FORM 10-Q

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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

For the quarterly period ended June 30, 2020

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

For the transition period from ______ to ______

Commission file number 1-10816

MGIC Investment Corporation

(Exact name of registrant as specified in its charter)

Wisconsin	39-1486475
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
250 E. Kilbourn Avenue	53202
Milwaukee, Wisconsin	(Zip Code)
(Address of principal executive offices)	

(414) 347-6480

(Registrant's telephone number, including area code)

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

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

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

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

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

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: As of July 31, 2020, there were 338,573,493 shares of common stock of the registrant, par value $1.00 per share, outstanding.

Forward Looking and Other Statements

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

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES

FORM 10-Q

FOR THE QUARTER ENDED JUNE 30, 2020

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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

CARES Act

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

CECL

Current expected credit losses covered under Accounting Standards Codification 326

CFPB

Consumer Financial Protection Bureau

CLO

Collateralized loan obligations

CMBS

Commercial mortgage-backed securities

COVID-19 Pandemic

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

CRT

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

Credit Union QSR Transaction

Quota share reinsurance transaction with an unaffiliated reinsurer to cede business from credit union institutions.

/ D

DAC

Deferred insurance policy acquisition costs

Debt-to-income (“DTI”) ratio

The ratio, expressed as a percentage, of a borrower’s total debt payments to gross income

Direct

Direct means before giving effect to reinsurance

Delinquent Loan

A loan that is past due on a mortgage payment. A delinquent loan is typically reported to us by servicers when the loan has missed two or more payments. A loan will continue to be reported as delinquent until it becomes current or a claim payment has been made. A delinquent loan is also referred to as a default

/ E

EPS

Earnings per share

/ F

Fannie Mae

Federal National Mortgage Association

FCRA

Fair Credit Reporting Act

FHA

Federal Housing Administration

FHFA

Federal Housing Finance Agency

FHLB

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

FICO score

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

Freddie Mac

Federal Home Loan Mortgage Corporation

/ G

GAAP

Generally Accepted Accounting Principles in the United States

GSEs

Collectively, Fannie Mae and Freddie Mac

/ H

HAMP

Home Affordable Modification Program

HARP

Home Affordable Refinance Program

Home Re Transactions

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

HOPA

Homeowners Protection Act

HUD

Housing and Urban Development

/ I

IBNR

Losses incurred on delinquent loans for which the delinquency has not been reported

IIF

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

ILN

Insurance-linked notes

/ L

LAE

Loss adjustment expenses

Loan-to-value ("LTV") ratio

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

Long-term debt:

5.75% Notes

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

9% Debentures

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

FHLB Advance or the Advance

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

Loss ratio

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

Low down payment loans or mortgages

Loans with less than 20% down payments

LPMI

Lender-paid mortgage insurance

/ M

MBS

Mortgage-backed securities

MD&A

Management's discussion and analysis of financial condition and results of operations

MGIC

Mortgage Guaranty Insurance Corporation, a subsidiary of MGIC Investment Corporation

MAC

MGIC Assurance Corporation, a subsidiary of MGIC

Minimum Required Assets

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

MPP

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

/ N

N/A

Not applicable for the period presented

NAIC

The National Association of Insurance Commissioners

NIW

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

N/M

Data, or calculation, deemed not meaningful for the period presented

NPE

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

NPL

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

NPW

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

/ O

OCI

Office of the Commissioner of Insurance of the State of Wisconsin

OTTI

Other than temporary impairment

/ P

Persistency

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

PMI

Private Mortgage Insurance (as an industry or product type)

PMIERs

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

Premium Yield

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

Premium Rate

The contractual rate charged for coverage under our insurance policies.

Primary Insurance

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

/ Q

QSR Transaction

Quota share reinsurance transaction with a group of unaffiliated reinsurers

QM

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

/ R

RESPA

Real Estate Settlement Procedures Act

RIF

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

Risk-to-capital

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

RMBS

Residential mortgage-backed securities

/ S

State Capital Requirements

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

/ T

TILA

Truth in Lending Act

/ U

Underwriting expense ratio

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

Underwriting profit

NPE minus incurred losses and underwriting and operating expenses

USDA

U.S. Department of Agriculture

/ V

VA

U.S. Department of Veterans Affairs

VIE

Variable interest entity

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(In thousands)	Note		**June 30, 2020**		December 31, 2019
ASSETS					
Investment portfolio:	2 / 7 / 8				
Fixed income, available-for-sale, at fair value (amortized cost 2020 - $5,597,554; 2019 - $5,562,550)		**$**	**5,862,262**	$	5,737,892
Equity securities, at fair value (cost 2020 - $17,467; 2019 - $17,188)			**17,953**		17,328
Other invested assets, at cost			**3,100**		3,100
Total investment portfolio			**5,883,315**		5,758,320
Cash and cash equivalents			**366,715**		161,847
Restricted cash and cash equivalents			**4,678**		7,209
Accrued investment income			**46,790**		49,705
Reinsurance recoverable on loss reserves	2/4		**63,444**		21,641
Reinsurance recoverable on paid losses	2		**1,351**		1,521
Premiums receivable	2		**54,028**		55,587
Home office and equipment, net			**47,738**		50,121
Deferred insurance policy acquisition costs			**20,645**		18,531
Deferred income taxes, net			**—**		5,742
Other assets			**85,884**		99,347
Total assets		**$**	**6,574,588**	$	6,229,571
LIABILITIES AND SHAREHOLDERS' EQUITY					
Liabilities:					
Loss reserves	11	**$**	**797,396**	$	555,334
Unearned premiums			**343,229**		380,302
Federal Home Loan Bank advance	3		**155,000**		155,000
Senior notes	3		**421,443**		420,867
Convertible junior subordinated debentures	3		**256,872**		256,872
Other liabilities			**217,293**		151,962
Total liabilities			**2,191,233**		1,920,337
Contingencies	5				
Shareholders' equity:	12				
Common stock (one dollar par value, shares authorized 1,000,000; shares issued 2020 - 371,353; 2019 - 371,353; shares outstanding 2020 - 338,567; 2019 - 347,308)			**371,353**		371,353
Paid-in capital			**1,859,195**		1,869,719
Treasury stock at cost (shares 2020 - 32,786; 2019 - 24,045)			**(393,425)**		(283,196)
Accumulated other comprehensive income, net of tax			**145,412**		72,708
Retained earnings			**2,400,820**		2,278,650
Total shareholders' equity			**4,383,355**		4,309,234
Total liabilities and shareholders' equity		**$**	**6,574,588**	$	6,229,571

See accompanying notes to consolidated financial statements.

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

		Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands, except per share data)	Note	**2020**	2019	**2020**	2019
Revenues:					
Premiums written:					
Direct		**$ 283,224**	$ 283,189	**$ 557,948**	$ 557,086
Assumed		**3,899**	1,505	**6,758**	2,612
Ceded	4	**(65,738)**	(41,096)	**(97,314)**	(71,819)
Net premiums written		**221,385**	243,598	**467,392**	487,879
Decrease in unearned premiums, net		**22,177**	3,504	**37,071**	8,984
Net premiums earned		**243,562**	247,102	**504,463**	496,863
Investment income, net of expenses		**39,679**	42,423	**81,026**	83,008
Net realized investment gains (losses)	7	**6,701**	307	**8,592**	(219)
Other revenue		**4,026**	2,485	**6,780**	4,315
Total revenues		**293,968**	292,317	**600,861**	583,967
Losses and expenses:					
Losses incurred, net	11	**217,374**	21,836	**278,330**	60,899
Amortization of deferred policy acquisition costs		**2,909**	2,760	**5,419**	5,238
Other underwriting and operating expenses, net		**44,273**	42,960	**86,535**	88,900
Interest expense		**12,929**	13,550	**25,855**	26,783
Total losses and expenses		**277,485**	81,106	**396,139**	181,820
Income before tax		**16,483**	211,211	**204,722**	402,147
Provision for income taxes		**2,436**	43,433	**40,870**	82,428
Net income		**$ 14,047**	$ 167,778	**$ 163,852**	$ 319,719
Earnings per share:					
Basic	6	**$ 0.04**	$ 0.47	**$ 0.48**	$ 0.90
Diluted	6	**$ 0.04**	$ 0.46	**$ 0.48**	$ 0.87
Weighted average common shares outstanding - basic	6	**338,593**	355,734	**341,323**	355,694
Weighted average common shares outstanding - diluted	6	**339,661**	376,603	**362,003**	376,635

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	**2020**	2019	**2020**	2019
Net income		**$ 14,047**	$ 167,778	**$ 163,852**	$ 319,719
Other comprehensive (loss) income, net of tax:	9				
Change in unrealized investment gains and losses	7	**143,181**	70,754	**70,596**	151,825
Benefit plan adjustments		**1,007**	1,549	**2,108**	3,199
Other comprehensive (loss) income, net of tax		**144,188**	72,303	**72,704**	155,024
Comprehensive income		**$ 158,235**	$ 240,081	**$ 236,556**	$ 474,743

See accompanying notes to consolidated financial statements.

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

(In thousands)	Note	Three Months Ended June 30, **2020**	Three Months Ended June 30, 2019	Six Months Ended June 30, **2020**	Six Months Ended June 30, 2019
Common stock					
Balance, beginning and end of period		**$ 371,353**	$ 371,353	$ 371,353	$ 371,353
Paid-in capital					
Balance, beginning of period		**1,855,371**	1,856,236	1,869,719	1,862,536
Reissuance of treasury stock, net under share-based compensation plans		**—**	—	(18,667)	(11,582)
Equity compensation		**3,824**	4,342	8,143	9,624
Balance, end of period		**1,859,195**	1,860,578	1,859,195	1,860,578
Treasury stock					
Balance, beginning of period		**(393,425)**	(169,129)	(283,196)	(175,059)
Reissuance of treasury stock, net under share-based compensation plans		**—**	—	9,768	5,930
Repurchase of common stock	12	**—**	(24,941)	(119,997)	(24,941)
Balance, end of period		**(393,425)**	(194,070)	(393,425)	(194,070)
Accumulated other comprehensive income (loss)					
Balance, beginning of period		**1,224**	(41,493)	72,708	(124,214)
Other comprehensive (loss) income, net of tax	9	**144,188**	72,303	72,704	155,024
Balance, end of period		**145,412**	30,810	145,412	30,810
Retained earnings					
Balance, beginning of period		**2,407,305**	1,799,216	2,278,650	1,647,275
Net income		**14,047**	167,778	163,852	319,719
Cash dividends	12	**(20,532)**	—	(41,682)	—
Balance, end of period		**2,400,820**	1,966,994	2,400,820	1,966,994
Total shareholders' equity		**$ 4,383,355**	$ 4,035,665	$ 4,383,355	$ 4,035,665

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)	**2020**	2019
Cash flows from operating activities:		
Net income	**$ 163,852**	$ 319,719
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**25,457**	23,464
Deferred tax expense	**14,834**	7,043
Net realized investment (gains) losses	**(8,592)**	219
Change in certain assets and liabilities:		
Accrued investment income	**2,915**	(271)
Reinsurance recoverable on loss reserves	**(41,803)**	14,926
Reinsurance recoverable on paid losses	**170**	(13,955)
Premium receivable	**1,559**	(2,402)
Deferred insurance policy acquisition costs	**(2,114)**	219
Profit commission receivable	**32,331**	(976)
Loss reserves	**242,062**	(52,117)
Unearned premiums	**(37,071)**	(8,986)
Return premium accrual	**(1,900)**	(7,300)
Current income taxes	**26,371**	(2,300)
Other, net	**2,054**	4,328
Net cash provided by operating activities	**420,125**	281,611
Cash flows from investing activities:		
Purchases of investments	**(992,722)**	(677,391)
Proceeds from sales of investments	**476,639**	183,620
Proceeds from maturity of fixed income securities	**469,559**	327,818
Additions to property and equipment	**(942)**	(3,280)
Net cash used in investing activities	**(47,466)**	(169,233)
Cash flows from financing activities:		
Repurchase of common stock	**(119,997)**	(36,581)
Dividends paid	**(41,426)**	—
Payment of withholding taxes related to share-based compensation net share settlement	**(8,899)**	(5,652)
Net cash used in financing activities	**(170,322)**	(42,233)
Net increase in cash and cash equivalents and restricted cash and cash equivalents	**202,337**	70,145
Cash and cash equivalents and restricted cash and cash equivalents at beginning of period	**169,056**	155,038
Cash and cash equivalents and restricted cash and cash equivalents at end of period	**$ 371,393**	$ 225,183

See accompanying notes to consolidated financial statements.

Note 1. Nature of Business and Basis of Presentation

MGIC Investment Corporation is a holding company which, through Mortgage Guaranty Insurance Corporation ("MGIC"), is principally engaged in the mortgage insurance business. We provide mortgage insurance to lenders throughout the United States and to government sponsored entities to protect against loss from defaults on low down payment residential mortgage loans. MGIC Assurance Corporation ("MAC") and MGIC Indemnity Corporation ("MIC"), insurance subsidiaries of MGIC, provide insurance for certain mortgages under Fannie Mae and Freddie Mac (the "GSEs") credit risk transfer programs.

The accompanying unaudited consolidated financial statements of MGIC Investment Corporation and its wholly-owned subsidiaries have been prepared in accordance with the instructions to Form 10-Q as prescribed by the Securities and Exchange Commission ("SEC") for interim reporting and do not include all of the other information and disclosures required by accounting principles generally accepted in the United States of America ("GAAP"). These statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2019 included in our 2019 Annual Report on Form 10-K. As used below, "we," "our" and "us" refer to MGIC Investment Corporation's consolidated operations or to MGIC Investment Corporation, as the context requires.

In the opinion of management, the accompanying financial statements include all adjustments, consisting primarily of normal recurring accruals, necessary to fairly state our consolidated financial position and consolidated results of operations for the periods indicated. The consolidated results of operations for the three months ended June 30, 2020 are not necessarily indicative of the results that may be expected for the year ending December 31, 2020.

In 2019, the substantial majority of our NIW has been for loans purchased by the GSEs. The current private mortgage insurer eligibility requirements ("PMIERs") of the GSEs include financial requirements, as well as business, quality control and certain transactional approval requirements. The financial requirements of the PMIERs require a mortgage insurer's "Available Assets" (generally only the most liquid assets of an insurer) to equal or exceed its "Minimum Required Assets" (which are based on an insurer's book of insurance in force, calculated from tables of factors with several risk dimensions). Based on our application of PMIERs, as of June 30, 2020, MGIC's Available Assets are in excess of its Minimum Required Assets; and MGIC is in compliance with the financial requirements of the PMIERs and eligible to insure loans purchased by the GSEs.

Reclassifications

Certain reclassifications to 2019 amounts have been made in the accompanying financial statements to conform to the 2020 presentation.

Recent Developments

The COVID-19 pandemic had a material impact on our second quarter 2020 financial results. While uncertain, the future impact of the COVID-19 pandemic on the Company's business, financial results, liquidity and/or financial condition may also be material. The increase in unemployment and economic uncertainty resulting from initiatives to reduce the transmission of COVID-19 (including "shelter-in-place" restrictions), as well as COVID-19-related illnesses and deaths, negatively impacted our business. Among other things, the COVID-19 pandemic led to an increase in new defaults, which increased our capital requirements under PMIERs on those delinquent loans and increased our losses incurred. The magnitude of the future impact will be influenced by various factors, including the length and severity of the pandemic in the United States, the length of time that measures intended to reduce the transmission of COVID-19 remain in place, the resulting level of unemployment, and the impact of past and future government initiatives (including the enactment of the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act")) and actions taken by the GSEs (including implementation of mortgage forbearance and modification programs) to mitigate the economic harm caused by the COVID-19 pandemic and efforts to reduce its transmission.

Subsequent events

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

Note 2. Significant Accounting Policies

Investments

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

Reinsurance Recoverables

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

Premium Receivable

ASC 326 requires immediate recognition of estimated credit losses expected to occur over the remaining life of premium receivable. In determining if a credit loss allowance is required for premium receivable, consideration is given to the life of the premium receivable asset, areas of potential credit loss, and forward-looking predictive indicators.

Income Taxes

The CARES Act provides financial relief to individuals and businesses in the form of loans, grants, and tax changes, among other types of assistance. The tax changes in the CARES Act do not materially impact our financial results.

Recent accounting and reporting developments

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

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

Effective January 1, 2020, we adopted ASC 326, Financial Instruments - Credit Losses ("CECL"). This new standard replaced the incurred loss impairment methodology with a methodology that reflects lifetime expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Under CECL, allowances are established by incorporating the forecast of future economic conditions into our loss estimate unless such forecast is not reasonable and supportable, in which case we revert to historical loss experience. Application of the CECL model impacts our reinsurance recoverables and premium receivable. ASC 326 also replaced the OTTI model with an impairment allowance model, subject to reversal, for available-for-sale investments, which are measured at fair value. Our mortgage insurance policies are outside the scope of ASC 326. The new guidance is not prescriptive about certain aspects of estimating expected credit losses, including the specific methodology to use, and therefore requires significant judgment in application. Applying ASC 326, we have determined that an allowance for credit losses related to our premium receivables, reinsurance recoverables, or available-for-sale securities was not necessary as of June 30, 2020. We continue to apply the previous guidance to 2019 and prior periods.

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

Effective January 1, 2020, we adopted FASB guidance that changes the disclosure requirements for fair value measurements. The updated guidance removed the requirement to disclose the amount and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy; the policy for timing of transfers between levels; and the valuation processes for Level 3 fair value measurements. The updated guidance requires disclosure of changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period; and the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. The adoption of the updated guidance did not have a material effect on our consolidated results of operations or liquidity.

Prospective Accounting Standards

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

Standard / Interpretation

Table 2.1

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

Clarification of Accounting for Equity Securities: ASU 2020-01

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

Simplifying the Accounting for Income Taxes: *ASU 2019-12*

In December 2019, the FASB issued guidance which simplifies Accounting for Income Taxes (Topic 740). The ASU intends to reduce complexity through clarification and amendments of existing guidance. The updated guidance is effective for fiscal years beginning after December 15, 2020. Early adoption is permitted in any interim periods for which financial statements have not been issued. We are currently evaluating the impacts the adoption of this guidance will have on our consolidated financial statements, but do not expect it to have a material impact.

Changes to the Disclosure Requirements for Defined Benefit Plans: ASU 2018-14

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

Note 3. Debt

Debt obligations

The aggregate carrying values of our long-term debt obligations and their par values, if different, as of June 30, 2020 and December 31, 2019 are presented in table 3.1 below.

Long-term debt obligations

Table 3.1

(In millions)		**June 30, 2020**		December 31, 2019
FHLB Advance - 1.91%, due February 2023	**$**	**155.0**	$	155.0
5.75% Notes, due August 2023 (par value: $425 million)		**421.4**		420.8
9% Debentures, due April 2063 (1)		**256.9**		256.9
Long-term debt, carrying value	**$**	**833.3**	$	832.7

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

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

Interest payments

Interest payments for the six months ended June 30, 2020 and 2019 were $31.3 million and $25.5 million, respectively.

See Note 7 "Debt" in our Annual Report on Form 10-K for the year ended December 31, 2019 for additional information pertaining to our debt obligations. As of June 30, 2020 we are in compliance with all of our debt covenants.

Note 4. Reinsurance

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

Reinsurance

Table 4.1

	Three Months Ended June 30,				Six Months Ended June 30,			
(In thousands)		**2020**		2019		**2020**		2019
Premiums earned:								
Direct	**$**	**305,921**	$	287,183	**$**	**595,789**	$	566,796
Assumed		**3,381**		1,015		**5,990**		1,887
Ceded (1)		**(65,740)**		(41,096)		**(97,316)**		(71,820)
Net premiums earned	**$**	**243,562**	$	247,102	**$**	**504,463**	$	496,863
Losses incurred:								
Direct	**$**	**256,224**	$	25,276	**$**	**322,786**	$	66,080
Assumed		**133**		(9)		**299**		(76)
Ceded		**(38,983)**		(3,431)		**(44,755)**		(5,105)
Losses incurred, net	**$**	**217,374**	$	21,836	**$**	**278,330**	$	60,899

(1) Ceded premiums earned are net of profit commission. The profit commission varies directly and inversely with the level of ceded losses on a "dollar for dollar" basis and can be eliminated at ceded loss levels higher than we experienced in the first six months of 2020. 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.

Quota share reinsurance

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

2020 QSR Coverage. We entered into QSR agreements with a group of unaffiliated reinsurers with an effective date of January 1, 2020 ("2020 QSR Transaction"), which provides coverage on eligible NIW in 2020. Under the 2020 QSR Transaction, we will cede losses and premiums on or after the effective date through December 31, 2031, at which time the agreement expires. Early termination of the agreement can be elected by us effective December 31, 2022 and bi-annually thereafter, for a fee, or under specified scenarios for no fee upon prior written notice, including if we will receive less than 90% of the full credit amount under the PMIERs full financial statement credit or full credit under applicable regulatory capital requirements for the risk ceded in any required calculation period.

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

provided the annual loss ratio on the loans covered under the transaction remains below
62%.

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

Under the 2021 QSR Transaction, we will cede losses and premiums on or after the effective date through December 31, 2032 for 2021 NIW, at which time the agreement expires. Early termination of the agreement can be elected by us effective December 31, 2023, and bi-annually thereafter, for a fee, or under specified scenarios for no fee upon prior written notice, including if we will receive less than 90% of the full credit amount under the PMIERs for the risk ceded in any required calculation period or full credit under applicable regulatory capital requirements for the risk ceded in any required calculation period.

The structure of the 2021 QSR Transaction is a 17.5% quota share on 2021 NIW, with an option, elected by us, to reduce the cede rate to either 14.5% or 12% effective July 1, 2022 or semiannually thereafter. Generally, under the 2021 QSR Transaction, we will receive a profit commission provided the accident year loss ratio on the loans covered under the transaction remains below 62%.

Credit Union Quota Share Program

We entered into a Credit Union QSR Transaction with an unaffiliated reinsurer which covers NIW on loans originated by credit unions from April 1, 2020 through December 31, 2025 . Eligible credit union business written before 2020 was covered by our 2019 and prior QSR Transactions. Under the Credit Union QSR Transaction, we will cede losses and premiums on the covered NIW through December 31, 2039. Early termination of the agreement can be elected by us at any quarter-end if we will receive less than 80% of the full credit amount under the PMIERs full financial statement credit or full credit under applicable regulatory capital requirements for the risk ceded in any required calculation period.

The structure of the Credit Union QSR Transaction is a 65% quota share, with a 20% ceding commission as well as a profit commission. Generally, we will receive a profit commission provided the accident year loss ratio on the loans covered under the transaction remains below 50%.

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

Our QSR Transactions typically have annual loss ratio caps of 300% and lifetime loss ratio caps of 200%.

Table 4.2 below provides a summary of our quota share reinsurance agreements, excluding captive agreements, for the three and six months ended June 30, 2020 and 2019.

