7 million of our holding company's 9% Debentures is eliminated in consolidation, but they remain outstanding obligations owed by our holding company to MGIC.

Liquidity analysis - holding company

As of June 30, 2018, we had approximately $191 million in cash and investments at our holding company. These resources are maintained primarily to service our debt interest expense, pay debt maturities, and to settle intercompany obligations. While these assets are held, we generate investment income that serves to offset a portion of our interest expense. Investment income and the payment of dividends from our insurance subsidiaries are the principal sources of holding company cash inflow. MGIC is the principal source of dividends, and their payment is restricted by insurance regulation. See Note 15 - “Statutory Information” to our consolidated financial statement for additional information about MGIC’s dividend restrictions. The payment of dividends from MGIC is also influenced by our view of the appropriate level of PMIERs Available Assets to maintain an excess over Minimum Required Assets. Other sources of holding company liquidity include any unused capacity on our unsecured revolving credit facility ($175 million) and raising capital in the public markets. The ability to raise capital in the public markets is subject to prevailing market conditions, investor demand for the securities to be issued, and our deemed creditworthiness.

During the second quarter of 2018, we used approximately $100 million of available holding company cash to repurchase shares of our common stock. We may use additional holding company cash to repurchase additional shares or to repurchase our outstanding debt obligations. Such repurchases may be material, may be made for cash (funded by debt) and/or exchanges for other securities, and may be made in open market purchases, privately negotiated acquisitions or other transactions. See “Overview - Capital” of this MD&A for a discussion of the share repurchase program authorized on April 26, 2018.

In the first six months of 2018, our holding company cash and investments decreased by $26 million, to $191 million as of June 30, 2018. Cash inflows during the first six months included $100 million of dividends received from MGIC and other inflows of $4 million. Cash outflows during the first six months at our holding company included $100 million of share repurchases and $30 million of interest payments on our 5.75% Notes and 9% Debentures. We expect MGIC to continue to pay quarterly dividends of at least $50 million per quarter for the remainder of 2018.

The net unrealized losses on our holding company investment portfolio were approximately $3 million at June 30, 2018 and the portfolio had a modified duration of approximately 1.8 years.

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

See Note 7 – “Debt” to our consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2017 for additional information about the conversion terms of our 9% Debentures and the terms of our indebtedness, including our option to defer interest on our 9% Debentures. The description in Note 7 - “Debt” to our consolidated financial statements in our Annual Report on Form 10-K is qualified in its entirety by the terms of the notes and debentures.

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

Debt at subsidiaries

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

Capital Adequacy

PMIERs

We operate under the PMIERs of the GSEs that became effective December 31, 2015. The PMIERS were most recently revised in December 2016, but the revision had no impact on our calculation of Available Assets or

Minimum Required Assets, or on our operations. Refer to “Overview - Capital - GSEs” of this MD&A for further discussion of PMIERs.

As of June 30, 2018, MGIC’s Available Assets under PMIERs totaled approximately $4.8 billion, an excess of approximately $1.0 billion over its Minimum Required Assets; and MGIC is in compliance with the requirements of the PMIERs and eligible to insure loans purchased by the GSEs. Maintaining a sufficient level of Available Assets will allow MGIC to remain in compliance with the PMIERs financial requirements, including, we believe, to the extent they are revised. Our QSR Transactions provided an aggregate of approximately $0.9 billion of PMIERs capital credit as of June 30, 2018. Refer to Note 4 - “Reinsurance” to our consolidated financial statements for additional information on our QSR Transactions.

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

Risk-to-capital

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

MGIC’s separate company risk-to-capital calculation is shown in the table below.

Risk-to-capital - MGIC separate company

(In millions, except ratio)	**June 30, 2018**	December 31, 2017
RIF - net [1]	**$ 32,559**	$ 31,144
Statutory policyholders’ surplus	**1,674**	1,620
Statutory contingency reserve	**1,893**	1,654
Statutory policyholders’ position	**$ 3,567**	$ 3,274
Risk-to-capital	**9.1:1**	9.5:1

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

Our combined insurance companies’ risk-to-capital calculation (which includes a reinsurance affiliate) is shown in the table below. Reinsurance transactions with our affiliate permit MGIC to write insurance with a higher coverage percentage than it could on its own under certain state-specific requirements.

Risk-to-capital - Combined insurance companies

(In millions, except ratio)	**June 30, 2018**	December 31, 2017
RIF - net [1]	**$ 38,340**	$ 36,818
Statutory policyholders’ surplus	**1,676**	1,622
Statutory contingency reserve	**2,166**	1,897
Statutory policyholders’ position	**$ 3,842**	$ 3,519
Risk-to-capital	**10.0:1**	10.5:1

(1) RIF – net, as shown in the table above, is net of reinsurance and exposure on policies currently delinquent ($1.8 billion at June 30, 2018 and $2.3 billion at December 31, 2017) for which loss reserves have been established.

The reductions in MGIC's and our combined insurance companies' risk-to-capital in the first six months of 2018 were primarily due to an increase in statutory policyholders' position due to an increase in statutory contingency reserves, partially offset by an increase in net RIF in both calculations. Our RIF, net of reinsurance, increased in the first six months of 2018, due to an increase in our IIF. Our risk-to-capital ratio will decrease if the percentage increase in capital exceeds the percentage increase in insured risk.

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

Financial Strength Ratings

MGIC financial strength ratings

Rating Agency	Rating	Outlook
Moody's Investor Services	Baa2	Stable
Standard and Poor's Rating Services	BBB+	Stable

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

Contractual Obligations

At June 30, 2018, the approximate future payments under our contractual obligations of the type described in the table below are as follows:

Contractual obligations

		Payments due by period			
(In millions)	**Total**	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term debt obligations	**$ 2,026.6**	$ 51.3	$ 101.6	$ 254.9	$ 1,618.8
Operating lease obligations	**2.3**	0.8	1.4	0.1	—
Tax obligations	**57.0**	57.0	—	—	—
Purchase obligations	**11.0**	10.2	0.8	—	—
Pension, SERP and other post-retirement plans	**326.1**	29.8	65.9	67.0	163.4
Other long-term liabilities	**813.0**	304.9	369.1	139.0	—
Total	**$ 3,236.0**	$ 454.0	$ 538.8	$ 461.0	$ 1,782.2

Our long-term debt obligations as of June 30, 2018 include their related interest and are discussed in Note 3 - "Debt" to our consolidated financial statements and under "Liquidity and Capital Resources" above. Our operating lease obligations include operating leases on certain office space, data processing equipment and autos, as discussed in Note 16 – "Leases" to our consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2017. Tax obligations primarily relate to our tax settlement with the IRS, as discussed in Note 11 – "Income Taxes." Purchase obligations consist primarily of agreements to purchase items related to our ongoing infrastructure projects and information technology investments in the normal course of business. See Note 11 – "Benefit Plans" to our consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2017 for a discussion of expected benefit payments under our benefit plans.

Our other long-term liabilities represent the loss reserves established to recognize the liability for losses and LAE related to existing delinquencies 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 delinquency to develop into a received claim and the length of time it takes for a received claim to be ultimately paid. The future claim payment periods are estimated based on historical experience, and could emerge differently than this estimate, in part, due to uncertainty regarding the impact of certain factors, such as loss mitigation protocols established by servicers and changes in some state foreclosure laws that may include, for example, a requirement for additional review and/or mediation process.

See Note 12 – "Loss Reserves" to our consolidated financial statements. In accordance with GAAP for the mortgage insurance industry, we establish loss reserves only for delinquent loans. Because our reserving method does not take account of the impact of future losses that could occur from loans that are not delinquent, our obligation for ultimate losses that we expect to occur under our policies in force at any period end is not reflected in our consolidated financial statements or in the table above.

