FORM 10-Q

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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

For the quarterly period ended **June 30, 2016**

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

For the transition period from ______ to ______

Commission file number **1-10816**

MGIC INVESTMENT CORPORATION

(Exact name of registrant as specified in its charter)

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

(414) 347-6480

(Registrant's telephone number, including area code)

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

YES x **NO** o

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

YES x **NO** o

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

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

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

YES o **NO** x

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

CLASS OF STOCK	PAR VALUE	DATE	NUMBER OF SHARES
Common stock	$1.00	July 29, 2016	340,641,277

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, 2016

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(In thousands)		**June 30, 2016**		December 31, 2015
ASSETS				
Investment portfolio (notes 7 and 8):				
Securities, available-for-sale, at fair value:				
Fixed maturities (amortized cost, 2016 - $4,421,363; 2015 - $4,684,148)	**$**	**4,556,202**	$	4,657,561
Equity securities		**9,876**		5,645
Total investment portfolio		**4,566,078**		4,663,206
Cash and cash equivalents		**300,974**		181,120
Accrued investment income		**39,709**		40,224
Reinsurance recoverable on loss reserves (note 4)		**45,215**		44,487
Reinsurance recoverable on paid losses		**4,773**		3,319
Premiums receivable		**46,602**		48,469
Home office and equipment, net		**30,800**		30,095
Deferred insurance policy acquisition costs		**16,680**		15,241
Deferred income taxes, net (note 11)		**617,266**		762,080
Other assets		**76,689**		80,102
Total assets	**$**	**5,744,786**	$	5,868,343
LIABILITIES AND SHAREHOLDERS' EQUITY				
Liabilities:				
Loss reserves (note 12)	**$**	**1,632,333**	$	1,893,402
Unearned premiums		**308,424**		279,973
Federal Home Loan Bank advance (note 3)		**155,000**		—
Convertible senior notes (note 3)		**636,324**		822,301
Convertible junior subordinated debentures (note 3)		**256,872**		389,522
Other liabilities		**244,154**		247,005
Total liabilities		**3,233,107**		3,632,203
Contingencies (note 5)				
Shareholders' equity (note 13):				
Common stock (one dollar par value, shares authorized 1,000,000; shares issued 2016 - 341,076; 2015 - 340,097; shares outstanding 2016 - 340,636; 2015 - 339,657)		**341,076**		340,097
Paid-in capital		**1,660,666**		1,670,238
Treasury stock at cost (shares - 440)		**(3,362)**		(3,362)
Accumulated other comprehensive income (loss), net of tax (note 9)		**44,840**		(60,880)
Retained earnings		**468,459**		290,047
Total shareholders' equity		**2,511,679**		2,236,140
Total liabilities and shareholders' equity	**$**	**5,744,786**	$	5,868,343

See accompanying notes to consolidated financial statements.

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

(In thousands, except per share data)	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Revenues:				
Premiums written:				
Direct	**$ 282,113**	$ 261,404	**$ 547,404**	$ 526,816
Assumed	**182**	308	**390**	646
Ceded (note 4)	**(32,280)**	(34,937)	**(66,498)**	(66,231)
Net premiums written	**250,015**	226,775	**481,296**	461,231
Increase in unearned premiums, net	**(18,559)**	(13,267)	**(28,499)**	(30,435)
Net premiums earned	**231,456**	213,508	**452,797**	430,796
Investment income, net of expenses	**27,248**	25,756	**55,057**	49,876
Net realized investment gains (losses):				
Total other-than-temporary impairment losses	**—**	—	**—**	—
Portion of losses recognized in comprehensive income, before taxes	**—**	—	**—**	—
Net impairment losses recognized in earnings	**—**	—	**—**	—
Other realized investment gains	**836**	166	**3,892**	26,493
Net realized investment gains	**836**	166	**3,892**	26,493
Other revenue	**3,994**	3,699	**10,367**	6,179
Total revenues	**263,534**	243,129	**522,113**	513,344
Losses and expenses:				
Losses incurred, net (note 12)	**46,590**	90,238	**131,602**	172,023
Change in premium deficiency reserve	**—**	(17,333)	**—**	(23,751)
Amortization of deferred policy acquisition costs	**2,245**	2,046	**4,206**	3,803
Other underwriting and operating expenses, net	**35,348**	35,829	**75,125**	75,097
Interest expense	**12,244**	17,373	**26,945**	34,735
Loss on debt extinguishment (note 3)	**1,868**	—	**15,308**	—
Total losses and expenses	**98,295**	128,153	**253,186**	261,907
Income before tax	**165,239**	114,976	**268,927**	251,437
Provision for income taxes (note 11)	**56,018**	1,322	**90,515**	4,707
Net income	**$ 109,221**	$ 113,654	**$ 178,412**	$ 246,730
Income per share (note 6)				
Basic	**$ 0.32**	$ 0.33	**$ 0.52**	$ 0.73
Diluted	**$ 0.26**	$ 0.28	**$ 0.43**	$ 0.60
Weighted average common shares outstanding - basic (note 6)	**340,678**	339,705	**340,411**	339,406
Weighted average common shares outstanding - diluted (note 6)	**446,139**	439,127	**450,354**	439,200

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)	**2016**	2015	**2016**	2015
Net income	**$ 109,221**	$ 113,654	**$ 178,412**	$ 246,730
Other comprehensive income (loss), net of tax (note 9):				
Change in unrealized investment gains and losses (note 7)	**56,338**	(63,646)	**107,165**	(44,083)
Benefit plan adjustments	**(173)**	(392)	**(481)**	(1,092)
Foreign currency translation adjustment	**11**	390	**(964)**	(1,624)
Other comprehensive income (loss), net of tax	**56,176**	(63,648)	**105,720**	(46,799)
Comprehensive income	**$ 165,397**	$ 50,006	**$ 284,132**	$ 199,931

See accompanying notes to consolidated financial statements

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

	Six Months Ended June 30,	
(In thousands)	**2016**	2015
Common stock		
Balance, beginning of period	**$ 340,097**	$ 340,047
Net common stock issued under share-based compensation plans	**979**	32
Balance, end of period	**341,076**	340,079
Paid-in capital		
Balance, beginning of period	**1,670,238**	1,663,592
Net common stock issued under share-based compensation plans	**(5,954)**	(32)
Reissuance of treasury stock, net	**—**	(7,181)
Tax benefit from share-based compensation	**115**	2,568
Equity compensation	**6,017**	5,984
Reacquisition of convertible junior subordinated debentures-equity component (note 3)	**(9,750)**	—
Balance, end of period	**1,660,666**	1,664,931
Treasury stock		
Balance, beginning of period	**(3,362)**	(32,937)
Reissuance of treasury stock, net	**—**	29,575
Balance, end of period	**(3,362)**	(3,362)
Accumulated other comprehensive income (loss)		
Balance, beginning of period	**(60,880)**	(81,341)
Other comprehensive income (loss), net of tax (note 9)	**105,720**	(46,799)
Balance, end of period	**44,840**	(128,140)
Retained earnings (deficit)		
Balance, beginning of period	**290,047**	(852,458)
Net income	**178,412**	246,730
Reissuance of treasury stock, net	**—**	(29,496)
Balance, end of period	**468,459**	(635,224)
Total shareholders' equity	**$ 2,511,679**	$ 1,238,284

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)	**2016**	2015
Cash flows from operating activities:		
Net income	**$ 178,412**	$ 246,730
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	**28,477**	23,938
Deferred tax expense (benefit)	**88,157**	(13)
Realized investment gains, net	**(3,892)**	(26,493)
Excess tax benefits related to share-based compensation	**(115)**	(2,568)
Payment of original issue discount-convertible junior subordinated debentures	**(41,540)**	—
Change in certain assets and liabilities:		
Accrued investment income	**515**	(4,043)
Prepaid insurance premium	**48**	(10,462)
Reinsurance recoverable on loss reserves	**(728)**	4,385
Reinsurance recoverable on paid losses	**(1,454)**	506
Premium receivable	**1,867**	4,974
Deferred insurance policy acquisition costs	**(1,439)**	(1,920)
Profit commission receivable	**(2,793)**	(50,957)
Loss reserves	**(261,069)**	(286,046)
Premium deficiency reserve	**—**	(23,751)
Unearned premiums	**28,451**	40,874
Return premium accrual	**(7,300)**	(3,500)
Income taxes payable - current	**523**	526
Other	**(13,063)**	27,929
Net cash used in operating activities	**(6,943)**	(59,891)
Cash flows from investing activities:		
Purchases of investments:		
Fixed maturities	**(723,409)**	(1,499,319)
Equity securities	**(3,128)**	(39)
Proceeds from sales of fixed maturities	**649,776**	1,218,688
Proceeds from maturity of fixed maturities	**313,484**	298,618
Proceeds from sale of equity securities	**2,525**	—
Net increase in payable for securities	**24,519**	41,762
Net decrease in restricted cash	**—**	17,212
Additions to property and equipment	**(2,724)**	(1,711)
Net cash provided by investing activities	**261,043**	75,211
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	**155,000**	—
Purchase of convertible senior notes	**(188,501)**	—
Purchase of convertible junior subordinated debentures-liability component	**(91,110)**	—
Purchase of convertible junior subordinated debentures-equity component	**(9,750)**	—
Excess tax benefits related to share-based compensation	**115**	2,568
Net cash (used in) provided by financing activities	**(134,246)**	2,568
Net increase in cash and cash equivalents	**119,854**	17,888
Cash and cash equivalents at beginning of period	**181,120**	197,882
Cash and cash equivalents at end of period	**$ 300,974**	$ 215,770

See accompanying notes to consolidated financial statements.

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2016
(Unaudited)

Note 1 – Nature of Business and Basis of Presentation

MGIC Investment Corporation is a holding company which, through Mortgage Guaranty Insurance Corporation ("MGIC") is principally engaged in the mortgage insurance business. We provide mortgage insurance to lenders throughout the United States and to government sponsored entities to protect against loss from defaults on low down payment residential mortgage loans.

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, 2015 included in our Annual Report on Form 10-K. As used below, "we," "our" and "us" refer to MGIC Investment Corporation's consolidated operations or to MGIC Investment Corporation, as the context requires.

In the opinion of management the accompanying financial statements include all adjustments, consisting primarily of normal recurring accruals, necessary to fairly state our consolidated financial position and consolidated results of operations for the periods indicated. The consolidated results of operations for the interim period may not be indicative of the results that may be expected for the year ending December 31, 2016.

Reclassifications

Certain reclassifications have been made in the accompanying financial statements to 2015 amounts to conform to 2016 presentation. See Note 2 - "New Accounting Pronouncements" for a discussion of our adoption of accounting guidance related to the presentation of debt issuance costs in the first quarter of 2016, with retrospective application to prior periods.

Subsequent events

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

Note 2 – New Accounting Pronouncements

Adopted Accounting Standards

Presentation of Debt Issuance Costs

In April 2015, the Financial Accounting Standards Board ("FASB") issued updated guidance related to the presentation of debt issuance costs. The new standard requires the presentation of debt issuance costs in the balance sheet as a deduction from the carrying amount of the related debt liability instead of a deferred charge, consistent with the treatment of debt discounts. The updated guidance was effective for reporting periods beginning after December 15, 2015. The adoption of this guidance as of March 31, 2016 has been applied retrospectively to prior periods. See Note 3 - "Debt" for the reclassification made to our consolidated balance sheet as of December 31, 2015. The adoption of this guidance had no impact on our statements of operations or retained earnings.

Accounting for Share-Based Compensation When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period

In June 2014, the FASB issued updated guidance to resolve diversity in practice concerning employee share-based compensation that contains performance targets that could be achieved after the requisite service period. No explicit guidance on how to account for these types of performance share-based compensation awards existed prior to this update. The updated guidance requires that a performance target that affects vesting and that can be achieved after the requisite service period be treated as a performance condition. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the periods for which service has been rendered. If the performance target becomes probable of being achieved before the end of the service period, the remaining unrecognized compensation cost for which requisite service has not yet been rendered is recognized prospectively over the remaining service period. The total amount of compensation cost recognized during and after the service period should reflect the number of awards that are expected to vest and should be adjusted to reflect those awards that ultimately vest. The updated guidance was effective for reporting periods after December 15, 2015. The adoption of this guidance as of March 31, 2016, with application to awards granted in 2016, is not expected to have a material impact on our consolidated financial statements.

Prospective Accounting Standards

Measurement of Credit Losses on Financial Instruments

In June 2016, the FASB issued updated guidance that requires immediate recognition of estimated credit losses expected to occur over the remaining life of many financial instruments. Entities will be required to utilize a current expected credit losses ("CECL") methodology that incorporates their forecasts of future economic conditions into its loss estimate unless such forecast is not reasonable and supportable in which case the entity will revert to historical loss experience. Any allowance for CECL reduces the amortized cost basis of the financial instrument to the amount an entity expects to collect. For most financial instruments in scope, recognition of credit losses will generally accelerate as entities will effectively recognize losses when the instruments are originated or purchased. The updated guidance is not prescriptive about certain aspects of estimating expected credit losses, including the specific methodology to use, and therefore will require significant judgment in application. The updated guidance is effective for annual periods beginning after December 15, 2019, including interim periods within those annual periods. Early adoption is permitted for annual and interim periods in fiscal years beginning after December 15, 2018. We are currently evaluating the impacts the adoption of this guidance will have on our consolidated financial statements, but do not expect it to have a material impact on our consolidated financial statements or disclosures.

Improvements to Employee Share-Based Compensation Accounting

In March 2016, the FASB issued updated guidance that simplifies several aspects of the accounting for employee share-based compensation including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification of related amounts within the statement of cash flows. The updated guidance requires that, prospectively, all tax effects related to share-based compensation be made through the statement of operations at the time of settlement as opposed to excess tax benefits being recognized in paid-in capital under the current guidance. The updated guidance also removes the requirement to delay recognition of a tax benefit until it reduces current taxes payable. This change is required to be applied on a modified retrospective basis, with a cumulative effect adjustment to opening retained earnings. Additionally, all tax related cash flows resulting from share-based compensation are to be reported as operating activities on the statement of cash flows, a change from the existing requirement to present tax benefits as an inflow from financing activities and an outflow from operating activities. Finally, for tax withholding purposes, entities will be allowed to withhold an amount of shares up to the employee's maximum individual tax rate (as opposed to the minimum statutory tax rate) in the relevant jurisdiction without resulting in liability classification of the award. The change in withholding requirements will be applied on a modified retrospective approach. The updated guidance is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted in any interim or annual period. We are currently evaluating the impacts the adoption of this guidance will have on our consolidated financial statements.

Recognition and Measurement of Financial Assets and Financial Liabilities

In January 2016, the FASB issued updated guidance to address the recognition, measurement, presentation, and disclosure of certain financial instruments. The updated guidance requires equity investments, except those accounted for under the equity method of accounting, that have a readily determinable fair value to be measured at fair value with changes in fair value recognized in net income. Equity investments that do not have readily determinable fair values may be remeasured at fair value either upon the occurrence of an observable price change or upon identification of an impairment. A qualitative assessment for impairment is required for equity investments without readily determinable fair values. The updated guidance also eliminates the requirement to disclose the method and significant assumptions used to estimate the fair value of financial instruments measured at amortized cost on the balance sheet. The updated guidance is effective for annual periods beginning after December 15, 2017, including interim periods within those annual periods and will require recognition of a cumulative effect adjustment at adoption. We do not currently expect the adoption of this guidance to impact our consolidated financial position or liquidity.

Disclosures about Short-Duration Contracts

In May 2015, the FASB issued updated guidance requiring expanded disclosures for insurance entities that issue short-duration contracts. The expanded disclosures are designed to provide additional insight into an insurance entity's ability to underwrite and anticipate costs associated with claims. The disclosures include information about incurred and paid claims development, on a net of reinsurance basis, for the number of years claims incurred typically remain outstanding, not to exceed ten years. Each period presented in the disclosure about claims development that precedes the current reporting periods is considered supplementary information. The expanded disclosures also include more transparent information about significant changes in methodologies and assumptions used to estimate claims, and the timing, frequency, and severity of claims. The disclosures required by this update are effective for annual periods beginning after December 31, 2015, and interim periods within annual periods beginning after December 31, 2016, and is to be applied retrospectively. We are evaluating the applicability and impact, if any, of the new disclosure requirements.

Note 3 – Debt

2016 debt transactions

During the first half of 2016, market conditions allowed us to complete a series of transactions that repositioned the maturity profile of our debt and lowered our interest expense. These transactions, including the amounts and accounting impacts, are discussed below.

5% Convertible Senior Notes

During the first six months of 2016, we purchased $188.5 million in par value of our 5% Convertible Senior Notes (the “5% Notes”) due in 2017 at a purchase price of $195.5 million, plus accrued interest using funds held at our holding company. The excess of the purchase price over par value is reflected as a loss on debt extinguishment and outstanding debt issuance costs on the purchased debt were recognized as interest expense on our consolidated statement of operations for the three and six months ended June 30, 2016. The purchases of the 5% Notes reduced our potentially dilutive shares by approximately 14.0 million shares.

9% Convertible Junior Subordinated Debentures

In February 2016, MGIC purchased $132.7 million of par value of our 9% Convertible Junior Subordinated Debentures (the “9% Debentures”) due in 2063 at a purchase price of $150.7 million, plus accrued interest. The 9% Debentures include a conversion feature that allows us, at our option, to make a cash payment to converting holders in lieu of issuing shares of common stock upon conversion of the 9% Debentures. The accounting standards applicable to extinguishment of debt with a cash conversion feature require the consideration paid to be allocated between the extinguishment of the liability component and reacquisition of the equity component. The purchase of the 9% Debentures resulted in an $8.3 million loss on debt extinguishment on the consolidated statement of operations for the six months ended June 30, 2016, which represents the difference between the fair value and the carrying value of the liability component on the purchase date. In addition, our shareholders’ equity was separately reduced by $9.8 million related to the reacquisition of the equity component. For GAAP accounting purposes, the 9% Debentures owned by MGIC are considered retired and are eliminated in our consolidated financial statements and the underlying common stock equivalents, approximately 9.8 million shares, are not included in the computation of diluted shares.