Quota Share Reinsurance

Table 4.2

(In thousands)	Three Months Ended June 30, 2020	Three Months Ended June 30, 2019	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019
Ceded premiums written and earned, net of profit commission (1)	**$ 61,357**	$ 36,525	**$ 88,203**	$ 64,689
Ceded losses incurred	**38,982**	3,440	**44,786**	5,116
Ceding commissions (2)	**12,025**	13,356	**23,390**	26,765
Profit commission (3)	**(1,231)**	37,021	**28,748**	75,902

(1) Under our QSR Transactions, premiums are ceded on an earned and received basis as defined in the agreements. The three and six months ended June 30, 2019 include a $6.8 million termination fee related to our 2015 QSR Transaction.

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

(3) The profit commission varies directly and inversely with the level of ceded losses on a "dollar for dollar" basis and can be eliminated at ceded loss levels higher than we experienced in the first six months of 2020. 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 a lower profit commission and more benefit from ceded losses.

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

The reinsurance recoverable on loss reserves related to our QSR Transactions was $63.4 million as of June 30, 2020 and $21.6 million as of December 31, 2019. The reinsurance recoverable balance is secured by funds on deposit from the reinsurers, the amount of which is based on the funding requirements of PMIERs. An allowance for credit losses was not required for 2020.

Excess of loss reinsurance

We have aggregate excess of loss reinsurance agreements ("Home Re Transactions") with unaffiliated special purpose insurers domiciled in Bermuda ("Home Re Entities"). For the reinsurance coverage periods, we retain the first layer of the respective aggregate losses, and a Home Re special purpose entity will then provide second layer coverage up to the outstanding reinsurance coverage amount. We retain losses in excess of the outstanding reinsurance coverage amount. The aggregate excess of loss reinsurance coverage decreases over a ten-year period, subject to certain conditions, as the underlying covered mortgages amortize or are repaid, or mortgage insurance losses are paid. For each Home Re Transaction, a "Trigger Event" has occurred because the reinsured principal balance of loans that were reported 60 or more days delinquent exceeded 4% of the total reinsured principal balance of loans under each transaction. While the "Trigger Event" is in effect, payment of principal on the related notes will be suspended and the reinsurance coverage available to MGIC under the transactions will not be reduced by such principal payments.

MGIC has rights to terminate the Home Re Transactions under certain circumstances. The Home Re entities financed the coverages by issuing mortgage insurance-linked notes ("ILNs") to unaffiliated investors in an aggregate amount equal to the initial reinsurance coverage amounts. The ILNs each have ten-year legal maturities and are non-recourse to any assets of MGIC or affiliates. The proceeds of the ILNs, which were deposited into reinsurance trusts for the benefit of MGIC, will be the source of reinsurance claim payments to MGIC and principal repayments on the ILNs.

Table 4.3 provides a summary of our excess of loss reinsurance agreements as of June 30, 2020 and December 31, 2019.

Excess of Loss Reinsurance

Table 4.3

(In thousands)			June 30, 2020		December 31, 2019	
Home Re Entity (Issue Date)	Policy Inforce Dates	Termination Option Date (1)	Remaining First Layer Retention	Remaining Excess of Loss Reinsurance Coverages	Remaining First Layer Retention	Remaining Excess of Loss Reinsurance Coverages
Home Re 2018-1 Ltd. (Oct. - 2018)	July 1, 2016 - December 31, 2017	October 25, 2025	$ 166,573	$ 218,343	$ 167,779	$ 260,957
Home Re 2019-1 Ltd. (May - 2019)	January 1, 2018 - March 31, 2019	May 25, 2026	185,162	208,146	185,636	271,021
Total			$ 351,735	$ 426,489	$ 353,415	$ 531,978

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

The reinsurance premiums ceded to each Home Re Entity are composed of coverage, initial expense and supplemental premiums. The coverage premiums are generally calculated as the difference between the amount of interest payable by the Home Re Entity on the unpaid portion of the ILNs it issued to raise funds to collateralize its reinsurance obligations to us, and the investment income collected on the collateral assets. The amount of monthly reinsurance coverage premium ceded will fluctuate due to changes in one-month LIBOR, (or the fallback reference rate, as applicable) and changes in money market rates that affect investment income collected on the assets in the reinsurance trust. As a result, we concluded that each reinsurance agreement contains an embedded derivative that is accounted for separately as a freestanding derivative. The fair values of the derivatives at June 30, 2020, were not material to our consolidated balance sheet, and the change in fair value during the three and six months ended June 30, 2020 was not material to our consolidated statements of operations. Total ceded premiums were $4.4 million and $9.1 million for the three and six months ended June 30, 2020, respectively and $4.5 million and $7.0 million for the three and six months ended June 30, 2019, respectively.

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

We are required to disclose our maximum exposure to loss, which we consider to be an amount that we could be required to record in our statements of operations, as a result of our involvement with the VIEs under our Home Re Transactions. As of June 30, 2020, and December 31, 2019, we did not have material exposure to the VIEs as we have no investment in the VIEs and had no reinsurance claim payments due from either VIE under our reinsurance agreements. We are unable to determine the timing or extent of claims from losses that are ceded under the reinsurance agreements. The VIE assets are deposited in reinsurance trusts for the benefit of MGIC that will be the source of reinsurance claim payments to MGIC. The purpose of the reinsurance trusts is to provide security to MGIC for the obligations of the VIEs under the reinsurance agreements. The trustee of the reinsurance trusts, a recognized provider of corporate trust services, has established segregated accounts within the reinsurance trusts for the benefit of MGIC, pursuant to the trust agreements. The trust agreements are governed by, and construed in accordance with, the laws of the State of New York. If the trustee of the reinsurance trusts failed to distribute claim payments to us as provided in the reinsurance trusts, we would incur a loss related to our losses ceded under the reinsurance agreements and deemed unrecoverable. We are also unable to determine the impact such possible failure by the trustee to perform pursuant to the reinsurance trust agreements may have on our consolidated financial statements. As a result, we are unable to quantify our maximum exposure to loss related to our involvement with the VIEs. MGIC has certain termination rights under the reinsurance agreements should its claims not be paid. We consider our exposure to loss from our reinsurance agreements with the VIEs to be remote.

Table 4.4 presents the total assets of the Home Re Entities as of June 30, 2020 and December 31, 2019.

Home Re total assets

Table 4.4

(In thousands)

Home Re Entity (Issue date)		**Total VIE Assets**
June 30, 2020		
Home Re 2018-01 Ltd. (Oct - 2018)	**$**	**218,343**
Home Re 2019-01 Ltd. (May - 2019)		**208,146**
December 31, 2019		
Home Re 2018-01 Ltd. (Oct - 2018)	$	269,451
Home Re 2019-01 Ltd. (May - 2019)		283,150

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

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

Note 5. Litigation and Contingencies

Before paying an insurance claim, we review the loan and servicing files to determine the appropriateness of the claim amount. When reviewing the files, we may determine that we have the right to rescind coverage on the loan. We refer to insurance rescissions and denials of claims collectively as “rescissions” and variations of that term. In addition, our insurance policies generally provide that we can reduce or deny a claim if the servicer did not comply with its obligations under our insurance policy. We call such reduction of claims “curtailments.” In recent quarters, an immaterial percentage of claims received in a quarter have been resolved by rescissions. In the first half of 2019 and 2020, curtailments reduced our average claim paid by approximately 4.7% and 4.0%, respectively.

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

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

Under ASC 450-20, until a loss associated with settlement discussions or legal proceedings becomes probable and can be reasonably estimated, we consider our claim payment or rescission resolved for financial reporting purposes and do not accrue an estimated loss. When we determine that a loss is probable and can be reasonably estimated, we record our best estimate of our probable loss as a component of our IBNR and other reserves. In those cases, until settlement negotiations or legal proceedings are concluded (including the receipt of any necessary GSE approvals), it is reasonably possible that we will record an additional loss. We are currently involved in discussions and/or proceedings with respect to our claims paying practices. Although it is reasonably possible that when resolved we will not prevail on all matters, we are unable to make a reasonable estimate or range of estimates of the potential liability. We estimate the maximum exposure where a loss is reasonably possible to be approximately $39 million. This estimate of maximum exposure is based upon currently available information; is subject to significant judgment, numerous assumptions and known and unknown uncertainties; will include an amount for matters for which we have recorded a probable loss until such matters are concluded; will include different matters from time to time; and does not include interest or consequential or exemplary damages.

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

Note 6. Earnings per Share

Basic earnings per share (“EPS”) is calculated by dividing net income by the weighted average number of shares of common stock outstanding. For purposes of calculating basic EPS, vested restricted stock and restricted stock units (“RSUs”) are considered outstanding. Diluted EPS includes the components of basic EPS and also gives effect to dilutive common stock equivalents. The determination of whether components are dilutive is calculated independently for each period. We calculate diluted EPS using the treasury stock method and if-converted method. Under the treasury stock method, diluted EPS reflects the potential dilution that could occur if unvested RSUs result in the issuance of common stock. Under the if-converted method, diluted EPS reflects the potential dilution that could occur if our 9% Debentures result in the issuance of common stock. The determination of potentially issuable shares does not consider the satisfaction of the conversion requirements and the shares are included in the determination of diluted EPS as of the beginning of the period, if dilutive. For the quarter ended June 30, 2020, common stock equivalents of 19.1 million were not included because they were anti-dilutive.

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

Earnings per share

Table 6.1

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands, except per share data)	**2020**	2019	**2020**	2019
Basic earnings per share:				
Net income	**$ 14,047**	$ 167,778	**$ 163,852**	$ 319,719
Weighted average common shares outstanding - basic	**338,593**	355,734	**341,323**	355,694
Basic earnings per share	**$ 0.04**	$ 0.47	**$ 0.48**	$ 0.90
Diluted earnings per share:				
Net income	**$ 14,047**	$ 167,778	**$ 163,852**	$ 319,719
Interest expense, net of tax (1):				
9% Debentures	**—**	4,566	**9,132**	9,132
Diluted income available to common shareholders	**$ 14,047**	$ 172,344	**$ 172,984**	$ 328,851
Weighted average common shares outstanding - basic	**338,593**	355,734	**341,323**	355,694
Effect of dilutive securities:				
Unvested RSUs	**1,068**	1,841	**1,551**	1,913
9% Debentures	**—**	19,028	**19,129**	19,028
Weighted average common shares outstanding - diluted	**339,661**	376,603	**362,003**	376,635
Diluted earnings per share	**$ 0.04**	$ 0.46	**$ 0.48**	$ 0.87

(1) The periods ended June 30, 2020 and 2019 were tax-effected at a rate of 21%.

Note 7. Investments

Fixed income securities

The amortized cost, gross unrealized gains and losses, and fair value of investments in fixed income securities classified as available-for-sale at June 30, 2020 and December 31, 2019 are shown in tables 7.1a and 7.1b below.

Details of fixed income securities by category as of June 30, 2020

Table 7.1a

(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses) (1)	Fair Value
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 346,881	$ 1,777	$ (41)	$ 348,617
Obligations of U.S. states and political subdivisions	1,666,017	124,251	(1,291)	1,788,977
Corporate debt securities	2,514,526	137,465	(5,160)	2,646,831
Asset backed securities ("ABS")	198,238	4,034	(2,716)	199,556
Residential mortgage backed securities ("RMBS")	293,790	6,055	(353)	299,492
Commercial mortgage backed securities ("CMBS")	264,857	10,453	(1,411)	273,899
Collateralized loan obligations ("CLOs")	313,245	—	(8,355)	304,890
Total fixed income securities	$ 5,597,554	$ 284,035	$ (19,327)	$ 5,862,262

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

Table 7.1b

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

(1) At June 30, 2020 there was no credit loss allowance established on available-for-sale securities.

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

We had $14.2 million and $13.9 million of investments at fair value on deposit with various states as of June 30, 2020 and December 31, 2019, respectively, due to regulatory requirements of those state insurance departments.

The amortized cost and fair values of fixed income securities at June 30, 2020, by contractual maturity, are shown in table 7.2 below. Actual maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Because most ABS, RMBS, CMBS, and CLOs provide for periodic payments throughout their lives, they are listed in separate categories.

Fixed income securities maturity schedule

Table 7.2

	June 30, 2020	
(In thousands)	**Amortized cost**	**Fair Value**
Due in one year or less	**$ 465,716**	**$ 469,024**
Due after one year through five years	**1,854,619**	**1,935,032**
Due after five years through ten years	**1,009,452**	**1,096,842**
Due after ten years	**1,197,637**	**1,283,527**
	4,527,424	**4,784,425**
ABS	**198,238**	**199,556**
RMBS	**293,790**	**299,492**
CMBS	**264,857**	**273,899**
CLOs	**313,245**	**304,890**
Total as of June 30, 2020	**$ 5,597,554**	**$ 5,862,262**

Proceeds from sales of fixed income securities classified as available-for-sale were $448.5 million and $183.6 million during the six months ended June 30, 2020 and 2019, respectively. Gross gains of $7.3 million and $12.4 million and gross losses of $3.7 million and $5.0 million were realized during the three and six months ended June 30, 2020, respectively. We did not record realized losses for the three months ended June 30,2020 and recorded realized losses of $0.3 million for the six months ended June 30, 2020 related to our intent to sell certain securities. Gross gains of $1.2 million and $2.0 million and gross losses of $1.1 million and $2.3 million were realized on those sales during the three and six months ended June 30, 2019, respectively, and we recorded OTTI losses of $0.1 million for the six months ended June 30, 2019. Realized investment gains and losses are reported in income based on specific identification of securities sold.

Equity securities

The cost and fair value of investments in equity securities at June 30, 2020 and December 31, 2019 are shown in tables 7.3a and 7.3b below.

Details of equity security investments as of June 30, 2020

Table 7.3a

(In thousands)	**Cost**	**Gross Gains**	**Gross Losses**	**Fair Value**
Equity securities	**$ 17,467**	**$ 507**	**$ (21)**	**$ 17,953**

Details of equity security investments as of December 31, 2019

Table 7.3b

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

For the three and six months ended June 30, 2020, we recognized $1.2 million and $0.3 million of net gains on equity securities still held as of June 30, 2020. For the three and six months ended June 30, 2019, we recognized $0.1 million and $0.2 million of net gains on equity securities still held as of June 30, 2019.

Other invested assets

Other invested assets include an investment in Federal Home Loan Bank ("FHLB") stock that is carried at cost, which due to its nature approximates fair value. Ownership of FHLB stock provides access to a secured lending facility, and our current FHLB Advance amount is secured by eligible collateral whose fair value is maintained at a minimum of 102% of the outstanding principal balance of the FHLB Advance. As of June 30, 2020, that collateral consisted of fixed income securities included in our total investment portfolio, and cash and cash equivalents, with a total fair value of $165.8 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, 2020 and December 31, 2019, the aggregate fair value and gross unrealized loss by the length of time those securities have been continuously in an unrealized loss position. The fair value amounts reported in tables 7.4a and 7.4b are estimated using the process described in Note 8 - "Fair Value Measurements" to these consolidated financial statements and in Note 3 - "Significant Accounting Policies" of the notes to the consolidated financial statements in our 2019 Annual Report on Form 10-K.

Unrealized loss aging for securities by type and length of time as of June 30, 2020

Table 7.4a

	Less Than 12 Months		12 Months or Greater		**Total**	
(In thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	**Fair Value**	**Unrealized Losses**
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 207,786	$ (41)	$ —	$ —	**$ 207,786**	**$ (41)**
Obligations of U.S. states and political subdivisions	37,445	(1,291)	—	—	**37,445**	**(1,291)**
Corporate debt securities	175,570	(5,160)	—	—	**175,570**	**(5,160)**
ABS	17,415	(2,716)	—	—	**17,415**	**(2,716)**
RMBS	51,169	(284)	4,913	(69)	**56,082**	**(353)**
CMBS	28,609	(1,397)	3,225	(14)	**31,834**	**(1,411)**
CLOs	162,838	(3,831)	142,051	(4,524)	**304,889**	**(8,355)**
Total	$ 680,832	$ (14,720)	$ 150,189	$ (4,607)	**$ 831,021**	**$ (19,327)**

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

Table 7.4b

	Less Than 12 Months		12 Months or Greater		Total	
(In thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 57,301	$ (200)	$ 5,806	$ (10)	$ 63,107	$ (210)
Obligations of U.S. states and political subdivisions	74,859	(847)	6,957	(10)	81,816	(857)
Corporate debt securities	221,357	(2,847)	43,505	(161)	264,862	(3,008)
ABS	21,542	(118)	3,851	(60)	25,393	(178)
RMBS	105,443	(461)	110,452	(2,766)	215,895	(3,227)
CMBS	62,388	(728)	11,852	(51)	74,240	(779)
CLOs	81,444	(225)	196,988	(1,418)	278,432	(1,643)
Total	$ 624,334	$ (5,426)	$ 379,411	$ (4,476)	$ 1,003,745	$ (9,902)

Based on current facts and circumstances, we believe the unrealized losses as of June 30, 2020 presented in table 7.4a above are not indicative of the ultimate collectability of the current amortized cost of the securities and a credit loss allowance is not required. We believe the gross unrealized losses are primarily attributable to widening credit spreads over risk free rates, as a result of economic and market uncertainties arising from the COVID-19 pandemic, which includes demand shocks in multiple sectors that originated in the first half of 2020.

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

There were 156 and 217 securities in an unrealized loss position at June 30, 2020 and December 31, 2019, respectively.

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

Note 8. Fair Value Measurements

Recurring fair value measurements

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

Level 1 measurements

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

Level 2 measurements

- Fixed income securities:

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

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

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

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

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

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

Level 3 measurements

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

Assets measured at fair value, by hierarchy level, as of June 30, 2020 and December 31, 2019 are shown in tables 8.1a and 8.1b below. The fair value of the assets is estimated using the process described above, and more fully in Note 3 - "Significant Accounting Policies" of the notes to the consolidated financial statements in our 2019 Annual Report on Form 10-K.

Assets carried at fair value by hierarchy level as of June 30, 2020

Table 8.1a

(In thousands)	**Total Fair Value**	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Treasury securities and obligations of U.S. government corporations and agencies	**$ 348,617**	$ 164,052	$ 184,565	$ —
Obligations of U.S. states and political subdivisions	**1,788,977**	—	1,788,977	—
Corporate debt securities	**2,646,831**	—	2,646,831	—
ABS	**199,556**	—	199,556	—
RMBS	**299,492**	—	299,492	—
CMBS	**273,899**	—	273,899	—
CLOs	**304,890**	—	304,890	—
Total fixed income securities	**5,862,262**	164,052	5,698,210	—
Equity securities	**17,953**	17,953	—	—
Other (1)	**362,417**	362,417	—	—
Real estate acquired (2)	**1,963**	—	—	1,963
Total	**$ 6,244,595**	$ 544,422	$ 5,698,210	$ 1,963

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

Table 8.1b

(In thousands)	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 196,203	$ 34,240	$ 161,963	$ —
Obligations of U.S. states and political subdivisions	1,653,865	—	1,653,865	—
Corporate debt securities	2,785,122	—	2,785,122	—
ABS	229,664	—	229,664	—
RMBS	268,586	—	268,586	—
CMBS	278,986	—	278,986	—
CLOs	325,466	—	325,466	—
Total fixed income securities	5,737,892	34,240	5,703,652	—
Equity securities	17,328	17,328	—	—
Other (1)	164,693	164,693	—	—
Real estate acquired (2)	7,252	—	—	7,252
Total	$ 5,927,165	$ 216,261	$ 5,703,652	$ 7,252

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

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

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

Reconciliations of Level 3 assets

For assets measured at fair value using significant unobservable inputs (Level 3), a reconciliation of the beginning and ending balances for the three and six months ended June 30, 2020 and 2019 is shown in tables 8.2a through 8.2d below. There were no losses included in earnings for those periods attributable to the change in unrealized losses on assets still held at the end of the applicable period.

Fair value roll-forward for financial instruments classified as Level 3 for the three months ended June 30, 2020

Table 8.2a

(In thousands)	Fixed income	Real Estate Acquired
Balance at March 31, 2020	$ —	$ 6,226
Purchases	—	1,806
Sales	—	(6,526)
Included in earnings and reported as losses incurred, net	—	457
Balance at June 30, 2020	**$ —**	**$ 1,963**

Fair value roll-forward for financial instruments classified as Level 3 for the six months ended June 30, 2020

Table 8.2b

(In thousands)	Fixed income	Real Estate Acquired
Balance at December 31, 2019	$ —	$ 7,252
Purchases	—	5,921
Sales	—	(11,725)
Included in earnings and reported as losses incurred, net	—	515
Balance at June 30, 2020	$ —	$ 1,963

Fair value roll-forward for financial instruments classified as Level 3 for the three months ended June 30, 2019

Table 8.2c

(In thousands)	Fixed income	Real Estate Acquired
Balance at March 31, 2019	$ —	$ 11,639
Purchases	—	7,107
Sales	—	(8,152)
Included in earnings and reported as losses incurred, net	—	(344)
Balance at June 30, 2019	**$ —**	**$ 10,250**

Fair value roll-forward for financial instruments classified as Level 3 for the six months ended June 30, 2019

Table 8.2d

(In thousands)	Fixed income	Real Estate Acquired
Balance at December 31, 2018	$ 13	$ 14,535
Purchases	—	15,191
Sales	(13)	(19,024)
Included in earnings and reported as losses incurred, net	—	(452)
Balance at June 30, 2019	$ —	$ 10,250

Financial assets and liabilities not measured at fair value

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

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

Table 8.3 presents the carrying value and fair value of our financial assets and liabilities disclosed, but not carried, at fair value at June 30, 2020 and December 31, 2019.

Financial assets and liabilities not measured at fair value

Table 8.3

	June 30, 2020		December 31, 2019	
(In thousands)	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value
Financial assets				
Other invested assets	**$ 3,100**	**$ 3,100**	$ 3,100	$ 3,100
Financial liabilities				
FHLB Advance	**$ 155,000**	**$ 161,773**	$ 155,000	$ 156,422
5.75% Senior Notes	**421,443**	**441,545**	420,867	471,827
9% Convertible Junior Subordinated Debentures	**256,872**	**305,562**	256,872	346,289
Total financial liabilities	**$ 833,315**	**$ 908,880**	$ 832,739	$ 974,538

Note 9. Other Comprehensive Income

The pretax and related income tax benefit (expense) components of our other comprehensive (loss) income for the three and six months ended June 30, 2020 and 2019 are included in table 9.1 below.

Components of other comprehensive income (loss)

Table 9.1

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	**2020**	2019	**2020**	2019
Net unrealized investment gains arising during the period	**$ 181,242**	$ 89,562	**$ 89,362**	$ 192,183
Total income tax benefit (expense)	**(38,061)**	(18,808)	**(18,766)**	(40,358)
Net of taxes	**143,181**	70,754	**70,596**	151,825
Net changes in benefit plan assets and obligations	**1,275**	1,961	**2,669**	4,050
Total income tax benefit (expense)	**(268)**	(412)	**(561)**	(851)
Net of taxes	**1,007**	1,549	**2,108**	3,199
Total other comprehensive income	**182,517**	91,523	**92,031**	196,233
Total income tax benefit (expense)	**(38,329)**	(19,220)	**(19,327)**	(41,209)
Total other comprehensive income, net of tax	**$ 144,188**	$ 72,303	**$ 72,704**	$ 155,024

The pretax and related income tax (expense) benefit components of the amounts reclassified from our accumulated other comprehensive income (loss) ("AOCI") to our consolidated statements of operations for the three and six months ended June 30, 2020 and 2019 are included in table 9.2 below.