Forward Looking Statements and Risk Factors

General: Our business, results of operations, and financial condition could be affected by the risk factors referred to under "Location of Risk Factors" below. These risk factors are an integral part of Management's Discussion and Analysis.

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

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

Location of Risk Factors: The risk factors are in Item 1 A of our Annual Report on Form 10-K for the year ended December 31, 2017, as supplemented by Part II, Item 1 A of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2018, 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 those 10-Qs and through updating of various statistical and other information, are reproduced in Exhibit 99 to this Quarterly Report on Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

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

We manage credit risk via our investment policy guidelines which primarily place our investments in investment grade securities and limit the amount of our credit exposure to any one issue, issuer and type of instrument. Guideline and investment portfolio detail is available in "Business – Section C, Investment Portfolio" in Item 1 of our Annual Report on Form 10-K for the year ended December 31, 2017.

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

One of the measures used to quantify this exposure is modified duration. Modified duration measures the price sensitivity of the assets to the changes in spreads. At June 30, 2018, the modified duration of our fixed income investment portfolio was 4.2 years, which means that an instantaneous parallel shift in the yield curve of 100 basis points would result in a change of 4.2% in the fair value of our fixed income portfolio. For an upward shift in the yield curve, the fair value of our portfolio would decrease and for a downward shift in the yield curve, the fair value would increase. See Note 7 – "Investments" to our consolidated financial statements for additional disclosure surrounding our investment portfolio.

Item 4. Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended), as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on such evaluation, our principal executive officer and principal financial officer concluded that such controls and procedures were effective as of the end of such period. There was no change in our internal control over financial reporting that occurred during the second quarter of 2018 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

As previously disclosed, the Internal Revenue Service (“IRS”) completed examinations of our federal income tax returns for the years 2000 through 2007 and issued proposed assessments for taxes, interest and penalties related to our treatment of the flow-through income and loss from an investment in a portfolio of residual interests of Real Estate Mortgage Investment Conduits.

In 2014, we received Notices of Deficiency (commonly referred to as “90 day letters”) from the IRS. We filed a petition with the U.S. Tax Court contesting most of the IRS’ proposed adjustments reflected in the Notices of Deficiency. In July 2018, we finalized an agreement with the IRS to settle all issues in the examinations and related U.S. Tax Court case; the settlement was approved by the U.S. Tax Court on July 26, 2018. The expected impact of the agreed upon settlement was previously reflected in our consolidated financial statements.

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, 2017, as supplemented by Part II, Item I A of our Quarterly Report on Form 10-Q for the Quarter ended March 31, 2018. The risk factors in the 10-K, as supplemented by that 10-Q and this 10-Q, and through updating of various statistical and other information, are reproduced in their entirety in Exhibit 99 to this Quarterly Report on Form 10-Q.

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

Our private mortgage insurance competitors include:

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

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

Much of the competition in the industry in the last few years has centered on pricing practices which have included: (i) reductions in standard filed rates for borrower-paid mortgage insurance policies ("BPMI"); (ii) use by certain competitors of a spectrum of filed rates to allow for formulaic, risk-based pricing (commonly referred to as “black-box” pricing); and (iii) use of customized rates (discounted from published rates) that are made available to many, but not all, lenders. We changed our BPMI premium rates with effective dates in the second and third quarters of 2018. Based on the mix of our new primary insurance written ("NIW") in the first quarter of 2018, the changed premiums would have resulted in an overall direct premium rate decrease for all NIW in the first quarter of 2018 of approximately 8.5%. This premium rate decrease will affect our premium yield (net premiums earned divided by the average insurance in force) over time as older insurance policies with higher premium rates run off and new insurance policies with lower premium rates are written. The GSE pilot programs discussed in our risk factor titled *"The amount of insurance we write could be adversely affected if lenders and investors select alternatives to private mortgage insurance"* could lead to further reductions in premium rates.

Our relationships with our customers could be adversely affected by a variety of factors, including if our premium rates are higher than those of our competitors, our underwriting requirements result in our declining to insure some of the loans originated by our customers, or our insurance policy rescissions and claim curtailments affect the customer. Regarding the concentration of our new business, our largest customer accounted for approximately 4% of our new insurance written in each of 2017 and the first half of 2018.

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

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

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

- Our ability to participate in the non-GSE mortgage market (which has been limited since 2008, but may grow in the future), could depend on our ability to maintain and improve our investment grade ratings for our mortgage insurance subsidiaries. We could be competitively disadvantaged with some market participants because the financial strength ratings of our insurance subsidiaries are lower than those of some competitors. MGIC's financial strength rating from Moody's is Baa2 (with a stable outlook) and from Standard & Poor's is BBB+ (with a stable outlook).

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

If we are unable to compete effectively in the current or any future markets as a result of the financial strength ratings assigned to our insurance subsidiaries, our future new insurance written could be negatively affected.

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

Alternatives to private mortgage insurance include:

- lenders using FHA, VA and other government mortgage insurance programs,

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

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

In the first quarter of 2018, Freddie Mac began marketing a pilot program to lenders that would have loan level mortgage default coverage provided by various (re)insurers that are not mortgage insurers and that are not selected by the lenders. We view the pilot program as competing with traditional private mortgage insurance. The pilot offers pricing below prevalent single premium lender paid mortgage insurance ("LPMI") rates. In July 2018, Fannie Mae announced a similar pilot program that would have loan level mortgage default coverage provided by a panel of reinsurers (which may include affiliates of private mortgage insurers).

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

The FHA's share of the low down payment residential mortgages that were subject to FHA, VA, USDA or primary private mortgage insurance was 33.9% in the first quarter of 2018, 35.6% in 2017 and 35.5% in 2016. In the past ten years, the FHA's share has been as low as 32.4% in 2014 and as high as 68.7% in 2009. Factors that influence the FHA's market share include relative rates and fees, underwriting guidelines and loan limits of the FHA, VA, private mortgage insurers and the GSEs; lenders' perceptions of legal risks under FHA versus GSE programs; flexibility for the FHA to establish new products as a result of federal legislation and programs; returns expected to be obtained by lenders for Ginnie Mae securitization of FHA-insured loans compared to those obtained from selling loans to Fannie Mae or Freddie Mac for securitization; and differences in policy terms, such as the ability of a borrower to cancel insurance coverage under certain circumstances. We cannot predict how the factors that affect the FHA's share of new insurance written will change in the future.

The VA's share of the low down payment residential mortgages that were subject to FHA, VA, USDA or primary private mortgage insurance was 25.5% in the first quarter of 2018, 24.1% in 2017 and 26.6% in 2016. In the past ten years, the VA's share has been as low as 8.2% in 2008 and as high as 26.6% in 2016. We believe that the VA's market share has generally been increasing because of an increase in the number of borrowers that are eligible for the VA's program, which offers 100% loan-to-value ratio ("LTV") loans and charges a one-time funding fee that can be included in the loan amount, and because eligible borrowers have opted to use the VA program when refinancing their mortgages.

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

The GSEs' charters generally require credit enhancement for a low down payment mortgage loan (a loan amount that exceeds 80% of a home's value) in order for such loan to be eligible for purchase by the GSEs. Lenders generally have used private mortgage insurance to satisfy this credit enhancement requirement. (For information about GSE pilot programs initiated in 2018 that provide loan level default coverage by various (re)insurers (which may include affiliates of private mortgage insurers), see our risk factor titled *"The amount of insurance we write could be adversely affected if lenders and investors select alternatives to private mortgage insurance."*) Because low down payment mortgages purchased by the GSEs have generally been insured with private mortgage insurance, the business practices of the GSEs greatly impact our business and include:

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

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

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

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

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

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

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

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

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

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

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

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

The Administration issued a June 2018 report indicating that the conservatorship of the GSEs should end and that the GSEs should transition to fully private entities, competing on a level playing field with private issuers of mortgage-backed securities ("MBS") (such issuers, collectively with the GSEs, referred to in the report as the "guarantors"). The report further indicated that a federal entity should regulate the guarantors, including their capital adequacy, and that guarantors should have access to an explicit federal guarantee on the MBS that is only exposed after substantial losses are incurred by the private market, including the guarantors. The report also indicated that a fee on the outstanding volume of MBS would be transferred to the Department of Housing and Urban Development (of which the FHA is a part) to be used for affordable housing purposes. As a result of the matters referred to above, it is uncertain what role the GSEs, FHA and private capital, including private mortgage insurance, will play in the residential housing finance system in the future or the impact of any such changes on our business. In addition, the timing of the impact of any resulting changes on our business is uncertain. Most meaningful changes would require Congressional action to implement and it is difficult to estimate when Congressional action would be final and how long any associated phase-in period may last.