Federal Home Loan Bank Advance

In February 2016, MGIC borrowed $155.0 million in the form of a fixed rate advance from the Federal Home Loan Bank (“FHLB”) (the “Advance”) to provide funds used to purchase the 9% Debentures. 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 market value must be maintained at 102% of the principal balance of the Advance. MGIC provided eligible collateral from its investment portfolio.

Accounting standard update

As of March 31, 2016 we adopted the accounting update related to the presentation of debt issuance costs in the financial statements. The change in accounting guidance has been applied retrospectively to prior periods. As a result, a reclassification of approximately $11.2 million of debt issuance costs was made on our December 31, 2015 balance sheet, resulting in a reduction to other assets and a reduction to long-term debt; there was no impact on our consolidated statement of operations or retained earnings.

The impact of the reclassification of debt issuance costs on our outstanding debt obligations as of December 31, 2015 is as follows.

	December 31, 2015		
(In millions)	As previously reported	Adjustment	As Adjusted
Convertible Senior Notes, interest at 5% per annum, due May 2017	$ 333.5	$ (2.0)	$ 331.5
Convertible Senior Notes, interest at 2% per annum, due April 2020	500.0	(9.2)	490.8
Convertible Junior Subordinated Debentures, interest at 9% per annum, due April 2063	389.5	—	389.5
Total long-term debt	$ 1,223.0	$ (11.2)	$ 1,211.8

The principal amounts of our debt obligations and their aggregate carrying value as of June 30, 2016 and December 31, 2015 were as follows.

(In millions)	**June 30, 2016**	December 31, 2015
FHLB Advance, interest at 1.91% per annum, due February 2023	**$ 155.0**	$ —
Convertible Senior Notes, interest at 5% per annum, due May 2017 (1)	**145.0**	333.5
Convertible Senior Notes, interest at 2% per annum, due April 2020 (2) (3)	**500.0**	500.0
Convertible Junior Subordinated Debentures, interest at 9% per annum, due April 2063 (4)	**256.9**	389.5
Long-term debt, par value	**1,056.9**	1,223.0
Less: Debt issuance costs on convertible senior notes	**(8.7)**	(11.2)
Long-term debt, carrying value	**$ 1,048.2**	$ 1,211.8

(1) Convertible at any time prior to maturity at the holder's option, at an initial conversion rate, which is subject to adjustment, of 74.4186 shares per $1,000 principal amount, representing an initial conversion price of approximately $13.44 per share.

(2) Prior to January 1, 2020, the 2% Convertible Senior Notes are convertible only upon satisfaction of one or more conditions. One such condition is that during any calendar quarter commencing after March 31, 2014, the last reported sale price of our common stock for each of at least 20 trading days during the 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter be greater than or equal to 130% of the applicable conversion price on each applicable trading day. The 2% Notes are convertible at an initial conversion rate, which is subject to adjustment, of 143.8332 shares per $1,000 principal amount, representing an initial conversion price of approximately $6.95 per share. 130% of such conversion price is $9.03. On or after January 1, 2020, holders may convert their notes irrespective of satisfaction of the conditions.

(3) Prior to April 10, 2017, the notes will not be redeemable. On any business day on or after April 10, 2017 we may redeem for cash all or part of the notes, at our option, at a redemption rate equal to 100% of the principal amount of the notes being redeemed, plus any accrued and unpaid interest, if the closing sale price of our common stock exceeds 130% of the then prevailing conversion price of the notes for each of at least 20 of the 30 consecutive trading days preceding notice of the redemption.

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

The Convertible Senior Notes and Convertible Junior Subordinated Debentures are obligations of our holding company, MGIC Investment Corporation, and not of its subsidiaries. As of June 30, 2016, we had approximately $217 million in cash and investments at our holding company. The net unrealized gains on our holding company investment portfolio were approximately $0.5 million as of June 30, 2016. The modified duration of the holding company investment portfolio, excluding cash and cash equivalents, was 1.4 years at June 30, 2016.

Interest payments on our debt obligations appear below.

	Six Months Ended June 30,	
(In millions)	**2016**	2015
FHLB Advance, interest at 1.91% per annum, due February 2023	**$ 0.9**	$ —
Senior Notes, interest at 5.375% per annum, due November 2015	**—**	1.7
Convertible Senior Notes, interest at 5% per annum, due May 2017	**6.9**	8.6
Convertible Senior Notes, interest at 2% per annum, due April 2020	**5.0**	5.0
Convertible Junior Subordinated Debentures, interest at 9% per annum, due April 2063	**15.9**	17.5
Total interest payments	**$ 28.7**	$ 32.8

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Note 4 – Reinsurance

The effect of all reinsurance agreements on premiums earned and losses incurred is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	**2016**	2015	**2016**	2015
Premiums earned:				
Direct	**$ 263,566**	$ 240,171	**$ 518,953**	$ 485,919
Assumed	**182**	308	**390**	646
Ceded	**(32,292)**	(26,971)	**(66,546)**	(55,769)
Net premiums earned	**$ 231,456**	$ 213,508	**$ 452,797**	$ 430,796
Losses incurred:				
Direct	**$ 54,863**	$ 95,710	**$ 147,295**	$ 183,746
Assumed	**339**	198	**440**	766
Ceded	**(8,612)**	(5,670)	**(16,133)**	(12,489)
Net losses incurred	**$ 46,590**	$ 90,238	**$ 131,602**	$ 172,023

Quota share reinsurance

Effective July 1, 2015, we entered into a quota share reinsurance agreement (“2015 QSR Transaction”) and commuted our prior 2013 quota share reinsurance agreement (“2013 QSR Transaction”). The group of unaffiliated reinsurers are the same under our 2015 QSR Transaction as our prior 2013 QSR Transaction and each has an insurer financial strength rating of A- or better by Standard and Poor’s Rating Services, A.M. Best or both. The 2015 QSR Transaction provides coverage on policies that were in the 2013 QSR Transaction; additional qualifying in force policies as of the agreement effective date which either had no history of defaults, or where a single default had been cured for twelve or more months at the agreement effective date; and all qualifying new insurance written through December 31, 2016. The agreement cedes losses incurred and premiums on or after the effective date through December 31, 2024, at which time the agreement expires.

The 2015 QSR Transaction increased the amount of our insurance in force covered by reinsurance and will result in an increase in the amount of premiums and losses ceded. A higher level of losses ceded will reduce our profit commission and in turn will reduce our premium yield. Early termination of the agreement can be elected by us effective December 31, 2018 for a fee, or under specified scenarios for no fee upon prior written notice, including if we will receive less than 90% of the full credit amount under the private mortgage insurer eligibility requirements (“PMIERs”) of Fannie Mae and Freddie Mac (collectively, the “GSEs”) for the risk ceded in any required calculation period. The structure of the 2015 QSR Transaction is a 30% quota share for all policies covered, with a 20% ceding commission as well as a profit commission. Generally, under the 2015 QSR Transaction, we will receive a profit commission provided that the loss ratio on the loans covered under the agreement remains below 60%.

A summary of our quota share reinsurance agreements, excluding captive agreements, for the three and six months ended June 30, 2016 and 2015 appears as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	**2016**	2015	**2016**	**2015**
2013 QSR Transaction				
Ceded premiums written, net of profit commission	**n/a**	$ 30,919	**n/a**	$ 58,055
Ceded premiums earned, net of profit commission	**n/a**	22,954	**n/a**	47,567
Ceded losses incurred	**n/a**	1,187	**n/a**	6,060
Ceding commissions (1)	**n/a**	11,681	**n/a**	21,803
Profit commission	**n/a**	27,483	**n/a**	50,957
2015 QSR Transaction (Effective July 1, 2015)				
Ceded premiums written, net of profit commission (2)	**$ 29,961**	n/a	**$ 61,627**	n/a
Ceded premiums earned, net of profit commission (2)	**29,961**	n/a	**61,627**	n/a
Ceded losses incurred	**6,070**	n/a	**14,583**	n/a
Ceding commissions (1)	**11,946**	n/a	**23,522**	n/a
Profit commission	**29,767**	n/a	**55,982**	n/a

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

(2) Effective July 1, 2015 premiums are ceded on an earned and received basis as defined in our 2015 QSR Transaction.

Under the terms of the 2015 QSR Transaction, reinsurance premiums, ceding commission and profit commission are settled net on a quarterly basis. The reinsurance premium due after deducting the related ceding commission and profit commission is reported within “Other liabilities” on the consolidated balance sheets.

The reinsurance recoverable on loss reserves related to our 2015 QSR Transaction was $22 million as of June 30, 2016 and $11 million as of December 31, 2015. The reinsurance recoverable balance is secured by funds on deposit from the reinsurers which are based on the funding requirements of PMIERs that address ceded risk.

Captive reinsurance

In the past, MGIC also obtained captive reinsurance. In a captive reinsurance arrangement, the reinsurer is affiliated with the lender for whom MGIC provides mortgage insurance. As part of our settlement with the Consumer Financial Protection Bureau ("CFPB") in 2013 and with the Minnesota Department of Commerce (the "MN Department") in 2015, MGIC has agreed to not enter into any new captive reinsurance agreement or reinsure any new loans under any existing captive reinsurance agreement for a period of ten years subsequent to the respective settlements. In accordance with the CFPB settlement, all of our active captive arrangements were placed into run-off. In addition, the GSEs will not approve any future reinsurance or risk sharing transaction with a mortgage enterprise or an affiliate of a mortgage enterprise.

Captive agreements were generally written on an annual book of business and each captive reinsurer is required to maintain a separate trust account to support its combined reinsured risk on all annual books. MGIC is the sole beneficiary of the trusts, and the trust accounts are made up of capital deposits by the captive reinsurers, premium deposits by MGIC, and investment income earned. The reinsurance recoverable on loss reserves related to captive agreements was $23 million as of June 30, 2016, which was supported by $109 million of trust assets, while as of December 31, 2015, the reinsurance recoverable on loss reserves related to captive agreements was $34 million, which was supported by $137 million of trust assets.

Note 5 – Litigation and Contingencies

Before paying a claim, we review the loan and servicing files to determine the appropriateness of the claim amount. All of our insurance policies provide that we can reduce or deny a claim if the servicer did not comply with its obligations under our insurance policy. We call such reduction of claims "curtailments." In 2015 and the first half of 2016, curtailments reduced our average claim paid by approximately 6.7% and 5.5%, respectively.

When reviewing the loan file associated with a claim, 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 recent quarters, approximately 5% of claims received in a quarter have been resolved by rescissions, down from the peak of approximately 28% in the first half of 2009. 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 curtail claims or rescind coverage, we generally engage in discussions in an attempt to settle the dispute. If we are unable to reach a settlement, the outcome of a dispute ultimately would be determined by legal proceedings.

Until a liability associated with settlement discussions or legal proceedings becomes probable and can be reasonably estimated, we consider our claim payment or rescission resolved for financial reporting purposes. Under ASC 450-20, an estimated loss from such discussions and proceedings is accrued for only if we determine that the loss is probable and can be reasonably estimated. In such cases, we have recorded our best estimate of our probable loss. If we are not able to implement settlements we consider probable, we intend to defend MGIC vigorously against any related legal proceedings.

In addition to matters for which we have recorded a probable loss, we are involved in other discussions and/or proceedings with insureds with respect to our claims paying practices. Although it is reasonably possible that when these matters are resolved we will not prevail in all cases, we are unable to make a reasonable estimate or range of estimates of the potential liability. We estimate the maximum exposure associated with matters where a loss is reasonably possible to be approximately $193 million, although we believe (but can give no assurance that) we will ultimately resolve these matters for significantly less than this amount. This estimate of our maximum exposure does not include interest or consequential or exemplary damages.

Mortgage insurers, including MGIC, have been involved in litigation and regulatory actions related to alleged violations of the anti-referral fee provisions of the Real Estate Settlement Procedures Act, which is commonly known as RESPA, and the notice provisions of the Fair Credit Reporting Act, which is commonly known as FCRA.

For MGIC, while these proceedings in the aggregate have not resulted in material liability, were there to be future proceedings under these laws, there can be no assurance that the outcome would not have a material adverse affect on us. In addition, various regulators, including the CFPB, state insurance commissioners and state attorneys general may bring other actions seeking various forms of relief in connection with alleged violations of RESPA. The insurance law provisions of many states prohibit paying for the referral of insurance business and provide various mechanisms to enforce this prohibition. While we believe our practices are in conformity with applicable laws and regulations, it is not possible to predict the eventual scope, duration or outcome of any such reviews or investigations nor is it possible to predict their effect on us or the mortgage insurance industry.

Through a non-insurance subsidiary, we utilize our underwriting skills to provide an outsourced underwriting service to our customers known as contract underwriting. As part of the contract underwriting activities, that subsidiary is responsible for the quality of the underwriting decisions in accordance with the terms of the contract underwriting agreements with customers. That subsidiary may be required to provide certain remedies to its customers if certain standards relating to the quality of our underwriting work are not met, and we have an established reserve for such future obligations. Claims for remedies may be made a number of years after the underwriting work was performed. Beginning in the second half of 2009, our subsidiary experienced an increase in claims for contract underwriting remedies, which continued throughout 2012. The underwriting remedy expense for 2015 was approximately $1 million, but may increase in the future.

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.

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

Note 6 – Earnings per Share

Basic earnings per share ("EPS") is calculated by dividing net income by the weighted average number of common shares outstanding during the reporting period. Diluted EPS includes the components of basic EPS and also gives effect to dilutive common equivalent shares outstanding during the reporting period. We calculate diluted EPS using the treasury stock method for unvested restricted stock, and the if-converted method for convertible debt instruments. For unvested restricted stock, assumed proceeds under the treasury stock method would include unamortized compensation expense and windfall tax benefits or shortfalls. The determination of potentially issuable shares from our convertible debt instruments does not consider 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. In addition, interest expense, net of tax, related to dilutive convertible debt instruments is added back to earnings in calculating diluted EPS.

The following table reconciles the numerators and denominators used to calculate basic and diluted EPS and also indicates the number of antidilutive securities.

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands, except per share data)	**2016**	2015	**2016**	2015
Basic earnings per share:				
Net income	**$ 109,221**	$ 113,654	**$ 178,412**	$ 246,730
Weighted average common shares outstanding	**340,678**	339,705	**340,411**	339,406
Basic income per share	**$ 0.32**	$ 0.33	**$ 0.52**	$ 0.73
Diluted earnings per share:				
Net income	**$ 109,221**	$ 113,654	**$ 178,412**	$ 246,730
Interest expense, net of tax [(1)]:				
2% Convertible Senior Notes due 2020	**1,982**	3,049	**3,964**	6,098
5% Convertible Senior Notes due 2017	**1,728**	4,692	**4,406**	9,384
9% Convertible Junior Subordinated Debentures due 2063	**3,757**	—	**8,379**	—
Diluted income available to common shareholders	**$ 116,688**	$ 121,395	**$ 195,161**	$ 262,212
Weighted average shares - basic	**340,678**	339,705	**340,411**	339,406
Effect of dilutive securities:				
Unvested restricted stock units	**1,209**	1,831	**1,444**	2,203
2% Convertible Senior Notes due 2020	**71,917**	71,917	**71,917**	71,917
5% Convertible Senior Notes due 2017	**13,307**	25,674	**15,449**	25,674
9% Convertible Junior Subordinated Debentures due 2063	**19,028**	—	**21,133**	—
Weighted average shares - diluted	**446,139**	439,127	**450,354**	439,200
Diluted income per share	**$ 0.26**	$ 0.28	**$ 0.43**	$ 0.60
Antidilutive securities (in millions)	**—**	28.9	**—**	28.9

(1) Due to the valuation allowance recorded against deferred tax assets, the three and six months ended June 30, 2015 were not tax effected. The three and six months ended June 30, 2016 have been tax effected at a rate of 35%.

Note 7 – Investments

The amortized cost, gross unrealized gains and losses and fair value of the investment portfolio at June 30, 2016 and December 31, 2015 are shown below.

June 30, 2016

(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	**$ 59,860**	**$ 2,276**	**$ (806)**	**$ 61,330**
Obligations of U.S. states and political subdivisions	**1,968,194**	**109,789**	**(531)**	**2,077,452**
Corporate debt securities	**1,704,917**	**31,769**	**(6,721)**	**1,729,965**
Asset-backed securities	**104,221**	**236**	**(50)**	**104,407**
Residential mortgage-backed securities	**241,314**	**600**	**(3,574)**	**238,340**
Commercial mortgage-backed securities	**281,502**	**3,547**	**(891)**	**284,158**
Collateralized loan obligations	**61,355**	**44**	**(849)**	**60,550**
Total debt securities	**4,421,363**	**148,261**	**(13,422)**	**4,556,202**
Equity securities	**6,228**	**3,651**	**(3)**	**9,876**
Total investment portfolio	**$ 4,427,591**	**$ 151,912**	**$ (13,425)**	**$ 4,566,078**

December 31, 2015

(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	$ 160,393	$ 2,133	$ (1,942)	$ 160,584
Obligations of U.S. states and political subdivisions	1,766,407	33,410	(7,290)	1,792,527
Corporate debt securities	2,046,697	2,836	(44,770)	2,004,763
Asset-backed securities	116,764	56	(203)	116,617
Residential mortgage-backed securities	265,879	161	(8,392)	257,648
Commercial mortgage-backed securities	237,304	162	(3,975)	233,491
Collateralized loan obligations	61,345	3	(1,148)	60,200
Debt securities issued by foreign sovereign governments	29,359	2,474	(102)	31,731
Total debt securities	4,684,148	41,235	(67,822)	4,657,561
Equity securities	5,625	38	(18)	5,645
Total investment portfolio	$ 4,689,773	$ 41,273	$ (67,840)	$ 4,663,206

(1) At June 30, 2016 and December 31, 2015, there were no other-than-temporary impairment losses recorded in other comprehensive income.

During the first quarter of 2016, we substantially liquidated our Australian entities and repatriated most assets, including proceeds from the monetization of our Australian investment portfolio. As of June 30, 2016 we held no investments in foreign sovereign governments.