Reclassifications from AOCI

Table 9.2

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	**2020**	2019	**2020**	2019
Reclassification adjustment for net realized (losses) gains(1)	**$ (6,390)**	$ 1,701	**$ (1,676)**	$ (978)
Income tax (expense) benefit	**1,342**	(357)	**352**	206
Net of taxes	**(5,048)**	1,344	**(1,324)**	(772)
Reclassification adjustment related to benefit plan assets and obligations (2)	**(1,275)**	(1,961)	**(2,669)**	(4,050)
Income tax (expense) benefit	**268**	412	**561**	851
Net of taxes	**(1,007)**	(1,549)	**(2,108)**	(3,199)
Total reclassifications	**(7,665)**	(260)	**(4,345)**	(5,028)
Income tax (expense) benefit	**1,610**	55	**913**	1,057
Total reclassifications, net of tax	**$ (6,055)**	$ (205)	**$ (3,432)**	$ (3,971)

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

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

A rollforward of AOCI for the six months ended June 30, 2020, including amounts reclassified from AOCI, are included in table 9.3 below.

Rollforward of AOCI

Table 9.3

(In thousands)	Six Months Ended June 30, 2020 Net unrealized gains and (losses) on available-for-sale securities	Net benefit plan assets and (obligations) recognized in shareholders' equity	Total accumulated other comprehensive income (loss)
Balance at December 31, 2019, net of tax	138,521	(65,813)	72,708
Other comprehensive income before reclassifications	69,272	—	69,272
Less: Amounts reclassified from AOCI	(1,324)	(2,108)	(3,432)
Balance, June 30, 2020, net of tax	**$ 209,117**	**$ (63,705)**	**$ 145,412**

Note 10. Benefit Plans

Table 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, 2020 and 2019.

Components of net periodic benefit cost

Table 10.1

	Three Months Ended June 30,			
	Pension and Supplemental Executive Retirement Plans		Other Postretirement Benefit Plans	
(In thousands)	**2020**	2019	**2020**	2019
Service cost	**$ 1,876**	$ 2,176	**$ 322**	$ 360
Interest cost	**3,336**	3,898	**202**	274
Expected return on plan assets	**(5,473)**	(4,825)	**(1,852)**	(1,447)
Amortization of net actuarial losses/(gains)	**1,526**	2,039	**(201)**	—
Amortization of prior service cost/(credit)	**(62)**	(70)	**12**	(9)
Net periodic benefit cost (benefit)	**$ 1,203**	$ 3,218	**$ (1,517)**	$ (822)

Components of net periodic benefit cost

Table 10.2

	Six Months Ended June 30,			
	Pension and Supplemental Executive Retirement Plans		Other Postretirement Benefit Plans	
(In thousands)	**2020**	2019	**2020**	2019
Service cost	**$ 3,697**	$ 4,172	**$ 631**	$ 672
Interest cost	**6,750**	7,853	**416**	565
Expected return on plan assets	**(11,053)**	(9,733)	**(3,704)**	(2,892)
Amortization of net actuarial losses/(gains)	**3,160**	4,206	**(391)**	—
Amortization of prior service cost/(credit)	**(124)**	(140)	**25**	(17)
Net periodic benefit cost (benefit)	**$ 2,430**	$ 6,358	**$ (3,023)**	$ (1,672)

In July 2020, a contribution of $6.5 million was made to our qualified pension plan. We currently intend to make additional contributions totaling $6.0 million to our qualified pension plan and supplemental executive retirement plan in 2020.

Note 11. Loss Reserves

We establish case reserves and loss adjustment expenses ("LAE") reserves on delinquent loans that were reported to us as two payments past due and have not become current or resulted in a claim payment. Such loans are referred to as being in our delinquency inventory. Case reserves are established by estimating the number of loans in our delinquency 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.

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

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

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

Losses incurred on delinquencies that occurred in the current year increased in the first six months of 2020 compared to the same period in 2019, due to an increase in the new delinquency notices reported and IBNR reserve estimates, due to the impact of the COVID-19 pandemic.

For the six months ended June 30, 2020 we experienced adverse loss reserve development of $12.8 million on previously received delinquencies primarily related to severity. For the six months ended June 30, 2019, we experienced favorable loss reserve development on previously received delinquencies, due in large part to the resolution of approximately 49% of the prior year delinquent inventory, with lower claim rates due to improved cure rates. This favorable loss reserve development was partially offset by the recognition of a probable loss of $23.5 million related to litigation of our claims paying practices.

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

In light of the uncertainty caused by the COVID-19 pandemic, specifically the foreclosure moratoriums and forbearance plans, we expect the average time it takes to receive a claim will increase.

Premium refunds

Our estimate of premiums to be refunded on expected claim payments is accrued for separately in "Other Liabilities" on our consolidated balance sheets and approximated $28 million and $30 million at June 30, 2020 and December 31, 2019, respectively.

Table 11.1 provides a reconciliation of beginning and ending loss reserves as of and for the six months ended June 30, 2020 and 2019.

Development of reserves for losses and loss adjustment expenses

Table 11.1

(In thousands)	Six Months Ended June 30, 2020	2019
Reserve at beginning of period	**$ 555,334**	$ 674,019
Less reinsurance recoverable	**21,641**	33,328
Net reserve at beginning of period	**533,693**	640,691
Losses incurred:		
Losses and LAE incurred in respect of delinquency notices received in:		
Current year	**265,546**	94,063
Prior years [1]	**12,784**	(33,164)
Total losses incurred	**278,330**	60,899
Losses paid:		
Losses and LAE paid in respect of delinquency notices received in:		
Current year	**271**	2,650
Prior years	**77,820**	109,420
Reinsurance terminations	**(20)**	(13,980)
Total losses paid	**78,071**	98,090
Net reserve at end of period	**733,952**	603,500
Plus reinsurance recoverables	**63,444**	18,402
Reserve at end of period	**$ 797,396**	$ 621,902

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

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

Reserve development on previously received delinquencies

Table 11.2

(In thousands)	Six Months Ended June 30, 2020	2019
Decrease in estimated claim rate on primary defaults	**$ (2,104)**	$ (67,465)
Increase in estimated severity on primary defaults	**13,767**	3,140
Change in estimates related to pool reserves, LAE reserves, reinsurance, and other	**1,121**	31,161
Total prior year loss development [1]	**$ 12,784**	$ (33,164)

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

Delinquency inventory

A rollforward of our primary delinquency inventory for the three and six months ended June 30, 2020 and 2019 appears in table 11.3 below. The information concerning new notices and cures is compiled from monthly reports received from loan servicers. The level of new notice and cure activity reported in a particular month can be influenced by, among other things, the date on which a servicer generates its report, the number of business days in a month and transfers of servicing between loan servicers.

Delinquency inventory rollforward

Table 11.3

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	**2020**	2019
Delinquency inventory at beginning of period	**27,384**	30,921	**30,028**	32,898
New notices	**57,584**	12,915	**69,982**	26,526
Cures	**(14,964)**	(12,882)	**(29,077)**	(27,230)
Paid claims	**(661)**	(1,112)	**(1,558)**	(2,300)
Rescissions and denials	**(17)**	(47)	**(49)**	(99)
Delinquency inventory at end of period	**69,326**	29,795	**69,326**	29,795

COVID-19 Activity

New delinquency notices increased in 2020 because of the impacts of the COVID-19 pandemic, including the high level of unemployment and economic uncertainty resulting from measures to reduce the transmission of the COVID-19. The CARES Act and other related actions provide for payment forbearance on mortgages to borrowers experiencing a hardship during the COVID-19 pandemic. These forbearance plans generally allow for mortgage payments to be suspended for up to 360 days. As of June 30, 2020, 67% of our delinquency inventory was reported as subject to a COVID-19 forbearance plan. Forbearance information is based on the most recent information provided by the GSEs, as well as loan servicers, and we believe represents only forbearances related to COVID-19. While the forbearance information provided by the GSEs refers to delinquent loans in forbearance as of the prior month-end, the information provided by loan servicers may be more current. We expect our delinquency inventory will continue to increase during the year due to the impacts of the COVID-19 pandemic and initiatives intended to reduce the transmission of COVID-19.

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

Primary delinquency inventory - consecutive months delinquent

Table 11.4

	June 30, 2020	December 31, 2019	June 30, 2019
3 months or less	**50,646**	9,447	8,970
4-11 months	**8,370**	9,664	8,951
12 months or more [(1)]	**10,310**	10,917	11,874
Total	**69,326**	30,028	29,795
3 months or less	**73%**	32%	30%
4-11 months	**12%**	32%	30%
12 months or more	**15%**	36%	40%
Total	**100%**	100%	100%
Primary claims received inventory included in ending delinquent inventory	**247**	538	630

(1) Approximately 33%, 36%, and 37% of the primary delinquency inventory delinquent for 12 consecutive months or more has been delinquent for at least 36 consecutive months as of June 30, 2020, December 31, 2019, and June 30, 2019, respectively.

Claims paying practices

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

Note 12. Shareholders' Equity

Share repurchase programs

We did not repurchase any of our common stock during the second quarter of 2020. During the first quarter of 2020 we repurchased approximately 9.6 million shares of our common stock at a weighted average cost per share of $12.47, which included commissions. We may repurchase up to an additional $291 million of our common stock through the end of 2021 under a share repurchase program approved by our Board of Directors in the January 2020. Repurchases may be made from time to time on the open market or through privately negotiated transactions. The repurchase program may be suspended for periods or discontinued at any time, and in light of the uncertainty caused by the COVID-19 pandemic, we have temporarily suspended stock repurchases.

Cash dividends

In February and May 2020, we paid quarterly cash dividends of $0.06 per share to shareholders which totaled $41 million. On July 30, 2020, the Board of Directors declared a quarterly cash dividend to holders of the company's common stock of $0.06 per share payable on August 28, 2020, to shareholders of record at the close of business on August 11, 2020.

Note 13. Share-Based Compensation

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

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

Restricted stock unit grants

Table 13.1

	Six months ended June 30,			
	2020		2019	
	RSUs Granted *(in thousands)*	**Weighted Average Share Fair Value**	RSUs Granted *(in thousands)*	Weighted Average Share Fair Value
RSUs subject to performance conditions	**1,282**	**$ 12.87**	1,378	$ 11.76
RSUs subject only to service conditions	**373**	**13.11**	412	11.76

Note 14. Statutory Information

Statutory Capital Requirements

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

At June 30, 2020, MGIC's risk-to-capital ratio was 9.6 to 1, below the maximum allowed by the jurisdictions with State Capital Requirements, and its policyholder position was $2.9 billion above the required MPP of $1.6 billion. The calculation of our risk-to-capital ratio and MPP reflect credit for the risk ceded under our reinsurance transactions. It is possible that 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, 2020, the risk-to-capital ratio of our combined insurance operations was 9.5 to 1.

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

During the first quarter of 2020, MGIC paid $390 million in dividends to our holding company. MGIC did not pay dividends to our holding company during the second quarter of 2020 due to the uncertainty of the COVID-19 pandemic. MGIC is subject to statutory regulations as to payment of dividends. The maximum amount of dividends that MGIC may pay in any twelve-month period without regulatory approval by the OCI is the lesser of adjusted statutory net income or 10% of statutory 'policyholders' surplus as of the preceding calendar year end. Adjusted statutory net income is defined for this purpose to be the greater of statutory net income, net of realized investment gains, for the calendar year preceding the date of the dividend or statutory net income, net of realized investment gains, for the three calendar years preceding the date of the dividend less dividends paid within the first two of the preceding three calendar years. The OCI recognizes only statutory accounting principles prescribed, or practices permitted by the State of Wisconsin for determining and reporting the financial condition and results of operations of an insurance company. The OCI has adopted certain prescribed accounting practices that differ from those found in other states. Specifically, Wisconsin domiciled companies record changes in their contingency reserves through their income statement as a change in underwriting deduction. As a result, in periods in which MGIC is increasing contingency reserves, statutory net income is reduced.

Under the PMIERs guidance, any dividend paid by MGIC to our holding company, through March 31, 2021, requires GSE approval.

Statutory Financial Information

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

Financial information of our insurance subsidiaries

Table 14.1

	As of and for the Six Months Ended June 30,	
(In thousands)	**2020**	2019
Statutory net income	**$ 4,545**	$ 147,372
Statutory policyholders' surplus	**1,249,803**	1,634,128
Contingency reserve	**3,230,255**	2,729,132

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 of 2020. The increased unemployment and economic uncertainty resulting from the COVID-19 pandemic had a material impact on our second quarter financial results, as we reserved for losses associated with the increased delinquency notices received. While the magnitude of the impact of the COVID-19 pandemic on future financial results, liquidity and/or financial condition is uncertain, we expect it will negatively impact our business and that impact may be material. As used below, “we” and “our” refer to MGIC Investment Corporation’s consolidated operations. This form 10-Q should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Annual Report on Form 10-K for the year ended December 31, 2019. See the “Glossary of terms and acronyms” for definitions and descriptions of terms used throughout this MD&A. The Risk Factors referred to under “Forward Looking Statements and Risk Factors” below, discuss trends and uncertainties affecting us and are an integral part of the MD&A.

Forward Looking and Other Statements

As discussed under “Forward Looking Statements and Risk Factors” below, actual results may differ materially from the results contemplated by forward looking statements. These forward looking statements, including the discussion of the impact of the COVID-19 pandemic, speak only as of the date of this filing and are subject to change without notice as the Company cannot predict all risks relating to this evolving set of events. We are not undertaking any obligation to update any forward looking statements or other statements we may make in the following discussion or elsewhere in this document even though these statements may be affected by events or circumstances occurring after the forward looking statements or other statements were made. Therefore, no reader of this document should rely on these statements being current as of any time other than the time at which this document was filed with the Securities and Exchange Commission.

Overview

Summary financial results of MGIC Investment Corporation

(In millions, except per share data, unaudited)	Three Months Ended June 30, 2020	2019	% Change	Six Months Ended June 30, 2020	2019	% Change
Selected statement of operations data						
Total revenues	**$ 294.0**	$ 292.3	1	**$ 600.9**	$ 584.0	3
Losses incurred, net	**217.4**	21.8	N/M	**278.3**	60.9	N/M
Other underwriting and operating expenses, net	**44.3**	43.0	3	**86.5**	88.9	(3)
Income before tax	**16.5**	211.2	(92)	**204.7**	402.1	(49)
Provision for income taxes	**2.4**	43.4	(94)	**40.9**	82.4	(50)
Net income	**14.0**	167.8	(92)	**163.9**	319.7	(49)
Diluted income per share	**$ 0.04**	$ 0.46	(91)	**$ 0.48**	$ 0.87	(45)
Non-GAAP Financial Measures (1)						
Adjusted pre-tax operating income	**$ 11.2**	$ 211.0	(95)	**$ 196.6**	$ 402.6	(51)
Adjusted net operating income	**9.9**	167.6	(94)	**157.4**	320.0	(51)
Adjusted net operating income per diluted share	**$ 0.03**	$ 0.46	(93)	**$ 0.46**	$ 0.87	(47)

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

Summary of second quarter 2020 results

Comparative quarterly results

We recorded second quarter 2020 net income of $14.0 million, or $0.04 per diluted share. Net income decreased by $153.7 million (92%) from net income of $167.8 million in the prior year, primarily reflecting an increase in losses incurred, net. Revenues were up slightly as net realized investment gains more than offset a decrease in investment income and net premiums earned. Diluted income per share decreased due to a decline in net income.

Adjusted net operating income for the second quarter 2020 was $9.9 million (Q2 2019: $167.6 million) and adjusted net operating income per diluted share was $0.03 (Q2 2019: $0.46). Adjusted net operating income per diluted share decreased due to a decline in adjusted net operating income.

Net premiums earned decreased due to lower premium rates on our insurance in force and a decrease in profit commission that was a result of higher ceded losses incurred, partially offset by higher average insurance in force and an increase in accelerated premiums from single premium policy cancellations.

Losses incurred, net for the second quarter of 2020 were $217.4 million, an increase of $195.5 million compared to the prior year. The increase reflects an increase in new delinquency notices and an increase in our IBNR and other reserve, from $30 million to $61 million due to the COVID-19 pandemic and the current macroeconomic environment. In the second quarter of 2020, we received new delinquency notices of 57,584 compared to 12,915 for the same period last year. In the second quarter of 2020, our re-estimation of reserves on previous delinquencies resulted in $10 million adverse loss reserve development.

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

Comparative year to date results

We recorded net income of $163.9 million, or $0.48 per diluted share during the first six months of 2020. Net income decreased by $155.8 million from net income of $319.7 million in the prior year, primarily reflecting an increase in losses incurred, net, partially offset by an increase in revenue and a decrease in our provision for income taxes. The increase in revenue was primarily driven by an increase in net realized investment gains and net premiums earned. Diluted income per share was lower than the prior year due to the decline in net income, partially offset by a decrease in our diluted weighted average shares outstanding.

Adjusted net operating income for the first six months of 2020 was $157.4 million (YTD 2019: $320.0 million) and adjusted net operating income per diluted share was $0.46 (YTD 2019: $0.87). Adjusted net operating income per diluted share was lower than the prior year due to the decline in adjusted net operating income, partially offset by a decrease in our diluted weighted average shares outstanding.

Net premiums earned increased due to higher average insurance in force and an increase in accelerated premiums from single premium policy cancellations, partially offset by lower premium rates and a decrease in the profit commission from our QSR Transactions that was a result of higher ceded losses incurred.

Losses incurred, net for the first six months of 2020 were $278.3 million, an increase of $217.4 million over the prior year losses incurred of $60.9 million. The increase reflects an increase in new delinquency notices, and an increase in our IBNR and other reserve due to the COVID-19 pandemic and the current macroeconomic environment. This increase was partially offset by the non-recurring recognition of a probable loss of $23.5 million for litigation of our claims paying practices during the first quarter of 2019.

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

See "Consolidated Results of Operations" below for additional discussion of our results for the three and six months ended June 30, 2020 compared to the respective prior year periods.

Capital

MGIC dividend payments to our holding company

In the second quarter of 2020, MGIC did not pay dividends to our holding company due to the uncertainty arising from the COVID-19 pandemic. Future dividend payments from MGIC to the holding company will continue to be determined on a quarterly basis in consultation with the board, and after considering any updated estimates about the length and severity of the economic impacts of the COVID-19 pandemic on our business. We ask the Wisconsin OCI not to object before MGIC pays dividends to the holding company.

Under the PMIERs guidance, any dividend paid by MGIC to our holding company, through March 31, 2021, requires GSE approval.

Share repurchase programs

In the second quarter of 2020, we did not repurchase any shares of our common stock. We may repurchase up to an additional $291 million of our common stock through the end of 2021 under a share repurchase program approved by our Board of Directors in January 2020. Repurchases may be made from time to time on the open market or through privately negotiated transactions. The repurchase programs may be suspended for periods or discontinued at any time, and in light of the uncertainty caused by the COVID-19 pandemic, we have temporarily suspended stock repurchases. As of June 30, 2020, we had approximately 339 million shares of common stock outstanding.

Dividends to shareholders

In May 2020, we paid a dividend of $0.06 per common share totaling $21 million to our shareholders. On July 30, 2020, our Board of Directors declared a quarterly cash dividend of $0.06 per common share to shareholders of record on August 11, 2020, payable on August 28, 2020.

GSEs

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

Based on our interpretation of the PMIERs, as of June 30, 2020, MGIC's Available Assets totaled $4.5 billion, or $1.1 billion in excess of its Minimum Required Assets.

The PMIERs generally require us to hold significantly more Minimum Required Assets for delinquent loans than for performing loans and the Minimum Required Assets required to be held increases as the number of payments missed on a delinquent loan increases. For delinquent loans whose initial missed payment occurred on or after March 1, 2020 and prior to January 1, 2021 (the "COVID-19 Crisis Period"), the Minimum Required Assets are generally reduced by 70% for at least three months. The 70% reduction will continue, or be newly applied, for delinquent loans that are subject to a forbearance plan that is granted in response to a financial hardship related to COVID-19, the terms of which are materially consistent with terms of forbearance plans offered by Freddie Mac or Fannie Mae. Under the PMIERs, a forbearance plan on a loan with an initial missed payment occurring during the COVID-19 Crisis Period is assumed to have been granted in response to a financial hardship related to COVID-19. Loans considered to be subject to a forbearance plan include those that are in a repayment plan or loan modification trial period following the forbearance plan.

We expect the GSEs and servicers will provide us with information about the forbearance status for nearly all of the loans in our delinquency inventory. The forbearance information provided by the GSEs will be with respect to delinquent loans in forbearance as of the prior month-end, while the information provided by loan servicers may be more current. As a result, in some cases, there may be a delay in our ability to take advantage of the 70% reduction.

If our Available Assets are less than our Minimum Required Assets, then we would not be in compliance with the PMIERs. At the extreme, the GSEs may suspend or terminate eligibility If MGIC ceases to be eligible to insure loans purchased by one or both of the GSEs. Such suspension or termination, would significantly reduce the volume of our new business writings; in 2019, the substantial majority of our NIW has been for loans purchased by the GSEs. In addition to the increase in Minimum Required Assets associated with delinquent loans whose borrowers are affected by the COVID-19 pandemic, factors that may negatively impact MGIC's ability to continue to comply with the financial requirements of the PMIERs include the following:

- The GSEs may make the PMIERs more onerous in the future. The PMIERs provide that the factors that determine Minimum Required Assets will be updated periodically, or as needed if there is a significant change in macroeconomic conditions or loan performance. We do not anticipate that the regular periodic updates will occur more frequently than once every two years. The PMIERs state that the GSEs will provide notice 180 days prior to the effective date of updates to the factors; however, the GSEs may amend any portion of the PMIERs at any time.

- There may be future implications for PMIERs based upon the proposed changes to the regulatory capital requirements for the GSEs. In May 2020, the FHFA re-proposed a capital rule for the GSEs that, if enacted, would increase the capital requirements of the GSEs. That increase may ultimately result in an increase in the Minimum Required Assets required to be held by mortgage insurers. The re-proposed capital rule included a framework for determining the capital relief allowed to the GSEs for loans with private mortgage insurance and it affords more capital relief to the GSEs when its counterparty is a more diversified entity. The proposed changes also decreased the GSEs' capital credit provided by credit risk transfer transactions, which could result in decreased PMIERs credit for existing or future reinsurance or insurance linked notes transactions entered into by MGIC. Further, any changes to the GSEs' capital and liquidity requirements resulting from the Treasury Housing Reform Plan could have future implications for PMIERs.
- Our future operating results may be negatively impacted by the matters discussed in our risk factors. Such matters could decrease our revenues, increase our losses or require the use of assets, thereby creating a shortfall in Available Assets.
- Should capital be needed by MGIC in the future, capital contributions from our holding company may not be available due to competing demands on holding company resources, including for repayment of debt.