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

We must comply with the PMIERs to be eligible to insure loans purchased by the GSEs. The PMIERs include financial requirements, as well as business, quality control and certain transaction approval requirements. The financial requirements of the PMIERs require a mortgage insurer's "Available Assets" (generally only the most liquid assets of an insurer) to equal or exceed its "Minimum Required Assets" (which are based on an insurer's book of insurance in force and are calculated from tables of factors with several risk dimensions and are subject to a floor amount). Based on our interpretation of the PMIERs, as of June 30, 2018, MGIC's Available Assets totaled $4.8 billion, or $1.0 billion in excess of its Minimum Required Assets. MGIC is in compliance with the PMIERs and eligible to insure loans purchased by the GSEs.

If MGIC ceases to be eligible to insure loans purchased by one or both of the GSEs, it would significantly reduce the volume of our new business writings. Factors that may negatively impact MGIC's ability to continue to comply with the financial requirements of the PMIERs include the following:

- In December 2017, we received from the GSEs a summary of proposed changes to the PMIERs. In June 2018, we received a revised draft of proposed changes to the PMIERs that we expect will be finalized in the third quarter of 2018 and become effective at the end of the first quarter of 2019 (the revised PMIERs are referred to as "PMIERs 2.0"). Upon effectiveness of PMIERs 2.0, we expect that MGIC would continue to have an excess of Available Assets over Minimum Required Assets ("PMIERs Excess"), although our PMIERs Excess would be materially lower than it was at June 30, 2018 under the existing PMIERs, and that MGIC would continue to be able to pay quarterly dividends to our holding company of at least the $50 million quarterly rate at which they were paid in the first and second quarters of 2018.

  We have non-disclosure obligations to each of the GSEs and cannot provide further comment on the draft of PMIERs 2.0, other than as described above. Until the GSEs and/or FHFA provide public disclosure of the final version of PMIERs 2.0, we do not plan to update or correct any of the disclosures above.

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

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

While on an overall basis, the amount of Available Assets MGIC must hold in order to continue to insure GSE loans is greater under the PMIERs than what state regulation currently requires, our reinsurance transactions mitigate the negative effect of the PMIERs on our returns. In this regard, see the first bullet point above. In addition, reinsurance may not always be available to us or available on similar terms, and it subjects us to counterparty credit risk.

In June 2018, the FHFA issued a proposed rule on regulatory capital requirements for the GSEs ("GSE Capital Requirements"), which included a framework for determining the capital relief allowed to the GSEs for loans with private mortgage insurance. The FHFA noted that the GSEs would not be subject to the GSE Capital Requirements during their conservatorship.

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

As of June 30, 2018, we had approximately $344.0 million of net operating losses for tax purposes that we can use in certain circumstances to offset future taxable income and thus reduce our federal income tax liability. Any unutilized carryforwards are scheduled to expire at the end of tax years 2032 through 2033. Our ability to utilize these net operating losses to offset future taxable income may be significantly limited if we experience an "ownership change" as defined in Section 382 of the Internal Revenue Code of 1986, as amended (the “Code”). In general, an ownership change will occur if there is a cumulative change in our ownership by “5-percent shareholders” (as defined in the Code) that exceeds 50 percentage points over a rolling three-year period. A corporation that experiences an ownership change will generally be subject to an annual limitation on the corporation’s subsequent use of net operating loss carryovers that arose from pre-ownership change periods and use of losses that are subsequently recognized with respect to assets that had a built-in-loss on the date of the ownership change. The amount of the annual limitation generally equals the fair value of the corporation immediately before the ownership change multiplied by the long-term tax-exempt interest rate (subject to certain adjustments). To the extent that the limitation in a post-ownership-change year is not fully utilized, the amount of the limitation for the succeeding year will be increased.

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

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

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

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

The percentage of our new insurance written from all single-premium policies (LPMI and BPMI, combined) has generally been increasing over the past several years, from approximately 10% in 2013 to 19% in 2017 and 17% in the first six months of 2018. Depending on the actual life of a single premium policy and its premium rate relative to that of a monthly premium policy, a single premium policy may generate more or less premium than a monthly premium policy over its life.

We have in place quota share reinsurance ("QSR") transactions with a group of unaffiliated reinsurers that cover most of our insurance written from 2013 through 2018, and a portion of our insurance written prior to 2013. Although the transactions reduce our premiums, they have a lesser impact on our overall results, as losses ceded under the transactions reduce our losses incurred and the ceding commissions we receive reduce our underwriting expenses. The blended pre-tax cost of reinsurance under our different transactions is less than 6% (but will decrease if losses are materially higher than we expect). This blended pre-tax cost is derived by dividing the reduction in our pre-tax income on loans covered by reinsurance by our direct (that is, without reinsurance) premiums from such loans. Although the pre-tax cost of the reinsurance under each transaction is generally constant, the effect of the reinsurance on the various components of pre-tax income will vary from period to period, depending on the level of ceded losses. Although the GSEs have approved the terms of our QSR transactions, they will be reviewed under the PMIERs at least annually. We may not receive full credit under the PMIERs in future periods for the risk ceded under our QSR transactions.

In addition to the effect of reinsurance on our premiums, we expect a decline in our premium yield resulting from the premium rates themselves. An increasing percentage of our insurance in force is from book years with lower premium rates because premium rates have trended lower in recent periods (and will continue to do so after the 2018 changes to our BPMI premium rates).

The circumstances in which we are entitled to rescind coverage have narrowed for insurance we have written in recent years. During the second quarter of 2012, we began writing a portion of our new insurance under an endorsement to our then existing master policy (the “Gold Cert Endorsement”), which limited our ability to rescind coverage compared to that master policy. To comply with requirements of the GSEs, we introduced our current master policy in 2014. Our rescission rights under our current master policy are comparable to those under our previous master policy, as modified by the Gold Cert Endorsement, but may be further narrowed if the GSEs permit modifications to them. Our current master policy is filed as Exhibit 99.19 to our quarterly report on Form 10-Q for the quarter ended September 30, 2014 (filed with the SEC on November 7, 2014). All of our primary new insurance on loans with mortgage insurance application dates on or after October 1, 2014, was written under our current master policy. As of June 30, 2018, approximately 78% of our flow, primary insurance in force was written under our Gold Cert Endorsement or our current master policy. The FHFA and the GSEs have issued revised GSE rescission relief principles to, among other things, further limit the circumstances under which mortgage insurers may rescind coverage. It has been proposed that these principles be incorporated into new master policies which the GSEs have indicated should be effective for new business written in 2019, subject to state regulatory approvals. These proposed principles are likely to further reduce our ability to rescind insurance coverage in the future, potentially resulting in higher losses than would be the case under our existing master insurance policies.

From time to time, in response to market conditions, we change the types of loans that we insure and the requirements under which we insure them. We also change our underwriting guidelines, in part through aligning some of them with Fannie Mae and Freddie Mac for loans that receive and are processed in accordance with certain approval recommendations from a GSE automated underwriting system. We also make exceptions to our underwriting requirements on a loan-by-loan basis and for certain customer programs. As a result of changes to our underwriting guidelines and requirements (including those related to debt to income ("DTI") ratios, credit scores, and the manner in which income levels and property values are determined) and other factors, our business written beginning in the second half of 2013 is expected to have a somewhat higher claim incidence than business written in 2009 through the first half of 2013, but materially below that on business written in 2005-2008. However, we believe this business presents an acceptable level of risk. Our underwriting requirements are available on our website at http://www.mgic.com/underwriting/index.html.