As discussed in Note 3 - "Debt" we are required to maintain collateral of at least 102% of the outstanding principal balance of the Advance. As of June 30, 2016 we pledged eligible collateral with a total fair value of $166.6 million.

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The amortized cost and fair values of debt securities at June 30, 2016, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Because most asset-backed and mortgage-backed securities and collateralized loan obligations provide for periodic payments throughout their lives, they are listed below in separate categories.

June 30, 2016 *(In thousands)*	Amortized Cost	Fair Value
Due in one year or less	$ 272,706	$ 273,365
Due after one year through five years	1,143,174	1,163,590
Due after five years through ten years	1,128,998	1,156,648
Due after ten years	1,188,093	1,275,144
	$ 3,732,971	$ 3,868,747
Asset-backed securities	104,221	104,407
Residential mortgage-backed securities	241,314	238,340
Commercial mortgage-backed securities	281,502	284,158
Collateralized loan obligations	61,355	60,550
Total as of June 30, 2016	$ 4,421,363	$ 4,556,202

At June 30, 2016 and December 31, 2015, the investment portfolio had gross unrealized losses of $13.4 million and $67.8 million, respectively. For those securities in an unrealized loss position, the length of time the securities were in such a position, as measured by their month-end fair values, is as follows:

June 30, 2016	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	$ 8,996	$ (806)	$ —	$ —	$ 8,996	$ (806)
Obligations of U.S. states and political subdivisions	30,347	(303)	15,842	(228)	46,189	(531)
Corporate debt securities	110,610	(2,341)	167,209	(4,381)	277,819	(6,722)
Asset-backed securities	13,440	(45)	8,047	(5)	21,487	(50)
Residential mortgage-backed securities	2,383	(68)	203,939	(3,505)	206,322	(3,573)
Commercial mortgage-backed securities	33,169	(553)	38,382	(338)	71,551	(891)
Collateralized loan obligations	—	—	52,050	(849)	52,050	(849)
Equity securities	—	—	154	(3)	154	(3)
Total	$ 198,945	$ (4,116)	$ 485,623	$ (9,309)	$ 684,568	$ (13,425)

December 31, 2015	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	$ 60,548	$ (1,467)	$ 1,923	$ (475)	$ 62,471	$ (1,942)
Obligations of U.S. states and political subdivisions	417,615	(6,404)	37,014	(886)	454,629	(7,290)
Corporate debt securities	1,470,628	(38,519)	114,982	(6,251)	1,585,610	(44,770)
Asset-backed securities	86,604	(173)	5,546	(30)	92,150	(203)
Residential mortgage-backed securities	35,064	(312)	209,882	(8,080)	244,946	(8,392)
Commercial mortgage-backed securities	134,488	(2,361)	69,927	(1,614)	204,415	(3,975)
Collateralized loan obligations	—	—	51,750	(1,148)	51,750	(1,148)
Debt securities issued by foreign sovereign governments	4,463	(102)	—	—	4,463	(102)
Equity securities	355	(8)	171	(10)	526	(18)
Total	$ 2,209,765	$ (49,346)	$ 491,195	$ (18,494)	$ 2,700,960	$ (67,840)

The unrealized losses in all categories of our investments at June 30, 2016 and December 31, 2015 were primarily caused by the difference in interest rates at each respective period, compared to interest rates at the time of purchase. There were 211 and 303 securities in an unrealized loss position at June 30, 2016 and December 31, 2015, respectively.

During each of the three and six months ended June 30, 2016 and 2015 there were no other-than-temporary impairments ("OTTI") recognized. The net realized investment gains on the investment portfolio are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	**2016**	2015	**2016**	2015
Realized investment gains (losses) on investments:				
Fixed maturities	**$ 831**	$ 161	**$ 3,886**	$ 26,485
Equity securities	**5**	5	**6**	8
Net realized investment gains	**$ 836**	$ 166	**$ 3,892**	$ 26,493

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	**2016**	2015	**2016**	2015
Realized investment gains (losses) on investments:				
Gains on sales	**$ 1,404**	$ 785	**$ 5,509**	$ 27,991
Losses on sales	**(568)**	(619)	**(1,617)**	(1,498)
Net realized investment gains	**$ 836**	$ 166	**$ 3,892**	$ 26,493

Note 8 – Fair Value Measurements

Our estimates of fair value for financial assets and financial liabilities are based on the framework established in the fair value accounting guidance. The framework is based on the inputs used in valuation, gives the highest priority to quoted prices in active markets and requires that observable inputs be used in the valuations when available.

To determine the fair value of securities available-for-sale in Level 1 and Level 2 of the fair value hierarchy, independent pricing sources have been utilized. One price is provided per security based on observable market data. To ensure securities are appropriately classified in the fair value hierarchy, we review the pricing techniques and methodologies of the independent pricing sources and believe that their policies adequately consider market activity, either based on specific transactions for the issue valued or based on modeling of securities with similar credit quality, duration, yield and structure that were recently traded. A variety of inputs are utilized by the independent pricing sources including benchmark yields, reported trades, non-binding broker/dealer quotes, issuer spreads, two sided markets, benchmark securities, bids, offers and reference data including data published in market research publications. Inputs may be weighted differently for any security, and not all inputs are used for each security evaluation.

Market indicators, industry and economic events are also considered. This information is evaluated using a multidimensional pricing model. This model combines all inputs to arrive at a value assigned to each security. Quality controls are performed by the independent pricing sources throughout this process, which include reviewing tolerance reports, trading information, data changes, and directional moves compared to market moves. In addition, on a quarterly basis, we perform quality controls over values received from the pricing sources which also include reviewing tolerance reports, trading information, data changes, and directional moves compared to market moves. We have not made any adjustments to the prices obtained from the independent pricing sources.

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

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

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

The independent pricing sources utilize these approaches to determine the fair value of the securities in Level 2 of the fair value hierarchy based on type of investment:

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

Obligations of U.S. States & Political Subdivisions are evaluated 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 are evaluated 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 are evaluated using valuation 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 utilizes 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 are evaluated 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 market color as available are used, resulting in tranche-specific spreads.

Level 3 - Valuations derived from valuation techniques in which one or more significant inputs or value drivers are unobservable or from par values for certain equity securities restricted in their ability to be redeemed or sold. The inputs used to derive the fair value of Level 3 securities reflect our own assumptions about the assumptions a market participant would use in pricing an asset or liability. Financial assets utilizing Level 3 inputs include certain equity securities that can only be redeemed or sold at their par value and only to the security issuer and certain state premium tax credit investments. The state premium tax credit investments have an average maturity of less than 2 years, credit ratings of AA+ or higher, and their balance reflects their remaining scheduled payments discounted at an average annual rate of 7.1%. Our non-financial assets that are classified as Level 3 securities consist of real estate acquired through claim settlement. The fair value of real estate acquired is the lower of our acquisition cost or a percentage of the appraised value. The percentage applied to the appraised value is based upon our historical sales experience adjusted for current trends.

Fair value measurements for assets measured at fair value included the following as of June 30, 2016 and December 31, 2015:

June 30, 2016

(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	**$ 61,330**	**$ 14,678**	**$ 46,652**	**$ —**
Obligations of U.S. states and political subdivisions	**2,077,452**	**—**	**2,076,396**	**1,056**
Corporate debt securities	**1,729,965**	**—**	**1,729,965**	**—**
Asset-backed securities	**104,407**	**—**	**104,407**	**—**
Residential mortgage-backed securities	**238,340**	**—**	**238,340**	**—**
Commercial mortgage-backed securities	**284,158**	**—**	**284,158**	**—**
Collateralized loan obligations	**60,550**	**—**	**60,550**	**—**
Total debt securities	**4,556,202**	**14,678**	**4,540,468**	**1,056**
Equity securities (1)	**9,876**	**2,936**	**—**	**6,940**
Total investment portfolio	**$ 4,566,078**	**$ 17,614**	**$ 4,540,468**	**$ 7,996**
Real estate acquired (2)	**$ 9,642**	**$ —**	**$ —**	**$ 9,642**

December 31, 2015

(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	$ 160,584	$ 46,197	$ 114,387	$ —
Obligations of U.S. states and political subdivisions	1,792,527	—	1,791,299	1,228
Corporate debt securities	2,004,763	—	2,004,763	—
Asset-backed securities	116,617	—	116,617	—
Residential mortgage-backed securities	257,648	—	257,648	—
Commercial mortgage-backed securities	233,491	—	233,491	—
Collateralized loan obligations	60,200	—	60,200	—
Debt securities issued by foreign sovereign governments	31,731	31,731	—	—
Total debt securities	4,657,561	77,928	4,578,405	1,228
Equity securities (1)	5,645	2,790	—	2,855
Total investment portfolio	$ 4,663,206	$ 80,718	$ 4,578,405	$ 4,083
Real estate acquired (2)	$ 12,149	$ —	$ —	$ 12,149

(1) Certain equity securities in Level 3 are carried at cost, which approximates fair value.

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

There were no transfers of securities between Level 1 and Level 2 during the first six months of 2016.

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, 2016 and 2015 is shown in the following tables. There were no transfers into or out of Level 3 in those periods and 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.

Three Months Ended June 30, 2016

(In thousands)	Debt Securities	Equity Securities	**Total Investments**	**Real Estate Acquired**
Balance at March 31, 2016	**$ 1,192**	**$ 3,421**	**$ 4,613**	**$ 12,849**
Total realized/unrealized gains (losses):				
Included in other comprehensive income	**—**	**3,519**	**3,519**	**—**
Included in earnings and reported as losses incurred, net	**—**	**—**	**—**	**651**
Purchases	**—**	**—**	**—**	**6,748**
Sales	**(136)**	**—**	**(136)**	**(10,606)**
Balance at June 30, 2016	**$ 1,056**	**$ 6,940**	**$ 7,996**	**$ 9,642**

Six Months Ended June 30, 2016

(In thousands)	Debt Securities	Equity Securities	**Total Investments**	**Real Estate Acquired**
Balance at December 31, 2015	**$ 1,228**	**$ 2,855**	**$ 4,083**	**$ 12,149**
Total realized/unrealized gains (losses):				
Included in other comprehensive income	**—**	**3,519**	**3,519**	**—**
Included in earnings and reported as losses incurred, net	**—**	**—**	**—**	**358**
Purchases	**—**	**3,091**	**3,091**	**19,015**
Sales	**(172)**	**(2,525)**	**(2,697)**	**(21,880)**
Balance at June 30, 2016	**$ 1,056**	**$ 6,940**	**$ 7,996**	**$ 9,642**

Three Months Ended June 30, 2015

(In thousands)	Debt Securities	Equity Securities	Total Investments	Real Estate Acquired
Balance at March 31, 2015	$ 1,791	$ 321	$ 2,112	$ 10,897
Total realized/unrealized gains (losses):				
Included in earnings and reported as losses incurred, net	—	—	—	31
Purchases	—	—	—	5,917
Sales	(157)	—	(157)	(8,850)
Balance at June 30, 2015	$ 1,634	$ 321	$ 1,955	$ 7,995

Six Months Ended June 30, 2015

(In thousands)	Debt Securities	Equity Securities	Total Investments	Real Estate Acquired
Balance at December 31, 2014	$ 1,846	$ 321	$ 2,167	$ 12,658
Total realized/unrealized gains (losses):				
Included in earnings and reported as losses incurred, net	—	—	—	(472)
Purchases	7	—	7	16,714
Sales	(219)	—	(219)	(20,905)
Balance at June 30, 2015	$ 1,634	$ 321	$ 1,955	$ 7,995

Authoritative guidance over disclosures about the fair value of financial instruments requires additional disclosure for financial instruments not measured at fair value. Certain financial instruments, including insurance contracts, are excluded from these fair value disclosure requirements. The carrying values of cash and cash equivalents (Level 1) and accrued investment income (Level 2) approximated their fair values. Additional fair value disclosures related to our investment portfolio are included in Note 7 – "Investments."

Financial Liabilities Not Measured at Fair Value

We incur financial liabilities in the normal course of our business. The following tables present the carrying value and fair value of our financial liabilities disclosed, but not carried, at fair value at June 30, 2016 and December 31, 2015. The fair values of our Convertible Senior Notes and Convertible Junior Subordinated Debentures were based on observable market prices and the fair value of the Federal Home Loan Bank Advance was estimated using discounted cash flows on current incremental borrowing rates for similar borrowing arrangements, and in all cases they are categorized as Level 2.

June 30, 2016

(In thousands)	**Carrying Value**	**Fair Value**
Financial liabilities:		
FHLB Advance due 2023	**$ 155,000**	**$ 160,025**
Convertible Senior Notes due 2017	**144,470**	**150,070**
Convertible Senior Notes due 2020	**491,854**	**554,670**
Convertible Junior Subordinated Debentures due 2063	**256,872**	**285,244**
Total Debt	**$ 1,048,196**	**$ 1,150,009**

December 31, 2015

(In thousands)	Carrying Value	Fair Value
Financial liabilities:		
Convertible Senior Notes due 2017	$ 331,546	$ 345,616
Convertible Senior Notes due 2020	490,755	701,955
Convertible Junior Subordinated Debentures due 2063	389,522	455,067
Total Debt	$ 1,211,823	$ 1,502,638

Note 9 – Other Comprehensive Income

The pretax components of our other comprehensive income (loss) and the related income tax (expense) benefit for the three and six months ended June 30, 2016 and 2015 are included in the following table.

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	**2016**	2015	**2016**	2015
Net unrealized holding gains (losses) arising during the period	**$ 86,674**	$ (64,118)	**$ 165,058**	$ (44,397)
Income tax (expense) benefit	**(30,336)**	22,362	**(57,893)**	15,486
Valuation allowance [1]	**—**	(21,890)	**—**	(15,172)
Net of taxes	**56,338**	(63,646)	**107,165**	(44,083)
Net changes in benefit plan assets and obligations	**(266)**	(392)	**(740)**	(1,092)
Income tax benefit	**93**	137	**259**	382
Valuation allowance [1]	**—**	(137)	**—**	(382)
Net of taxes	**(173)**	(392)	**(481)**	(1,092)
Net changes in unrealized foreign currency translation adjustment	**16**	598	**(1,480)**	(2,504)
Income tax (expense) benefit	**(5)**	(208)	**516**	880
Net of taxes	**11**	390	**(964)**	(1,624)
Total other comprehensive income (loss)	**86,424**	(63,912)	**162,838**	(47,993)
Total income tax (expense) benefit, net of valuation allowance	**(30,248)**	264	**(57,118)**	1,194
Total other comprehensive income (loss), net of tax	**$ 56,176**	$ (63,648)	**$ 105,720**	$ (46,799)

[1] See Note 11 – "Income Taxes" for a discussion of the valuation allowance recorded against deferred tax assets.

The pretax and related income tax (expense) benefit components of the amounts reclassified from our accumulated other comprehensive loss to our consolidated statements of operations for the three and six months ended June 30, 2016 and 2015 are included in the following table.

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	**2016**	2015	**2016**	2015
Reclassification adjustment for net realized gains (losses) [1]	**$ 98**	$ 477	**$ 710**	$ 11,711
Income tax expense	**(34)**	(161)	**(126)**	(4,092)
Valuation allowance [2]	**—**	122	**—**	4,048
Net of taxes	**64**	438	**584**	**11,667**
Reclassification adjustment related to benefit plan assets and obligations [3]	**266**	392	**740**	1,092
Income tax expense	**(93)**	(137)	**(259)**	(382)
Valuation allowance [2]	**—**	137	**—**	382
Net of taxes	**173**	392	**481**	**1,092**
Reclassification adjustment related to foreign currency [4]	**—**	—	**1,467**	**—**
Income tax expense	**—**	—	**(513)**	**—**
Net of taxes	**—**	—	**954**	**—**
Total reclassifications	**364**	869	**2,917**	12,803
Total income tax expense, net of valuation allowance	**(127)**	(39)	**(898)**	(44)
Total reclassifications, net of tax	**$ 237**	$ 830	**$ 2,019**	$ 12,759

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

(2) See Note 11 – "Income Taxes" for a discussion of the valuation allowance recorded against deferred tax assets.

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

(4) Increases (decreases) Other revenue on the consolidated statements of operations.

Changes in our accumulated other comprehensive income (loss), including amounts reclassified from other comprehensive income (loss), for the six months ended June 30, 2016 are included in the table below.

	Six Months Ended June 30, 2016			
(In thousands)	**Net unrealized gains and losses on available-for-sale securities**	**Net benefit plan assets and obligations recognized in shareholders' equity**	**Net unrealized foreign currency translation**	**Total accumulat other comprehens income (los**
Balance at December 31, 2015, net of tax	**$ (17,148)**	**$ (44,652)**	**$ 920**	**$ (60,8**
Other comprehensive income (loss) before reclassifications	**107,749**	**—**	**(10)**	**107,7**
Less: Amounts reclassified from accumulated other comprehensive income (loss)	**584**	**481**	**954**	**2,0**
Balance at June 30, 2016, net of tax	**$ 90,017**	**$ (45,133)**	**$ (44)**	**$ 44,8**

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Note 10 – Benefit Plans

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

	Three Months Ended June 30,			
(In thousands)	Pension and Supplemental Executive Retirement Plans		Other Postretirement Benefits	
	2016	2015	**2016**	2015
Service cost	**$ 2,402**	$ 2,680	**$ 201**	$ 214
Interest cost	**4,024**	4,016	**180**	171
Expected return on plan assets	**(4,865)**	(5,259)	**(1,221)**	(1,247)
Recognized net actuarial loss (gain)	**1,567**	1,533	**—**	(53)
Amortization of prior service cost	**(171)**	(211)	**(1,663)**	(1,663)
Net periodic benefit cost (benefit)	**$ 2,957**	$ 2,759	**$ (2,503)**	$ (2,578)

	Six Months Ended June 30,			
(In thousands)	Pension and Supplemental Executive Retirement Plans		Other Postretirement Benefits	
	2016	2015	**2016**	2015
Service cost	**$ 4,565**	$ 5,128	**$ 376**	$ 416
Interest cost	**7,953**	7,924	**352**	349
Expected return on plan assets	**(9,754)**	(10,554)	**(2,443)**	(2,495)
Recognized net actuarial loss (gain)	**2,928**	2,742	**—**	(88)
Amortization of prior service cost	**(343)**	(422)	**(3,325)**	(3,325)
Net periodic benefit cost (benefit)	**$ 5,349**	$ 4,818	**$ (5,040)**	$ (5,143)

We currently intend to make contributions totaling $11.4 million to our qualified pension plan and supplemental executive retirement plan in 2016, of which $2.6 million has been contributed through June 30, 2016.