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

State Regulations

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

At June 30, 2020, MGIC’s risk-to-capital ratio was 9.6 to 1, below the maximum allowed by the jurisdictions with State Capital Requirements, and its policyholder position was $2.9 billion above the required MPP of $1.6 billion. The calculation of our risk-to-capital ratio and MPP reflect credit for the risk ceded under our reinsurance transactions. It is possible that under the revised State Capital Requirements discussed below, MGIC will not be allowed full credit for the risk ceded to the reinsurers. If MGIC is not allowed an agreed level of credit under either the State Capital Requirements or the PMIERs, MGIC may terminate the reinsurance transactions, without penalty. At this time, we expect MGIC to continue to comply with the current State Capital Requirements; however, refer to our risk factor titled “State capital requirements may prevent us from continuing to write new insurance on an uninterrupted basis” for more information about matters that could negatively affect such compliance.

At June 30, 2020, the risk-to-capital ratio of our combined insurance operations (which includes a reinsurance affiliate) was 9.5 to 1.

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

GSE reform

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

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

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

In May 2020, the FHFA re-proposed a capital rule for the GSEs that, if enacted, would increase the capital requirements of the GSEs. The proposed capital rule may result in the GSEs purchasing fewer loans, charging higher guaranty fees and favoring a lower mortgage insurance coverage percentage than is typically used, each of which may reduce the size of the private mortgage insurance market. For information about the possible impact of the re-proposed capital rule on the Minimum Required Assets required to be held by mortgage insurers under the PMIERs, see our risk factor title "We may not continue to meet the GSEs' private mortgage insurer eligibility requirements and our returns may decrease if we are required to maintain more capital in order to maintain our eligibility."

In June 2020, it was announced that each of the GSEs has selected an underwriting financial advisor to assist with their recapitalization and exit from conservatorship.

The current GSE Patch expands the definition of QM under the Truth in Lending Act (Regulation Z) ("TILA") to include mortgages eligible to be purchased by the GSEs, even if the mortgages do not meet the debt-to-income ("DTI") ratio limit of 43% that is included in the standard QM definition. Originating a QM may provide a lender with legal protection from lawsuits that claim the lender failed to verify a borrower's ability to repay. The GSE Patch is scheduled to expire no later than January 2021. Approximately 20% and 23% of our NIW in the second and first quarters of 2020, respectively, was on loans with DTI ratios greater than 43%. However, it is possible that expiration of the GSE Patch will be delayed and that not all future loans with DTI ratios greater than 43% will be affected by such expiration. In this regard, we note that in June 2020, the CFPB issued for comment, a proposed definition of QM that would replace the use of the DTI ratio in the definition with a pricing threshold that would exclude from the definition of QM a loan whose annual percentage rate exceeds the average prime offer rate for comparable loans by two percentage points or more.

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

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

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

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

COVID-19 Pandemic

The COVID-19 pandemic had a material impact on our second quarter 2020 financial results. While uncertain, the future impact of the COVID-19 pandemic on the Company's business, financial results, liquidity and/or financial condition may also be material. We expect that the increase in unemployment and economic uncertainty resulting from initiatives to reduce the transmission of COVID-19 (including "shelter-in-place" restrictions), as well as COVID-19-related illnesses and deaths, will negatively impact our business. The magnitude of the impact will be influenced by various factors, including the length and severity of the pandemic in the United States, the length of time that measures intended to reduce the transmission of COVID-19 remain in place, the resulting level of unemployment, and the impact of past and future government initiatives (including the enactment of the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act")) and actions taken by the GSEs (including implementation of mortgage forbearance and modification programs) to mitigate the economic harm caused by the COVID-19 pandemic and efforts to reduce its transmission.

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

- Payment forbearance on federally-backed mortgages (including those delivered to or purchased by the GSEs) to borrowers experiencing a hardship during the COVID-19 pandemic. Forbearance allows for mortgage payments to be suspended for up to 360 days. The substantial majority of our 2019 NIW was delivered to or purchased by the GSEs. While servicers of some non-GSE loans may not be required to offer forbearance to borrowers, we allow servicers to apply GSE loss mitigation programs to non-GSE loans. In addition, the Consumer Financial Protection Bureau ("CFPB") requires substantial loss mitigation efforts be made prior to servicers initiating foreclosure, therefore, servicers of non-GSE loans may have an incentive to offer forbearance or deferment.
- For those mortgages that are not subject to forbearance, a suspension of foreclosures and evictions until at least August 31, 2020, on mortgages purchased or securitized by the GSEs.
- Direct aid to individuals in the form of refundable tax credit rebates paid in April 2020.

- "Paycheck Protection Program" to provide small businesses with funds to pay up to eight weeks of payroll costs, and certain other expenses.
- Enhanced unemployment benefits.
- Increased flexibility under retirement plans.

The number of loans entering forbearance plans is unprecedented. Historically, forbearance plans have reduced the incidence of our losses on affected loans. However, given the uncertainty surrounding the long-term economic impact of COVID-19, it is difficult to predict the ultimate effect of COVID-19 related forbearances on our loss incidence. Whether a loan's delinquency will cure when its forbearance plan ends will depend on the economic circumstances of the borrower at that time. The severity of losses associated with loans whose delinquencies do not cure will depend on economic conditions at that time, including home prices. The GSEs have introduced specific loss mitigation options for borrowers impacted by COVID-19 when their forbearance plans end, including the COVID-19 Payment Deferral solution for borrowers who are unable to immediately or gradually repay their missed loan payments. Under the COVID-19 Payment Deferral solution, the borrower's monthly loan payment would be returned to its pre-COVID amount and the missed payments would be added to the end of the mortgage term without accruing any additional interest or late fees. The deferred payments would be due when the loan is paid off, refinanced or the home is sold.

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

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

Factors affecting our results

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

Our results of operations are generally affected by:

Premiums written and earned

Premiums written and earned in a year are influenced by:

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

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

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

- Premiums ceded, net of a profit commission, under our QSR Transactions and premiums ceded under our Home Re Transactions. The profit commission varies directly and inversely with the level of ceded losses on a "dollar for dollar" basis and can be eliminated at ceded loss levels higher than we experienced in the first half of 2020. 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 certain levels of accident year loss ratios, its elimination). See Note 4 - "Reinsurance" to our consolidated financial statements for a discussion of our reinsurance transactions.

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

Investment income

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

Losses incurred

Losses incurred are the current expense that reflects estimated payments that will ultimately be made as a result of delinquencies on insured loans. As explained under "Critical Accounting Policies" in our 2019 10-K MD&A, except in the case of a premium deficiency reserve, we recognize an estimate of this expense only for delinquent loans. The level of new delinquencies has historically followed a seasonal pattern, with new delinquencies in the first part of the year lower than new delinquencies in the latter part of the year, though this pattern can be affected by the state of the economy and local housing markets. Pandemics, including COVID-19, and other natural disasters may result in delinquencies not following the typical pattern. Losses incurred are generally affected by:

- The state of the economy, including unemployment and housing values, each of which affects the likelihood that loans will become delinquent and whether loans that are delinquent cure their delinquency.
- The product mix of the in force book, with loans having higher risk characteristics generally resulting in higher delinquencies and claims.
- The size of loans insured, with higher average loan amounts tending to increase losses incurred.
- The percentage of coverage on insured loans, with deeper average coverage tending to increase losses incurred.
- The rate at which we rescind policies or curtail claims. Our estimated loss reserves incorporate our estimates of future rescissions of policies and curtailments of claims, and reversals of rescissions and curtailments. We collectively refer to rescissions and denials as "rescissions" and variations of this term. We call reductions to claims "curtailments."
- The distribution of claims over the life of a book. Historically, the first few years after loans are originated are a period of relatively low claims, with claims increasing substantially for several years subsequent and then declining, although persistency, the condition of the economy, including unemployment and housing prices, and other factors can affect this pattern. For example, a weak economy or housing value declines can lead to claims from older books increasing, continuing at stable levels or experiencing a lower rate of decline. See further information under "Mortgage insurance earnings and cash flow cycle" below.
- Losses ceded under reinsurance transactions. See Note 4 - "Reinsurance" to our consolidated financial statements for a discussion of our reinsurance transactions.

Underwriting and other expenses

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

Interest expense

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

Other

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

Net realized investment gains (losses)

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

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

Mortgage insurance earnings and cash flow cycle

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

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

Non-GAAP financial measures

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

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

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

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

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

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

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

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

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

	Three Months Ended June 30,					
	2020			2019		
(In thousands, except per share amounts)	**Pre-tax**	**Tax effect**	**Net (after-tax)**	Pre-tax	Tax effect	Net (after-tax)
Income before tax / Net income	**$ 16,483**	**$ 2,436**	**$ 14,047**	$ 211,211	$ 43,433	$ 167,778
Adjustments:						
Net realized investment (gains) losses	**(5,274)**	**(1,107)**	**(4,167)**	(217)	(46)	(171)
Adjusted pre-tax operating income / Adjusted net operating income	**$ 11,209**	**$ 1,329**	**$ 9,880**	$ 210,994	$ 43,387	$ 167,607

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

	2020	2019
Weighted average diluted shares outstanding	**339,661**	376,603
Net income per diluted share	**$ 0.04**	$ 0.46
Net realized investment (gains) losses	**(0.01)**	—
Adjusted net operating income per diluted share	**$ 0.03**	$ 0.46

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

	Six Months Ended June 30,					
	2020			2019		
(In thousands, except per share amounts)	**Pre-tax**	**Tax effect**	**Net (after-tax)**	Pre-tax	Tax effect	Net (after-tax)
Income before tax / Net income	**$ 204,722**	**$ 40,870**	**$ 163,852**	$ 402,147	$ 82,428	$ 319,719
Adjustments:						
Net realized investment (gains) losses	**(8,149)**	**(1,711)**	**(6,438)**	403	85	318
Adjusted pre-tax operating income / Adjusted net operating income	**$ 196,573**	**$ 39,159**	**$ 157,414**	$ 402,550	$ 82,513	$ 320,037

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

	2020	2019
Weighted average diluted shares outstanding	**362,003**	376,635
Net income per diluted share	**$ 0.48**	$ 0.87
Net realized investment (gains) losses	**(0.02)**	—
Adjusted net operating income per diluted share	**$ 0.46**	$ 0.87

Mortgage Insurance Portfolio

New insurance written

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

The COVID-19 pandemic, including the related restrictions on business in many parts of the U.S., and its effect on unemployment and consumer confidence, may affect the number of purchase mortgage originations.

NIW for the second quarter of 2020 was $28.2 billion (Q2 2019: $14.9 billion) and for the first six months of 2020 was $46.1 billion (YTD 2019: $25.0 billion). The increase is primarily driven by higher NIW from refinances and purchases in Q2 2020 compared to Q2 2019.

The following tables present characteristics of our primary NIW for the three and six months ended June 30, 2020 and 2019.

Primary NIW by FICO score

	Three Months Ended June 30,		Six Months Ended June 30,	
(% of primary NIW)	**2020**	2019	**2020**	2019
760 and greater	**47.1%**	43.9%	**46.6%**	42.9%
740 - 759	**19.3%**	18.0%	**19.6%**	17.7%
720 - 739	**13.4%**	13.6%	**13.6%**	14.0%
700 - 719	**9.7%**	11.4%	**10.0%**	11.7%
680 - 699	**7.0%**	7.3%	**7.0%**	7.4%
660 - 679	**2.0%**	3.3%	**1.9%**	3.6%
640 - 659	**1.0%**	1.7%	**1.0%**	1.9%
639 and less	**0.5%**	0.8%	**0.3%**	0.8%

Primary NIW by loan-to-value

	Three Months Ended June 30,		Six Months Ended June 30,	
(% of primary NIW)	**2020**	2019	**2020**	2019
95.01% and above	**8.5%**	16.1%	**8.5%**	16.7%
90.01% to 95.00%	**38.8%**	43.3%	**40.4%**	42.7%
85.01% to 90.00%	**31.8%**	27.9%	**31.4%**	28.2%
80.01% to 85%	**20.9%**	12.7%	**19.7%**	12.4%

Primary NIW by debt-to-income ratio

	Three Months Ended June 30,		Six Months Ended June 30,	
(% of primary NIW)	**2020**	2019	**2020**	2019
45.01% and above	**10.8%**	14.7%	**11.6%**	16.3%
38.01% to 45.00%	**30.0%**	31.9%	**31.0%**	32.8%
38.00% and below	**59.2%**	53.4%	**57.4%**	50.9%

Primary NIW by policy payment type

	Three Months Ended June 30,		Six Months Ended June 30,	
(% of primary NIW)	**2020**	2019	**2020**	2019
Monthly premiums	**88.1%**	84.2%	**86.9%**	84.1%
Single premiums	**11.8%**	15.7%	**13.0%**	15.8%
Annual premiums	**0.1%**	0.1%	**0.1%**	0.1%

Primary NIW by type of mortgage

	Three Months Ended June 30,		Six Months Ended June 30,	
(% of primary NIW)	**2020**	2019	**2020**	2019
Purchases	**56.8%**	89.2%	**60.1%**	90.2%
Refinances	**43.2%**	10.8%	**39.9%**	9.8%

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 68.2% at June 30, 2020 compared to 75.8% at December 31, 2019 and 80.8% at June 30, 2019. Since 2000, our year-end persistency ranged from a high of 84.7% at December 31, 2009 to a low of 47.1% at December 31, 2003.

IIF and RIF

	Three Months Ended June 30,		Six Months Ended June 30,	
(In billions)	**2020**	2019	**2020**	2019
NIW	**$ 28.2**	$ 14.9	**$ 46.1**	$ 25.0
Cancellations	**(23.2)**	(12.4)	**(37.9)**	(20.8)
Increase in primary IIF	**$ 5.0**	$ 2.5	**$ 8.2**	$ 4.2
Direct primary IIF as of June 30,	**$ 230.5**	$ 213.9	**$ 230.5**	$ 213.9
Direct primary RIF as of June 30,	**$ 58.7**	$ 55.2	**$ 58.7**	$ 55.2

Credit profile of our primary RIF

The proportion of our total primary RIF written after 2008 has been steadily increasing in proportion to our total primary RIF. Our 2009 and later books possess significantly improved risk characteristics when compared to our 2005-2008 books. The credit profile of our pre-2009 RIF has benefited from modification and refinance programs making outstanding loans more affordable to borrowers with the goal of reducing the number of foreclosures. These programs included HAMP and HARP, which expired at the end of 2016 and 2018, respectively, but have been replaced by other GSE modification programs. HARP allowed borrowers who were not delinquent, but who may not otherwise have been able to refinance their loans under the current GSE underwriting standards due to, for example, the current LTV exceeding 100%, to refinance and lower their note rate. Loans associated with 93.8% of all our HARP modifications were current as of June 30, 2020. The aggregate of our 2009 and later books and our HARP modifications accounted for approximately 93% of our total primary RIF at June 30, 2020.

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

The composition of our primary RIF as of June 30, 2020, December 31, 2019, and June 30, 2019 is shown below:

Primary RIF

($ in millions)	June 30, 2020		December 31, 2019		June 30, 2019	
Policy Year	**RIF**	**% of RIF**	RIF	% of RIF	RIF	% of RIF
2009+	**$ 52,237**	**89%**	$ 50,044	88%	$ 47,141	85%
2005 - 2008 (HARP)	**2,213**	**4%**	2,485	4%	2,805	5%
Other years (HARP)	**95**	**—%**	165	—%	196	1%
Subtotal	**54,545**	**93%**	52,694	92%	50,142	91%
2005- 2008 (Non-HARP)	**3,600**	**6%**	3,868	7%	4,287	8%
Other years (Non-HARP)	**533**	**1%**	651	1%	775	1%
Subtotal	**4,133**	**7%**	4,519	8%	5,062	9%
Total Primary RIF	**$ 58,678**	**100%**	$ 57,213	100%	$ 55,204	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 $360 million ($212 million on pool policies with aggregate loss limits and $148 million on pool policies without aggregate loss limits) at June 30, 2020 compared to $376 million ($213 million on pool policies with aggregate loss limits and $163 million on pool policies without aggregate loss limits) at December 31, 2019. If claim payments associated with a specific pool reach the aggregate loss limit, the remaining IIF within the pool would be cancelled and any remaining delinquencies under the pool would be removed from our delinquent inventory.

In connection with the GSEs' CRT programs, an insurance subsidiary of MGIC provides insurance and reinsurance covering portions of the credit risk related to certain reference pools of mortgages acquired by the GSEs. Our RIF, as reported to us, related to these programs was approximately $279 million and $182 million as of June 30, 2020 and December 31, 2019, respectively.

Consolidated Results of Operations

The following section of the MD&A provides a comparative discussion of MGIC Investment Corporation's Consolidated Results of Operations for the three and six months ended June 30, 2020 and 2019.

Revenues

Revenues

	Three Months Ended June 30,			Six Months Ended June 30,		
(in millions)	**2020**	2019	% Change	**2020**	2019	% Change
Net premiums written	**$ 221.4**	$ 243.6	(9)	**$ 467.4**	$ 487.9	(4)
Net premiums earned	**$ 243.6**	$ 247.1	(1)	**$ 504.5**	$ 496.9	2
Investment income, net of expenses	**39.7**	42.4	(6)	**81.0**	83.0	(2)
Net realized investment gains (losses)	**6.7**	0.3	N/M	**8.6**	(0.2)	N/M
Other revenue	**4.0**	2.5	60	**6.8**	4.3	57
Total revenues	**$ 294.0**	$ 292.3	1	**$ 600.9**	$ 584.0	3

Net premiums written and earned

Comparative quarterly results

NPW and NPE decreased for the three months ended June 30, 2020 compared with the prior year due to lower premium rates on our insurance in force and an increase in the reduction for ceded premiums due to the decrease in profit commission from our QSR Transactions. The decrease in profit commission was a result of higher ceded losses incurred. These decreases to NPW and NPE were partially offset by higher average insurance in force and an increase in accelerated premiums from single premium policy cancellations.

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

Premium yields

Premium yield is NPE divided by average IIF during the period and is influenced by a number of key drivers. The following table presents the key drivers of our net premium yield for the three and six months ended June 30, 2020 and from the respective prior year period.

Premium Yield

		Three Months Ended June 30,		Six Months Ended June 30,	
(in basis points)		**2020**	2019	**2020**	2019
In force portfolio yield	(1)	48.1	52.2	48.6	52.3
Premium refunds		**(0.3)**	(0.3)	**(0.5)**	(0.4)
Accelerated earnings on single premium policies		**5.9**	2.1	**4.6**	1.6
Total direct premium yield		**53.7**	54.0	**52.7**	53.5
Ceded premiums earned, net of profit commission and assumed premiums	(2)	**(11.0)**	(7.5)	**(8.1)**	(6.6)
Net premium yield		**42.7**	46.5	**44.6**	46.9

(1) Total direct premiums earned, excluding premium refunds and accelerated premiums from single premium policy cancellations divided by average primary insurance in force.
(2) Assumed premiums include those from our participation in GSE CRT programs, of which the impact on the net premium yield was 0.7 bps at June 30, 2020 compared to 0.5 bps at June 30, 2019.

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

In force Portfolio Yield
è A larger percentage of our IIF from book years with lower premium rates due to a decline in premium rates in recent years resulting from pricing competition, insuring mortgages with lower risk characteristics, certain policies undergoing premium rate resets on their ten-year anniversaries, and the availability of reinsurance.
Premium Refunds
è Premium refunds adversely impact our premium yield and are primarily driven by claim activity and our estimate of refundable premiums on our delinquency inventory.
Accelerated earnings on single premium policies
è Greater amounts of accelerated earned premium from cancellation of single premium policies prior to their estimated policy life, primarily due to increased refinancing activity.
Ceded premiums earned, net of profit commission and assumed premiums
è Ceded premiums earned, net of profit commission adversely impact our premium yield. Ceded premiums earned, net of profit commission, were primarily associated with the QSR Transactions and the Home Re Transactions. Assumed premiums consists primarily of premiums from GSE CRT programs. See "Reinsurance agreements " below for further discussion on our reinsurance transactions.

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

Reinsurance agreements

Quota share reinsurance

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

- è We cede a fixed percentage of premiums on insurance covered by the agreements.
- è We receive the benefit of a profit commission through a reduction in the premiums we cede. The profit commission varies directly and inversely with the level of losses on a "dollar for dollar" basis and can be eliminated at loss levels higher than we experienced in the first half of 2020. As a result, lower levels of ceded losses result in a higher profit commission and less benefit from ceded losses; higher levels of ceded losses result in more benefit from ceded losses and a lower profit commission (or for certain levels of accident year loss ratios, its elimination).
- è We receive the benefit of a ceding commission through a reduction in underwriting expenses equal to 20% of premiums ceded (before the effect of the profit commission).
- è We cede a fixed percentage of losses incurred on insurance covered by the agreements.

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

Quota Share Reinsurance

	As of and For the Three Months Ended June 30,		As of and For the Six Months Ended June 30,	
(Dollars in thousands)	**2020**	2019	**2020**	2019
Ceded premiums written and earned, net of profit commission	**$ 61,357**	$ 36,525	**$ 88,203**	$ 64,689
% of direct premiums written	**22%**	13%	**16%**	12%
% of direct premiums earned	**20%**	13%	**15%**	11%
Profit commission	**$ (1,231)**	$ 37,021	**$ 28,748**	$ 75,902
Ceding commissions	**$ 12,025**	$ 13,356	**$ 23,390**	$ 26,765
Ceded losses incurred	**$ 38,982**	$ 3,440	**$ 44,786**	$ 5,116
Ceded RIF (in millions)	**$ 12,292**	$ 10,212	**$ 12,292**	$ 10,212

Covered risk

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

Quota Share Reinsurance

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	**2020**	2019
NIW subject to QSR Transactions	**73.5%**	83.0%	**72.9%**	83.4%
New Risk Written subject to QSR Transactions	**85.2%**	90.5%	**83.8%**	90.4%
IIF subject to QSR Transactions	**77.0%**	78.2%	**77.0%**	78.2%
RIF subject to QSR Transactions	**81.3%**	80.2%	**81.3%**	80.2%

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

As of June 30, 2020, the weighted average coverage percentage of our QSR transactions was 21% based on RIF.

We terminated a portion of our 2015 QSR Transaction effective June 30, 2019 and entered into an amended quota share reinsurance agreement that effectively reduces the quota share cede rate from 30% to 15% on the remaining eligible insurance. The lower cede rate reduced the weighted average coverage percentage but does not impact our determination of the amount of IIF or RIF subject to quota share reinsurance agreements. We incurred a $6.8 million termination fee in the second quarter of 2019 in conjunction with the termination.

Excess-of-loss reinsurance

Our excess-of-loss reinsurance provides $426.5 million of loss coverage on an existing portfolio of inforce policies having an inforce date on or after July 1, 2016 and before April 1, 2019. As of June 30, 2020, the aggregate exposed principal balances under the Home Re 2018-01 and 2019-01 transactions were approximately $4.8 billion and $4.6 billion, respectively, which take into account the mortgage insurance coverage percentage, net retained risk after quota share reinsurance, and the reinsurance inclusion percentage of the unpaid principal balance. We ceded premiums of $4.4 million and $9.1 million for the three and six months ended June 30, 2020, respectively and $4.5 million and $7.0 million for the three and six months ended June 30, 2019, respectively. The market volatility caused by the COVID-19 pandemic has caused a disruption in the market for new ILN transactions. Although new ILN transactions closed in the market in June and July 2020, we consider their structure and/or terms to be less attractive than prior ILN transactions.