Even when home prices are stable or rising, mortgages with certain characteristics have higher probabilities of claims. These characteristics include higher LTV ratios, lower FICO scores, limited underwriting, including limited borrower documentation, or higher DTI ratios, as well as loans having combinations of higher risk factors. As of June 30, 2018, mortgages with these characteristics in our primary risk in force included mortgages with LTV ratios greater than 95% (14.1%), loans with borrowers having FICO scores below 620 (2.7%), mortgages with borrowers having FICO scores of 620-679 (10.9%), mortgages with limited underwriting, including limited borrower documentation (2.5%), and mortgages with borrowers having DTI ratios greater than 45% (or where no ratio is available) (13.4%), each attribute as determined at the time of loan origination. An individual loan may have more than one of these attributes. A material number of these loans were originated in 2005 - 2007 or the first half of 2008. For information about our classification of loans by FICO score and documentation, see footnotes (5) and (6) to the Characteristics of Primary Risk in Force table under “Business - Our Products and Services” in Item 1 of our Annual Report on Form 10-K filed with the SEC on February 23, 2018.

As of June 30, 2018, approximately 1% of our primary risk in force consisted of adjustable rate mortgages which allow for adjustment of the initial interest rate during the five years after the mortgage closing (“ARMs”). We classify as fixed rate loans adjustable rate mortgages with an initial interest rate that is fixed during the five years after the mortgage closing and loans with temporary interest rate adjustments during the initial five years, commonly referred to as "buydowns," that convert to a fixed rate for the duration of the loan term. If interest rates should rise between the time of origination of such loans and when their interest rates may be reset, claim rates on such loans may be substantially higher than for loans without variable interest rate features. In addition, prior to 2011, we insured “interest-only” loans, which may also be ARMs, and loans with negative amortization features, such as pay option ARMs. We believe claim rates on these loans will be substantially higher than on loans without scheduled payment increases that are made to borrowers of comparable credit quality.

If state or federal regulations or statutes are changed in ways that ease mortgage lending standards and/or requirements, or if lenders seek ways to replace business in times of lower mortgage originations, it is possible that more mortgage loans could be originated with higher risk characteristics than are currently being originated, such as loans with lower FICO scores and higher DTIs. Lenders could pressure mortgage insurers to insure such loans, which are expected to experience higher claim rates. Although we attempt to incorporate these higher expected claim rates into our underwriting and pricing models, there can be no assurance that the premiums earned and the associated investment income will be adequate to compensate for actual losses even under our current underwriting requirements. We do, however, believe that our insurance written beginning in the second half of 2008 will generate underwriting profits.

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

At June 30, 2018, we had approximately $191 million in cash and investments at our holding company and our holding company’s debt obligations were $815 million in aggregate principal amount, consisting of $425 million of 5.75% Senior Notes due in 2023 ("5.75% Notes") and $390 million of 9% Debentures (of which approximately $133 million was purchased, and is held, by MGIC, and is eliminated on the consolidated balance sheet). Annual debt service on the 5.75% Notes and 9% Debentures outstanding as of June 30, 2018, is approximately $60 million (of which approximately $12 million will be paid to MGIC and will be eliminated on the consolidated statement of operations).

The 5.75% Senior Notes and 9% Debentures are obligations of our holding company, MGIC Investment Corporation, and not of its subsidiaries. The payment of dividends from our insurance subsidiaries which, other than investment income and raising capital in the public markets, is the principal source of our holding company cash inflow, is restricted by insurance regulation. MGIC is the principal source of dividend-paying capacity. In the first half of 2018 and in 2017, MGIC paid a total of $100 million and $140 million, respectively, in dividends to our holding company. We expect MGIC to continue to pay quarterly dividends of at least the $50 million amount paid in each of the first two quarters of 2018. We ask the OCI not to object before MGIC pays dividends.

On April 26, 2018, our Board of Directors authorized a share repurchase program under which we may repurchase up to $200 million of our common stock through the end of 2019. During the second quarter of 2018, we repurchased approximately 9.2 million shares of our common stock using approximately $100.1 million of holding company resources. Repurchases may be made from time to time on the open market or through privately negotiated transactions. The repurchase program may be suspended for periods or discontinued at any time. If any additional capital contributions to our subsidiaries were required, such contributions would decrease our holding company cash and investments. As described in our Current Report on Form 8-K filed on February 11, 2016, MGIC borrowed $155 million from the Federal Home Loan Bank of Chicago. This is an obligation of MGIC and not of our holding company.

Our financial results may be adversely impacted by natural disasters; certain 2017 hurricanes may impact our incurred losses, the amount and timing of paid claims, our inventory of notices of default and our Minimum Required Assets under PMIERs.

Natural disasters, such as hurricanes, tornadoes and floods, could trigger an economic downturn in the affected areas, which could result in a decline in our business and an increased claim rate on policies in those areas. Natural disasters could lead to a decrease in home prices in the affected areas, which could result in an increase in claim severity on policies in those areas. If we were to attempt to limit our new insurance written in disaster-prone areas, lenders may be unwilling to procure insurance from us anywhere.

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

We insure mortgages for homes in areas that have been impacted by recent natural disasters, including 2017 hurricanes in Texas, Florida and Puerto Rico. While the percentage of our delinquency inventory that is related to loans in the areas affected by those hurricanes remains somewhat elevated, based on our analysis and past experience, we do not expect the 2017 hurricane activity to result in a material increase in our incurred losses or paid claims. However, the following factors could cause our actual results to differ from our expectation in the forward looking statement in the preceding sentence:

- Home values in hurricane-affected areas may decrease at the time claims are filed from their current levels thereby adversely affecting our ability to mitigate loss.
- Hurricane-affected areas may experience deteriorating economic conditions resulting in more borrowers defaulting on their loans in the future (or failing to cure existing defaults) than we currently expect.
- If an insured contests our claim denial or curtailment, there can be no assurance we will prevail. We describe how claims under our policy are affected by damage to the borrower's home in our Current Report on Form 8-K filed with the SEC on September 14, 2017.

Due to the suspension of certain foreclosures by the GSEs, our receipt of claims associated with foreclosed mortgages in the hurricane-affected areas may be delayed.

The PMIERs require us to maintain significantly more "Minimum Required Assets" for delinquent loans than for performing loans. An increase in delinquency notices may result in an increase in "Minimum Required Assets" and a decrease in the level of our excess "Available Assets" which is discussed in our risk factor titled *"We may not continue to meet the GSEs' private mortgage insurer eligibility requirements and our returns may decrease as we are required to maintain more capital in order to maintain our eligibility*."

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

Issuer Purchases of Equity Securities

The following table provides information about purchases of MGIC Investment Corporation common stock by us during the three months ended June 30, 2018.

Share repurchases

Period Beginning	Period Ending	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Approximate dollar value of shares that may yet be purchased under the program
April 1, 2018	April 30, 2018	—	$ —	—	$ —
May 1, 2018	May 31, 2018	4,364,303	$ 10.66	4,364,303	$ 153,476,530
June 1, 2018	June 30, 2018	4,833,574	$ 11.08	4,833,574	$ 99,942,441
		9,197,877	$ 10.88	9,197,877	

Item 6. Exhibits

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

(Part II, Item 6)

Index to exhibits

Exhibit Number	Description of Exhibit
12	Ratio of Earnings to Fixed Charges †
31.1	Certification of CEO under Section 302 of Sarbanes-Oxley Act of 2002 †
31.2	Certification of CFO under Section 302 of Sarbanes-Oxley Act of 2002 †
32	Certification of CEO and CFO under Section 906 of Sarbanes-Oxley Act of 2002 (as indicated in Item 6 of Part II, this Exhibit is not being “filed”) ††
99	Risk Factors included in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2017, as supplemented by Part II, Item 1A of our Quarterly Report on Form 10-Q for the quarters ended March 31, 2018 and June 30, 2018, and through updating of various statistical and other information †
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

† Filed herewith.
†† Furnished herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized, on August 3, 2018.