Note 11 – Income Taxes

Valuation Allowance

We review the need to maintain a deferred tax asset valuation allowance on a quarterly basis. We analyze many factors, among which are the severity and frequency of operating losses, our capacity for the carryback or carryforward of any losses, the existence and current level of taxable operating income, operating results on a three year cumulative basis, the expected occurrence of future income or loss, the expiration dates of the loss carryforwards, the cyclical nature of our operating results, and available tax planning strategies. Based on our analysis, we reduced our benefit from income tax through the recognition of a valuation allowance from the first quarter of 2009 through the second quarter of 2015. In the third quarter of 2015, based on our analysis, we concluded that it was more likely than not that our deferred tax assets would be fully realizable and that the valuation allowance was no longer necessary. Therefore, we reversed the valuation allowance.
The effect of the change in valuation allowance on the provision for income taxes was as follows:

	Three months ended June 30,		Six months ended June 30,	
(In thousands)	**2016**	2015	**2016**	2015
Provision for income tax	**$ 56,018**	$ 39,991	**$ 90,515**	$ 87,874
Change in valuation allowance	**—**	(38,669)	**—**	(83,167)
Provision for income taxes	**$ 56,018**	$ 1,322	**$ 90,515**	$ 4,707

The change in the valuation allowance that was included in other comprehensive income for the three and six months ended June 30, 2015 was an increase of $22.0 million and $15.6 million, respectively.

We have approximately $1.7 billion of net operating loss (“NOL”) carryforwards on a regular tax basis and $0.8 billion of NOL carryforwards for computing the alternative minimum tax as of June 30, 2016. Any unutilized carryforwards are scheduled to expire at the end of tax years 2029 through 2033.

Tax Contingencies

As previously disclosed, the Internal Revenue Service (“IRS”) completed examinations of our federal income tax returns for the years 2000 through 2007 and issued proposed assessments for taxes, interest and penalties related to our treatment of the flow-through income and loss from an investment in a portfolio of residual interests of Real Estate Mortgage Investment Conduits (“REMICs”). The IRS indicated that it did not believe that, for various reasons, we had established sufficient tax basis in the REMIC residual interests to deduct the losses from taxable income. We appealed these assessments within the IRS and in August 2010, we reached a tentative settlement agreement with the IRS which was not finalized.

In 2014, we received Notices of Deficiency (commonly referred to as "90 day letters") covering the 2000-2007 tax years. The Notices of Deficiency reflect taxes and penalties related to the REMIC matters of $197.5 million and at June 30, 2016, there would also be interest related to these matters of approximately $191.2 million. In 2007, we made a payment of $65.2 million to the United States Department of the Treasury which will reduce any amounts we would ultimately owe. The Notices of Deficiency also reflect additional amounts due of $261.4 million, which are primarily associated with the disallowance of the carryback of the 2009 net operating loss to the 2004-2007 tax years. We believe the IRS included the carryback adjustments as a precaution to keep open the statute of limitations on collection of the tax that was refunded when this loss was carried back, and not because the IRS actually intends to disallow the carryback permanently.
We filed a petition with the U.S. Tax Court contesting most of the IRS' proposed adjustments reflected in the Notices of Deficiency and the IRS has filed an answer to our petition which continues to assert their claim. The case has twice been scheduled for trial and in each instance, the parties jointly filed, and the U.S. Tax Court approved (most recently in February 2016), motions for continuance to postpone the trial date. Also in February 2016, the U.S. Tax Court approved a joint motion to consolidate for trial, briefing, and opinion, our case with similar cases of Radian Group, Inc., as successor to Enhance Financial Services Group, Inc., et al. Litigation to resolve our dispute with the IRS could be lengthy and costly in terms of legal fees and related expenses. We can provide no assurance regarding the outcome of any such litigation or whether a compromised settlement with the IRS will ultimately be reached and finalized. Depending on the outcome of this matter, additional state income taxes and state interest may become due when a final resolution is reached. As of June 30, 2016, those state taxes and interest would approximate $49.7 million. In addition, there could also be state tax penalties. Our total amount of unrecognized tax benefits as of June 30, 2016 is $107.6 million, which represents the tax benefits generated by the REMIC portfolio included in our tax returns that we have not taken benefit for in our financial statements, including any related interest. We continue to believe that our previously recorded tax provisions and liabilities are appropriate. However, we would need to make appropriate adjustments, which could be material, to our tax provision and liabilities if our view of the probability of success in this matter changes, and the ultimate resolution of this matter could have a material negative impact on our effective tax rate, results of operations, cash flows, available assets and statutory capital. In this regard, see Note 15 – "Capital Requirements."

The total amount of the unrecognized tax benefits, related to our aforementioned REMIC issue that would affect our effective tax rate is $94.2 million. We recognize interest accrued and penalties related to unrecognized tax benefits in income taxes. As of June 30, 2016 and December 31, 2015, we had accrued $28.3 million and $27.8 million, respectively, for the payment of interest.

Note 12 – Loss Reserves

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

Estimation of losses is inherently judgmental. The conditions that affect the claim rate and claim severity include the current and future state of the domestic economy, including unemployment, and the current and future strength of local housing markets; exposure on insured loans; the amount of time between default and claim filing; and curtailments. 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 which may affect borrower willingness to continue to make mortgage payments when the value of the home is below the mortgage balance. Changes to our estimates could result in a material impact to our results of operations and capital position, even in a stable economic environment.

The following table provides a reconciliation of beginning and ending loss reserves for the six months ended June 30, 2016 and 2015:

	Six months ended June 30,	
(In thousands)	**2016**	2015
Reserve at beginning of period	**$ 1,893,402**	$ 2,396,807
Less reinsurance recoverable	**44,487**	57,841
Net reserve at beginning of period	**1,848,915**	2,338,966
Losses incurred:		
Losses and LAE incurred in respect of defaults related to:		
Current year	**196,543**	223,564
Prior years [1]	**(64,941)**	(51,541)
Subtotal	**131,602**	172,023
Losses paid:		
Losses and LAE paid in respect of defaults related to:		
Current year	**1,396**	2,382
Prior years	**392,007**	451,317
Reinsurance terminations [2]	**(4)**	(15)
Subtotal	**393,399**	453,684
Net reserve at end of period	**1,587,118**	2,057,305
Plus reinsurance recoverables	**45,215**	53,456
Reserve at end of period	**$ 1,632,333**	$ 2,110,761

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

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

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

Losses incurred on defaults received in the current year decreased in the first six months of 2016 compared to the same period in 2015, primarily due to a decrease in the number of new defaults, net of related cures.

The prior year development of the reserves in the first six months of 2016 and 2015 is reflected in the following table.

	Six months ended June 30,	
(In millions)	**2016**	2015
Decrease in estimated claim rate on primary defaults	**$ (76)**	$ (59)
Increase in estimated severity on primary defaults	**17**	15
Change in estimates related to pool reserves, LAE reserves and reinsurance	**(6)**	(8)
Total prior year loss development [1]	**$ (65)**	$ (52)

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

For the six months ended June 30, 2016 and 2015 we experienced favorable prior year loss reserve development. This development was, in part, due to the resolution of approximately 43% and 41% of the prior year default inventory during the six months ended June 30, 2016 and 2015, respectively. During the first six months of 2016, we experienced improved cure rates on prior year defaults, which was offset in part by an increase in severity on the prior year defaults. In addition to the resolution of defaults, the first six months of 2015 were also favorably impacted by $20 million due to re-estimation of previously recorded reserves relating to disputes on our claims paying practices and adjustments to incurred but not reported losses (IBNR). The favorable development in the first six months of 2015 was offset, in part, by an increase in the severity on prior year defaults remaining in the delinquent inventory.

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

During the first half of 2016, our losses paid included $51 million associated with settlements for claims paying practices and nonperforming loan sales. These settlements reduced our delinquent inventory by 1,273 notices. These settlements had no material impact on our losses incurred, net.

The liability associated with our estimate of premiums to be refunded on expected claim payments is accrued for separately at June 30, 2016 and December 31, 2015 and approximately $97 million and $102 million, respectively. This liability was included in "Other liabilities" on our consolidated balance sheets.

Delinquent inventory

A rollforward of our primary default inventory for the three and six months ended June 30, 2016 and 2015 appears in the following table. 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.

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	**2016**	2015
Default inventory at beginning of period	**55,590**	72,236	**62,633**	79,901
New notices	**16,080**	17,451	**32,811**	36,347
Cures	**(15,640)**	(17,897)	**(34,693)**	(39,664)
Paids (including those charged to a deductible or captive)	**(3,195)**	(4,140)	**(6,568)**	(8,713)
Rescissions and denials	**(142)**	(172)	**(352)**	(393)
Other items removed from inventory	**(135)**	(1,121)	**(1,273)**	(1,121)
Default inventory at end of period	**52,558**	66,357	**52,558**	66,357

The decrease in the primary default inventory experienced during 2016 and 2015 was generally across all markets and primarily in book years 2008 and prior. As of June 30, 2016 the percentage of loans in the inventory that have been in default for 12 or more consecutive months remained consistent compared with the prior year end and declined compared to one year prior, as shown in the following table. Historically as a default ages it becomes more likely to result in a claim. The percentage of loans that have been in default for 12 or more consecutive months and the number of loans in our primary claims received inventory have been affected by our suspended rescissions and the resolution of certain of those rescissions discussed below and in Note 5 – "Litigation and Contingencies."

Consecutive months in default	**June 30, 2016**		December 31, 2015		June 30, 2015	
3 months or less	**11,547**	**22%**	13,053	21%	12,545	19%
4 - 11 months	**12,680**	**24%**	15,763	25%	15,487	23%
12 months or more [(1)]	**28,331**	**54%**	33,817	54%	38,325	58%
Total primary default inventory	**52,558**	**100%**	62,633	100%	66,357	100%
Primary claims received inventory included in ending default inventory	**1,829**	**3%**	2,769	4%	3,440	5%

(1) Approximately 49%, 50%, and 51% of the primary default inventory in default for 12 consecutive months or more has been in default for at least 36 consecutive months as of June 30, 2016, December 31, 2015, and June 30, 2015, respectively.

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

Number of payments delinquent	June 30, 2016		December 31, 2015		June 30, 2015	
3 payments or less	**17,299**	**33%**	20,360	33%	19,274	29%
4 - 11 payments	**12,746**	**24%**	15,092	24%	15,710	24%
12 payments or more	**22,513**	**43%**	27,181	43%	31,373	47%
Total primary default inventory	**52,558**	**100%**	62,633	100%	66,357	100%

Pool insurance default inventory decreased to 2,024 at June 30, 2016 from 2,739 at December 31, 2015. The pool insurance default inventory was 3,129 at June 30, 2015.

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.

The liability associated with our estimate of premiums to be refunded on expected future rescissions is accrued for separately. At June 30, 2016 and December 31, 2015 the estimate of this liability totaled $5 million and $7 million, respectively. This liability was 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, including settlements that we believe are probable, as defined in ASC 450-20, see Note 5 – “Litigation and Contingencies.”

Note 13 – Shareholders’ Equity

Capital transactions

As described in Note 3 - “Debt” the purchase of a portion of our 9% Debentures by MGIC, and corresponding elimination of the purchased 9% Debentures in consolidation, resulted in a reduction to our consolidated shareholders’ equity of approximately $9.8 million as of June 30, 2016. This reduction represents the allocated portion of the consideration paid to reacquire the equity component of the 9% Debentures. The reduction was recognized in paid-in capital and was less than the amount ascribed to paid-in capital at original issuance of the 9% Debentures.

Shareholders Rights Agreement

Our Amended and Restated Shareholders Rights Agreement dated July 23, 2015, which was approved by shareholders, (the “Agreement”) seeks to diminish the risk that our ability to use our NOLs to reduce potential future federal income tax obligations may become substantially limited and to deter certain abusive takeover practices. The benefit of the NOLs would be substantially limited, and the timing of the usage of the NOLs could be substantially delayed, if we were to experience an “ownership change” as defined by Section 382 of the Internal Revenue Code.

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

Note 14 – Stock-Based Compensation

We have incentive stock plans under which restricted stock units ("RSUs") were granted to employees. Our annual grant of share-based compensation to employees takes place during the first quarter of each fiscal year. 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 incentive plans generally vest over periods ranging from one to three years.

The number of shares granted to employees and the weighted average fair value per share during the periods presented were (shares in thousands):

	Six months ended June 30,			
	2016		2015	
	Shares Granted	**Weighted Average Share Fair Value**	Shares Granted	Weighted Average Share Fair Value
RSUs subject to performance conditions	**1,257**	**$ 5.66**	1,114	$ 8.99
RSUs subject only to service conditions	**433**	**5.67**	410	8.99

Note 15 – Capital Requirements

Capital - GSEs

Substantially all of our insurance written since 2008 has been for loans purchased by the GSEs. The PMIERs of the GSEs include financial requirements that 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 and are calculated from tables of factors with several risk dimensions and are subject to a floor amount).

Based on our interpretation of the PMIERs, as of June 30, 2016, 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.

Statutory Capital Requirements

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

At June 30, 2016, MGIC's risk-to-capital ratio was 11.6 to 1, below the maximum allowed by the jurisdictions with State Capital Requirements, and its policyholder position was $1.3 billion above the required MPP of $1.1 billion. In calculating our risk-to-capital ratio and MPP, we are allowed full credit for the risk ceded under our reinsurance transaction with a group of unaffiliated reinsurers. It is possible that under the revised State Capital Requirements discussed below, MGIC will not be allowed full credit for the risk ceded to the reinsurers. If MGIC is not allowed an agreed level of credit under either the State Capital Requirements or the PMIERs, MGIC may terminate the reinsurance agreement, 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, 2016, the risk-to-capital ratio of our combined insurance operations (which includes a reinsurance affiliate) was 13.2 to 1. Reinsurance agreements with an affiliate permit MGIC to write insurance with a higher coverage percentage than it could on its own under certain state-specific requirements. A higher risk-to-capital ratio on a combined basis may indicate that, in order for MGIC to continue to utilize reinsurance agreements with its affiliate, additional capital contributions to the reinsurance affiliate could be needed.

In each of the first and second quarter of 2016 MGIC received approval from the OCI to pay a $16 million dividend to our holding company, which were paid in April and June, respectively, its first dividends since 2008. Any additional dividends paid by MGIC to our holding company in 2016 would require OCI approval under the adjusted statutory net income regulations discussed below.

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 practices prescribed or permitted by the State of Wisconsin for determining and reporting the financial condition and results of operations of an insurance company. The OCI has adopted certain prescribed accounting practices that differ from those found in other states. Specifically, Wisconsin domiciled companies record changes in the contingency reserves through the income statement as a change in underwriting deduction. As a result, in periods in which MGIC is increasing contingency reserves, statutory net income is lowered. For the year ended December 31, 2015, MGIC's statutory net income was reduced by $444 million to account for the increase in contingency reserves.

The NAIC previously announced that it plans to revise the minimum capital and surplus requirements for mortgage insurers that are provided for in its Mortgage Guaranty Insurance Model Act. In May 2016, a working group of state regulators released an exposure draft of a risk-based capital framework to establish capital requirements for mortgage insurers, although no date has been established by which the NAIC must propose revisions to the capital requirements. We are currently evaluating the impact of the framework contained in the exposure draft, including the potential impact of certain items that have not yet been completely addressed by the framework which include: the treatment of ceded risk, minimum capital floors, and action level triggers.

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 another 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.

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

Forward Looking and Other Statements

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

OVERVIEW

Through our subsidiary MGIC, we are a leading provider of private mortgage insurance in the United States, as measured by $177.5 billion of primary insurance in force at June 30, 2016. As used below, "we" and "our" refer to MGIC Investment Corporation's consolidated operations. The discussion below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the year ended December 31, 2015. We refer to this Discussion as the "10-K MD&A."

Financial performance of MGIC Investment Corporation

	Three Months Ended June 30,			Six Months Ended June 30,		
(In millions, except per share data)	**2016**	2015	Change	**2016**	2015	Change
Selected statement of operations data ***(unaudited)***						
Total revenues	**$ 263.5**	$ 243.1	8 %	**$ 522.1**	$ 513.3	2 %
Losses incurred, net	**46.6**	90.2	(48)%	**131.6**	172.0	(23)%
Loss on debt extinguishment	**1.9**	—	N/M	**15.3**	—	N/M
Income before tax	**165.2**	115.0	44 %	**268.9**	251.4	7 %
Provision for taxes	**56.0**	1.3	N/M	**90.5**	4.7	N/M
Net income	**109.2**	113.7	(4)%	**178.4**	246.7	(28)%
Diluted earnings per share	**$ 0.26**	$ 0.28	(7)%	**$ 0.43**	$ 0.60	(28)%

Business Overview

Net income for the three and six months ended June 30, 2016 decreased by 4% and 28%, respectively, compared to the prior year, primarily due to effects in 2016 of the recognition of a full tax provision as well as losses from debt repurchase activity. The impact of these items on our net income for the three and six months ended June 30, 2016 compared to the prior year was partially offset by a reduction in our losses incurred, net, and higher revenues.

Total revenues for the three and six months ended June 30, 2016 increased 8% and 2%, respectively, compared to the prior year, driven by an increase in net premiums earned and higher investment income. Net premiums earned of $231.5 million and $452.8 million, for the three and six months ended June 30, 2016, respectively, increased by 8% and 5% compared to the respective prior year periods due to a decrease in our premium refund estimates and an increase in earned premiums on single premium policies due to increased cancellation activity. Investment income, net of expenses, increased 6% and 10%, respectively, compared with the prior year, reflecting a higher investment yield on our investment portfolio. For the six months ended June 30, 2016, these increases were partially offset by lower realized investment gains compared to the prior year, reflecting the higher investment sales activity in the first quarter of 2015 under favorable market conditions.