For each of our outstanding ILN transactions, a “Trigger Event” has occurred because the reinsured principal balance of loans that were reported 60 or more days delinquent exceeded 4% of the total reinsured principal balance of loans under each transaction. While the “Trigger Event” is in effect, payment of principal on the related notes will be suspended and the reinsurance coverage available to MGIC under the transactions will not be reduced by such principal payments.

Investment income

Comparative quarterly and year to date results

Net investment income in the three and six months ended June 30, 2020 was $39.7 million and $81.0 million, respectively. Net investment income in the three and six months ended June 30, 2019 was $42.4 million and $83.0 million, respectively. The decreases in investment income were due to lower investment yields, partially offset by an increase in the investment portfolio.

Losses and expenses

Losses and expenses

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	**2020**	2019	**2020**	2019
Losses incurred, net	**$ 217.4**	$ 21.8	**$ 278.3**	$ 60.9
Amortization of deferred policy acquisition costs	**2.9**	2.8	**5.4**	5.2
Other underwriting and operating expenses, net	**44.3**	43.0	**86.5**	88.9
Interest expense	**12.9**	13.6	**25.9**	26.8
Total losses and expenses	**$ 277.5**	$ 81.1	**$ 396.1**	$ 181.8

Losses incurred, net

As discussed in “Critical Accounting Policies” in our 2019 10-K MD&A, we establish case loss reserves for future claims on delinquent loans that were reported to us as two payments past due and have not become current or resulted in a claim payment. Such loans are referred to as being in our delinquency inventory. Case loss reserves are established based on estimating the number of loans in our delinquency 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.

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

Estimation of losses is inherently judgmental. The conditions that affect the claim rate and claim severity include the current and future state of the domestic economy, including unemployment, and the current and future strength of local housing markets. The actual amount of the claim payments may be substantially different than our loss reserve estimates. Our estimates could be adversely affected by several factors, including a deterioration of regional or national economic conditions, including unemployment, leading to a reduction in borrower income and thus their ability to make mortgage payments, and a drop in housing values that could result in, among other things, greater losses on loans, and may affect borrower willingness to continue to make mortgage payments when the value of the home is below the mortgage balance. Historically, losses incurred have followed a seasonal trend in which the second half of the year has weaker credit performance than the first half, with higher new notice activity and a lower cure rate.

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

Our estimates are also affected by any agreements we enter into regarding our claims paying practices. 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 2020 were $217.4 million compared to $21.8 million in the prior year. The second quarter of 2020 was impacted by an increase in new delinquency notices as well as an increase in IBNR estimates due to the impacts of the COVID-19 pandemic, including unemployment resulting from initiatives intended to reduce the transmission of COVID-19. In the second quarter of 2020, we received 44,669 more new delinquency notices than we did in the same period last year. IBNR and other reserve estimates increased from $30 million at December 31, 2019 to $61 million at June 30, 2020. In the second quarter of 2020, our re-estimation of loss reserves on previously received delinquencies resulted in $10 million adverse loss reserve development, compared to favorable development in the second quarter of 2019 of $31 million.

Comparative year to date results

Losses incurred, net in the six months ended June 30, 2020 were $278.3 million compared to $60.9 million in the prior year period. The increase is due to an increase in the delinquency inventory. The delinquency inventory increased by 39,298 in the six months ended June 30, 2020, compared to a decrease of 3,103 in the six months ended June 30, 2019 due to the impacts of the COVID-19 pandemic, including unemployment resulting from initiatives intended to reduce the transmission of COVID-19.

Composition of losses incurred

	Three Months Ended June 30,			Six Months Ended June 30,		
(in millions)	**2020**	2019	% Change	**2020**	2019	% Change
Current year / New notices	**$ 205.7**	$ 46.6	342	**$ 265.5**	$ 94.1	182
Prior year reserve development	**11.6**	(24.8)	(147)	**12.8**	(33.2)	(139)
Losses incurred, net	**$ 217.4**	$ 21.8	897	**$ 278.3**	$ 60.9	357

Loss ratio

The loss ratio is the ratio, expressed as a percentage, of the sum of incurred losses and loss adjustment expenses to net premiums earned. The increase in the loss ratio for the three and six months ended June 30, 2020 compared to the respective prior year periods was primarily due to an increase in losses incurred discussed above.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	**2020**	**2019**
Loss ratio	**89.2%**	8.8%	**55.2%**	**12.3%**

New notice claim rate

New notice activity was primarily driven by a sharp increase in delinquency notices received during the second quarter related to the COVID-19 pandemic and its related effects (including higher unemployment and the widespread introduction of loan forbearance plans as a mechanism for economic relief).

The number of loans entering forbearance plans is unprecedented. Historically, forbearance plans have reduced the incidence of our losses on affected loans. However, given the uncertainty surrounding the long-term economic impact of COVID-19, it is difficult to predict the ultimate effect of COVID-19 related forbearances on our loss incidence. Whether a loan's delinquency will cure when its forbearance plan ends will depend on the economic circumstances of the borrower at that time. Forbearance information is based on the most recent information provided by the GSEs, as well as loan servicers, and we believe represents only forbearances related to COVID-19. While the forbearance information provided by the GSEs refers to delinquent loans in forbearance as of the prior month-end, the information provided by loan servicers may be more current. We expect our delinquency inventory to continue to increase as a result of the COVID-19 pandemic.

The decrease in the new notice claim rate for the three and six months ended June 30, 2020 is primarily due to the increase in new notices of delinquency reported to as being in a COVID-19 related forbearance plan. As of June 30, 2020 67% of our delinquency inventory were in such plans.

New notice claim rate

	Three Months Ended June 30,				Six Months Ended June 30,			
	2020		2019		**2020**		2019	
New notices - 2008 books and prior (1)	**13,824**	**24%**	8,573	66%	**20,941**	**30%**	17,455	66%
New notices - 2009 books and later	**43,760**	**76%**	4,342	34%	**49,041**	**70%**	9,009	34%
Total	**57,584**	**100%**	12,915	100%	**69,982**	**100%**	26,464	100%
Claim rate	**6.6%**		8.0%		**7.0%**		8.0%	
(1) previously delinquent % for 2008 books and prior	**79.8%**		94.0%		**84.9%**		94.0%	

Claims severity

Factors that impact claim severity include:

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

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

The majority of loans from 2005 through 2008 (which represent 28% of the loans in the delinquent inventory) are covered by master policy terms that, except under certain circumstances, do not limit the number of years that an insured can include interest when filing a claim. Under our current master policy terms, an insured can include accumulated interest when filing a claim only for the first three years the loan is delinquent. In each case, the insured must comply with its obligations under the terms of the applicable master policy.

Claims severity trend for claims paid during the period

Period	Average exposure on claim paid	Average claim paid	% Paid to exposure	Average number of missed payments at claim received date
Q2 2020	**44,905**	**42,915**	**95.6%**	**32**
Q1 2020	46,247	47,222	102.1%	33
Q4 2019	46,076	46,302	100.5%	34
Q3 2019	42,821	44,388	103.7%	35
Q2 2019	46,950	46,883	99.9%	34
Q1 2019	42,277	43,930	103.9%	35
Q4 2018	45,366	47,980	105.8%	35
Q3 2018	43,290	47,230	109.1%	35
Q2 2018	44,522	50,175	112.7%	38

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

The decrease in the average claim paid and the average claim paid as a percentage of exposure, for the 2nd quarter of 2020, was primarily related to favorable loss mitigation on claims resolved during the quarter.

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, 2020, assuming all other factors remain constant, a $1,000 increase/decrease in the average severity reserve factor would change the reserve amount by approximately +/- $40 million. A 1 percentage point increase/decrease in the average claim rate reserve factor would change the reserve amount by approximately +/- $13 million.

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

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

Delinquency inventory - number of payments delinquent

	June 30, 2020	**June 30, 2020**	**June 30, 2020**	December 31, 2019	June 30, 2019
	Non-Forbearance	**Forbearance**	**Total**	Total	Total
3 payments or less	**10,582**	**41,295**	**51,877**	14,895	14,071
4-11 payments	**6,003**	**5,023**	**11,026**	8,519	8,194
12 payments or more (1)	**6,057**	**366**	**6,423**	6,614	7,530
Total	**22,642**	**46,684**	**69,326**	30,028	29,795
3 payments or less	**47%**	**89%**	**75%**	50%	47%
4-11 payments	**26%**	**10%**	**16%**	28%	27%
12 payments or more	**27%**	**1%**	**9%**	22%	26%
Total	**100%**	**100%**	**100%**	100%	100%

(1) Approximately 33%, 33%, and 35% of the primary delinquent inventory with 12 payments or more delinquent has at least 36 payments delinquent as of June 30, 2020, December 31, 2019, and June 30, 2019, respectively.

Net losses and LAE paid

Net losses and LAE paid in the three and six months ended June 30, 2020 declined 22% and 20%, respectively compared to the same period in the prior year due to lower claim activity on our primary business.

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

The following table presents our net losses and LAE paid for the three and six months ended June 30, 2020 and 2019.

Net losses and LAE paid

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	**2020**	2019	**2020**	2019
Total primary (excluding settlements)	**$ 29**	$ 52	**$ 71**	$ 104
Pool	**—**	—	**1**	1
Direct losses paid	**29**	52	**72**	105
Reinsurance	**(2)**	(2)	**(3)**	(5)
Net losses paid	**27**	50	**69**	100
LAE	**5**	5	**9**	12
Net losses and LAE paid	**$ 32**	$ 55	**78**	$ 112
Reinsurance terminations	**—**	(14)	**—**	(14)
Net losses and LAE paid	**$ 32**	$ 41	**$ 78**	$ 98

Primary claims paid for the top 15 jurisdictions (based on 2020 losses paid) and all other jurisdictions for the three and six months ended June 30, 2020 and 2019 appears in the following table.

Paid losses by jurisdiction

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	**2020**	2019	**2020**	2019
Florida *	**$ 3**	$ 7	**$ 10**	$ 15
New York *	**3**	6	**8**	14
New Jersey *	**2**	6	**6**	12
Illinois *	**2**	4	**6**	7
Maryland	**2**	3	**5**	5
Puerto Rico *	**1**	2	**4**	6
Pennsylvania *	**1**	2	**3**	5
California	**1**	2	**2**	2
Ohio *	**1**	1	**2**	3
Massachusetts	**1**	1	**2**	2
Virginia	**1**	1	**2**	2
Texas	**1**	1	**2**	2
Michigan	**1**	1	**1**	2
Connecticut *	**1**	1	**1**	3
Indiana *	**1**	1	**1**	1
All other jurisdictions	**7**	13	**16**	23
Total primary (excluding settlements)	**$ 29**	$ 52	**$ 71**	104

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

The primary average claim paid for the top 5 states (based on 2020 losses paid) for the three and six months ended June 30, 2020 and 2019 appears in the following table.

Primary average claim paid

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	**2020**	2019
Florida *	**$ 52,669**	$ 65,399	$ 62,345	$ 66,667
New York *	**101,164**	108,858	108,762	108,975
New Jersey *	**97,622**	90,028	101,958	79,986
Illinois *	**40,017**	45,430	42,455	39,917
Maryland	**54,163**	75,878	64,103	60,180
All other jurisdictions	**34,527**	33,931	34,535	33,591
All jurisdictions	**42,915**	46,883	45,394	45,358

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

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

The primary average RIF on delinquent loans at June 30, 2020, December 31, 2019 and June 30, 2019 and for the top 5 jurisdictions (based on 2020 losses paid) appears in the following table.

Primary average RIF - delinquent loans

	June 30, 2020	December 31, 2019	June 30, 2019
Florida	**$ 58,968**	$ 52,566	$ 53,333
New York	**74,959**	72,188	72,057
New Jersey	**68,520**	64,444	66,284
Illinois	**44,829**	38,740	40,339
Maryland	**71,298**	64,028	63,484
All other jurisdictions	**54,405**	41,145	40,631
All jurisdictions	**56,236**	45,028	44,915

The primary average RIF on all loans was $53,713, $52,995, and $51,791 at June 30, 2020, December 31, 2019, and June 30, 2019, respectively.

Loss reserves

Our primary delinquency rate at June 30, 2020 was 6.35% (YE 2019: 2.78%, June 30, 2019: 2.80%). Our primary delinquent inventory was 69,326 loans at June 30, 2020, representing an increase of 131% from December 31, 2019 and 133% from June 30, 2019. The increase in our primary delinquency inventory is primarily due to the adverse economic impact of the COVID-19 pandemic. As of June 30, 2020 67% of our delinquency inventory were reported to us as subject to COVID-19 related forbearance plans. In recent periods, we have experienced a decline in the number of delinquencies in inventory with twelve or more missed payments. Generally, a defaulted loan with fewer missed payments is less likely to result in a claim. However, given the uncertainty surrounding the long-term economic impact of COVID-19, it is difficult to predict the ultimate effect of COVID-19 related forbearances on our loss incidence. Whether a loan’s delinquency will cure when its forbearance plan ends will depend on the economic circumstances of the borrower at that time.

The gross reserves at June 30, 2020, December 31, 2019, and June 30, 2019 appear in the table below.

Gross reserves

	June 30, 2020		December 31, 2019		June 30, 2019	
Primary:						
Direct loss reserves (in millions)	**$ 677**		$ 490		$ 537	
IBNR and LAE	**110**		56		73	
Total primary loss reserves	**$ 787**		$ 546		$ 610	
Ending delinquent inventory		**69,326**		30,028		29,795
Percentage of loans delinquent (delinquency rate)		**6.35%**		2.78%		2.80%
Average total primary loss reserves per delinquency		**$ 11,357**		$ 18,171		$ 19,684
Primary claims received inventory included in ending delinquent inventory		**247**		538		630
Pool (1):						
Direct loss reserves (in millions):						
With aggregate loss limits	**$ 7**		$ 7		$ 9	
Without aggregate loss limits	**3**		2		2	
Total pool direct loss reserves	**$ 10**		$ 9		$ 11	
Ending default inventory:						
With aggregate loss limits		**457**		430		432
Without aggregate loss limits		**248**		223		209
Total pool ending delinquent inventory		**705**		653		641
Pool claims received inventory included in ending delinquent inventory		**5**		11		19
Other gross reserves (2) (in millions)	**$ —**		$ —		$ 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.

(2) Other Gross Reserves includes direct and assumed reserves that are not included within our primary or pool loss reserves.

The primary delinquency inventory for the top 15 jurisdictions (based on 2020 losses paid) at June 30, 2020, December 31, 2019 and June 30, 2019 appears in the following table.

Primary delinquency inventory by jurisdiction

	Non-Forbearance June 30, 2020	**Forbearance June 30, 2020**	**Total June 30, 2020**	Total December 31, 2019	Total June 30, 2019
Florida *	**1,911**	**5,697**	**7,608**	2,504	2,497
New York *	**1,373**	**1,600**	**2,973**	1,634	1,692
New Jersey *	**831**	**1,788**	**2,619**	992	986
Illinois *	**1,324**	**2,498**	**3,822**	1,749	1,610
Maryland	**592**	**1,228**	**1,820**	796	785
Puerto Rico *	**925**	**1,601**	**2,526**	1,122	1,257
Pennsylvania *	**1,319**	**2,041**	**3,360**	1,755	1,769
California	**1,039**	**3,703**	**4,742**	1,213	1,178
Ohio *	**1,127**	**1,698**	**2,825**	1,498	1,449
Massachusetts	**447**	**573**	**1,020**	544	525
Virginia	**436**	**1,251**	**1,687**	580	586
Texas	**1,425**	**3,936**	**5,361**	2,251	2,136
Michigan	**706**	**1,537**	**2,243**	921	932
Connecticut *	**403**	**656**	**1,059**	506	468
Indiana *	**602**	**659**	**1,261**	843	880
All other jurisdictions	**8,182**	**16,218**	**24,400**	11,120	11,045
Total	**22,642**	**46,684**	**69,326**	30,028	29,795

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 delinquency inventory by policy year at June 30, 2020, December 31, 2019 and June 30, 2019 appears in the following table.

Primary delinquency inventory by policy year

	Non-Forbearance	**Forbearance**	**Total**	Total	Total
	June 30, 2020	**June 30, 2020**	**June 30, 2020**	December 31, 2019	June 30, 2019
Policy year:					
2004 and prior	**3,140**	**1,240**	**4,380**	4,686	5,451
2004 and prior %	***14%***	***3%***	***6%***	*16%*	*18%*
2005	**1,982**	**869**	**2,851**	2,799	3,029
2006	**3,262**	**1,773**	**5,035**	4,582	4,780
2007	**4,561**	**4,358**	**8,919**	7,096	7,429
2008	**1,170**	**1,602**	**2,772**	1,798	1,934
2005 - 2008 %	***48%***	***18%***	***28%***	*54%*	*59%*
2009	**87**	**104**	**191**	148	154
2010	**70**	**49**	**119**	115	115
2011	**90**	**125**	**215**	143	156
2012	**165**	**349**	**514**	231	245
2013	**336**	**876**	**1,212**	521	502
2014	**673**	**1,836**	**2,509**	1,101	1,021
2015	**933**	**3,109**	**4,042**	1,388	1,292
2016	**1,093**	**5,050**	**6,143**	1,578	1,393
2017	**1,383**	**7,112**	**8,495**	1,989	1,476
2018	**1,376**	**8,106**	**9,482**	1,521	772
2019	**1,556**	**9,065**	**10,621**	332	46
2020	**765**	**1,061**	**1,826**	—	—
2009 and later %	***38%***	***79%***	***66%***	*30%*	*23%*
Total	**22,642**	**46,684**	**69,326**	30,028	29,795

We expect that delinquencies will increase from their current level as a result of the COVID-19 pandemic, including as a result of the increase in unemployment associated with initiatives intended to reduce the transmission of COVID-19. Historically, forbearance plans have reduced the incidence of our losses on affected loans. However, given the uncertainty surrounding the long-term economic impact of COVID-19, it is difficult to predict the ultimate effect of COVID-19 related forbearances on our loss incidence. Whether a loan's delinquency will cure when its forbearance plan ends will depend on the economic circumstances of the borrower at that time. Forbearance information is based on the most recent information provided by the GSEs, as well as loan servicers, and we believe represents only forbearances related to COVID-19. While the forbearance information provided by the GSEs refers to delinquent loans in forbearance as of the prior month-end, the information provided by loan servicers may be more current.

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, 2020, 53% of our primary RIF was written subsequent to December 31, 2017, 65% of our primary RIF was written subsequent to December 31, 2016, and 76% of our primary RIF was written subsequent to December 31, 2015.

Underwriting and other expenses, net

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

Underwriting and other expenses, net for the three months ended June 30, 2020 were $44.3 million, a slight increase from $43.0 million in the prior year period primarily due to increases in equipment and software expense and professional services. Underwriting and other expenses, net, for the six months ended June 30, 2020 were $86.5 million compared with $88.9 million in the same period in the prior year, primarily due to decreases in professional services and employee compensation costs, including compensation for stock grants, partially offset by increases in equipment and software expenses.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	**2020**	2019
Underwriting expense ratio	**20.1%**	17.6%	**18.6%**	18.3%

The underwriting expense ratio is the ratio, expressed as a percentage, of the underwriting and operating expenses, net and amortization of DAC of our combined insurance operations (which excludes underwriting and operating expenses of our non-insurance subsidiaries) to NPW. The underwriting expense ratio in the three months ended June 30, 2020 increased due to increase in underwriting expenses and a decrease in NPW compared with the same period the prior year. The underwriting expense in the six months ended June 30, 2020 increased slightly due to a slight decrease in NPW compared with the same period the prior year, partially offset by a slight decrease in underwriting expenses.

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)	**2020**	2019	**2020**	2019
Income before tax	**$ 16.5**	$ 211.2	**$ 204.7**	$ 402.1
Provision for income taxes	**$ 2.4**	$ 43.4	**$ 40.9**	$ 82.4
Effective tax rate	**14.8%**	20.5%	**20.0%**	20.5%

The difference between our statutory tax rate of 21% and our effective tax rate of 14.8% for the 3 months ended June 30, 2020 was due to an underwriting loss and the benefits of tax preferenced securities. The difference between our statutory tax rate of 21% and our effective tax rate of 20.5% for the 3 months ended June 30, 2019 was primarily due to the benefits of tax preferenced securities.

The difference between our statutory tax rate of 21% and our effective rate of 20.0% and 20.5% for the first six months of 2020 and 2019, respectively, was primarily due to the benefits of tax preferenced securities.

Balance Sheet Review

Total assets, liabilities, and shareholders' equity

As of June 30, 2020, total assets were $6.6 billion, an increase from $6.2 billion at December 31, 2019, and total liabilities were $2.2 billion, an increase compared to $1.9 billion at December 31, 2019. Shareholders' equity increased approximately $0.1 billion primarily due to net income in the first six months of 2020, partially offset by repurchases of our common stock and dividends paid.

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

Consolidated balance sheets - Assets

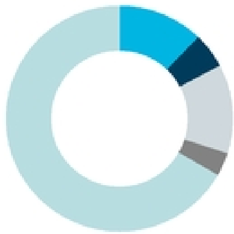
as of June 30, 2020 *(In thousands)*

Cash and cash equivalents	$	**371,393**
Investments		**5,883,315**
Premiums receivable		**54,028**
Other assets		**265,852**

Cash and cash equivalents (including restricted) - Our cash and cash equivalents balance increased to $371 million as of June 30, 2020, from $169 million as of December 31, 2019, as net cash generated from operating activities was only partly offset by net cash used in investing and financing activities.

Consolidated balance sheets - Liabilities and equity

as of June 30, 2020 *(In thousands)*



Loss reserves	$	**797,396**
Unearned premiums		**343,229**
Long-term debt		**833,315**
Other liabilities		**217,293**
Shareholders' equity		**4,383,355**

Loss reserves - Our loss reserves include estimates of losses and settlement expenses on (1) loans in our delinquency inventory (known as case reserves), (2) IBNR, and (3) LAE reserves. Our gross reserves are reduced by reinsurance recoverable on our estimated losses and settlement expenses to calculate a net reserve balance. The net reserve balance increased by 38% to $734 million as of June 30, 2020, from $534 million as of December 31, 2019. Reinsurance recoverables on our estimated losses and settlement expenses were $63 million and $22 million as of June 30, 2020 and December 31, 2019, respectively. The overall increase in our net loss reserves during the first six months of 2020 was due to an increase in new delinquency notices as well as IBNR, each due to the impacts of the COVID-19 pandemic.

Investment portfolio

The average duration and investment yield of our investment portfolio as of June 30, 2020, December 31, 2019, and June 30, 2019 are shown in the table below.

Portfolio duration and embedded investment yield

	June 30, 2020	December 31, 2019	June 30, 2019
Duration (in years)	**4.0**	3.9	4.0
Pre-tax yield (1)	**2.8%**	3.1%	3.2%
After-tax yield (1)	**2.3%**	2.5%	2.6%

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

The security ratings of our fixed income investments as of June 30, 2020, December 31, 2019, and June 30, 2019 are shown in the following table.