MGIC INVESTMENT CORPORATION

/s/ Timothy J. Mattke

Timothy J. Mattke

Executive Vice President and

Chief Financial Officer

/s/ Julie K. Sperber

Julie K. Sperber

Vice President, Controller and Chief Accounting Officer

Exhibit 12

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

(In thousands, except ratio)	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Net earnings before taxes	$ 417,547	$ 354,573
Fixed Charges:		
Interest expense	25,618	29,307
Amortization of debt expense	861	1,199
Rent expense (One-Fourth of all rentals, reasonable approximation of the interest factor)	264	263
Total fixed charges	26,743	30,769
Net earnings and fixed charges	$ 444,290	$ 385,342
Ratio of Earnings to Fixed Charges	**16.6**	**12.5**

Exhibit 31.1
CERTIFICATIONS

I, Patrick Sinks, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: August 3, 2018

/s/ Patrick Sinks
Patrick Sinks
Chief Executive Officer

Exhibit 31.2

CERTIFICATIONS

I, Timothy J. Mattke, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: August 3, 2018

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

Exhibit 32

SECTION 1350 CERTIFICATIONS

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

(1) the Quarterly Report on Form 10-Q of the Company for the three months ended June 30, 2018 (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 3, 2018

/s/ Patrick Sinks

Patrick Sinks
Chief Executive Officer

/s/ Timothy J. Mattke

Timothy J. Mattke
Chief Financial Officer

Exhibit 99

Risk Factors

Risk Factors included in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2017, as supplemented by Part II, Item 1A of our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2018 and June 30, 2018, and through updating of various statistical and other information.

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

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

Our private mortgage insurance competitors include:

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

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

Much of the competition in the industry in the last few years has centered on pricing practices which have included: (i) reductions in standard filed rates for borrower-paid mortgage insurance policies ("BPMI"); (ii) use by certain competitors of a spectrum of filed rates to allow for formulaic, risk-based pricing (commonly referred to as “black-box” pricing); and (iii) use of customized rates (discounted from published rates) that are made available to many, but not all, lenders. We changed our BPMI premium rates with effective dates in the second and third quarters of 2018. Based on the mix of our new primary insurance written ("NIW") in the first quarter of 2018, the changed premiums would have resulted in an overall direct premium rate decrease for all NIW in the first quarter of 2018 of approximately 8.5%. This premium rate decrease will affect our premium yield (net premiums earned divided by the average insurance in force) over time as older insurance policies with higher premium rates run off and new insurance policies with lower premium rates are written. The GSE pilot programs discussed in our risk factor titled *"The amount of insurance we write could be adversely affected if lenders and investors select alternatives to private mortgage insurance"* could lead to further reductions in premium rates.

Our relationships with our customers could be adversely affected by a variety of factors, including if our premium rates are higher than those of our competitors, our underwriting requirements result in our declining to insure some of the loans originated by our customers, or our insurance policy rescissions and claim curtailments affect the customer. Regarding the concentration of our new business, our largest customer accounted for approximately 4% of our new insurance written in each of 2017 and the first half of 2018.

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

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

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

- Our ability to participate in the non-GSE mortgage market (which has been limited since 2008, but may grow in the future), could depend on our ability to maintain and improve our investment grade ratings for our mortgage insurance subsidiaries. We could be competitively disadvantaged with some market participants because the financial strength ratings of our insurance subsidiaries are lower than those of some competitors. MGIC's financial strength rating from Moody’s is Baa2 (with a stable outlook) and from Standard & Poor’s is BBB+ (with a stable outlook).

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

If we are unable to compete effectively in the current or any future markets as a result of the financial strength ratings assigned to our insurance subsidiaries, our future new insurance written could be negatively affected.

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

Alternatives to private mortgage insurance include:

- lenders using FHA, VA and other government mortgage insurance programs,

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

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

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

In the first quarter of 2018, Freddie Mac began marketing a pilot program to lenders that would have loan level mortgage default coverage provided by various (re)insurers that are not mortgage insurers and that are not selected by the lenders. We view the pilot program as competing with traditional private mortgage insurance. The pilot offers pricing below prevalent single premium lender paid mortgage insurance ("LPMI") rates. In July 2018, Fannie Mae announced a similar pilot program that would have loan level mortgage default coverage provided by a panel of reinsurers (which may include affiliates of private mortgage insurers).

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

The FHA's share of the low down payment residential mortgages that were subject to FHA, VA, USDA or primary private mortgage insurance was 33.9% in the first quarter of 2018, 35.6% in 2017 and 35.5% in 2016. In the past ten years, the FHA's share has been as low as 32.4% in 2014 and as high as 68.7% in 2009. Factors that influence the FHA's market share include relative rates and fees, underwriting guidelines and loan limits of the FHA, VA, private mortgage insurers and the GSEs; lenders' perceptions of legal risks under FHA versus GSE programs; flexibility for the FHA to establish new products as a result of federal legislation and programs; returns expected to be obtained by lenders for Ginnie Mae securitization of FHA-insured loans compared to those obtained from selling loans to Fannie Mae or Freddie Mac for securitization; and differences in policy terms, such as the ability of a borrower to cancel insurance coverage under certain circumstances. We cannot predict how the factors that affect the FHA's share of new insurance written will change in the future.

The VA's share of the low down payment residential mortgages that were subject to FHA, VA, USDA or primary private mortgage insurance was 25.5% in the first quarter of 2018, 24.1% in 2017 and 26.6% in 2016. In the past ten years, the VA's share has been as low as 8.2% in 2008 and as high as 26.6% in 2016. We believe that the VA's market share has generally been increasing because of an increase in the number of borrowers that are eligible for the VA's program, which offers 100% loan-to-value ratio ("LTV") loans and charges a one-time funding fee that can be included in the loan amount, and because eligible borrowers have opted to use the VA program when refinancing their mortgages.

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

The GSEs' charters generally require credit enhancement for a low down payment mortgage loan (a loan amount that exceeds 80% of a home's value) in order for such loan to be eligible for purchase by the GSEs. Lenders generally have used private mortgage insurance to satisfy this credit enhancement requirement. (For information about GSE pilot programs initiated in 2018 that provide loan level default coverage by various (re)insurers (which may include affiliates of private mortgage insurers), see our risk factor titled *"The amount of insurance we write could be adversely affected if lenders and investors select alternatives to private mortgage insurance."*) Because low down payment mortgages purchased by the GSEs have generally been insured with private mortgage insurance, the business practices of the GSEs greatly impact our business and include:

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

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

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

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

- whether the GSEs influence the mortgage lender’s selection of the mortgage insurer providing coverage and, if so, any transactions that are related to that selection,
- the underwriting standards that determine which loans are eligible for purchase by the GSEs, which can affect the quality of the risk insured by the mortgage insurer and the availability of mortgage loans,
- the terms on which mortgage insurance coverage can be canceled before reaching the cancellation thresholds established by law,
- the programs established by the GSEs intended to avoid or mitigate loss on insured mortgages and the circumstances in which mortgage servicers must implement such programs,
- the terms that the GSEs require to be included in mortgage insurance policies for loans that they purchase,
- the terms on which the GSEs offer lenders relief on their representations and warranties made at the time of sale of a loan to the GSEs, which creates pressure on mortgage insurers to limit their rescission rights to conform to such relief, and the extent to which the GSEs intervene in mortgage insurers’ claims paying practices, rescission practices or rescission settlement practices with lenders, and
- the maximum loan limits of the GSEs compared to those of the FHA and other investors.