Losses incurred, net for the three and six months ended June 30, 2016 decreased by 48% and 23%, respectively, compared to the prior year, driven by higher favorable prior year primary loss reserve development resulting from a decrease in the claim rate on items remaining in the default inventory from the respective prior year end, as well as fewer new notices in each of the second quarter and first six months of 2016 compared to the prior year periods. Through the first six months of 2016, the claim rate on new notices was approximately 13%, which is relatively consistent with the prior year period.

Loss on debt extinguishment during the three and six months ended June 30, 2016 reflects the repurchases we executed in the first half of 2016 to reposition the maturity profile of our debt and reduce potentially dilutive shares. We purchased a portion of our outstanding debt at amounts above our carrying value for our 5% Convertible Senior Notes (5% Notes) and above fair value of the liability component for our Convertible Junior Subordinated Debentures (9% Debentures), resulting in the recognition of losses. See Note 3 - "Debt" to our consolidated financial statements for further discussion of the accounting for these transactions. Further, we will continue to assess opportunities to enhance our capital position, improve our debt profile and liquidity, and reduce potential dilution through additional debt transactions, which could result in additional losses in 2016.

The difference in **Provision for taxes** in the three and six months ended June 30, 2016 compared with the prior year reflects the change in our tax position; 2015 included a valuation allowance against our deferred tax assets while 2016 did not. Because there is no longer a valuation allowance our 2016 results reflected a full tax provision.

See "Results of Consolidated Operations" below for additional discussion of our results for the second quarter and first six months of 2016 compared to the prior year periods.

For a number of years, substantially all of the loans we insured have been sold to Fannie Mae and Freddie Mac (the "GSEs"), which have been in conservatorship since late 2008. When the conservatorship will end and what role, if any, the GSEs will play in the secondary mortgage market post-conservatorship will be determined by Congress. The scope of the FHA's large market presence may also change in connection with the determination of the future 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." While we strongly believe private mortgage insurance should be an integral part of credit enhancement in a future mortgage market, its role in that market cannot be predicted.

Capital

GSEs

We must comply with the Private Mortgage Eligibility Requirements (the "PMIERs") of the GSEs to be eligible to insure loans purchased by them. The PMIERs include financial requirements, as well as business, quality control and certain transaction approval requirements. The financial requirements of the PMIERs require a mortgage insurer's "Available Assets" (generally only the most liquid assets of an insurer) to equal or exceed its "Minimum Required Assets" (which are based on an insurer's book and are calculated from tables of factors with several risk dimensions and are subject to a floor amount). Based on our interpretation of the PMIERs, as of June 30, 2016, MGIC's Available Assets are $4.7 billion and its Minimum Required Assets are $4.2 billion. MGIC is in compliance with the requirements of the PMIERs and eligible to insure loans purchased by the GSEs.

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

- The GSEs may reduce the amount of credit they allow under the PMIERs for the risk ceded under our quota share reinsurance transaction. The GSEs' ongoing approval of that transaction is subject to several conditions and the transaction will be reviewed under the PMIERs at least annually by the GSEs. For more information about the transaction, see Note 4 - "Reinsurance" to our consolidated financial statements.

- The GSEs could make the PMIERs more onerous in the future; in this regard, the PMIERs provide that the tables of factors that determine Minimum Required Assets will be updated every two years and may be updated more frequently to reflect changes in macroeconomic conditions or loan performance. The GSEs will provide notice 180 days prior to the effective date of table updates. In addition, the GSEs may amend the PMIERs at any time.

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

While on an overall basis, the amount of Available Assets MGIC must hold in order to continue to insure GSE loans increased under the PMIERs over what state regulation currently requires, our reinsurance transaction mitigates the negative effect of the PMIERs on our returns. In this regard, see the first bullet point above.

State Regulations

The insurance laws of 16 jurisdictions, including Wisconsin, our domiciliary state, require a mortgage insurer to maintain a minimum amount of statutory capital relative to the risk in force (or a similar measure) in order for the mortgage insurer to continue to write new business. We refer to these requirements as the "State Capital Requirements." 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, 2016, MGIC's risk-to-capital ratio was 11.6:1 to 1, below the maximum allowed by the jurisdictions with State Capital Requirements, and its policyholder position was $1.3 billion above the required MPP of $1.1 billion. In calculating our risk-to-capital ratio and MPP, we are allowed full credit for the risk ceded under our reinsurance transaction with a group of unaffiliated reinsurers. It is possible that under the revised State Capital Requirements discussed below, MGIC will not be allowed full credit for the risk ceded to the reinsurers. If MGIC is not allowed an agreed level of credit under either the State Capital Requirements or the PMIERs, MGIC may terminate the reinsurance agreement, 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.

The NAIC previously announced that it plans to revise the minimum capital and surplus requirements for mortgage insurers that are provided for in its Mortgage Guaranty Insurance Model Act. In May 2016, a working group of state regulators released an exposure draft of a risk-based capital framework to establish capital requirements for mortgage insurers, although no date has been established by which the NAIC must propose revisions to the capital requirements. We are currently evaluating the impact of the framework contained in the exposure draft, including the potential impact of certain items that have not yet been completely addressed by the framework which include: the treatment of ceded risk, minimum capital floors, and action level triggers.

GSE Reform

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

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

Loan Modification and Other Similar Programs

Our operating results continue to be impacted by the Home Affordable Modification Program ("HAMP") and the GSEs' Home Affordable Refinance Program ("HARP"). During the first six months of each of 2015 and 2016, we were notified of modifications that cured delinquencies that had they become paid claims would have resulted in approximately $335 million and $262 million, respectively, of estimated claim payments. Based on information that is provided to us, most of the modifications resulted in reduced payments from interest rate and/or amortization period adjustments. Approximately 8% and 5% of the modifications resulted in principal forgiveness in each of the first half of 2015 and 2016, respectively.

In 2015 and the first half of 2016, approximately 16% and 14%, respectively, of our primary cures were the result of modifications, with HAMP accounting for approximately 66% and 64% of the modifications in each of those periods, respectively. Although the HAMP and HARP programs have been extended through December 2016, we believe that we have realized the majority of the benefits from them because the number of loans insured by us that we are aware are entering those programs has decreased significantly.

HARP allows borrowers who are not delinquent but who may not otherwise be able to refinance their loans under the current GSE underwriting standards, to refinance their loans. We allow HARP refinances on loans that we insure, regardless of whether the loan meets our current underwriting standards, and we account for the refinance as a loan modification (even where there is a new lender) rather than new insurance written.

As of June 30, 2016, approximately 12% of our primary insurance in force had benefited from HARP and was still in force.

As shown in the following table, as of June 30, 2016 approximately 21% of our primary risk in force has been modified.

Modifications

Policy year	HARP [(1)]	HAMP	Other
2003 and Prior	11.1%	18.5%	15.6%
2004	17.9%	18.8%	13.8%
2005	24.4%	19.7%	13.6%
2006	27.4%	20.7%	13.6%
2007	37.9%	19.9%	8.6%
2008	52.0%	12.2%	4.3%
2009	26.1%	1.6%	1.2%
2010 - Q2 2016	—	—	—
Total	11.6%	6.2%	3.4%

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

As of June 30, 2016 based on loan count, the loans associated with 97.8% of HARP modifications, 78.1% of HAMP modifications and 74.0% of other modifications remaining in our inventory were current.

Eligibility under certain loan modification programs can adversely affect us by creating an incentive for borrowers who are able to make their mortgage payments to become delinquent in an attempt to obtain the benefits of a modification. New notices of delinquency increase our incurred losses.

Over the past several years, the average time it takes to receive a claim associated with a defaulted loan has increased. This is, in part, due to new loss mitigation protocols established by servicers and to changes in some state foreclosure laws that may include, for example, a requirement for additional review and/or mediation processes. Unless a loan is cured during a foreclosure delay, at the completion of the foreclosure, additional interest and expenses may be due to the lender from the borrower. See “Results of Consolidated Operations - Losses incurred, net” for additional discussion on our loss severity.

Factors Affecting Our Results

Our results of operations are affected by:

- Premiums written and earned

  Premiums written and earned in a year are influenced by:

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

  - Cancellations, which reduce insurance in force. Cancellations due to refinancings are affected by the level of current mortgage interest rates compared to the mortgage coupon rates throughout the in force book, current home values compared to values when the loans in the in force book became insured and the terms on which mortgage credit is available. Generally, single premium policies are not refundable; therefore, if a single premium policy is cancelled, because the loan is repaid, the remaining unearned premium is earned immediately. Cancellations also include rescissions, which require us to return any premiums received related to the rescinded policy, and policies cancelled due to claim payment, which require us to return any premium received from the date of default. Finally, cancellations are affected by home price appreciation, which can give homeowners the right to cancel the mortgage insurance on their loans.

  - Premium rates, which are affected by product type, competitive pressures, the risk characteristics of the loans insured, the percentage of coverage on the loans, and in some cases the age of the insurance policy. The substantial majority of our monthly mortgage insurance premiums are under a premium plan in 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 declines because a lower premium rate is used for the remaining life of the policy. However, for loans that have utilized HARP, the initial ten-year period resets to begin as of the date of the HARP transaction. The remainder of our monthly premiums are under a premium plan in which premiums are determined by a fixed percentage of the loan’s amortizing balance over the life of the policy.

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

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

- Investment income

Our investment portfolio is composed principally of investment grade fixed maturity 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 net premiums received, investment income, net claim payments and expenses, and cash provided by (or used for) non-operating activities, such as debt or stock issuances or repurchases. From time to time we may elect to realize gains through sales of securities that are trading above our cost basis. Realized gains and losses are a function of the difference between the amount received on the sale of a security and the security's cost basis, as well as any "other than temporary" impairments ("OTTI") recognized in earnings. The amount received on the sale of fixed maturity securities is affected by the coupon rate of the security compared to the yield of comparable securities at the time of sale.

- Losses incurred

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

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

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

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

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

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

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

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

- Losses ceded under reinsurance agreements. See "Results of Consolidated Operations - *Reinsurance agreements*" below.

- Underwriting and other expenses

The majority of our operating expenses are fixed, with some variability due to contract underwriting volume. Contract underwriting generates fee income included in "Other revenue." Underwriting and other expenses are net of any ceding commission associated with our reinsurance agreements. See "Results of Consolidated Operations - *Reinsurance agreements*" below.

- Interest expense

Interest expense reflects the interest associated with our outstanding debt obligations. For information about our outstanding debt obligations, see Note 3 - "Debt" to our consolidated financial statements and under "Liquidity and Capital Resources" below.

Mortgage Insurance Earnings and Cash Flow Cycle

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

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MORTGAGE INSURANCE PORTFOLIO

New insurance written

The amount of our primary new insurance written during the three and six months ended June 30, 2016 and 2015 was as follows:

Primary NIW by FICO score

	Three Months Ended June 30,		Six Months Ended June 30,	
(In billions)	**2016**	2015	**2016**	2015
740 and greater	**$ 7.3**	$ 7.0	**$ 11.9**	$ 12.2
700-739	**3.3**	2.9	**5.4**	5.2
660-699	**1.6**	1.5	**2.9**	2.7
659 and less	**0.4**	0.4	**0.7**	0.7
Total Primary	**$ 12.6**	$ 11.8	**$ 20.9**	$ 20.8

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	**2016**	2015
Percentage of primary NIW				
Policy payment type:				
Monthly premiums	**78.5%**	79.9%	**78.3%**	78.4%
Single premiums	**21.2%**	19.8%	**21.4%**	21.3%
Annual premiums	**0.3%**	0.3%	**0.3%**	0.3%
Type of mortgage:				
Purchases	**83.1%**	80.1%	**82.7%**	76.3%
Refinances	**16.9%**	19.9%	**17.3%**	23.7%
LTV:				
95.01% and above	**5.4%**	4.8%	**5.1%**	4.1%
90.01% to 95.00%	**49.7%**	50.6%	**50.1%**	49.8%
85.01% to 90.00%	**31.4%**	32.8%	**31.8%**	33.0%
80.01% to 85%	**13.5%**	11.8%	**13.0%**	13.1%

Conditions and Trends impacting our NIW

- New insurance written continues to have strong underlying credit characteristics as from our perspective lenders maintain high underwriting standards.
- An improved employment environment and what we view as solid housing market fundamentals, such as household formations, increased home sales and low interest rates, have resulted in an increase in the percentage and volume of new insurance written resulting from purchase mortgage transactions during both the second quarter and the first half of 2016 when compared to the same periods in the prior year. Since mortgage interest rates are expected to remain low and housing market fundamentals are expected to remain stable to modestly improving most forecasts are calling for an increase in purchase activity in future periods. Increasing purchase activity is generally a net positive as we estimate that our industry's market share is approximately 3-4 times higher for purchase loans compared to refinances. However, these same forecasts for low mortgage rates are predicting an increase in the volume of refinances in the second half of 2016, which could cause the percentage of purchase transactions to decline but that will be highly dependent on the future level of mortgage interest rates.
- Competitive pricing practices within the private mortgage insurance industry remain in the market, including: (i) reductions to standard filed rates on borrower-paid policies, (ii) use by certain competitors of a spectrum of filed rates to allow for formulaic, risk-based pricing; and (iii) use of customized rates (discounted from published rates) on lender-paid single premium policies.
    - In response to the competitive dynamics in the market, we revised our filed premium rates effective April 2016. In general, the revisions decreased our filed premium rates on some higher-FICO score loans and increased our filed premium rates on some lower-FICO loans. In addition to the revisions of our filed rates, we continue to use the authority set forth in our rate filings to negotiate customized lender-paid single premium policy rates on a selective basis.

Insurance in force and risk in force

The amount of our insurance in force and risk in force is impacted by the amount of new insurance written and cancellations of primary insurance in force during the period. For the three and six months ended June 30, 2016 and 2015, the impact of our new insurance written and cancellations was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In billions)	**2016**	2015	**2016**	2015
NIW	**$ 12.6**	$ 11.8	**$ 20.9**	$ 20.8
Cancellations	**(10.1)**	(9.1)	**(17.9)**	(16.9)
Change in primary insurance in force	**$ 2.5**	$ 2.7	**$ 3.0**	$ 3.9
Direct primary insurance in force as of June 30,	**$ 177.5**	$ 168.8		
Direct primary risk in force as of June 30,	**$ 46.2**	$ 44.0		

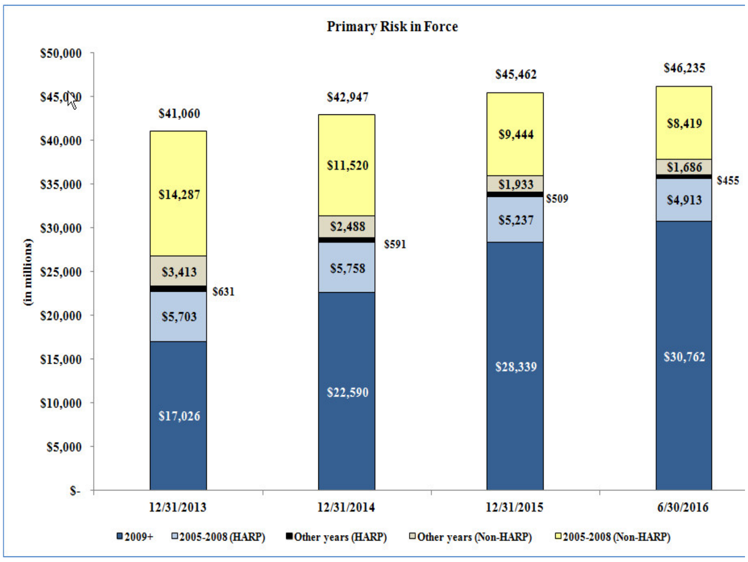
Cancellation activity due to refinancing has historically been affected by the level of mortgage interest rates and the level of home price appreciation. Cancellations generally move inversely to the change in the direction of interest rates, although they generally lag a change in direction. Cancellations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

Persistency

Persistency is the percentage of insurance remaining in force from one year prior. Our persistency rate was 79.6% at June 30, 2016 compared to 79.7% at December 31, 2015 and 80.4% at June 30, 2015. 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.

Credit profile of primary risk in force

Our portfolio of business written after 2008 has been steadily increasing in proportion to our total primary risk in force. The loans insured from our 2009 and later origination years possess significantly improved credit characteristics when compared to our 2005-2008 origination years. Substantially all of our new business written from 2009 and later, on average, includes insured loans containing substantially higher FICO scores and lower LTVs than our 2005-2008 origination years. The credit profile of our risk in force has also benefited from modification programs such as HARP. HARP allows borrowers who are not delinquent, but who may not otherwise be able to refinance their loans under the current GSE underwriting standards, to refinance their loans under terms that generally provide the borrowers with a greater ability to pay and more financial flexibility to cover the loan obligations. The following chart shows the composition of our primary risk in force as of June 30, 2016. As shown in the chart below, the aggregate of our 2009-2016 book years and our HARP modifications accounted for approximately 78% of our total primary risk in force at June 30, 2016.



Pool insurance

We have written no new pool insurance since 2009, however, for a variety of reasons, including responding to capital market alternatives to private mortgage insurance, customer demands, and GSE credit risk transfer programs we may write pool risk in the future. Our direct pool risk in force was $592 million ($249 million on pool policies with aggregate loss limits and $343 million on pool policies without aggregate loss limits) at June 30, 2016 compared to $659 million ($271 million on pool policies with aggregate loss limits and $388 million on pool policies without aggregate loss limits) at December 31, 2015. If claim payments associated with a specific pool reach the aggregate loss limit, the remaining insurance in force within the pool would be cancelled and any remaining defaults under the pool would be removed from our default inventory.

RESULTS OF CONSOLIDATED OPERATIONS

The following section of the MD&A provides a comparative discussion of MGIC Investment Corporation's Results of Consolidated Operations for the three and six months ended June 30, 2016 and 2015.