Fixed income security ratings

	Security Ratings (1)			
Period	**AAA**	**AA**	**A**	**BBB**
June 30, 2020	**24%**	**20%**	**34%**	**21%**
December 31, 2019	21%	20%	34%	24%
June 30, 2019	21%	22%	33%	24%

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

Off-Balance Sheet Arrangements

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

Liquidity and Capital Resources

Consolidated Cash Flow Analysis

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

Summary of consolidated cash flows

	Six Months Ended June 30,	
(In thousands)	**2020**	2019
Total cash provided by (used in):		
Operating activities	$ 420,125	$ 281,611
Investing activities	(47,466)	(169,233)
Financing activities	(170,322)	(42,233)
Increase in cash and cash equivalents and restricted cash and cash equivalents	**$ 202,337**	$ 70,145

Net cash provided by operating activities for the six months ended June 30, 2020 increased compared to the same period of 2019 primarily due to lower level of losses paid, net, partially offset by decreases in investment income and net premiums written.

Net cash used in investing activities for the six months ended June 30, 2020 primarily reflects purchases of fixed income and equity securities during the period partially offset by sales and maturities of fixed income and equity securities during the period as cash from operations was available for additional investment.

Net cash used in investing activities for the six months ended June 30, 2019 reflects purchases of fixed income securities in an amount that exceeded our proceeds from the sales and maturities of fixed income securities during the period as cash from operations was available for additional investment.

Net cash used in financing activities for the six months ended June 30, 2020 and June 30, 2019 primarily reflects share repurchases during the period in and the payment of withholding taxes related to share-based compensation net share settlement. Net cash used in financing activities for six months ended June 30, 2020 also includes cash dividends paid to shareholders.

Capitalization

Debt - holding company

As of June 30, 2020, our holding company's debt obligations were $815 million in aggregate principal consisting of our 5.75% Notes and 9% Debentures. MGIC's ownership of $132.7 million of our holding company's 9% Debentures is eliminated in consolidation, but they remain outstanding obligations owed by our holding company to MGIC.

Liquidity analysis - holding company

As of June 30, 2020, we had approximately $529.6 million in cash and investments at our holding company. These resources are maintained primarily to service our debt interest expense, pay debt maturities, repurchase shares, pay dividends to shareholders, and to settle intercompany obligations. While these assets are held, we generate investment income that serves to offset a portion of our interest expense. Investment income and the payment of dividends from our insurance subsidiaries are the principal sources of holding company cash inflow. MGIC is the principal source of dividends, and their payment is restricted by insurance regulation. See Note 14 - "Statutory Information" to our consolidated financial statement for additional information about MGIC's dividend restrictions. The payment of dividends from MGIC is also influenced by our view of the appropriate level of PMIERs Available Assets to maintain an excess over Minimum Required Assets. Other sources of holding company liquidity include raising capital in the public markets. The ability to raise capital in the public markets is subject to prevailing market conditions, investor demand for the securities to be issued, and our deemed creditworthiness.

In light of the uncertainty caused by the COVID-19 pandemic, we have temporarily suspended stock repurchases and did not repurchase any shares in the second quarter of 2020. See "Overview - Capital" of this MD&A for a discussion of the additional share repurchase program authorized in January 2020.

In the second quarter of 2020 we used $21 million to pay cash dividends to shareholders. On July 30, 2020, our Board of Directors declared a quarterly cash dividend of $0.06 per common share to shareholders of record on August 11, 2020, payable on August 28, 2020.

In the first six months of 2020, our holding company cash and investments increased by $205 million to $530 million as of June 30, 2020.

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

- $390 million of dividends received from MGIC and
- $8 million of investment income.

Significant cash *outflows* during the first six months:

- $120 million of share repurchase transactions,
- $42 million in cash dividends paid to shareholders, and
- $30 million of interest payments on our 5.75% Notes and 9% Debentures,

MGIC did not pay a dividend during the second quarter. Future dividend payments from MGIC to the holding company will be determined on a quarterly basis, in consultation with the board, and after considering any updated estimates about the length and severity of the economic impacts of the COVID-19 pandemic on our business. We ask the Wisconsin OCI not to object before MGIC pays dividends to the holding company. Under the PMIERS guidance, any dividend paid by MGIC to our holding company, through March 31, 2021, requires GSE approval.

The net unrealized gains on our holding company investment portfolio were approximately $2.6 million at June 30, 2020 and the portfolio had a modified duration of approximately 1.7 years.

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

See Note 7 – "Debt" to our consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2019 for additional information about the conversion terms of our 9% Debentures and the terms of our indebtedness, including our option to defer interest on our 9% Debentures. The description in Note 7 - "Debt" to our consolidated financial statements in our Annual Report on Form 10-K is qualified in its entirety by the terms of the notes and debentures.

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

Debt at subsidiaries

MGIC is a member of the FHLB, which provides MGIC access to an additional source of liquidity via a secured lending facility. MGIC borrowed $155 million in the form of a fixed rate advance from the FHLB. Interest on the Advance is payable monthly at an annual rate, fixed for the term of the Advance, of 1.91%. The principal of the Advance matures on February 10, 2023. MGIC may prepay the Advance at any time. Such prepayment would be below par if interest rates have risen after the Advance was originated, or above par if interest rates have declined. The Advance is secured by eligible collateral whose fair value is maintained at a minimum of 102% of the outstanding principal balance. MGIC provided eligible collateral from its investment portfolio.

Capital Adequacy

PMIERs

As of June 30, 2020, MGIC's Available Assets under the PMIERs totaled approximately $4.5 billion, an excess of approximately $1.1 billion over its Minimum Required Assets; and MGIC is in compliance with the requirements of the PMIERs and eligible to insure loans delivered to or purchased by the GSEs. Maintaining a sufficient level of Available Assets will allow MGIC to remain in compliance with the PMIERs financial requirements. Our reinsurance transactions provided an aggregate of approximately $1.2 billion of capital credit under the PMIERs as of June 30, 2020. Refer to Note 4 - "Reinsurance" to our consolidated financial statements for additional information on our QSR and Home Re Transactions.

We anticipate an increase to our delinquency inventory due to the impacts of the COVID-19 pandemic. The PMIERs generally require us to hold significantly more Minimum Required Assets for delinquent loans than for performing loans and the Minimum Required Assets required to be held increases as the number of payments missed on a delinquent loan increases. For delinquent loans whose initial missed payment occurred on or after March 1, 2020 and prior to January 1, 2021 (the "COVID-19 Crisis Period"), the Minimum Required Assets are generally reduced by 70% for at least three months. The 70% reduction will continue, or be newly applied, for delinquent loans that are subject to a forbearance plan that is granted in response to a financial hardship related to COVID-19, the terms of which are materially consistent with terms of forbearance plans offered by Freddie Mac or Fannie Mae. Under the PMIERs, a forbearance plan on a loan with an initial missed payment occurring during the COVID-19 Crisis Period is assumed to have been granted in response to a financial hardship related to COVID-19. Loans considered to be subject to a forbearance plan include those that are in a repayment plan or loan modification trial period following the forbearance plan.

We expect the GSEs and servicers will provide us with information about the forbearance status for nearly all of the loans in our delinquency inventory. The forbearance information provided by the GSEs will be with respect to delinquent loans in forbearance as of the prior month-end, while the information provided by loan servicers may be more current. As a result, in some cases, there may be a delay in our ability to take advantage of the 70% reduction.

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

Risk-to-capital

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

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

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

Risk-to-capital - MGIC separate company

(In millions, except ratio)		**June 30, 2020**		December 31, 2019
RIF - net (1)	**$**	**42,406**	$	44,338
Statutory policyholders' surplus		**1,246**		1,619
Statutory contingency reserve		**3,168**		2,963
Statutory policyholders' position	**$**	**4,415**	$	4,582
Risk-to-capital		**9.6:1**		9.7:1

(1) RIF – net, as shown in the table above is net of reinsurance and exposure on policies currently delinquent ($4.0 billion at June 30, 2020 and $1.5 billion December 31, 2019) for which loss reserves have been established.

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

Risk-to-capital - Combined insurance companies

(In millions, except ratio)		**June 30, 2020**		December 31, 2019
RIF - net (1)	**$**	**42,715**	$	44,550
Statutory policyholders' surplus		**1,250**		1,619
Statutory contingency reserve		**3,230**		3,021
Statutory policyholders' position	**$**	**4,480**	$	4,640
Risk-to-capital		**9.5:1**		9.6:1

(1) RIF – net, as shown in the table above, is net of reinsurance and exposure on policies currently delinquent ($4.0 billion at June 30, 2020 and $1.5 billion December 31, 2019) for which loss reserves have been established.

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

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

Financial Strength Ratings

MGIC financial strength ratings

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

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

MAC financial strength ratings

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

Contractual Obligations

The following table summarizes, as of June 30, 2020, the approximate future payments under our contractual obligations and estimated claim payments on established loss reserves.

Contractual obligations

	Payments due by period				
(In millions)	**Total**	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term debt obligations	**$ 1,924.0**	$ 50.6	$ 254.9	$ 483.5	$ 1,135.0
Operating lease obligations	**1.7**	0.9	0.8	—	—
Purchase obligations	**28.0**	17.1	10.4	0.5	—
Other long-term liabilities	**797.4**	299.0	362.0	136.4	—
Total	**$ 2,751.1**	$ 367.6	$ 628.1	$ 620.4	$ 1,135.0

Our long-term debt obligations as of June 30, 2020 include their related interest and are discussed in Note 3 - “Debt” to our consolidated financial statements and under “Liquidity and Capital Resources” above. Our operating lease obligations include operating leases on certain office space, data processing equipment and autos, as discussed in Note 16 – “Leases” to our consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2019. Purchase obligations consist primarily of agreements to purchase items related to our corporate headquarters update and continued investment in our information technology infrastructure in the normal course of business.

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

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

Forward Looking Statements and Risk Factors

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

These factors may also cause actual results to differ materially from the results contemplated by forward looking statements that we may make. Forward looking statements consist of statements which relate to matters other than historical fact. Among others, statements that include words such as we "believe," "anticipate" or "expect," or words of similar import, are forward looking statements. These risk factors, including the discussion of the impact of the COVID-19 pandemic, speak only as of the date of this press release and are subject to change without notice as the Company cannot predict all risks relating to this evolving set of events. We are not undertaking any obligation to update any forward looking statements we may make even though these statements may be affected by events or circumstances occurring after the forward looking statements were made. Therefore, no reader of this document should rely on these statements being current as of any time other than the time at which this document was filed with the Securities and Exchange Commission.

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

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

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

One of the measures used to quantify this exposure is modified duration. Modified duration measures the price sensitivity of the assets to the changes in spreads. At June 30, 2020, the modified duration of our fixed income investment portfolio was 4.0 years, which means that an instantaneous parallel shift in the yield curve of 100 basis points would result in a change of 4.0% in the fair value of our fixed income portfolio. For an upward shift in the yield curve, the fair value of our portfolio would decrease and for a downward shift in the yield curve, the fair value would increase. See Note 7 – "Investments" to our consolidated financial statements for additional disclosure surrounding our investment portfolio.

Item 4. Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended), as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on such evaluation, our principal executive officer and principal financial officer concluded that such controls and procedures were effective as of the end of such period. There was no change in our internal control over financial reporting that occurred during the second quarter of 2020 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1 A. Risk Factors

With the exception of the changes described and set forth below, there have been no material changes in our risk factors from the risk factors disclosed in the Company’s Annual Report on Form 10-K for the year ended December 31, 2019, as supplemented by Part II, Item I A of our Quarterly Report on Form 10-Q for the Quarter ended March 31, 2020. 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.

The COVID-19 pandemic may continue to materially impact our financial results and may also materially impact our business, liquidity and financial condition.

The COVID-19 pandemic had a material impact on our second quarter 2020 financial results. While uncertain, the future impact of the COVID-19 pandemic on the Company’s business, financial results, liquidity and/or financial condition may also be material. We expect that unemployment and economic uncertainty resulting from measures to reduce the transmission of COVID-19 (including previous "shelter-in-place" restrictions and continuing limitations on business), as well as COVID-19-related illnesses and deaths, will negatively impact our business. The magnitude of the impact will be influenced by various factors, including the length and severity of the pandemic in the United States, the length of time that measures intended to reduce the transmission of COVID-19 remain in place, the resulting level of unemployment, and the impact of past and future government initiatives (including the enactment of the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act")) and actions taken by Fannie Mae and Freddie Mac (the "GSEs") (including implementation of mortgage forbearance and modification programs) to mitigate the economic harm caused by COVID-19.

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

- Our incurred losses will increase as the number of insured mortgage delinquencies increase. We establish case reserves for insurance losses when delinquency notices are received on loans that are two or more payments past due and for loans we estimate are delinquent prior to the close of the accounting period but for which delinquency notices have not yet been reported to us (this is often referred to as “IBNR”). For information about our loss reserving methodology, see our risk factors titled *"Because we establish loss reserves only upon a loan delinquency rather than based on estimates of our ultimate losses or risk in force, losses may have a disproportionate adverse effect on our earnings in certain periods,"* and *"Because loss reserve estimates are subject to uncertainties, paid claims may be substantially different than our loss reserves."*
- We will be required to maintain more capital under the private mortgage insurer eligibility requirements ("PMIERs") of the GSEs, which generally require more capital to be held for delinquent loans than for performing loans and require more capital to be held as the number of payments missed on delinquent loans increase. For more information about the capital requirements of the PMIERs, see our risk factor titled *"We may not continue to meet the GSEs' private mortgage insurer eligibility requirements and our returns may decrease if we are required to maintain more capital in order to maintain our eligibility."*
- Over time, as the number of delinquencies increases, the number of claims that we must pay is likely to increase. For more information, see our risk factor titled *"Downturns in the domestic economy or declines in the value of borrowers' homes from their value at the time their loans closed may result in more homeowners defaulting and our losses increasing, with a corresponding decrease in our returns."*
- If the number of purchase and/or refinance mortgage originations decreases, the number of mortgages available for us to insure in the near term may decrease. For more information, see our risk factor titled *"If the volume of low down payment home mortgage originations declines, the amount of insurance that we write could decline."*
- Our access to the markets for excess of loss reinsurance through insurance-linked notes transactions and for quota share reinsurance may be limited and the terms under which we are able to secure such reinsurance may be less attractive than the terms of our previous transactions. For more information, see our risk factor titled *"Reinsurance may not always be available or affordable."*
- Our access to the capital markets may be limited and the terms under which we may access the capital markets may be less attractive than the terms of our previous transactions.
- Receipt of a portion of our premiums may be delayed. For more information, see our risk factor titled *"We are susceptible to disruptions in the servicing of mortgage loans that we insure and we rely on third-party reporting for information regarding the mortgage loans we insure."*
- Our operations may be impacted if our management or other employees are unable to perform their duties as a result of COVID-19-related illnesses. For more information, see our risk factor titled *"We rely on our management team and our business could be harmed if we are unable to retain qualified personnel or successfully develop and/or recruit their replacements."*

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

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

The unemployment rate rose from 3.5% as of December 31, 2019, to 14.7% as of April 30, 2020. It was 11.1% as of June 30, 2020 and is expected by the Federal Reserve to be 9.3% as of December 31, 2020, and to remain elevated for some time. We expect the high levels of unemployment to result in an increasing number of loans in our delinquency inventory and an increasing number of insurance claims; however, the increases are difficult to predict given the uncertainty in the current market environment, including uncertainty about the length and severity of the COVID-19 pandemic; the length of time that measures intended to reduce the transmission of COVID-19 remain in place; effects of forbearance programs enacted by the GSEs, various states and municipalities; and effects of past and future stimulus programs, including those contained in the CARES Act. The programs contained in the CARES Act include, among many others:

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

- For those mortgages that are not subject to forbearance, a suspension of foreclosures and evictions until at least August 31, 2020, on mortgages purchased or securitized by the GSEs.

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

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

- Enhanced unemployment benefits, which expired July 31, 2020.

- Increased flexibility under retirement plans.

The number of loans entering forbearance plans is unprecedented. Historically, forbearance plans have reduced the incidence of our losses on affected loans. However, given the uncertainty surrounding the long-term economic impact of COVID-19, it is difficult to predict the ultimate effect of COVID-19 related forbearances on our loss incidence. Whether a loan's delinquency will cure when its forbearance plan ends will depend on the economic circumstances of the borrower at that time. The severity of losses associated with loans whose delinquencies do not cure will depend on economic conditions at that time, including home prices.

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

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

Based on our interpretation of the PMIERs, as of June 30, 2020, MGIC's Available Assets totaled $4.5 billion, or $1.1 billion in excess of its Minimum Required Assets. MGIC is in compliance with the PMIERs and eligible to insure loans purchased by the GSEs. In calculating these "Minimum Required Assets," the total credit for risk ceded under our reinsurance transactions is subject to a modest reduction. Our reinsurance transactions are discussed in our risk factor titled *"The mix of business we write affects our Minimum Required Assets under the PMIERs, our premium yields and the likelihood of losses occurring."* Our existing reinsurance transactions are subject to periodic review by the GSEs and there is a risk we will not receive our current level of credit in future periods for the risk ceded under them. In addition, we may not receive the same level of credit under future reinsurance transactions that we receive under existing transactions. If MGIC is not allowed certain levels of credit under the PMIERs, under certain circumstances, MGIC may terminate the reinsurance transactions, without penalty.

The PMIERs generally require us to hold significantly more Minimum Required Assets for delinquent loans than for performing loans and the Minimum Required Assets required to be held increases as the number of payments missed on a delinquent loan increases. For delinquent loans whose initial missed payment occurred on or after March 1, 2020 and prior to January 1, 2021 (the "COVID-19 Crisis Period"), the Minimum Required Assets are generally reduced by 70% for at least three months. The 70% reduction will continue, or be newly applied, for delinquent loans that are subject to a forbearance plan that is granted in response to a financial hardship related to COVID-19, the terms of which are materially consistent with terms of forbearance plans offered by Freddie Mac or Fannie Mae. Under the PMIERs, a forbearance plan on a loan with an initial missed payment occurring during the COVID-19 Crisis Period is assumed to have been granted in response to a financial hardship related to COVID-19. Loans considered to be subject to a forbearance plan include those that are in a repayment plan or loan modification trial period following the forbearance plan.

We expect the GSEs and servicers will provide us with information about the forbearance status for nearly all of the loans in our delinquency inventory. The forbearance information provided by the GSEs will be with respect to delinquent loans in forbearance as of the prior month-end, while the information provided by loan servicers may be more current. As a result, in some cases, there may be a delay in our ability to take advantage of the 70% reduction.

It is possible that, despite reducing the Minimum Required Assets for certain delinquent loans by 70%, the increasing number of delinquent loans caused by the COVID-19 pandemic will cause our Available Assets to be less than our Minimum Required Assets. As of June 30, 2020, there were 69,326 loans in our delinquency inventory, of which 67% were reported to us as subject to a COVID-19 related forbearance plan. We are unable to predict the ultimate number of loans that will become delinquent as a result of the COVID-19 pandemic.

If our Available Assets are less than our Minimum Required Assets, then we would not be in compliance with the PMIERs. The PMIERs provide a list of remediation actions for a mortgage insurer's non-compliance, with additional actions possible in the GSEs' discretion. At the extreme, the GSEs may suspend or terminate our eligibility to insure loans purchased by them. Such suspension or termination would significantly reduce the volume of our new business writings; the substantial majority of our 2019 NIW was for loans delivered to or purchased by the GSEs. In addition to the increase in Minimum Required Assets associated with delinquent loans, factors that may negatively impact MGIC’s ability to continue to comply with the financial requirements of the PMIERs include the following:

- The GSEs may make the PMIERs more onerous in the future. The PMIERs provide that the factors that determine Minimum Required Assets will be updated periodically, or as needed if there is a significant change in macroeconomic conditions or loan performance. We do not anticipate that the regular periodic updates will occur more frequently than once every two years. The PMIERs state that the GSEs will provide notice 180 days prior to the effective date of updates to the factors; however, the GSEs may amend any portion of the PMIERs at any time.

- There may be future implications for PMIERs based upon the proposed changes to the regulatory capital requirements for the GSEs. In May 2020, the FHFA re-proposed a capital rule for the GSEs that, if enacted, would increase the capital requirements of the GSEs. That increase may ultimately result in an increase in the Minimum Required Assets required to be held by mortgage insurers. The re-proposed capital rule included a framework for determining the capital relief allowed to the GSEs for loans with private mortgage insurance and it affords more capital relief to the GSEs when its counterparty is a more diversified entity. The proposed changes also decreased the GSEs' capital credit provided by credit risk transfer transactions, which could result in decreased PMIERs credit for existing or future reinsurance or insurance linked notes transactions entered into by MGIC. Further, any changes to the GSEs' capital and liquidity requirements resulting from the Treasury Housing Reform Plan could have future implications for PMIERs.

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

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

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

In accordance with accounting principles generally accepted in the United States, we establish case reserves for insurance losses and loss adjustment expenses only when notices of default on insured mortgage loans are received on loans that are two or more payments past due 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 consider losses that could occur from loans that are not delinquent, such losses are not reflected in our financial statements, except in the case where a premium deficiency exists. A premium deficiency would be recorded if the present value of expected future losses and expenses exceeds the present value of expected future premiums and already established loss reserves on the applicable loans. As a result, future losses on loans that are not currently delinquent may have a material impact on future results as such losses emerge. As of June 30, 2020, we had established case reserves and reported losses incurred for 69,326 loans in our delinquency inventory and increased our IBNR reserve from $30 million at March 31, 2020 to $61 million at June 30, 2020. Though not reflected in our June 30, 2020 financial results, as of July 31, 2020, our delinquency inventory had decreased to

68,206 loans. We expect that the number of loans in our delinquency inventory will increase from that level as a result of the COVID-19 pandemic, including as a result of high unemployment associated with initiatives intended to reduce the transmission of COVID-19. As a result, we expect our losses incurred to increase in future periods. The impact of the COVID-19 pandemic on the number of delinquencies and our losses incurred will be influenced by various factors, including those discussed in our risk factor titled *"The impact of the COVID-19 pandemic on our business and financial condition may be material."*

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

When we establish case reserves, we estimate the ultimate loss on delinquent loans by estimating the number of loans in our inventory of delinquent loans that will result in a claim payment, which is referred to as the claim rate, and further estimating the amount of the claim payment, which is referred to as claim severity. The estimated claim rate and claim severity represent our best estimates of what we will actually pay on the loans in default as of the reserve date and incorporate anticipated mitigation from rescissions and curtailments. The establishment of loss reserves is subject to inherent uncertainty and requires judgment by management. The actual amount of the claim payments may be substantially different than our loss reserve estimates. Our estimates could be affected by several factors, including a change in regional or national economic conditions, the impact of past and future government actions (including the enactment of the CARES Act) and actions taken by the GSEs (including implementation of foreclosure moratoriums and mortgage forbearance and modification programs) to mitigate the economic harm caused by the COVID-19 pandemic and efforts to reduce the transmission of COVID-19, and a change in the length of time loans are delinquent before claims are received. All else being equal, the longer a loan is delinquent before a claim is received, the greater the severity. In light of the uncertainty caused by the COVID-19 pandemic, including the impact of foreclosure moratoriums and forbearance programs, the average time it takes to receive a claim may increase. The change in economic conditions may include changes in unemployment, including prolonged unemployment as a result of the COVID-19 pandemic, affecting borrowers' income and thus their ability to make mortgage payments, and changes in home prices, which may affect borrower willingness to continue to make mortgage payments when the value of the home is below the mortgage balance. The economic effects of the COVID-19 pandemic may be disproportionately concentrated in certain geographic regions. Information about the geographic dispersion of our insurance in force can be found in our Annual Reports on Form 10-K and our Quarterly Reports on Form 10-Q filed with the SEC. Changes to our claim rate and claim severity estimates could have a material impact on our future results, even in a stable economic environment. In addition, historically, losses incurred have followed a seasonal trend in which the second half of the year has weaker credit performance than the first half, with higher new default notice activity and a lower cure rate.