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

The Administration issued a June 2018 report indicating that the conservatorship of the GSEs should end and that the GSEs should transition to fully private entities, competing on a level playing field with private issuers of mortgage-backed securities ("MBS") (such issuers, collectively with the GSEs, referred to in the report as the "guarantors"). The report further indicated that a federal entity should regulate the guarantors, including their capital adequacy, and that guarantors should have access to an explicit federal guarantee on the MBS that is only exposed after substantial losses are incurred by the private market, including the guarantors. The report also indicated that a fee on the outstanding volume of MBS would be transferred to the Department of Housing and Urban Development (of which the FHA is a part) to be used for affordable housing purposes. As a result of the matters referred to above, it is uncertain what role the GSEs, FHA and private capital, including private mortgage insurance, will play in the residential housing finance system in the future or the impact of any such changes on our business. In addition, the timing of the impact of any resulting changes on our business is uncertain. Most meaningful changes would require Congressional action to implement and it is difficult to estimate when Congressional action would be final and how long any associated phase-in period may last.

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

We must comply with the PMIERs to be eligible to insure loans purchased by the GSEs. The PMIERs include financial requirements, as well as business, quality control and certain transaction approval requirements. The financial requirements of the PMIERs require a mortgage insurer’s “Available Assets” (generally only the most liquid assets of an insurer) to equal or exceed its “Minimum Required Assets” (which are based on an insurer’s book of insurance in force and are calculated from tables of factors with several risk dimensions and are subject to a floor amount). Based on our interpretation of the PMIERs, as of June 30, 2018, MGIC’s Available Assets totaled $4.8 billion, or $1.0 billion in excess of its Minimum Required Assets. MGIC is in compliance with the PMIERs and eligible to insure loans purchased by the GSEs.

If MGIC ceases to be eligible to insure loans purchased by one or both of the GSEs, it would significantly reduce the volume of our new business writings. Factors that may negatively impact MGIC's ability to continue to comply with the financial requirements of the PMIERs include the following:

- In December 2017, we received from the GSEs a summary of proposed changes to the PMIERs. In June 2018, we received a revised draft of proposed changes to the PMIERs that we expect will be finalized in the third quarter of 2018 and become effective at the end of the first quarter of 2019 (the revised PMIERs are referred to as "PMIERs 2.0"). Upon effectiveness of PMIERs 2.0, we expect that MGIC would continue to have an excess of Available Assets over Minimum Required Assets ("PMIERs Excess"), although our PMIERs Excess would be materially lower than it was at June 30, 2018 under the existing PMIERs, and that MGIC would continue to be able to pay quarterly dividends to our holding company of at least the $50 million quarterly rate at which they were paid in the first and second quarters of 2018.

  We have non-disclosure obligations to each of the GSEs and cannot provide further comment on the draft of PMIERs 2.0, other than as described above. Until the GSEs and/or FHFA provide public disclosure of the final version of PMIERs 2.0, we do not plan to update or correct any of the disclosures above.

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

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

While on an overall basis, the amount of Available Assets MGIC must hold in order to continue to insure GSE loans is greater under the PMIERs than what state regulation currently requires, our reinsurance transactions mitigate the negative effect of the PMIERs on our returns. In this regard, see the first bullet point above. In addition, reinsurance may not always be available to us or available on similar terms, and it subjects us to counterparty credit risk.

In June 2018, the FHFA issued a proposed rule on regulatory capital requirements for the GSEs ("GSE Capital Requirements"), which included a framework for determining the capital relief allowed to the GSEs for loans with private mortgage insurance. The FHFA noted that the GSEs would not be subject to the GSE Capital Requirements during their conservatorship.

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

As of June 30, 2018, we had approximately $344.0 million of net operating losses for tax purposes that we can use in certain circumstances to offset future taxable income and thus reduce our federal income tax liability. Any unutilized carryforwards are scheduled to expire at the end of tax years 2032 through 2033. Our ability to utilize these net operating losses to offset future taxable income may be significantly limited if we experience an "ownership change" as defined in Section 382 of the Internal Revenue Code of 1986, as amended (the "Code"). In general, an ownership change will occur if there is a cumulative change in our ownership by "5-percent shareholders" (as defined in the Code) that exceeds 50 percentage points over a rolling three-year period. A corporation that experiences an ownership change will generally be subject to an annual limitation on the corporation's subsequent use of net operating loss carryovers that arose from pre-ownership change periods and use of losses that are subsequently recognized with respect to assets that had a built-in-loss on the date of the ownership change. The amount of the annual limitation generally equals the fair value of the corporation immediately before the ownership change multiplied by the long-term tax-exempt interest rate (subject to certain adjustments). To the extent that the limitation in a post-ownership-change year is not fully utilized, the amount of the limitation for the succeeding year will be increased.

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

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

Before paying an insurance claim, we review the loan and servicing files to determine the appropriateness of the claim amount. When reviewing the files, we may determine that we have the right to rescind coverage on the loan. In our SEC reports, we refer to insurance rescissions and denials of claims collectively as "rescissions" and variations of that term. In addition, our insurance policies generally provide that we can reduce or deny a claim if the servicer did not comply with its obligations under our insurance policy. We call such reduction of claims "curtailments." In recent quarters, an immaterial percentage of claims received in a quarter have been resolved by rescissions. In each of 2017 and the first half of 2018, curtailments reduced our average claim paid by approximately 5.6% and 6.7%, respectively.

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

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

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

In addition to matters for which we have recorded a probable loss, we are involved in other discussions and/or proceedings with insureds with respect to our claims paying practices. Although it is reasonably possible that when these matters are resolved we will not prevail in all cases, we are unable to make a reasonable estimate or range of estimates of the potential liability. We estimate the maximum exposure associated with matters where a loss is reasonably possible to be approximately $288 million. This estimate of maximum exposure is based upon currently available information and is subject to significant judgment, numerous assumptions and known and unknown uncertainties. The matters underling the estimate of maximum exposure will change from time to time. This estimate of our maximum exposure does not include interest or consequential or exemplary damages.

Mortgage insurers, including MGIC, have been involved in litigation and regulatory actions related to alleged violations of the anti-referral fee provisions of the Real Estate Settlement Procedures Act, which is commonly known as RESPA, and the notice provisions of the Fair Credit Reporting Act, which is commonly known as FCRA. While these proceedings in the aggregate have not resulted in material liability for MGIC, there can be no assurance that the outcome of future proceedings, if any, under these laws would not have a material adverse affect on us. In addition, various regulators, including the CFPB, state insurance commissioners and state attorneys general may bring other actions seeking various forms of relief in connection with alleged violations of RESPA. The insurance law provisions of many states prohibit paying for the referral of insurance business and provide various mechanisms to enforce this prohibition. While we believe our practices are in conformity with applicable laws and regulations, it is not possible to predict the eventual scope, duration or outcome of any such reviews or investigations nor is it possible to predict their effect on us or the mortgage insurance industry.

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

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

We are subject to comprehensive, detailed regulation by state insurance departments. These regulations are principally designed for the protection of our insured policyholders, rather than for the benefit of investors. Although their scope varies, state insurance laws generally grant broad supervisory powers to agencies or officials to examine insurance companies and enforce rules or exercise discretion affecting almost every significant aspect of the insurance business. State insurance regulatory authorities could take actions, including changes in capital requirements, that could have a material adverse effect on us. For more information about state capital requirements, see our risk factor titled *“State capital requirements may prevent us from continuing to write new insurance on an uninterrupted basis.”* To the extent that we are construed to make independent credit decisions in connection with our contract underwriting activities, we also could be subject to increased regulatory requirements under the Equal Credit Opportunity Act, commonly known as ECOA, FCRA, and other laws. For more details about the various ways in which our subsidiaries are regulated, see “Regulation” in Item 1 of our Annual Report on Form 10-K filed with the SEC on February 23, 2018. In addition to regulation by state insurance regulators, the CFPB may issue additional rules or regulations, which may materially affect our business.