Revenue

	Three Months Ended June 30,			Six Months Ended June 30,		
(In millions)	**2016**	2015	Change	**2016**	2015	Change
Net premiums written	**$ 250.0**	$ 226.8	10%	**$ 481.3**	$ 461.2	4 %
Net premiums earned	**$ 231.5**	$ 213.5	8%	**$ 452.8**	$ 430.8	5 %
Investment income, net of expenses	**27.2**	25.8	5%	**55.1**	49.9	10 %
Net realized investment gains	**0.8**	0.2	300%	**3.9**	26.5	(85)%
Other revenue	**4.0**	3.7	8%	**10.4**	6.2	68 %
Total revenue	**$ 263.5**	$ 243.1	8%	**$ 522.2**	$ 513.3	2 %

Net premiums written and earned

Net premiums written and earned increased in each of the second quarter and first six months of 2016 compared to the prior year. The increase in net premiums written and earned was primarily due to a decrease in our premium refund estimates because the second quarter and first six months of 2015 included a reclassification of our premium refund estimate for claim payments and rescissions previously included in our premium deficiency reserve within "Other liabilities", which was eliminated as of June 30, 2015. In addition, net premiums written and earned increased in 2016 compared to 2015 due to an increase in earned premiums on single premium policies resulting from higher cancellation activity in both the second quarter and first six months of 2016 compared to the prior year periods. Generally, single premium policies are not refundable; therefore, when a single premium policy is cancelled, the remaining unearned premium is earned immediately.

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

Although we expect that our insurance in force will increase in 2016 compared to 2015, the ratio of net premiums earned divided by the average primary insurance in force outstanding for the year (sometimes referred to as "premium rate/yield" or "effective premium rate/yield") is likely to decline in 2016 from 2015 levels. As discussed below, we see this occurring for two reasons. The largest portion of the decline relates to the restructuring of our reinsurance transaction because it covers insurance in force that was previously excluded, as well as certain new insurance written through 2016. A modest amount of the decline relates to the premium rates themselves: the books we wrote before 2009, which have a higher average premium rate than subsequent business, are expected to continue to decline as a percentage of the insurance in force; and the average premium rate on these books is also expected to decline as the premium rates reset to lower levels at the time the loans reach the ten-year anniversary of their initial coverage date.

Effect of reinsurance on premiums:

Our net premiums written and earned are net of amounts ceded to reinsurers who assume a portion of the risk under the insurance policies we write that are subject to reinsurance. A substantial portion of our business is covered by our 2015 QSR Transaction that protects us against a fixed percentage of losses arising from policies covered by the agreement. Under that agreement, we cede to reinsurers 30% of earned and received premiums and losses incurred on the following: policies in the 2013 reinsurance transaction ("2013 QSR Transaction") that was commuted; additional qualifying in force policies as of the agreement effective date which either had no history of defaults, or where a single default had been cured for twelve or more months at the agreement effective date; as well as all qualifying new insurance written through December 31, 2016. The premiums we cede are reduced by a profit commission, which primarily varies by the level of losses we cede. The 2015 QSR Transaction increases the amount of our insurance in force covered by reinsurance and will result in an increase in the amount of premiums and losses ceded.

Our reinsurance affects premiums, underwriting expenses and losses incurred and should be analyzed by reviewing its total effect on our statement of operations, as discussed below under "*Reinsurance agreements*."

Effect of changing premium rate on premiums:

The insurance in force associated with the 2008 and prior book years was approximately 32% of the primary insurance in force as of June 30, 2016. The business written after 2008 has a lower average premium rate because of its lower risk characteristics and, beginning in the second half of 2014, the increase in the business mix represented by lender-paid single premium business, which had a lower average premium rate than borrower-paid monthly premium business. Persistency will affect the average premium rate on single premium policies because the premium is not generally refundable and is earned over the estimated life of the policy. When persistency is lower than the assumption used to set the estimated life, the average premium rate will increase; the opposite effect will occur when persistency is greater than such assumption.

The monthly premium program used for the substantial majority of loans we insured provides that, for the first ten years of the policy, the premium is determined by the product of the premium rate and the initial loan balance; thereafter, a lower premium rate is applied to the initial loan balance. The initial ten-year period is reset when the loan is refinanced under HARP. The premiums on many of the policies in our 2006 book that were not refinanced under HARP will reset in 2016. As of June 30, 2016, approximately 4%, 8%, and 3% of our primary risk in force was written in 2006, 2007, and 2008 respectively, was not refinanced under HARP and is subject to reset after ten years.

Reinsurance agreements

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

- We cede a fixed percentage of premiums on insurance covered by the agreement.

- We receive the benefit of a profit commission through a reduction in the premiums we cede. The profit commission varies directly and inversely with the level of losses on a “dollar for dollar” basis and is eliminated at levels of losses that we do not expect to occur. This means that lower levels of losses result in a higher profit commission and less benefit from ceded losses; higher levels of losses result in more benefit from ceded losses and a lower profit commission (or for levels of losses we do not expect, its elimination).

- We receive the benefit of a ceding commission through a reduction in underwriting expenses equal to 20% of premiums ceded (before the effect of the profit commission).

- We cede a fixed percentage of losses incurred on insurance covered by the agreement.

The effects described above result in a net cost of the reinsurance, with respect to a covered loan, of 6% (but can be lower if losses are materially higher than we expect).

This cost is derived by dividing the reduction in our pre-tax net income from such loans with reinsurance by our direct (that is, without reinsurance) premiums from such loan. Although the net cost of the reinsurance is generally constant at 6%, the effect of the reinsurance on the various components of pre-tax income discussed above will vary from period to period, depending on the level of ceded losses. The restructuring of the 2015 QSR Transaction caused volatility in our 2015 premium yield and we expect it to modestly reduce our premium yield in 2016, in part due to an increase in the amount of losses ceded, which reduces our profit commission. Because more of our insurance in force is covered under the 2015 QSR Transaction than was covered under the commuted 2013 QSR Transaction, the absolute dollar cost of the 2015 QSR Transaction will be modestly higher than the cost of the 2013 QSR Transaction.

The following table provides additional information related to our premiums written and earned and risk in force subject to reinsurance agreements for 2016 and 2015.

	As of and For the Six Months Ended June 30,	
(Dollars in thousands)	**2016**	2015
New insurance written subject to quota share reinsurance agreements	**90%**	92%
Insurance in force subject to quota share reinsurance agreements	**75%**	59%
Insurance in force subject to captive reinsurance agreements	**2%**	4%
2015 QSR Transaction		
Ceded premiums written, net of profit commission	**$ 61,627**	n/a
% of direct premiums written	**11%**	n/a
Ceded premiums earned, net of profit commission	**$ 61,627**	n/a
% of direct premiums earned	**12%**	n/a
Ceding commissions	**$ 23,522**	n/a
Ceded risk in force	**$ 10,313,374**	n/a
2013 QSR Transaction		
Ceded premiums written, net of profit commission	**n/a**	$ 58,055
% of direct premiums written	**n/a**	11%
Ceded premiums earned, net of profit commission	**n/a**	$ 47,567
% of direct premiums earned	**n/a**	10%
Ceding commissions	**n/a**	$ 21,803
Ceded risk in force	**n/a**	$ 8,716,188
Captives		
Ceded premiums written	**$ 4,630**	$ 7,814
% of direct premiums written	**1%**	1%
Ceded premiums earned	**$ 4,679**	$ 7,841
% of direct premiums earned	**1%**	2%

As part of the settlement with the Consumer Financial Protection Bureau ("CFPB") in 2013 and the Minnesota Department of Commerce (the "MN Department") in 2015, MGIC has agreed to not enter into any new captive reinsurance agreements or reinsure any new loans under any existing captive reinsurance agreement for a period of ten years from the date of settlement. In addition the GSEs will not approve any future reinsurance or risk sharing transaction with a mortgage enterprise or an affiliate of a mortgage enterprise.

Investment income

Investment income in the second quarter and first six months of 2016 increased compared to the same periods in 2015 due to an increase in our investment yield. The portfolio's average pre-tax investment yield was 2.6% at June 30, 2016 and 2.4% at June 30, 2015. The portfolio's average pre-tax investment yield was 2.5% at December 31, 2015.

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

Net realized gains for the second quarter and first six months of 2016 were $0.8 million and $3.9 million, respectively, compared to $0.2 million and $26.5 million for the second quarter and first six months of 2015, respectively. During the first quarter of 2015, under favorable market conditions, we sold fixed maturity securities to realize gains. At June 30, 2016, the net unrealized gains in our investment portfolio were $138.5 million, which included $151.9 million of gross unrealized gains, partially offset by $13.4 million of gross unrealized losses. At December 31, 2015, the net unrealized losses in our investment portfolio were $26.6 million, which included $67.8 million of gross unrealized losses, partially offset by $41.3 million of gross unrealized gains.

Other revenue

Other revenue for the second quarter and first six months of 2016 was $4.0 million and $10.4 million, respectively, compared to $3.7 million and $6.2 million for the second quarter and first six months of 2015, respectively. The increase in other revenue in the first six months of 2016 compared to the prior year period was primarily due to the substantial liquidation of our Australian operations for which we recognized approximately $4 million of gains related to changes in foreign currency exchange rates in the first quarter of 2016. Our remaining assets in Australia are minimal and are not expected to have a material impact on our future consolidated statements of operations upon final liquidation.

Losses incurred, net

(In millions)	Three Months Ended June 30,			Six Months Ended June 30,		
	2016	2015	Change	**2016**	2015	Change
Losses and LAE incurred in respect of defaults related to:						
Current year	**$ 104.1**	$ 114.2	(9)%	**$ 196.5**	$ 223.6	(12)%
Prior years	**(57.5)**	(23.9)	140 %	**(64.9)**	(51.5)	26 %
Losses incurred, net	**$ 46.6**	$ 90.3	(48)%	**$ 131.6**	$ 172.0	(23)%

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

Estimation of losses is inherently judgmental. The conditions that affect the claim rate and claim severity include the current and future state of the domestic economy, including unemployment, and the current and future strength of local housing markets; exposure on insured loans; the amount of time between default and claim filing; and curtailments.. 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. Our estimates are also affected by any agreements we enter into regarding our claims paying practices, such as the settlement agreements discussed in Note 5 – "Litigation and Contingencies" to our consolidated financial statements. Changes to our estimates could result in a material impact to our results of operations and capital position, even in a stable economic environment.

In the first six months of 2016, net losses incurred were $131.6 million, reflecting $196.5 million of current year loss development partially offset by $65.0 million of favorable prior years' loss development. In the first six months of 2015, net losses incurred were $172.0 million, reflecting $223.6 million of current year loss development partially offset by $51.5 million of favorable prior years' loss development.

Losses incurred, net in the first six months of 2016 decreased compared to the same period in 2015, primarily due to fewer new notices received in 2016 compared to 2015. During the first six months of 2016 there were 32,811 new notices received compared to 36,347 new notices received in the first six months of 2015. The claim rate applied to new notices through the first six months of both 2016 and 2015 was approximately 13%. The claim rate applied to new notices generally ranged from 12% to 13% quarter to quarter with notices received early in the year generally having a claim rate at the lower end of the range due to seasonal factors. Additionally, losses incurred, net for the first six months of 2016 and 2015 was impacted by favorable prior year loss reserve development resulting from a lower estimated claim rate on previously reported defaults; however the amount of favorable development was higher in the first half of 2016 compared to that of 2015. In addition to the resolution of defaults, the first six months of 2015 were also favorably impacted by $20 million due to re-estimation of previously recorded reserves relating to disputes on our claims paying practices and adjustments to incurred but not reported losses (IBNR). The favorable claim rate development in each of the first six months of 2016 and 2015 was partially offset by adverse prior year loss reserve development resulting from changes in our claims severity estimates as discussed in "*Claims severity*" below.

Losses incurred, net in the second quarter of 2016 decreased compared to prior year period as each period was impacted by favorable prior year loss development primarily resulting from a lower estimated claim rate on previously reported defaults; however the amount of favorable development was higher in the second quarter of 2016 compared to that of 2015. Additionally, losses incurred declined in the second quarter of 2016 compared to the prior year period due to fewer new notices received. During the second quarter of 2016, there were 16,080 new notices received compared to 17,451 new notices received in the second quarter of 2015. The claim rate applied to new notices in both the second quarter of 2016 and 2015 was approximately 13%.

Loans insured in 2008 and prior represented approximately 89% and 94% of the new notices received in the first six months of 2016 and 2015, respectively. Of the new notices received during the first six months of 2016 and 2015 from loans insured in 2008 and prior, 90% and 88%, respectively, were previously delinquent.

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.

Claims severity

The positive loss reserve development related to the claim rate on default notices received in prior years in the first six months of 2016 and 2015 was partially offset by increases in our expected severity assumption on prior year notices. As shown in the table below, the average claim paid, expressed as a percentage of our exposure (the unpaid principal balance of the loan times our insurance coverage percentage), following periods of relative stability had increased in recent quarters prior to the second quarter of 2016. Our loss reserve estimates take into consideration trends over time, because the development of the delinquencies may vary from period to period without establishing a meaningful trend.

Note: Table excludes material settlements.

Period	Average exposure on claim paid	Average claim paid	% Paid to exposure	Average number of missed payments at claim received date
Q2 2016	$ 43,709	$ 47,953	109.7%	35
Q1 2016	44,094	49,281	111.8%	34
Q4 2015	44,342	49,134	110.8%	35
Q3 2015	44,159	48,156	109.1%	33
Q2 2015	44,683	48,587	108.7%	34
Q1 2015	44,403	47,366	106.7%	33
Q4 2014	44,321	46,714	105.4%	32
Q3 2014	43,769	45,849	104.8%	30
Q2 2014	43,402	45,531	104.9%	30
Q1 2014	43,711	45,897	105.0%	28
Q4 2013	44,923	47,072	104.8%	26
Q3 2013	44,163	45,706	103.5%	25
Q2 2013	43,990	45,340	103.1%	24
Q1 2013	45,458	47,421	104.3%	22

The average exposure (which, in the case of delinquent loans that have not been filed as claims, may change if different information is received from servicers) on items remaining in our default inventory at June 30, 2016 is $45,105. The average number of missed payments on items remaining in our default inventory at June 30, 2016 is 21.

Factors that impact claim severity include the exposure on the loan, the amount of time between default and claim filing (which impacts the amount of interest and expenses) and curtailments. All else being equal, the longer the period between default and claim filing, the greater the severity. The majority of loans from 2005-2008 (which represent the majority of loans in the delinquent inventory) are covered by master policy terms that, except under certain circumstances, do not limit the number of years that an insured can include interest when filing a claim.

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

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 default and claim filing, and our loss mitigation efforts on loans for which claims are paid.

The primary average claim paid for the top 5 states (based on 2016 paid claims, excluding settlement amounts) for the three and six months ended June 30, 2016 and 2015 appears in the following table.

Primary average claim paid

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	**2016**	2015
Florida	**59,824**	56,855	**62,039**	57,865
New Jersey	**77,922**	71,211	**81,898**	70,373
Illinois	**48,778**	51,384	**48,586**	49,590
New York	**69,563**	64,512	**67,408**	69,849
Maryland	**70,368**	80,448	**75,889**	74,195
All other jurisdictions	**40,655**	40,612	**41,030**	40,795
All jurisdictions	**47,953**	47,371	**48,635**	47,368

Note: *Jurisdictions in italics in the table above are those 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 exposure of our primary risk in force at June 30, 2016, December 31, 2015 and June 30, 2015 and for the top 5 jurisdictions (based on 2016 paid claims, excluding settlement amounts) appears in the following table.

Primary average exposure

	June 30, 2016	December 31, 2015	June 30, 2015
Florida	**$ 49,650**	$ 49,095	$ 48,094
New Jersey	**62,795**	62,496	61,495
Illinois	**40,707**	40,368	39,918
New York	**51,623**	50,964	50,320
Maryland	**63,236**	62,912	62,587
All other jurisdictions	**45,739**	44,887	43,922
All jurisdictions	**$ 46,604**	$ 45,820	$ 44,892

The primary default inventory by policy year at June 30, 2016, December 31, 2015 and June 30, 2015 appears in the following table.

Primary default inventory by policy year

	June 30, 2016 (1)	December 31, 2015	June 30, 2015
Policy year:			
2004 and prior	**12,134**	14,599	15,980
2005	**6,479**	7,890	8,678
2006	**9,928**	11,853	12,716
2007	**16,564**	20,000	21,078
2008	**4,376**	5,418	5,743
2009	**424**	515	532
2010	**214**	274	295
2011	**242**	246	237
2012	**332**	388	314
2013	**595**	615	429
2014	**846**	672	338
2015	**405**	163	17
2016	**19**	—	—
Total primary default inventory	**52,558**	62,633	66,357

(1) See our “Q2 2016 Portfolio Supplement” at https://mtg.mgic.com/index.html - Investor Information for the *Flow* primary default inventory by policy year.

Our results of operations continue to be negatively impacted by the mortgage insurance we wrote during 2005 through 2008. Although uncertainty remains with respect to the ultimate losses we may experience on these books of business, as we continue to write new insurance on high-quality mortgages, those books have become a smaller percentage of our total portfolio, and we expect this trend to continue. Our 2005 through 2008 books of business represented approximately 29% and 32% of our total primary risk in force at June 30, 2016 and December 31, 2015, respectively. Approximately 37% and 36% of the remaining primary risk in force on our 2005-2008 books of business benefited from HARP as of June 30, 2016 and as of December 31, 2015, respectively.

On our primary business, the highest claim frequency years have typically been the third and fourth year after the year of loan origination. However, the pattern of claim frequency can be affected by many factors, including persistency and deteriorating economic conditions. Low persistency can accelerate the period in the life of a book during which the highest claim frequency occurs. Deteriorating economic conditions can result in increasing claims following a period of declining claims. As of June 30, 2016, 46% of our primary risk in force was written subsequent to December 31, 2013, 56% of our primary risk in force was written subsequent to December 31, 2012, and 62% of our primary risk in force was written subsequent to December 31, 2011.