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

We set premiums at the time a policy is issued based on our expectations regarding likely performance of the insured risks over the long term. Our premiums are subject to approval by state regulatory agencies, which can delay or limit our ability to increase our premiums. In addition, our customized rate plans may delay our ability to increase our premiums on the NIW covered by such plans. Generally, we cannot cancel mortgage insurance coverage or adjust renewal premiums during the life of a mortgage insurance policy. As a result, higher than anticipated claims generally cannot be offset by premium increases on policies in force or mitigated by our non-renewal or cancellation of insurance coverage. The premiums we charge, the investment income we earn and the amount of reinsurance we carry may not be adequate to compensate us for the risks and costs associated with the insurance coverage provided to customers. An increase in the number or size of claims, compared to what we anticipated when we set the premiums, could adversely affect our results of operations or financial condition. Our premium rates are also based in part on the amount of capital we are required to hold against the insured risk. If the amount of capital we are required to hold increases from the amount we were required to hold when a policy was written, we cannot adjust premiums to compensate for this and our returns may be lower than we assumed. For a discussion of the effect of the COVID-19 pandemic on the amount of capital we are required to hold, see our risk factor titled *"We may not continue to meet the GSEs' private mortgage insurer eligibility requirements and our returns may decrease if we are required to maintain more capital in order to maintain our eligibility."*

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

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

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

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

In 2019, we introduced MiQ, our risk-based pricing system that establishes our premium rates based on more risk attributes than were considered in 2018. The widespread use of risk-based pricing systems by the private mortgage insurance industry makes it more difficult to compare our rates to those offered by our competitors. We may not be aware of industry rate changes until we observe that our volume of new insurance written ("NIW") has changed. In addition, business under customized rate plans is awarded by certain customers for only limited periods of time. As a result, our NIW may fluctuate more than it had in the past. Regarding the concentration of our new business, our top ten customers accounted for approximately 31% and 27% of our NIW, in each of the twelve months ended June 30, 2020 and 2019.

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

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

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

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

- A downgrade in our financial strength ratings could result in increased scrutiny of our financial condition by the GSEs and/or our customers, potentially resulting in a decrease in the amount of our NIW. Standard and Poor's recently revised its outlook, to "negative," for MGIC and other U.S. mortgage insurers due to the risks associated with the COVID-19 pandemic. A.M. Best recently revised its outlook for the U.S. Private Mortgage Insurers market segment to "negative," but did not change MGIC's outlook at that time.

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

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

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.

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.

In 2019, the substantial majority of our NIW was for loans purchased by the GSEs, therefore, the business practices of the GSEs greatly impact our business and they include:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The current GSE Patch expands the definition of QM under the Truth in Lending Act (Regulation Z) ("TILA") to include mortgages eligible to be purchased by the GSEs, even if the mortgages do not meet the debt-to-income ("DTI") ratio limit of 43% that is included in the standard QM definition. Originating a QM may provide a lender with legal protection from lawsuits that claim the lender failed to verify a borrower's ability to repay. The GSE Patch is scheduled to expire no later than January 2021. Approximately 21% and 22% of our NIW in the first half of 2020 and the last half of 2019, respectively, was on loans with DTI ratios greater than 43%. However, it is possible that expiration of the GSE Patch will be delayed and that not all future loans with DTI ratios greater than 43% will be affected by such expiration. In this regard, we note that in June 2020, the CFPB issued for comment, a proposed definition of QM that would replace the use of the DTI ratio in the definition with a pricing threshold that would exclude from the definition of QM a loan whose annual percentage rate exceeds the average prime offer rate for comparable loans by two percentage points or more. The CFPB proposed extending the expiration of the GSE Patch until the effective date of the final rule. Comments are due on the proposed rule by September 8, 2020.

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

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

As a result of the matters referred to above, it is uncertain what role the GSEs, FHA and private capital, including private mortgage insurance, will play in the residential housing finance system in the future. The timing and impact on our business of any resulting changes is uncertain. Many of the proposed changes would require Congressional action to implement and it is difficult to estimate when Congressional action would be final and how long any associated phase-in period may last.

Reinsurance may not always be available or affordable.

As discussed in our risk factor titled "*The mix of business we write affects our Minimum Required Assets under the PMIERs, our premium yields and the likelihood of losses occurring*," we have in place quota share and excess of loss reinsurance transactions providing various amounts of coverage on 85% of our risk in force as of June 30, 2020. These reinsurance transactions enable us to earn higher returns on our business than we would without them because fewer Available Assets are required to be held under PMIERs. However, reinsurance may not always be available to us or available on similar terms, the quota share reinsurance transactions subject us to counterparty credit risk, and the GSEs may change the credit they allow under the PMIERs for risk ceded under our reinsurance transactions. If we are unable to obtain reinsurance for NIW, our returns may decrease absent an increase in premium rates. An increase in our premium rates may lead to a decrease in our NIW.

We have in place quota share reinsurance ("QSR") transactions with unaffiliated reinsurers that cover most of our insurance written from 2013 through 2021, and smaller portions of our insurance written prior to 2013 and from 2022 through 2025. As of June 30, 2020, the weighted average coverage percentage of our QSR transactions was 21%, based on risk in force. We also have in place reinsurance agreements that provide excess-of-loss reinsurance coverage for a portion of the risk associated with certain mortgage insurance policies having an insurance coverage in force date on or after July 1, 2016 and before April 1, 2019. The transactions were entered into with special purpose insurers that issued notes linked to the reinsurance coverage ("Insurance Linked Notes" or "ILNs"). The market volatility caused by the COVID-19 pandemic has caused a disruption in the market for new ILN transactions. Although new ILN transactions closed in the market in June and July 2020, we consider their structures and/or terms to be less attractive than prior ILN transactions.

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

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

Although their scope varies, state insurance laws generally grant broad supervisory powers to agencies or officials to examine insurance companies and enforce rules or exercise discretion affecting almost every significant aspect of the insurance business, including payment for the referral of insurance business, premium rates and discrimination in pricing, and minimum capital requirements. The increased use, by the private mortgage insurance industry, of risk-based pricing systems that establish premium rates based on more attributes than previously considered may result in increased state and/or federal scrutiny of premium rates. For more information about state capital requirements, see our risk factor titled *“State capital requirements may prevent us from continuing to write new insurance on an uninterrupted basis.”* For information about regulation of data privacy, see our risk factor titled *“We could be adversely affected if personal information on consumers that we maintain is improperly disclosed; and damage to, or interruption in, our information technology systems may disrupt our operations.”* For more details about the various ways in which our subsidiaries are regulated, see “Business - Regulation” in Item 1 of our Annual Report on Form 10-K for the year ended December 31, 2019. While we believe our practices are in conformity with applicable laws and regulations, it is not possible to predict the eventual scope, duration or outcome of any such reviews or investigations nor is it possible to predict their effect on us or the mortgage insurance industry.

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

At June 30, 2020, we had approximately $530 million in cash and investments at our holding company and our holding company's debt obligations were $815 million in aggregate principal amount, consisting of $425 million of 5.75% Senior Notes due in 2023 ("5.75% Notes") and $390 million of 9% Debentures due in 2063 (of which approximately $133 million was purchased, and is held, by MGIC, and is eliminated on the consolidated balance sheet). Annual debt service on the 5.75% Notes and 9% Debentures outstanding as of June 30, 2020, is approximately $60 million (of which approximately $12 million will be paid to MGIC and will be eliminated on the consolidated statement of operations).

The 5.75% Senior Notes and 9% Debentures are obligations of our holding company, MGIC Investment Corporation, and not of its subsidiaries. The payment of dividends from our insurance subsidiaries which, other than investment income and raising capital in the public markets, is the principal source of our holding company cash inflow, is restricted by insurance regulation. In addition, through March 31, 2021, dividends paid by MGIC to our holding company require GSE approval. MGIC is the principal source of dividends, and in the first quarter of 2020 and in the full year 2019, it paid a total of $390 million and $280 million, respectively, in dividends to our holding company. We ask the OCI not to object before MGIC pays dividends and, due to the uncertainty surrounding the COVID-19 pandemic, MGIC did not pay a dividend to the holding company in the second quarter of 2020. Future dividend payments from MGIC to the holding company will be determined on a quarterly basis in consultation with the board of directors, and after considering any updated estimates about the length and severity of the economic impacts of the COVID-19 pandemic on our business.

In the first quarter of 2020 and in 2019, we repurchased approximately 9.6 million and 8.7 million shares of our common stock, respectively, using approximately $120 million and $114 million of holding company resources, respectively. As of June 30, 2020, we had $291 million of authorization remaining to repurchase our common stock through the end of 2021 under a share repurchase program approved by our Board of Directors in January 2020. Repurchases may be made from time to time on the open market (including through 10b5-1 plans) or through privately negotiated transactions. The repurchase program may be suspended for periods or discontinued at any time, and due to the uncertainty caused by the COVID-19 pandemic, we have temporarily suspended stock repurchases. If any additional capital contributions to our subsidiaries were required, such contributions would decrease our holding company cash and investments. As described in our Current Report on Form 8-K filed on February 11, 2016, MGIC borrowed $155 million from the Federal Home Loan Bank of Chicago. This is an obligation of MGIC and not of our holding company.

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. The value of our investment portfolio may also be adversely affected by ratings downgrades, increased bankruptcies and credit spreads widening in distressed industries, such as energy, lodging and leisure, autos, transportation and retail. In addition, the collectability and valuation of our municipal bond portfolio may be adversely affected if state and local municipalities incur increased costs to respond to COVID-19 and receive fewer tax revenues due to adverse economic conditions. Our investment portfolio also includes commercial mortgage-backed securities, collateralized loan obligations, and asset-backed securities, which could be adversely affected by declines in real estate valuations and/or financial market disruption, including a heightened collection risk on the underlying loans. As a result of these matters, we may not achieve our investment objectives and a reduction in the market value of our investments could have an adverse effect on our liquidity, financial condition and results of operations.

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

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

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, 2020.

Share repurchases

Period Beginning	Period Ending	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Approximate dollar value of shares that may yet be purchased under the programs (1)
April 1, 2020	April 30, 2020	—	$ —	—	$ 290,818,024
May 1, 2020	May 31, 2020	—	$ —	—	$ 290,818,024
June 1, 2020	June 30, 2020	—	$ —	—	$ 290,818,024
		—	$ —	—	

(1) On January 28, 2020, our Board of Directors authorized a share repurchase program under which we may repurchase up to an additional $300 million of our common stock through the end of 2021. Repurchases may be made from time to time on the open market (including through 10b5-1 plans) or through privately negotiated transactions. The repurchase program may be suspended for periods or discontinued at any time, and in light of the uncertainty caused by the COVID-19 pandemic, we have temporarily suspended stock repurchases.

Item 6. Exhibits

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

(Part II, Item 6)

Index to exhibits

Exhibit Number	Description of Exhibit	Form	Exhibit(s)	Filing Date
3.2	Amended and Restated Bylaws, as amended.	8-K	3.2	May 19, 2020
4.2	Amended and Restated Bylaws, as amended (included as Exhibit 3.2)	8-K	3.2	May 19, 2020
31.1	Certification of CEO under Section 302 of Sarbanes-Oxley Act of 2002 †			
31.2	Certification of CFO under Section 302 of Sarbanes-Oxley Act of 2002 †			
32	Certification of CEO and CFO under Section 906 of Sarbanes-Oxley Act of 2002 (as indicated in Item 6 of Part II, this Exhibit is not being “filed”) ††			
99	Risk Factors included in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2019, as supplemented by Part II, Item 1A of our Quarterly Report on Form 10-Q for the quarters ended March 31, 2020 and June 30, 2020, and through updating of various statistical and other information †			
101.INS	Inline XBRL Instance Document			
101.SCH	Inline XBRL Taxonomy Extension Schema Document			
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document			
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document			
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document			
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document			
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)			

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

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized, on August 4, 2020.

MGIC INVESTMENT CORPORATION

/s/ Nathaniel H. Colson

Nathaniel H. Colson

Executive Vice President and

Chief Financial Officer

/s/ Julie K. Sperber

Julie K. Sperber

Vice President, Controller and Chief Accounting Officer

Exhibit 31.1
CERTIFICATIONS

I, Timothy J. Mattke, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: August 4, 2020

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

Exhibit 31.2

CERTIFICATIONS

I, Nathan H. Colson, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: August 4, 2020

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

Exhibit 32

SECTION 1350 CERTIFICATIONS

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

(1) the Quarterly Report on Form 10-Q of the Company for the three months ended June 30, 2020 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

Date: August 4, 2020

/s/ Timothy J. Mattke

Timothy J. Mattke
Chief Executive Officer

/s/ Nathan H. Colson

Nathan H. Colson
Chief Financial Officer

Exhibit 99

Risk Factors

Risk Factors included in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2019, as supplemented by Part II, Item 1A of our Quarterly Reports on Forms 10-Q for the quarters ended March 31, 2020 and June 30, 2020, and through updating of various statistical and other information.

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

The COVID-19 pandemic may continue to materially impact our financial results and may also materially impact our business, liquidity and financial condition.

The COVID-19 pandemic had a material impact on our second quarter 2020 financial results. While uncertain, the future impact of the COVID-19 pandemic on the Company’s business, financial results, liquidity and/or financial condition may also be material. We expect that unemployment and economic uncertainty resulting from measures to reduce the transmission of COVID-19 (including previous "shelter-in-place" restrictions and continuing limitations on business), as well as COVID-19-related illnesses and deaths, will negatively impact our business. The magnitude of the impact will be influenced by various factors, including the length and severity of the pandemic in the United States, the length of time that measures intended to reduce the transmission of COVID-19 remain in place, the resulting level of unemployment, and the impact of past and future government initiatives (including the enactment of the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act")) and actions taken by Fannie Mae and Freddie Mac (the "GSEs") (including implementation of mortgage forbearance and modification programs) to mitigate the economic harm caused by COVID-19.

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

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

- We will be required to maintain more capital under the private mortgage insurer eligibility requirements ("PMIERs") of the GSEs, which generally require more capital to be held for delinquent loans than for performing loans and require more capital to be held as the number of payments missed on delinquent loans increase. For more information about the capital requirements of the PMIERs, see our risk factor titled *"We may not continue to meet the GSEs' private mortgage insurer eligibility requirements and our returns may decrease if we are required to maintain more capital in order to maintain our eligibility."*

- Over time, as the number of delinquencies increases, the number of claims that we must pay is likely to increase. For more information, see our risk factor titled *"Downturns in the domestic economy or declines in the value of borrowers' homes from their value at the time their loans closed may result in more homeowners defaulting and our losses increasing, with a corresponding decrease in our returns."*

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

- Our access to the markets for excess of loss reinsurance through insurance-linked notes transactions and for quota share reinsurance may be limited and the terms under which we are able to secure such reinsurance may be less attractive than the terms of our previous transactions. For more information, see our risk factor titled *"Reinsurance may not always be available or affordable."*

- Our access to the capital markets may be limited and the terms under which we may access the capital markets may be less attractive than the terms of our previous transactions.

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

- Our operations may be impacted if our management or other employees are unable to perform their duties as a result of COVID-19-related illnesses. For more information, see our risk factor titled *"We rely on our management team and our business could be harmed if we are unable to retain qualified personnel or successfully develop and/or recruit their replacements."*

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

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

The unemployment rate rose from 3.5% as of December 31, 2019, to 14.7% as of April 30, 2020. It was 11.1% as of June 30, 2020 and is expected by the Federal Reserve to be 9.3% as of December 31, 2020, and to remain elevated for some time. We expect the high levels of unemployment to result in an increasing number of loans in our delinquency inventory and an increasing number of insurance claims; however, the increases are difficult to predict given the uncertainty in the current market environment, including uncertainty about the length and severity of the COVID-19 pandemic; the length of time that measures intended to reduce the transmission of COVID-19 remain in place; effects of forbearance programs enacted by the GSEs, various states and municipalities; and effects of past and future stimulus programs, including those contained in the CARES Act. The programs contained in the CARES Act include, among many others:

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

- For those mortgages that are not subject to forbearance, a suspension of foreclosures and evictions until at least August 31, 2020, on mortgages purchased or securitized by the GSEs.

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

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

- Enhanced unemployment benefits, which expired July 31, 2020.

- Increased flexibility under retirement plans.

The number of loans entering forbearance plans is unprecedented. Historically, forbearance plans have reduced the incidence of our losses on affected loans. However, given the uncertainty surrounding the long-term economic impact of COVID-19, it is difficult to predict the ultimate effect of COVID-19 related forbearances on our loss incidence. Whether a loan's delinquency will cure when its forbearance plan ends will depend on the economic circumstances of the borrower at that time. The severity of losses associated with loans whose delinquencies do not cure will depend on economic conditions at that time, including home prices.

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

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

Based on our interpretation of the PMIERs, as of June 30, 2020, MGIC's Available Assets totaled $4.5 billion, or $1.1 billion in excess of its Minimum Required Assets. MGIC is in compliance with the PMIERs and eligible to insure loans purchased by the GSEs. In calculating these "Minimum Required Assets," the total credit for risk ceded under our reinsurance transactions is subject to a modest reduction. Our reinsurance transactions are discussed in our risk factor titled *"The mix of business we write affects our*

Minimum Required Assets under the PMIERs, our premium yields and the likelihood of losses occurring." Our existing reinsurance transactions are subject to periodic review by the GSEs and there is a risk we will not receive our current level of credit in future periods for the risk ceded under them. In addition, we may not receive the same level of credit under future reinsurance transactions that we receive under existing transactions. If MGIC is not allowed certain levels of credit under the PMIERs, under certain circumstances, MGIC may terminate the reinsurance transactions, without penalty.

The PMIERs generally require us to hold significantly more Minimum Required Assets for delinquent loans than for performing loans and the Minimum Required Assets required to be held increases as the number of payments missed on a delinquent loan increases. For delinquent loans whose initial missed payment occurred on or after March 1, 2020 and prior to January 1, 2021 (the "COVID-19 Crisis Period"), the Minimum Required Assets are generally reduced by 70% for at least three months. The 70% reduction will continue, or be newly applied, for delinquent loans that are subject to a forbearance plan that is granted in response to a financial hardship related to COVID-19, the terms of which are materially consistent with terms of forbearance plans offered by Freddie Mac or Fannie Mae. Under the PMIERs, a forbearance plan on a loan with an initial missed payment occurring during the COVID-19 Crisis Period is assumed to have been granted in response to a financial hardship related to COVID-19. Loans considered to be subject to a forbearance plan include those that are in a repayment plan or loan modification trial period following the forbearance plan.

We expect the GSEs and servicers will provide us with information about the forbearance status for nearly all of the loans in our delinquency inventory. The forbearance information provided by the GSEs will be with respect to delinquent loans in forbearance as of the prior month-end, while the information provided by loan servicers may be more current. As a result, in some cases, there may be a delay in our ability to take advantage of the 70% reduction.

It is possible that, despite reducing the Minimum Required Assets for certain delinquent loans by 70%, the increasing number of delinquent loans caused by the COVID-19 pandemic will cause our Available Assets to be less than our Minimum Required Assets. As of June 30, 2020, there were 69,326 loans in our delinquency inventory, of which 67% were reported to us as subject to a COVID-19 related forbearance plan. We are unable to predict the ultimate number of loans that will become delinquent as a result of the COVID-19 pandemic.

If our Available Assets are less than our Minimum Required Assets, then we would not be in compliance with the PMIERs. The PMIERs provide a list of remediation actions for a mortgage insurer's non-compliance, with additional actions possible in the GSEs' discretion. At the extreme, the GSEs may suspend or terminate our eligibility to insure loans purchased by them. Such suspension or termination would significantly reduce the volume of our new business writings; the substantial majority of our 2019 NIW was for loans delivered to or purchased by the GSEs. In addition to the increase in Minimum Required Assets associated with delinquent loans, factors that may negatively impact MGIC’s ability to continue to comply with the financial requirements of the PMIERs include the following:

- The GSEs may make the PMIERs more onerous in the future. The PMIERs provide that the factors that determine Minimum Required Assets will be updated periodically, or as needed if there is a significant change in macroeconomic conditions or loan performance. We do not anticipate that the regular periodic updates will occur more frequently than once every two years. The PMIERs state that the GSEs will provide notice 180 days prior to the effective date of updates to the factors; however, the GSEs may amend any portion of the PMIERs at any time.

- There may be future implications for PMIERs based upon the proposed changes to the regulatory capital requirements for the GSEs. In May 2020, the FHFA re-proposed a capital rule for the GSEs that, if enacted, would increase the capital requirements of the GSEs. That increase may ultimately result in an increase in the Minimum Required Assets required to be held by mortgage insurers. The re-proposed capital rule included a framework for determining the capital relief allowed to the GSEs for loans with private mortgage insurance and it affords more capital relief to the GSEs when its counterparty is a more diversified entity. The proposed changes also decreased the GSEs' capital credit provided by credit risk transfer transactions, which could result in decreased PMIERs credit for existing or future reinsurance or insurance linked notes transactions entered into by MGIC. Further, any changes to the GSEs' capital and liquidity requirements resulting from the Treasury Housing Reform Plan could have future implications for PMIERs.