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

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

Our enterprise risk management program, described in "Business - Our Products and Services - Risk Management" in Item 1 of our Annual Report on Form 10-K filed with the SEC on February 23, 2018, may not be effective in identifying, or adequate in controlling or mitigating, the risks we face in our business.

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

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

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

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

When we establish reserves, we estimate the ultimate loss on delinquent loans using estimated claim rates and claim amounts. The estimated claim rates and claim amounts represent our best estimates of what we will actually pay on the loans in default as of the reserve date and incorporate anticipated mitigation from rescissions and curtailments. The establishment of loss reserves is subject to inherent uncertainty and requires judgment by management. The actual amount of the claim payments may be substantially different than our loss reserve estimates. Our estimates could be affected by several factors, including a change in regional or national economic conditions, and a change in the length of time loans are delinquent before claims are received. The change in conditions may include changes in unemployment, affecting borrowers' income and thus their ability to make mortgage payments, and changes in home prices, which may affect borrower willingness to continue to make mortgage payments when the value of the home is below the mortgage balance. Changes to our estimates could have a material impact on our future results, even in a stable economic environment. In addition, historically, losses incurred have followed a seasonal trend in which the second half of the year has weaker credit performance than the first half, with higher new default notice activity and a lower cure rate.

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

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

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

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

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

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

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

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

At June 30, 2018, MGIC's risk-to-capital ratio was 9.1 to 1, below the maximum allowed by the jurisdictions with State Capital Requirements, and its policyholder position was $2.4 billion above the required MPP of $1.2 billion. In calculating our risk-to-capital ratio and MPP, we are allowed full credit for the risk ceded under our reinsurance transactions with a group of unaffiliated reinsurers. It is possible that under the revised State Capital Requirements discussed below, MGIC will not be allowed full credit for the risk ceded to the reinsurers. If MGIC is not allowed an agreed level of credit under either the State Capital Requirements or the PMIERs, MGIC may terminate the reinsurance transactions, without penalty. At this time, we expect MGIC to continue to comply with the current State Capital Requirements; however, you should read the rest of these risk factors for information about matters that could negatively affect such compliance.

At June 30, 2018, the risk-to-capital ratio of our combined insurance operations (which includes a reinsurance affiliate) was 10.0 to 1. Reinsurance transactions with our affiliate permit MGIC to write insurance with a higher coverage percentage than it could on its own under certain state-specific requirements. A higher risk-to-capital ratio on a combined basis may indicate that, in order for MGIC to continue to utilize reinsurance arrangements with its reinsurance affiliate, additional capital contributions to the affiliate could be needed.

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

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

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

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

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

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

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

The percentage of our new insurance written from all single-premium policies (LPMI and BPMI, combined) has generally been increasing over the past several years, from approximately 10% in 2013 to 19% in 2017 and 17% in the first six months of 2018. Depending on the actual life of a single premium policy and its premium rate relative to that of a monthly premium policy, a single premium policy may generate more or less premium than a monthly premium policy over its life.

We have in place quota share reinsurance ("QSR") transactions with a group of unaffiliated reinsurers that cover most of our insurance written from 2013 through 2018, and a portion of our insurance written prior to 2013. Although the transactions reduce our premiums, they have a lesser impact on our overall results, as losses ceded under the transactions reduce our losses incurred and the ceding commissions we receive reduce our underwriting expenses. The blended pre-tax cost of reinsurance under our different transactions is less than 6% (but will decrease if losses are materially higher than we expect). This blended pre-tax cost is derived by dividing the reduction in our pre-tax income on loans covered by reinsurance by our direct (that is, without reinsurance) premiums from such loans. Although the pre-tax cost of the reinsurance under each transaction is generally constant, the effect of the reinsurance on the various components of pre-tax income will vary from period to period, depending on the level of ceded losses. Although the GSEs have approved the terms of our QSR transactions, they will be reviewed under the PMIERs at least annually. We may not receive full credit under the PMIERs in future periods for the risk ceded under our QSR transactions.

In addition to the effect of reinsurance on our premiums, we expect a decline in our premium yield resulting from the premium rates themselves. An increasing percentage of our insurance in force is from book years with lower premium rates because premium rates have trended lower in recent periods (and will continue to do so after the 2018 changes to our BPMI premium rates).

The circumstances in which we are entitled to rescind coverage have narrowed for insurance we have written in recent years. During the second quarter of 2012, we began writing a portion of our new insurance under an endorsement to our then existing master policy (the “Gold Cert Endorsement”), which limited our ability to rescind coverage compared to that master policy. To comply with requirements of the GSEs, we introduced our current master policy in 2014. Our rescission rights under our current master policy are comparable to those under our previous master policy, as modified by the Gold Cert Endorsement, but may be further narrowed if the GSEs permit modifications to them. Our current master policy is filed as Exhibit 99.19 to our quarterly report on Form 10-Q for the quarter ended September 30, 2014 (filed with the SEC on November 7, 2014). All of our primary new insurance on loans with mortgage insurance application dates on or after October 1, 2014, was written under our current master policy. As of June 30, 2018, approximately 78% of our flow, primary insurance in force was written under our Gold Cert Endorsement or our current master policy. The FHFA and the GSEs have issued revised GSE rescission relief principles to, among other things, further limit the circumstances under which mortgage insurers may rescind coverage. It has been proposed that these principles be incorporated into new master policies which the GSEs have indicated should be effective for new business written in 2019, subject to state regulatory approvals. These proposed principles are likely to further reduce our ability to rescind insurance coverage in the future, potentially resulting in higher losses than would be the case under our existing master insurance policies.

From time to time, in response to market conditions, we change the types of loans that we insure and the requirements under which we insure them. We also change our underwriting guidelines, in part through aligning some of them with Fannie Mae and Freddie Mac for loans that receive and are processed in accordance with certain approval recommendations from a GSE automated underwriting system. We also make exceptions to our underwriting requirements on a loan-by-loan basis and for certain customer programs. As a result of changes to our underwriting guidelines and requirements (including those related to debt to income ("DTI") ratios, credit scores, and the manner in which income levels and property values are determined) and other factors, our business written beginning in the second half of 2013 is expected to have a somewhat higher claim incidence than business written in 2009 through the first half of 2013, but materially below that on business written in 2005-2008. However, we believe this business presents an acceptable level of risk. Our underwriting requirements are available on our website at http://www.mgic.com/underwriting/index.html.

Even when home prices are stable or rising, mortgages with certain characteristics have higher probabilities of claims. These characteristics include higher LTV ratios, lower FICO scores, limited underwriting, including limited borrower documentation, or higher DTI ratios, as well as loans having combinations of higher risk factors. As of June 30, 2018, mortgages with these characteristics in our primary risk in force included mortgages with LTV ratios greater than 95% (14.1%), loans with borrowers having FICO scores below 620 (2.7%), mortgages with borrowers having FICO scores of 620-679 (10.9%), mortgages with limited underwriting, including limited borrower documentation (2.5%), and mortgages with borrowers having DTI ratios greater than 45% (or where no ratio is available) (13.4%), each attribute as determined at the time of loan origination. An individual loan may have more than one of these attributes. A material number of these loans were originated in 2005 - 2007 or the first half of 2008. For information about our classification of loans by FICO score and documentation, see footnotes (5) and (6) to the Characteristics of Primary Risk in Force table under “Business - Our Products and Services” in Item 1 of our Annual Report on Form 10-K filed with the SEC on February 23, 2018.