The primary default inventory for the top 15 jurisdictions (based on 2016 losses paid, excluding settlement amounts) at June 30, 2016, December 31, 2015 and June 30, 2015 appears in the following table.

Primary default inventory by jurisdiction

	June 30, 2016	December 31, 2015	June 30, 2015
Florida	4,626	5,903	6,968
New Jersey	2,878	3,498	3,741
Illinois	2,748	3,301	3,585
New York	3,377	3,901	4,122
Maryland	1,344	1,609	1,715
Pennsylvania	3,003	3,574	3,680
California	1,660	2,019	2,186
Ohio	2,726	3,209	3,287
Washington	851	1,049	1,183
Puerto Rico	2,012	2,221	2,346
Michigan	1,544	1,877	1,960
Virginia	932	1,109	1,129
Connecticut	698	832	902
Massachusetts	1,192	1,390	1,504
Georgia	1,864	2,225	2,319
All other jurisdictions	21,103	24,916	25,730
Total primary default inventory	52,558	62,633	66,357

***Note:** Jurisdictions in italics in the table above are those that predominately use a judicial foreclosure process, which generally increases the amount of time it takes for a foreclosure to be completed.*

Information about net losses paid during the three and six months ended June 30, 2016 and 2015 appears in the following table.

Net losses paid

(In millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	**2016**	2015
Total primary (excluding settlements)	**$ 153**	$ 196	**$ 319**	$ 413
Rescission settlements	**4**	10	**51**	10
Pool [(1)]	**14**	18	**28**	35
Other	**—**	—	**—**	—
Direct losses paid	**171**	224	**398**	458
Reinsurance	**(4)**	(8)	**(14)**	(16)
Net losses paid	**167**	216	**384**	442
LAE	**5**	6	**10**	12
Net losses and LAE paid	**$ 172**	$ 222	**$ 394**	$ 454

(1) The three months ended June 30, 2016 and 2015 each include $11 million and the six months ended June 30, 2016 and 2015 each include $21 million paid under the terms of the settlement with Freddie Mac.

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Primary claims paid for the top 15 jurisdictions (based on 2016 losses paid, excluding settlement amounts) and all other jurisdictions for the three and six months ended June 30, 2016 and 2015 appears in the following table.

Paid losses by jurisdiction

(In millions)	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Florida	**$ 24**	$ 40	**$ 50**	$ 89
New Jersey	**15**	9	**31**	18
Illinois	**12**	17	**23**	34
New York	**8**	7	**16**	15
Maryland	**7**	13	**16**	25
Pennsylvania	**7**	8	**14**	17
California	**6**	10	**13**	21
Ohio	**5**	6	**10**	14
Washington	**5**	5	**9**	12
Puerto Rico	**4**	4	**8**	7
Michigan	**5**	5	**8**	9
Virginia	**3**	4	**8**	8
Connecticut	**3**	4	**7**	10
Massachusetts	**3**	3	**7**	7
Georgia	**3**	5	**7**	11
All other jurisdictions	**43**	56	**92**	116
	153	196	**319**	413
Rescission settlements	**4**	10	**51**	10
Other (Pool, LAE, Reinsurance)	**15**	16	**24**	31
Net losses and LAE paid	**$ 172**	$ 222	**$ 394**	$ 454

We believe losses paid will continue to decline in the remainder of 2016 compared to the prior year.

The primary and pool loss reserves at June 30, 2016, December 31, 2015 and June 30, 2015 appear in the table below.

Gross Reserves	**June 30, 2016**	December 31, 2015	June 30, 2015
Primary:			
Direct loss reserves (in millions)	**$ 1,483**	$ 1,681	$ 1,856
IBNR and LAE	**91**	126	137
Total primary loss reserves	**$ 1,574**	$ 1,807	$ 1,993
Ending default inventory	**52,558**	62,633	66,357
Percentage of loans delinquent (default rate)	**5.30%**	6.31%	6.78%
Average total primary loss reserves per default	**$ 29,939**	$ 28,859	$ 30,033
Primary claims received inventory included in ending default inventory	**1,829**	2,769	3,440
Pool [(1)]:			
Direct loss reserves (in millions):			
With aggregate loss limits	**$ 29**	$ 34	$ 42
Without aggregate loss limits	**8**	9	10
Reserve related to Freddie Mac Settlement [(2)]	**21**	42	63
Total pool direct loss reserves	**$ 58**	$ 85	$ 115
Ending default inventory:			
With aggregate loss limits	**1,492**	2,126	2,463
Without aggregate loss limits	**532**	613	666
Total pool ending default inventory	**2,024**	2,739	3,129
Pool claims received inventory included in ending default inventory	**95**	60	97
Other gross reserves (in millions)	**$ —**	$ 1	$ 3

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

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

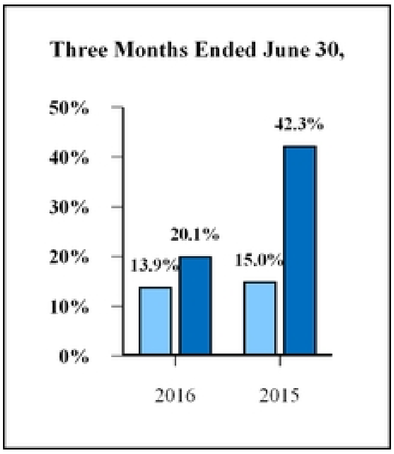
Underwriting and other expenses

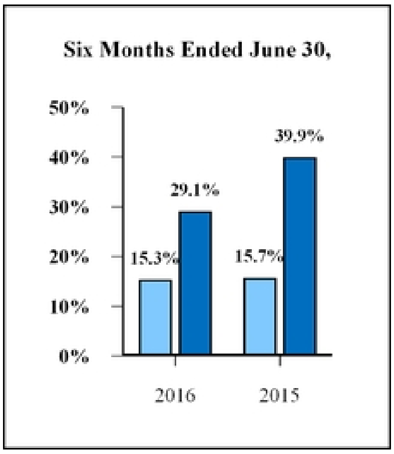
	Three Months Ended June 30,			Six Months Ended June 30,		
(In millions)	**2016**	2015	Change	**2016**	2015	Change
Other underwriting and operating expenses, net	**$ 35.3**	$ 35.8	(1)%	**$ 75.1**	$ 75.1	**—%**

Underwriting and other expenses for the second quarter and first six months of 2016 were relatively consistent with the same periods in the prior year.

Ratios

The following tables present our GAAP loss and expense ratios for our combined insurance operations for the three and six months ended June 30, 2016 and 2015.





Underwriting expense ratio (Net premiums written basis)
Loss ratio (Net premiums earned basis)

The underwriting expense ratio is the ratio, expressed as a percentage, of the underwriting expenses of our combined insurance operations (which excludes the cost of non-insurance operations) to net premiums written. The decrease in the expense ratio in the second quarter and first six months of 2016, compared to the same periods in 2015, was due to an increase in net premiums written. The loss ratio is the ratio, expressed as a percentage, of the sum of incurred losses and loss adjustment expenses to net premiums earned. The loss ratio does not reflect any effects due to changes in premium deficiency reserves. The decrease in the loss ratio in the second quarter and first six months of 2016, compared to the same periods in 2015, was primarily due to a decrease in losses incurred due to higher positive prior year loss reserve development and a lower level of new notice activity, and in part due to an increase in net premiums earned.

Interest expense

	Three Months Ended June 30,			Six Months Ended June 30,		
(In millions)	**2016**	2015	Change	**2016**	2015	Change
Interest expense	**$ 12.2**	$ 17.4	(30)%	**$ 26.9**	$ 34.7	(22)%

Interest expense for the second quarter and first six months of 2016 decreased compared to the same periods in the prior year. In the first and second quarters of 2016, we repurchased $138.3 million and $50.2 million, respectively, of our 5% Notes. In the first quarter of 2016, MGIC purchased $132.7 million of our 9% Debentures, which are deemed retired on a consolidated basis. The extinguishment of these debt obligations occurred prior to the end of the period, resulting in a decline in the amount of interest incurred on outstanding debt obligations compared to the same periods in 2015.

Loss on debt extinguishment

	Three Months Ended June 30,			Six Months Ended June 30,		
(In millions)	**2016**	2015	Change	**2016**	2015	Change
Loss on debt extinguishment	**$ 1.9**	$ —	N/M	**$ 15.3**	$ —	N/M

As discussed in Note 3 - “Debt” to our consolidated financial statements, during the first six months of 2016 we executed debt repurchase transactions for a portion of our outstanding debt that were completed at amounts above our carrying value for our 5% Notes and above fair value of the liability component for our 9% Debentures, resulting in the recognition of losses on extinguishment.

Income tax expense

	Three Months Ended June 30,			Six Months Ended June 30,		
(In millions, except rate)	**2016**	2015	Change	**2016**	2015	Change
Income before tax	**$165.2**	$115.0	44%	**$268.9**	$251.4	7%
Income tax expense	**$ 56.0**	$ 1.3	N/M	**$ 90.5**	$ 4.7	N/M
Effective tax rate	**33.9%**	1.1%	N/M	**33.7%**	1.9%	N/M

Income tax expense for the second quarter and first six months of 2016 increased compared to the same periods in the prior year. This change is primarily due to the reversal of our deferred tax valuation allowance in the third quarter of 2015, which required us to establish a full tax provision position for the three and six months ending June 30, 2016. The difference between our statutory tax rate of 35% and our effective tax rate of 33.9% and 33.7% for the respective three and six months ended June 30, 2016 was primarily due to the benefits of tax preferenced securities. The difference between our statutory tax rate of 35% and our effective tax rate of 1.1% and 1.9% for the respective three and six months ended June 30, 2015 was primarily due to the impact of the changes in our overall valuation allowance against our deferred tax assets.

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

FINANCIAL CONDITION

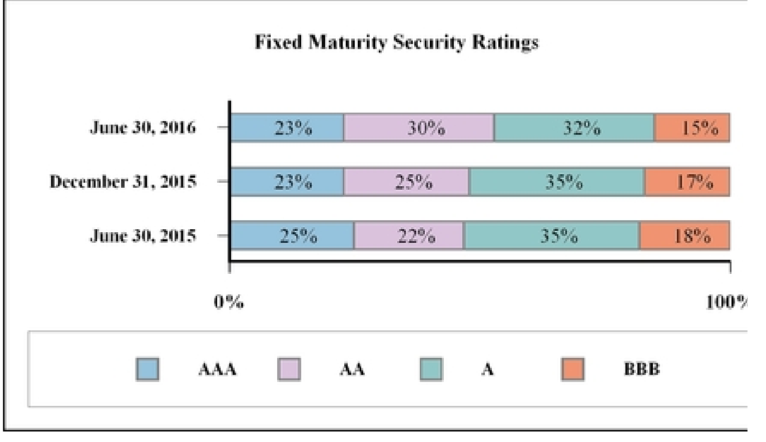
Investments

- Investment Portfolio 2016 Summary
  - Investments totaled $4.57 billion as of June 30, 2016, decreasing from $4.66 billion as of December 31, 2015.
  - Unrealized net capital gains totaled $138.5 million as of June 30, 2016 compared to unrealized net capital losses of $26.6 million as of December 31, 2015.
  - Net investment income was $27.2 million in the second quarter of 2016, an increase of 6% from $25.8 million in the second quarter of 2015, and $55.1 million in the first six months of 2016, an increase of 10% from $49.9 million in the first six months of 2015.
  - Net realized investment gains totaled $0.8 million in the second quarter of 2016 compared to $0.2 million in the second quarter of 2015 and $3.9 million in the first six months of 2016 compared to $26.5 million in the first six months of 2015.

- Investment Portfolio Composition

As of June 30, 2016 and December 31, 2015, our investment portfolio was primarily made up of fixed maturity securities. Total investments decreased by $97.1 million during the first half of 2016 from the prior year end primarily due to the sale of investments to repurchase of a portion of our outstanding debt obligations, offset in part by an increase in fair values. At June 30, 2016, based on fair value, 99.7% of our fixed maturity securities were investment grade securities. The ratings shown in the table below are provided by one or more of: Moody's, Standard & Poor's and Fitch Ratings. If three ratings are available the middle rating is utilized, otherwise the lowest rating is utilized. Approximately 2% of our investment portfolio, excluding cash and cash equivalents, is guaranteed by financial guarantors. As of June 30, 2016, less than 1% of our fixed maturity securities relied on financial guaranty insurance to elevate their rating.

The composition of our fixed maturity security ratings, based on fair value, at June 30, 2016, December 31, 2015 and June 30, 2015 is shown in the chart below.



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Loss Reserves

Loss reserves are the primary liability on our balance sheet and they represent our estimated liability for losses and settlement expenses under MGIC's mortgage guaranty insurance policies, before considering offsetting reinsurance balances recoverable. Reinsurance balances recoverable on our estimated losses and settlement expenses, which serve to offset our loss reserves, were $45.2 million as of June 30, 2016.

The loss reserves can be split into two parts: (1) reserves representing estimates of losses and settlement expenses on known delinquencies and (2) IBNR reserves representing estimates of losses and settlement expenses on delinquencies that have occurred but have not yet been reported to us. Our gross liability for both is reduced by reinsurance balances recoverable on our estimated losses and settlement expenses to calculate a net reserve balance. The net reserve balance decreased to $1.59 billion as of June 30, 2016, from $1.85 billion as of December 31, 2015. The overall decrease in our loss reserves during the first six months of 2016 was due to a higher level of losses paid ($393.4 million) relative to losses incurred ($131.6 million).

Debt

During the first half of 2016 we executed several transactions that significantly reduced the outstanding debt obligations under our 5% Notes and 9% Debentures. Using a combination of cash available at the holding company and a $155.0 million secured advance from the Federal Home Loan Bank ("FHLB") to MGIC, we repurchased $188.5 million in par value of our 5% Notes and MGIC purchased $132.7 million in par value of our 9% Debentures. These obligations are deemed extinguished on our consolidated financial statements, but remain outstanding as obligations owed by us to MGIC. The result of these transactions was a net reduction in our debt of approximately $166.2 million and will result in a reduction of our annual interest expense.

See Note 3 - "Debt" to our consolidated financial statements for the scheduled maturities of our outstanding debt and additional disclosures regarding our debt as of June 30, 2016.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

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 (3) financing cash flows generally from activities that impact our capital structure, such as changes in debt and shares outstanding. The following table summarizes our consolidated cash flows from operating, investing and financing activities:

	Six Months Ended June 30,	
(In thousands)	**2016**	2015
Total cash provided by (used in):		
Operating activities	**(6,943)**	(59,891)
Investing activities	**261,043**	75,211
Financing activities	**(134,246)**	2,568
Increase in cash and cash equivalents	**$ 119,854**	$ 17,888

Net cash used in operating activities for the six months ended June 30, 2016 decreased compared to the same period of 2015 primarily due to a lower level of losses paid and the receipt of our profit commission in our quarterly reinsurance settlement in 2016, which was excluded in the prior period. These inflows were offset in part by debt extinguishment activities in the first half of 2016.

Net cash from investing activities for the six months ended June 30, 2016 increased when compared to the same period of 2015, primarily due to the sales and maturities of fixed maturity securities to fund debt repurchases in 2016, offset in part by a decrease in unsettled security purchase activity in 2016 compared to the prior year and changes in restricted cash in 2015.

Net cash used in financing activities for the six months ended June 30, 2016 was primarily due to repurchases of a portion of our 5% Notes and MGIC's purchase of a portion of our 9% Debentures. These purchases were offset, in part, by a borrowing from the FHLB. Net cash provided by financing activities in the six months ended June 30, 2015 was attributable to excess tax benefits on share-based compensation.

Capital Structure

Debt at Our Holding Company and Holding Company Capital Resources

The Convertible Senior Notes and Convertible Junior Subordinated Debentures are obligations of our holding company, MGIC Investment Corporation, and not of its subsidiaries. The payment of dividends from our insurance subsidiaries, which other than investment income and raising capital in the public markets is the principal source of our holding company cash inflow, is restricted by insurance regulation. MGIC is the principal source of dividend-paying capacity and Office of the Commissioner of Insurance of the State of Wisconsin (the "OCI") authorization is required for MGIC to pay dividends. In each of the first and second quarter of 2016 MGIC received approval from the OCI to pay a $16 million dividend to our holding company, which were paid in April and June, respectively, its first dividends since 2008. We expect to continue to receive quarterly dividends from MGIC; however, any additional dividends require approval from the OCI.

2016 Debt transactions:

- *5% Convertible Senior Notes*

During the first half of 2016, we purchased $188.5 million in par value of our 5% Notes at a purchase price of $195.5 million, plus accrued interest using funds held at our holding company. While these repurchases will reduce our annual cash interest paid, they will improve our liquidity (which for this purpose is our expected cash balance immediately after the maturity of the 5% Notes) only modestly taking into account the above-par purchase prices and the foregone investment income on the funds used for the purchases.

- *9% Convertible Junior Subordinated Debentures*

In February 2016, MGIC purchased $132.7 million of par value of our 9% Debentures at a purchase price of $150.7 million, plus accrued interest. The 9% Debentures are not extinguished; MGIC will hold them as an asset and will receive interest on them at the same time interest is paid to other holders of the 9% Debentures. In this regard, the 9% Debentures will continue to be a use of holding company liquidity. However, for GAAP accounting purposes, the 9% Debentures owned by MGIC will be considered retired and will be eliminated in our consolidated financial statements resulting in interest expense on the statement of operations that is lower than the cash payments due from our holding company.

We may from time to time continue to seek to acquire our debt obligations through cash purchases and/or exchanges for other securities. We may do this in open market purchases, privately negotiated acquisitions or other transactions. The amounts involved may be material.

Debt at our Holding Company

At June 30, 2016, we had approximately $217 million in cash and investments at our holding company. As of June 30, 2016, our holding company's debt obligations were $1,035 million in par value, which consisted of the following obligations:

- $145 million of 5% Convertible Senior Notes due 2017, with an annual interest cost of $7 million;
- $500 million of 2% Convertible Senior Notes due 2020, with an annual interest cost of $10 million;
- $390 million of 9% Convertible Junior Subordinated Debentures due 2063 (of which approximately $133 million is held by MGIC), with an annual interest cost of $35 million (of which approximately $12 million is payable to MGIC). See "*2016* Debt transactions" discussion above for the accounting treatment of the debentures held by MGIC.