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

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

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

In accordance with accounting principles generally accepted in the United States, we establish case reserves for insurance losses and loss adjustment expenses only when notices of default on insured mortgage loans are received on loans that are two or more payments past due 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 consider losses that could occur from loans that are not delinquent, such losses are not reflected in our financial statements, except in the case where a premium deficiency exists. A premium deficiency would be recorded if the present value of expected future losses and expenses exceeds the present value of expected future premiums and already established loss reserves on the applicable loans. As a result, future losses on loans that are not currently delinquent may have a material impact on future results as such losses emerge. As of June 30, 2020, we had established case reserves and reported losses incurred for 69,326 loans in our delinquency inventory and increased our IBNR reserve from $30 million at March 31, 2020 to $61 million at June 30, 2020. Though not reflected in our June 30, 2020 financial results, as of July 31, 2020, our delinquency inventory had decreased to 68,206 loans. We expect that the number of loans in our delinquency inventory will increase from that level as a result of the COVID-19 pandemic, including as a result of high unemployment associated with initiatives intended to reduce the transmission of COVID-19. As a result, we expect our losses incurred to increase in future periods. The impact of the COVID-19 pandemic on the number of delinquencies and our losses incurred will be influenced by various factors, including those discussed in our risk factor titled *"The impact of the COVID-19 pandemic on our business and financial condition may be material."*

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

When we establish case reserves, we estimate the ultimate loss on delinquent loans by estimating the number of loans in our inventory of delinquent loans that will result in a claim payment, which is referred to as the claim rate, and further estimating the amount of the claim payment, which is referred to as claim severity. The estimated claim rate and claim severity represent our best estimates of what we will actually pay on the loans in default as of the reserve date and incorporate anticipated mitigation from rescissions and curtailments. The establishment of loss reserves is subject to inherent uncertainty and requires judgment by management. The actual amount of the claim payments may be substantially different than our loss reserve estimates. Our estimates could be affected by several factors, including a change in regional or national economic conditions, the impact of past and future government actions (including the enactment of the CARES Act) and actions taken by the GSEs (including implementation of foreclosure moratoriums and mortgage forbearance and modification programs) to mitigate the economic harm caused by the COVID-19 pandemic and efforts to reduce the transmission of COVID-19, and a change in the length of time loans are delinquent before claims are received. All else being equal, the longer a loan is delinquent before a claim is received, the greater the severity. In light of the uncertainty caused by the COVID-19 pandemic, including the impact of foreclosure moratoriums and forbearance programs, the average time it takes to receive a claim may increase. The change in economic conditions may include changes in unemployment, including prolonged unemployment as a result of the COVID-19 pandemic, affecting borrowers' income and thus their ability to make mortgage payments, and changes in home prices, which may affect borrower willingness to continue to make mortgage payments when the value of the home is below the mortgage balance. The economic effects of the COVID-19 pandemic may be disproportionately concentrated in certain geographic regions. Information about the geographic dispersion of our insurance in force can be found in our Annual Reports on Form 10-K and our Quarterly Reports on Form 10-Q filed with the SEC. Changes to our claim rate and claim severity estimates could have a material impact on our future results, even in a stable economic environment. In addition, historically, losses incurred have followed a seasonal trend in which the second half of the year has weaker credit performance than the first half, with higher new default notice activity and a lower cure rate.

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

We set premiums at the time a policy is issued based on our expectations regarding likely performance of the insured risks over the long term. Our premiums are subject to approval by state regulatory agencies, which can delay or limit our ability to increase our premiums. In addition, our customized rate plans may delay our ability to increase our premiums on the NIW covered by such plans. Generally, we cannot cancel mortgage insurance coverage or adjust renewal premiums during the life of a mortgage insurance policy. As a result, higher than anticipated claims generally cannot be offset by premium increases on policies in force or mitigated by our non-renewal or cancellation of insurance coverage. The premiums we charge, the investment income we earn and the amount of reinsurance we carry may not be adequate to compensate us for the risks and costs associated with the insurance coverage provided to customers. An increase in the number or size of claims, compared to what we anticipated when we set the premiums, could adversely affect our results of operations or financial condition. Our premium rates are also based in part on the amount of capital we are required to hold against the insured risk. If the amount of capital we are required to hold increases from the amount we were required to hold when a policy was written, we cannot adjust premiums to compensate for this and our returns may be lower than we assumed. For a discussion of the effect of the COVID-19 pandemic on the amount of capital we are required to hold, see our risk factor titled *"We may not continue to meet the GSEs' private mortgage insurer eligibility requirements and our returns may decrease if we are required to maintain more capital in order to maintain our eligibility."*

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

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

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

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

In 2019, we introduced MiQ, our risk-based pricing system that establishes our premium rates based on more risk attributes than were considered in 2018. The widespread use of risk-based pricing systems by the private mortgage insurance industry makes it more difficult to compare our rates to those offered by our competitors. We may not be aware of industry rate changes until we observe that our volume of new insurance written ("NIW") has changed. In addition, business under customized rate plans is awarded by certain customers for only limited periods of time. As a result, our NIW may fluctuate more than it had in the past. Regarding the concentration of our new business, our top ten customers accounted for approximately 31% and 27% of our NIW, in each of the twelve months ended June 30, 2020 and 2019.

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

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

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

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

- A downgrade in our financial strength ratings could result in increased scrutiny of our financial condition by the GSEs and/or our customers, potentially resulting in a decrease in the amount of our NIW. Standard and Poor's recently revised its outlook, to "negative," for MGIC and other U.S. mortgage insurers due to the risks associated with the COVID-19 pandemic. A.M. Best recently revised its outlook for the U.S. Private Mortgage Insurers market segment to "negative," but did not change MGIC's outlook at that time.

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

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

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

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

Alternatives to private mortgage insurance include:

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

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

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

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

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

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

The FHA's share of the low down payment residential mortgages that were subject to FHA, VA, USDA or primary private mortgage insurance was 30.0% in the first quarter of 2020, 28.2% in 2019 and 30.5% in 2018. In the past ten years, the FHA's share has been as low as 28.2% in 2019 and as high as 64.5% in 2010. Factors that influence the FHA's market share include relative rates and fees, underwriting guidelines and loan limits of the FHA, VA, private mortgage insurers and the GSEs; lenders' perceptions of legal risks under FHA versus GSE programs; flexibility for the FHA to establish new products as a result of federal legislation and programs; returns expected to be obtained by lenders for Ginnie Mae securitization of FHA-insured loans compared to those obtained from selling loans to the GSEs for securitization; and differences in policy terms, such as the ability of a borrower to cancel insurance coverage under certain circumstances. We cannot predict how the factors that affect the FHA's share of new insurance written will change in the future.

The VA's share of the low down payment residential mortgages that were subject to FHA, VA, USDA or primary private mortgage insurance was 31.9% in the first quarter of 2020, 25.2% in 2019 and 22.9% in 2018. In the past ten years, the VA's share has been as low as 15.7% in 2010 and as high as 31.9% in the first quarter of 2020. We believe that the VA's market share has generally been elevated in recent years because of an increase in the number of borrowers that are eligible for the VA's program, which offers 100% LTV ratio loans and charges a one-time funding fee that can be included in the loan amount, and because eligible borrowers have opted to use the VA program when refinancing their mortgages.

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

In 2019, the substantial majority of our NIW was for loans purchased by the GSEs, therefore, the business practices of the GSEs greatly impact our business and they include:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The current GSE Patch expands the definition of QM under the Truth in Lending Act (Regulation Z) ("TILA") to include mortgages eligible to be purchased by the GSEs, even if the mortgages do not meet the debt-to-income ("DTI") ratio limit of 43% that is included in the standard QM definition. Originating a QM may provide a lender with legal protection from lawsuits that claim the lender failed to verify a borrower’s ability to repay. The GSE Patch is scheduled to expire no later than January 2021. Approximately 21% and 22% of our NIW in the first half of 2020 and the last half of 2019, respectively, was on loans with DTI ratios greater than 43%.

However, it is possible that expiration of the GSE Patch will be delayed and that not all future loans with DTI ratios greater than 43% will be affected by such expiration. In this regard, we note that in June 2020, the CFPB issued for comment, a proposed definition of QM that would replace the use of the DTI ratio in the definition with a pricing threshold that would exclude from the definition of QM a loan whose annual percentage rate exceeds the average prime offer rate for comparable loans by two percentage points or more. The CFPB proposed extending the expiration of the GSE Patch until the effective date of the final rule. Comments are due on the proposed rule by September 8, 2020.

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

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

As a result of the matters referred to above, it is uncertain what role the GSEs, FHA and private capital, including private mortgage insurance, will play in the residential housing finance system in the future. The timing and impact on our business of any resulting changes is uncertain. Many of the proposed changes would require Congressional action to implement and it is difficult to estimate when Congressional action would be final and how long any associated phase-in period may last.

Reinsurance may not always be available or affordable.

As discussed in our risk factor titled "*The mix of business we write affects our Minimum Required Assets under the PMIERs, our premium yields and the likelihood of losses occurring*," we have in place quota share and excess of loss reinsurance transactions providing various amounts of coverage on 85% of our risk in force as of June 30, 2020. These reinsurance transactions enable us to earn higher returns on our business than we would without them because fewer Available Assets are required to be held under PMIERs. However, reinsurance may not always be available to us or available on similar terms, the quota share reinsurance transactions subject us to counterparty credit risk, and the GSEs may change the credit they allow under the PMIERs for risk ceded under our reinsurance transactions. If we are unable to obtain reinsurance for NIW, our returns may decrease absent an increase in premium rates. An increase in our premium rates may lead to a decrease in our NIW.

We have in place quota share reinsurance ("QSR") transactions with unaffiliated reinsurers that cover most of our insurance written from 2013 through 2021, and smaller portions of our insurance written prior to 2013 and from 2022 through 2025. As of June 30, 2020, the weighted average coverage percentage of our QSR transactions was 21%, based on risk in force. We also have in place reinsurance agreements that provide excess-of-loss reinsurance coverage for a portion of the risk associated with certain mortgage insurance policies having an insurance coverage in force date on or after July 1, 2016 and before April 1, 2019. The transactions were entered into with special purpose insurers that issued notes linked to the reinsurance coverage ("Insurance Linked Notes" or "ILNs"). The market volatility caused by the COVID-19 pandemic has caused a disruption in the market for new ILN transactions. Although new ILN transactions closed in the market in June and July 2020, we consider their structures and/or terms to be less attractive than prior ILN transactions.

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

Before paying an insurance claim, we review the loan and servicing files to determine the appropriateness of the claim amount. When reviewing the files, we may determine that we have the right to rescind coverage on the loan. In our SEC reports, we refer to insurance rescissions and denials of claims collectively as “rescissions” and variations of that term. In addition, our insurance policies generally provide that we can reduce or deny a claim if the servicer did not comply with its obligations under our insurance policy. We call such reduction of claims “curtailments.” In recent quarters, an immaterial percentage of claims received in a quarter have been resolved by rescissions. In the first half of 2020 and in 2019, curtailments reduced our average claim paid by approximately 4.0% and 5.0%, respectively.

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

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

Under ASC 450-20, until a loss associated with settlement discussions or legal proceedings becomes probable and can be reasonably estimated, we consider our claim payment or rescission resolved for financial reporting purposes and do not accrue an estimated loss. When we determine that a loss is probable and can be reasonably estimated, we record our best estimate of our probable loss. In those cases, until settlement negotiations or legal proceedings are concluded (including the receipt of any necessary GSE approvals), it is reasonably possible that we will record an additional loss. We are currently involved in discussions and/or proceedings with respect to our claims paying practices. Although it is reasonably possible that, when resolved, we will not prevail on all matters, we are unable to make a reasonable estimate or range of estimates of the potential liability. We estimate the maximum exposure where a loss is reasonably possible to be approximately $39 million. This estimate of maximum exposure is based upon currently available information; is subject to significant judgment, numerous assumptions and known and unknown uncertainties; will include an amount for matters for which we have recorded a probable loss until such matters are concluded; will include different matters from time to time; and does not include interest or consequential or exemplary damages.

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

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

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

Although their scope varies, state insurance laws generally grant broad supervisory powers to agencies or officials to examine insurance companies and enforce rules or exercise discretion affecting almost every significant aspect of the insurance business, including payment for the referral of insurance business, premium rates and discrimination in pricing, and minimum capital requirements. The increased use, by the private mortgage insurance industry, of risk-based pricing systems that establish premium rates based on more attributes than previously considered may result in increased state and/or federal scrutiny of premium rates. For more information about state capital requirements, see our risk factor titled *“State capital requirements may prevent us from continuing to write new insurance on an uninterrupted basis.”* For information about regulation of data privacy, see our risk factor titled *“We could be adversely affected if personal information on consumers that we maintain is improperly disclosed; and damage to, or interruption in, our information technology systems may disrupt our operations.”* For more details about the various ways in which our subsidiaries are regulated, see “Business - Regulation” in Item 1 of our Annual Report on Form 10-K for the year ended December 31, 2019. While we believe our practices are in conformity with applicable laws and regulations, it is not possible to predict the eventual scope, duration or outcome of any such reviews or investigations nor is it possible to predict their effect on us or the mortgage insurance industry.

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

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

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

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

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

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

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

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

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

A decline in the volume of low down payment home mortgage originations could decrease demand for mortgage insurance and limit our NIW. The COVID-19 pandemic, including the related restrictions on business in many parts of the U.S., its effect on unemployment and consumer confidence, and changing underwriting standards may affect the number of purchase mortgage originations. For other factors that could decrease the demand for mortgage insurance, see our risk factor titled *"The amount of insurance we write could be adversely affected if lenders and investors select alternatives to private mortgage insurance."*

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

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

At June 30, 2020, MGIC’s risk-to-capital ratio was 9.6 to 1, below the maximum allowed by the jurisdictions with State Capital Requirements, and its policyholder position was $2.9 billion above the required MPP of $1.6 billion. Our risk-to-capital ratio and MPP reflect full credit for the risk ceded under our quota share reinsurance and excess of loss transactions with unaffiliated reinsurers. It is possible that under the revised State Capital Requirements discussed below, MGIC will not be allowed full credit for the risk ceded under such transactions. If MGIC is not allowed an agreed level of credit under the State Capital Requirements, MGIC may terminate the reinsurance transactions, without penalty. At this time, we expect MGIC to continue to comply with the current State Capital Requirements; however, you should read the rest of these risk factors for information about matters that could negatively affect such compliance, including the effects of the COVID-19 pandemic. At June 30, 2020, the risk-to-capital ratio of our combined insurance operations was 9.5 to 1.

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

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

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

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

The minimum capital required by the risk-based capital framework contained in the exposure draft released by the NAIC in December 2019 would be, in part, a function of certain loan and economic factors, including property location, LTV ratio and credit score; general underwriting quality in the market at the time of loan origination; the age of the loan; and the premium rate we charge. Depending upon the provisions of the capital requirements when they are released in final form and become effective, our mix of business may affect the minimum capital we are required to hold under the new framework.

The percentage of our NIW from all single-premium policies has ranged from approximately 10% in 2013 to 19% in 2017 and was 13% in the first half of 2020 and 16% in 2019. Depending upon the actual life of a single premium policy and its premium rate relative to that of a monthly premium policy, a single premium policy may generate more or less premium than a monthly premium policy over its life.

We have in place quota share reinsurance ("QSR") transactions with unaffiliated reinsurers that cover most of our insurance written from 2013 through 2021, and smaller portions of our insurance written prior to 2013 and from 2022 through 2025. Although the transactions reduce our premiums, they have a lesser impact on our overall results, as losses ceded under the transactions reduce our losses incurred and the ceding commissions we receive reduce our underwriting expenses. The effect of the QSR transactions on the various components of pre-tax income will vary from period to period, depending upon the level of ceded losses.

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

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

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

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

Even when home prices are stable or rising, mortgages with certain characteristics have higher probabilities of claims. As of June 30, 2020, mortgages with these characteristics in our primary risk in force included mortgages with LTV ratios greater than 95% (15.0%), loans with borrowers having FICO scores below 620 (1.8%), mortgages with borrowers having FICO scores of 620-679 (8.4%), mortgages with limited underwriting, including limited borrower documentation (1.5%), and mortgages with borrowers having DTI ratios greater than 45% (or where no ratio is available) (13.7%), each attribute as determined at the time of loan origination. An individual loan may have more than one of these attributes.

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

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

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

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

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

The CARES Act provides for payment forbearance on loans purchased or secured by the GSEs to borrowers experiencing a hardship during the COVID-19 pandemic. During the forbearance period, mortgage servicers are required to pay four months of principal and interest to investors in the securities backed by the loans, even though the servicers are not receiving payments from borrowers. This may cause liquidity issues for especially non-bank servicers (who service approximately 41% of the loans underlying our insurance in force as of June 30, 2020) because they do not have the same sources of liquidity that bank servicers have.

While there has been no disruption in our premium receipts through the end of June 2020, we expect that if servicers experience future liquidity issues, they may be less likely to advance premiums to us on policies covering delinquent loans because they are not receiving payments from borrowers. Servicers experiencing liquidity issues may also be less likely to remit our premiums on policies covering loans that are not delinquent. Our policies allow us to cancel coverage on loans that are not delinquent if the premiums are not paid within a grace period. However, in response to the COVID-19 pandemic, many states have enacted moratoriums on the cancellation of insurance due to non-payment. The specific provisions of the moratoriums vary from state-to-state. In addition, the GSEs amended the PMIERs to require that mortgage insurers notify the GSEs before coverage is cancelled in specific circumstances and to give the GSEs the opportunity to pay the premium on behalf of the servicer to keep coverage in force.

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

The information presented in this report and on our website with respect to the mortgage loans we insure is based on information reported to us by third parties, including the servicers and originators of the mortgage loans. Consequently, information presented may be subject to lapses or inaccuracies in reporting from such third parties. In many cases, we may not be aware that information reported to us by third parties is incorrect until such time as a claim is made against us under the relevant insurance policy. We do not receive monthly information from servicers for single premium policies, and may not be aware that the mortgage loans insured by such policies have been repaid. We periodically attempt to determine if coverage is still in force on such policies by asking the last servicer of record or through the periodic reconciliation of loan information with certain servicers. It may be possible that our reports continue to reflect, as active, policies on mortgage loans that have been repaid. For information about the importance of servicer and GSE reporting of forbearance information, see our risk factor titled *"We may not continue to meet the GSEs' private mortgage insurer eligibility requirements and our returns may decrease if we are required to maintain more capital in order to maintain our eligibility."*

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 68.2% at June 30, 2020, 75.8% at December 31, 2019 and 81.7% at December 31, 2018. Since 2000, our year-end persistency ranged from a high of 84.7% at December 31, 2009 to a low of 47.1% at December 31, 2003.

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

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

At June 30, 2020, we had approximately $530 million in cash and investments at our holding company and our holding company's debt obligations were $815 million in aggregate principal amount, consisting of $425 million of 5.75% Senior Notes due in 2023 ("5.75% Notes") and $390 million of 9% Debentures due in 2063 (of which approximately $133 million was purchased, and is held, by MGIC, and is eliminated on the consolidated balance sheet). Annual debt service on the 5.75% Notes and 9% Debentures outstanding as of June 30, 2020, is approximately $60 million (of which approximately $12 million will be paid to MGIC and will be eliminated on the consolidated statement of operations).

The 5.75% Senior Notes and 9% Debentures are obligations of our holding company, MGIC Investment Corporation, and not of its subsidiaries. The payment of dividends from our insurance subsidiaries which, other than investment income and raising capital in the public markets, is the principal source of our holding company cash inflow, is restricted by insurance regulation. In addition, through March 31, 2021, dividends paid by MGIC to our holding company require GSE approval. MGIC is the principal source of dividends, and in the first quarter of 2020 and in the full year 2019, it paid a total of $390 million and $280 million, respectively, in dividends to our holding company. We ask the OCI not to object before MGIC pays dividends and, due to the uncertainty surrounding the COVID-19 pandemic, MGIC did not pay a dividend to the holding company in the second quarter of 2020. Future dividend payments from MGIC to the holding company will be determined on a quarterly basis in consultation with the board of directors, and after considering any updated estimates about the length and severity of the economic impacts of the COVID-19 pandemic on our business.

In the first quarter of 2020 and in 2019, we repurchased approximately 9.6 million and 8.7 million shares of our common stock, respectively, using approximately $120 million and $114 million of holding company resources, respectively. As of June 30, 2020, we had $291 million of authorization remaining to repurchase our common stock through the end of 2021 under a share repurchase program approved by our Board of Directors in January 2020. Repurchases may be made from time to time on the open market (including through 10b5-1 plans) or through privately negotiated transactions. The repurchase program may be suspended for periods or discontinued at any time, and due to the uncertainty caused by the COVID-19 pandemic, we have temporarily suspended stock repurchases. If any additional capital contributions to our subsidiaries were required, such contributions would decrease our holding company cash and investments. As described in our Current Report on Form 8-K filed on February 11, 2016, MGIC borrowed $155 million from the Federal Home Loan Bank of Chicago. This is an obligation of MGIC and not of our holding company.

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

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

At June 30, 2020, we had outstanding $390 million principal amount of 9% Convertible Junior Subordinated Debentures due in 2063 ("9% Debentures") (of which approximately $133 million was purchased, and is held, by MGIC, and is eliminated on the consolidated balance sheet). The principal amount of the 9% Debentures is currently convertible, at the holder's option, at a conversion rate, which is subject to adjustment, of 74.4718 common shares per $1,000 principal amount of debentures. This represents a conversion price of approximately $13.43 per share. The payment of dividends by our holding company results in an adjustment to the conversion rate and price, with such adjustment generally deferred until the end of the year.

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

We have the right, and may elect, to defer interest payable under the debentures in the future. If a holder elects to convert its debentures, the interest that has been deferred on the debentures being converted is also convertible into shares of our common stock. The conversion rate for such deferred interest is based on the average price that our shares traded at during a 5-day period immediately prior to the election to convert the associated debentures. We may elect to pay cash for some or all of the shares issuable upon a conversion of the debentures. For more information about the 9% Debentures, including additional requirements resulting from the deferral of interest, see Note 7 – "Debt" to our consolidated financial statements in Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2019.

For a discussion of the dilutive effects of our convertible securities on our earnings per share, see Note 6 – "Earnings Per Share" to our consolidated financial statements in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2020. As noted above, in the first quarter of 2020 and in 2019, we repurchased shares of our common stock and may do so in the future. In addition, we have in the past purchased, and may in the future purchase, our debt securities.

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

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

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

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

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

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

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

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

Our investment portfolio is an important source of revenue and is our primary source of claims paying resources. Although our investment portfolio consists mostly of highly-rated fixed income investments, our investment portfolio is affected by general economic conditions and tax policy, which may adversely affect the markets for credit and interest-rate-sensitive securities, including the extent and timing of investor participation in these markets, the level and volatility of interest rates and credit spreads and, consequently, the value of our fixed income securities. The value of our investment portfolio may also be adversely affected by ratings downgrades, increased bankruptcies and credit spreads widening in distressed industries, such as energy, lodging and leisure, autos, transportation and retail. In addition, the collectability and valuation of our municipal bond portfolio may be adversely affected if state and local municipalities incur increased costs to respond to COVID-19 and receive fewer tax revenues due to adverse economic conditions. Our investment portfolio also includes commercial mortgage-backed securities, collateralized loan obligations, and asset-backed securities, which could be adversely affected by declines in real estate valuations and/or financial market disruption, including a heightened collection risk on the underlying loans. As a result of these matters, we may not achieve our investment objectives and a reduction in the market value of our investments could have an adverse effect on our liquidity, financial condition and results of operations.

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

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

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

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

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

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

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

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

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

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

Our transactions involving financial instruments that reference LIBOR, include:

- Buying and selling fixed income securities (as of June 30, 2020, approximately 5.0% of the fair value of our investment portfolio consisted of securities referencing LIBOR).

- Insuring adjustable rate mortgages ("ARMs") whose interest is referenced to LIBOR (as of June 30, 2020, approximately $1.0 billion of our risk in force was on ARMs referencing LIBOR). A change in reference rate associated with these loans may affect their principal balance, which may affect our risk-in-force and the amount of Minimum Required Assets we are required to maintain under PMIERs. A change in reference rate may also affect the amount of principal and/or accrued interest we are required to pay in the event of a claim payment.

- Entering into reinsurance agreements under which our premiums are determined, in part, by the difference between interest payable on the reinsurers' notes which reference LIBOR and earnings from a pool of securities receiving interest that may reference LIBOR (in the first half of 2020, our total premiums on such transactions were approximately $9.1 million).