As of June 30, 2018, approximately 1% of our primary risk in force consisted of adjustable rate mortgages which allow for adjustment of the initial interest rate during the five years after the mortgage closing (“ARMs”). We classify as fixed rate loans adjustable rate mortgages with an initial interest rate that is fixed during the five years after the mortgage closing and loans with temporary interest rate adjustments during the initial five years, commonly referred to as "buydowns," that convert to a fixed rate for the duration of the loan term. If interest rates should rise between the time of origination of such loans and when their interest rates may be reset, claim rates on such loans may be substantially higher than for loans without variable interest rate features. In addition, prior to 2011, we insured “interest-only” loans, which may also be ARMs, and loans with negative amortization features, such as pay option ARMs. We believe claim rates on these loans will be substantially higher than on loans without scheduled payment increases that are made to borrowers of comparable credit quality.

If state or federal regulations or statutes are changed in ways that ease mortgage lending standards and/or requirements, or if lenders seek ways to replace business in times of lower mortgage originations, it is possible that more mortgage loans could be originated with higher risk characteristics than are currently being originated, such as loans with lower FICO scores and higher DTIs. Lenders could pressure mortgage insurers to insure such loans, which are expected to experience higher claim rates. Although we attempt to incorporate these higher expected claim rates into our underwriting and pricing models, there can be no assurance that the premiums earned and the associated investment income will be adequate to compensate for actual losses even under our current underwriting requirements. We do, however, believe that our insurance written beginning in the second half of 2008 will generate underwriting profits.

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

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

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

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

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

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

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

Our persistency rate was 80.1% at June 30, 2018, 80.1% at December 31, 2017 and 76.9% at December 31, 2016. Since 2000, our year-end persistency ranged from a high of 84.7% at December 31, 2009 to a low of 47.1% at December 31, 2003.

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

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

At June 30, 2018, we had approximately $191 million in cash and investments at our holding company and our holding company's debt obligations were $815 million in aggregate principal amount, consisting of $425 million of 5.75% Senior Notes due in 2023 ("5.75% Notes") and $390 million of 9% Debentures (of which approximately $133 million was purchased, and is held, by MGIC, and is eliminated on the consolidated balance sheet). Annual debt service on the 5.75% Notes and 9% Debentures outstanding as of June 30, 2018, is approximately $60 million (of which approximately $12 million will be paid to MGIC and will be eliminated on the consolidated statement of operations).

The 5.75% Senior Notes and 9% Debentures are obligations of our holding company, MGIC Investment Corporation, and not of its subsidiaries. The payment of dividends from our insurance subsidiaries which, other than investment income and raising capital in the public markets, is the principal source of our holding company cash inflow, is restricted by insurance regulation. MGIC is the principal source of dividend-paying capacity. In the first half of 2018 and in 2017, MGIC paid a total of $100 million and $140 million, respectively, in dividends to our holding company. We expect MGIC to continue to pay quarterly dividends of at least the $50 million amount paid in each of the first two quarters of 2018. We ask the OCI not to object before MGIC pays dividends.

On April 26, 2018, our Board of Directors authorized a share repurchase program under which we may repurchase up to $200 million of our common stock through the end of 2019. During the second quarter of 2018, we repurchased approximately 9.2 million shares of our common stock using approximately $100.1 million of holding company resources. Repurchases may be made from time to time on the open market or through privately negotiated transactions. The repurchase program may be suspended for periods or discontinued at any time. If any additional capital contributions to our subsidiaries were required, such contributions would decrease our holding company cash and investments. As described in our Current Report on Form 8-K filed on February 11, 2016, MGIC borrowed $155 million from the Federal Home Loan Bank of Chicago. This is an obligation of MGIC and not of our holding company.

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

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

At June 30, 2018, we had outstanding $390 million principal amount of 9% Convertible Junior Subordinated Debentures due in 2063 ("9% Debentures") (of which approximately $133 million was purchased, and is held, by MGIC, and is eliminated on the consolidated balance sheet). The principal amount of the 9% Debentures is currently convertible, at the holder's option, at an initial conversion rate, which is subject to adjustment, of 74.0741 common shares per $1,000 principal amount of debentures. This represents an initial conversion price of approximately $13.50 per share. We may redeem the 9% Debentures in whole or in part from time to time, at our option, at a redemption price equal to 100% of the principal amount of the 9% Debentures being redeemed, plus any accrued and unpaid interest, if the closing sale price of our common stock exceeds $17.55 for at least 20 of the 30 trading days preceding notice of the redemption.

We have the right, and may elect, to defer interest payable under the debentures in the future. If a holder elects to convert its debentures, the interest that has been deferred on the debentures being converted is also convertible into shares of our common stock. The conversion rate for such deferred interest is based on the average price that our shares traded at during a 5-day period immediately prior to the election to convert the associated debentures. We may elect to pay cash for some or all of the shares issuable upon a conversion of the debentures.

For a discussion of the dilutive effects of our convertible securities on our earnings per share, see Note 6 – "Earnings Per Share" to our consolidated financial statements. As noted above, during the second quarter of 2018, we repurchased shares of our common stock and may do so in the future. In addition, we have in the past, and may in the future, purchase our debt securities.

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

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, result in a loss of business and expose us to material claims for damages.

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

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

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

Our investment portfolio is an important source of revenue and is our primary source of claims paying resources. Although our investment portfolio consists mostly of highly-rated fixed income investments, our investment portfolio is affected by general economic conditions and tax policy, which may adversely affect the markets for credit and interest-rate-sensitive securities, including the extent and timing of investor participation in these markets, the level and volatility of interest rates and credit spreads and, consequently, the value of our fixed income securities, and as such, we may not achieve our investment objectives.

Volatility or lack of liquidity in the markets in which we hold securities has at times reduced the market value of some of our investments, and if this worsens substantially it could have a material adverse effect on our liquidity, financial condition and results of operations.

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

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

Our financial results may be adversely impacted by natural disasters; certain 2017 hurricanes may impact our incurred losses, the amount and timing of paid claims, our inventory of notices of default and our Minimum Required Assets under PMIERs.

Natural disasters, such as hurricanes, tornadoes and floods, could trigger an economic downturn in the affected areas, which could result in a decline in our business and an increased claim rate on policies in those areas. Natural disasters could lead to a decrease in home prices in the affected areas, which could result in an increase in claim severity on policies in those areas. If we were to attempt to limit our new insurance written in disaster-prone areas, lenders may be unwilling to procure insurance from us anywhere.

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

We insure mortgages for homes in areas that have been impacted by recent natural disasters, including 2017 hurricanes in Texas, Florida and Puerto Rico. While the percentage of our delinquency inventory that is related to loans in the areas affected by those hurricanes remains somewhat elevated, based on our analysis and past experience, we do not expect the 2017 hurricane activity to result in a material increase in our incurred losses or paid claims. However, the following factors could cause our actual results to differ from our expectation in the forward looking statement in the preceding sentence:

- Home values in hurricane-affected areas may decrease at the time claims are filed from their current levels thereby adversely affecting our ability to mitigate loss.
- Hurricane-affected areas may experience deteriorating economic conditions resulting in more borrowers defaulting on their loans in the future (or failing to cure existing defaults) than we currently expect.
- If an insured contests our claim denial or curtailment, there can be no assurance we will prevail. We describe how claims under our policy are affected by damage to the borrower’s home in our Current Report on Form 8-K filed with the SEC on September 14, 2017.

Due to the suspension of certain foreclosures by the GSEs, our receipt of claims associated with foreclosed mortgages in the hurricane-affected areas may be delayed.

The PMIERs require us to maintain significantly more "Minimum Required Assets" for delinquent loans than for performing loans. An increase in delinquency notices may result in an increase in "Minimum Required Assets" and a decrease in the level of our excess "Available Assets" which is discussed in our risk factor titled *"We may not continue to meet the GSEs’ private mortgage insurer eligibility requirements and our returns may decrease as we are required to maintain more capital in order to maintain our eligibility*."