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

See Note 8 – "Debt" to our consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2015 for additional information about our convertible debt, including our option to defer interest on our 9% Debentures. Any deferred interest compounds at the stated rate of 9%. The description in Note 8 - "Debt" to our consolidated financial statements in our Annual Report on Form 10-K is qualified in its entirety by the terms of the notes and debentures.

Debt at our subsidiaries

In February 2016, MGIC borrowed $155.0 million in the form of a fixed rate advance from the FHLB (the "Advance") to provide funds used to purchase the 9% Debentures. 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 market value must be maintained at 102% of the principal balance of the Advance. MGIC provided eligible collateral from its investment portfolio.

The funds obtained from the Advance were used to purchase our 9% Debentures. Due to the lower fixed interest cost of the Advance relative to our 9% Debentures we have lowered our annual interest cost on a consolidated basis.

Capital Contributions to Subsidiaries

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.

PMIERs

Substantially all of our insurance written since 2008 has been for loans purchased by the GSEs. The PMIERs of the GSEs include financial requirements that 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 and are calculated from tables of factors with several risk dimensions and are subject to a floor amount).

Based on our interpretation of the PMIERs, as of June 30, 2016, MGIC's Available Assets are $4.7 billion and its Minimum Required Assets are $4.2 billion. MGIC is in compliance with the requirements of the PMIERs and eligible to insure loans purchased by the GSEs. Our Available Assets exclude approximately $166.6 million of securities in our investment portfolio pledged under the terms of the Advance. The $150.7 million investment by MGIC in our 9% Debentures using funds from the Advance was not included in our Available Assets at the time of purchase, or in periods subsequent.

Although we were in compliance with PMIERs as of June 30, 2016, our capital requirements under PMIERs may increase in the future because the GSEs have indicated that the tables of factors used to determine the Minimum Required Assets will be updated every two years and may be updated more frequently to reflect changes in macroeconomic conditions or loan performance. The GSEs will provide notice 180 days prior to the effective date of table updates. In addition, the GSEs may amend the PMIERs at any time. We plan to continuously comply with the existing PMIERs through our operational activities or through the contribution of funds from our holding company, subject to demands on the holding company's resources, as outlined above.

Risk-to-Capital

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

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

(In millions, except ratio)	**June 30, 2016**	December 31, 2015
Risk in force - net [(1)]	**$ 27,976**	$ 27,301
Statutory policyholders' surplus	**$ 1,476**	$ 1,574
Statutory contingency reserve	**942**	691
Statutory policyholders' position	**$ 2,418**	$ 2,265
Risk-to-capital	**11.6:1**	12.1:1

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

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

(In millions, except ratio)	**June 30, 2016**	December 31, 2015
Risk in force - net [(1)]	**$ 33,791**	$ 33,072
Statutory policyholders' surplus	**$ 1,479**	$ 1,608
Statutory contingency reserve	**1,088**	827
Statutory policyholders' position	**$ 2,567**	$ 2,435
Risk-to-capital	**13.2:1**	13.6:1

(1) Risk in force – net, as shown in the table above, is net of reinsurance and exposure on policies currently in default ($2.8 billion at June 30, 2016 and $3.2 billion at December 31, 2015) for which loss reserves have been established.

The decrease in MGIC's and our combined insurance companies' risk-to-capital in the first half of 2016 was due an increase in statutory policyholders' position, offset in part by an increase in our net risk in force in both calculations. Statutory policyholders' position increased in both calculations due to increases in our contingency reserves, which were partially offset by a decrease in surplus as the 9% Debentures held by MGIC are non-admitted assets. Our risk in force, net of reinsurance, increased in the first half of 2016, due to an increase in our insurance in force. Our risk-to-capital ratio will increase if (i) the percentage decrease in capital exceeds the percentage decrease in insured risk, or (ii) the percentage increase in capital is less than the percentage increase in insured risk.

For additional information regarding regulatory capital see Note 15 – "Capital Requirements" 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

The financial strength of MGIC, our principal mortgage insurance subsidiary, is as follows:

Rating Agency	Rating	Outlook
Moody's Investor Services	Baa3	Stable
Standard and Poor's Rating Services'	BBB	Stable

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

CONTRACTUAL OBLIGATIONS

At June 30, 2016, the approximate future payments under our contractual obligations of the type described in the table below are as follows:

Contractual Obligations

	Payments due by period				
(In millions)	**Total**	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term debt obligations	**$ 2,210**	$ 188	$ 72	$ 562	$ 1,388
Operating lease obligations	**3**	1	1	1	—
Tax obligations	**20**	—	20	—	—
Purchase obligations	**3**	2	1	—	—
Pension, SERP and other post-retirement plans	**275**	24	47	55	149
Other long-term liabilities	**1,632**	767	653	212	—
Total	**$ 4,143**	$ 982	$ 794	$ 830	$ 1,537

Our long-term debt obligations at June 30, 2016 include $145 million of 5% Convertible Senior Notes due in 2017, $500 million 2% Convertible Senior Notes due in 2020, $155 million of a 1.91% FHLB advance due in 2023, and $257 million in 9% Convertible Junior Subordinated Debentures due in 2063, including related interest, as discussed in Note 3 – "Debt" to our consolidated financial statements and under "Liquidity and Capital Resources" above. For information about the first quarter 2016 purchase by our holding company of a portion of our 5% Notes and the purchase by MGIC of a portion of our outstanding 9% Debentures, see "Debt at Our Holding Company and Holding Company Capital Resources" above. Our operating lease obligations include operating leases on certain office space, data processing equipment and autos, as discussed in Note 19 – "Leases" to our consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2015. Tax obligations primarily relate to our current dispute with the IRS, as discussed in Note 11 – "Income Taxes." Purchase obligations consist primarily of agreements to purchase data processing hardware or services made in the normal course of business. See Note 13 – "Benefit Plans" to our consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2015 for a discussion of expected benefit payments under our benefit plans.

Our other long-term liabilities represent the loss reserves established to recognize the liability for losses and loss adjustment expenses related to defaults on insured mortgage loans. The timing of the future claim payments associated with the established loss reserves was determined primarily based on two key assumptions: the length of time it takes for a notice of default to develop into a received claim and the length of time it takes for a received claim to be ultimately paid. The future claim payment periods are estimated based on historical experience, and could emerge significantly different than this estimate. Due to the uncertain impact of certain factors, such as loss mitigation protocols established by servicers and changes in some state foreclosure laws it is difficult to estimate the amount and timing of future claim payments. See Note 12 – “Loss Reserves” to our consolidated financial statements. In accordance with GAAP for the mortgage insurance industry, we establish loss reserves only for loans in default. Because our reserving method does not take account of the impact of future losses that could occur from loans that are not delinquent, our obligation for ultimate losses that we expect to occur under our policies in force at any period end is not reflected in our financial statements or in the table above.

Forward Looking Statements and Risk Factors

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

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

Location of Risk Factors: The risk factors are in Item 1 A of our Annual Report on Form 10-K for the year ended December 31, 2015, as supplemented by Part II, Item 1 A of our Quarterly Report on Form 10-Q for the Quarter ended March 31, 2016 and by Part II, Item 1 A of this Quarter Report on Form 10-Q. The risk factors in the 10-K, as supplemented by these 10-Q’s 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 maturity 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 maturity 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, 2015.

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 interest rate this exposure is modified duration. Modified duration measures the price sensitivity of the assets to the changes in spreads. At June 30, 2016, the modified duration of our fixed income investment portfolio was 4.9 years, which means that an instantaneous parallel shift in the yield curve of 100 basis points would result in a change of 4.9% in the fair value of our fixed income portfolio. For an upward shift in the yield curve, the fair value of our portfolio would decrease and for a downward shift in the yield curve, the fair value would increase. 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 2016 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

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, 2015 as supplemented by Part II, Item I A of our Quarterly Report on Form 10-Q for the Quarter ended March 31, 2016. 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.

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

We are subject to comprehensive, detailed regulation by state insurance departments. These regulations are principally designed for the protection of our insured policyholders, rather than for the benefit of investors. Although their scope varies, state insurance laws generally grant broad supervisory powers to agencies or officials to examine insurance companies and enforce rules or exercise discretion affecting almost every significant aspect of the insurance business. As noted 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," we use the authority set forth in our rate filings to negotiate customized lender-paid single premium policy rates on a selective basis. In July 2016, officials of an insurance regulator advised us that customized rates did not comply with the law of their jurisdiction because such rates were not available to all lenders who might qualify for them. We are evaluating how to comply with this advice, which could result in some lenders receiving higher rates than at present and other lenders receiving lower rates. Higher rates may adversely affect our competitive position and lower rates may adversely affect our returns. State insurance regulatory authorities could take other actions, including changes in capital requirements, that could have a material adverse effect on us. For more information about state capital requirements, see our risk factor titled "*State capital requirements may prevent us from continuing to write new insurance on an uninterrupted basis.*" To the extent that we are construed to make independent credit decisions in connection with our contract underwriting activities, we also could be subject to increased regulatory requirements under the Equal Credit Opportunity Act, commonly known as ECOA, the FCRA, and other laws. For more details about the various ways in which our subsidiaries are regulated, see "Regulation" in Item 1 of our Annual Report on Form 10-K filed with the SEC on February 26, 2016. In addition to regulation by state insurance regulators, the CFPB may issue additional rules or regulations, which may materially affect our business.

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

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

The insurance laws of 16 jurisdictions, including Wisconsin, our domiciliary state, require a mortgage insurer to maintain a minimum amount of statutory capital relative to the risk in force (or a similar measure) in order for the mortgage insurer to continue to write new business. We refer to these requirements as the "State Capital Requirements." 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, 2016, MGIC's preliminary risk-to-capital ratio was 11.6 to 1, below the maximum allowed by the jurisdictions with State Capital Requirements, and its preliminary policyholder position was $1.3 billion above the required MPP of $1.1 billion. In calculating our risk-to-capital ratio and MPP, we are allowed full credit for the risk ceded under our reinsurance transaction with a group of unaffiliated reinsurers. It is possible that under the revised State Capital Requirements discussed below, MGIC will not be allowed full credit for the risk ceded to the reinsurers. If MGIC is not allowed an agreed level of credit under either the State Capital Requirements or the PMIERs, MGIC may terminate the reinsurance agreement, without penalty. At this time, we expect MGIC to continue to comply with the current State Capital Requirements; however, you should read the rest of these risk factors for information about matters that could negatively affect such compliance.

At June 30, 2016, the preliminary risk-to-capital ratio of our combined insurance operations (which includes reinsurance affiliates) was 13.2 to 1. Reinsurance transactions with affiliates permit MGIC to write insurance with a higher coverage percentage than it could on its own under certain state-specific requirements. A higher risk-to-capital ratio on a combined basis may indicate that, in order for MGIC to continue to utilize reinsurance arrangements with its affiliates, additional capital contributions to the reinsurance affiliates could be needed.

The NAIC previously announced that it plans to revise the minimum capital and surplus requirements for mortgage insurers that are provided for in its Mortgage Guaranty Insurance Model Act. In May 2016, a working group of state regulators released an exposure draft of a risk-based capital framework to establish capital requirements for mortgage insurers, although no date has been established by which the NAIC must propose revisions to the capital requirements. We are currently evaluating the impact of the framework contained in the exposure draft, including the potential impact of certain items that have not yet been completely addressed by the framework which include: the treatment of ceded risk, minimum capital floors, and action level triggers.

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

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

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

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

Beginning in 2014, we have increased the percentage of our business from lender-paid single premium policies. Depending on the actual life of a single premium policy and its premium rate relative to that of a monthly premium policy, a single premium policy may generate more or less premium than a monthly premium policy over its life. Currently, we expect to receive less lifetime premium from a new lender-paid single premium policy than we would from a new borrower-paid monthly premium policy.

We entered into a quota share reinsurance transaction with a group of unaffiliated reinsurers that was restructured effective July 1, 2015. Although the transaction reduces our premiums, it has a lesser impact on our overall results, as losses ceded under the transaction reduce our losses incurred and the ceding commission we receive reduces our underwriting expenses. The net cost of reinsurance, with respect to a covered loan, is 6% (but can be lower if losses are materially higher than we expect). This cost is derived by dividing the reduction in our pre-tax net income from such loan with reinsurance by our direct (that is, without reinsurance) premiums from such loan. Although the net cost of the reinsurance is generally constant at 6%, the effect of the reinsurance on the various components of pre-tax income will vary from period to period, depending on the level of ceded losses. The 2015 restructuring of the reinsurance transaction caused volatility in our 2015 premium yield and we expect it to modestly reduce our premium yield in 2016.

In addition to the effect of reinsurance on our premium yield, we expect a modest decline in premium yield resulting from the premium rates themselves: the books we wrote before 2009, which have a higher average premium rate than subsequent books, are expected to continue to decline as a percentage of the insurance in force; and the average premium rate on these books is also expected to decline as the premium rates reset to lower levels at the time the loans reach the ten-year anniversary of their initial coverage date. However, for loans that have utilized HARP, the initial ten-year period was reset to begin as of the date of the HARP transaction. As of June 30, 2016, approximately 4%, 8% and 3% of our primary risk in force was written in 2006, 2007, and 2008, respectively, was not refinanced under HARP and is subject to a reset after ten years.

The circumstances in which we are entitled to rescind coverage have narrowed for insurance we have written in recent years. During the second quarter of 2012, we began writing a portion of our new insurance under an endorsement to our then existing master policy (the "Gold Cert Endorsement"), which limited our ability to rescind coverage compared to that master policy. The Gold Cert Endorsement is filed as Exhibit 99.7 to our quarterly report on Form 10-Q for the quarter ended March 31, 2012 (filed with the SEC on May 10, 2012).

To comply with requirements of the GSEs, in 2014 we introduced a new master policy. Our rescission rights under our new master policy are comparable to those under our previous master policy, as modified by the Gold Cert Endorsement, but may be further narrowed if the GSEs permit modifications to them. Our new master policy is filed as Exhibit 99.19 to our quarterly report on Form 10-Q for the quarter ended September 30, 2014 (filed with the SEC on November 7, 2014). All of our primary new insurance on loans with mortgage insurance application dates on or after October 1, 2014, was written under our new master policy. As of June 30, 2016, approximately 55% of our flow, primary insurance in force was written under our Gold Cert Endorsement or our new master policy.

From time to time, in response to market conditions, we change the types of loans that we insure and the requirements under which we insure them. We also change our underwriting guidelines, in part through aligning some of them with Fannie Mae and Freddie Mac for loans that receive and are processed in accordance with certain approval recommendations from a GSE automated underwriting system. As a result of changes to our underwriting guidelines and requirements and other factors, our business written beginning in the second half of 2013 is expected to have a somewhat higher claim incidence than business written in 2009 through the first half of 2013. However, we believe this business presents an acceptable level of risk. Our underwriting requirements are available on our website at http://www.mgic.com/underwriting/ index.html. We monitor the competitive landscape and will make adjustments to our pricing and underwriting guidelines as warranted. We also make exceptions to our underwriting requirements on a loan-by-loan basis and for certain customer programs. Together, the number of loans for which exceptions were made accounted for fewer than 2% of the loans we insured in each of 2015 and the first half of 2016.

Even when housing values are stable or rising, mortgages with certain characteristics have higher probabilities of claims. These characteristics include loans with higher loan-to-value ratios, lower FICO scores, limited underwriting, including limited borrower documentation, or higher total debt-to-income ratios, as well as loans having combinations of higher risk factors. As of June 30, 2016, approximately 15.2% of our primary risk in force consisted of loans with loan-to-value ratios greater than 95%, 4.2% had FICO scores below 620, and 4.2% had limited underwriting, including limited borrower documentation, each attribute as determined at the time of loan origination. A material number of these loans were originated in 2005 - 2007 or the first half of 2008. For information about our classification of loans by FICO score and documentation, see footnotes (1) and (2) to the composition of primary default inventory table under "Results of Consolidated Operations – Losses – Losses incurred" in Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K filed with the SEC on February 26, 2016.

As of June 30, 2016, approximately 2% of our primary risk in force consisted of adjustable rate mortgages in which the initial interest rate may be adjusted during the five years after the mortgage closing ("ARMs"). We classify as fixed rate loans adjustable rate mortgages in which the initial interest rate is fixed during the five years after the mortgage closing. If interest rates should rise between the time of origination of such loans and when their interest rates may be reset, claims on ARMs and adjustable rate mortgages whose interest rates may only be adjusted after five years would be substantially higher than for fixed rate loans. In addition, we have insured "interest-only" loans, which may also be ARMs, and loans with negative amortization features, such as pay option ARMs. We believe claim rates on these loans will be substantially higher than on loans without scheduled payment increases that are made to borrowers of comparable credit quality.

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

Item 6. Exhibits

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

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized, on August 1, 2016.

MGIC INVESTMENT CORPORATION

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

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

INDEX TO EXHIBITS
(Part II, Item 6)

Exhibit Number	Description of Exhibit
12	Ratio of Earnings to Fixed Charges
31.1	Certification of CEO under Section 302 of Sarbanes-Oxley Act of 2002
31.2	Certification of CFO under Section 302 of Sarbanes-Oxley Act of 2002
32	Certification of CEO and CFO under Section 906 of Sarbanes-Oxley Act of 2002 (as indicated in Item 6 of Part II, this Exhibit is not being “filed”)
99	Risk Factors included in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2015, as supplemented by Part II, Item 1A of our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2016 and June 30, 2016, and through updating of various statistical and other information
101	The following financial information from MGIC Investment Corporation’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2016, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets as of June 30, 2016 and December 31, 2015, (ii) Consolidated Statements of Operations for the three and six months ended June 30, 2016 and 2015, (iii) Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2016 and 2015, (iv) Consolidated Statements of Shareholders’ Equity for the six months ended June 30, 2016 and 2015, (v) Consolidated Statements of Cash Flows for the six months ended June 30, 2016 and 2015, and (vi) the Notes to Consolidated Financial Statements.

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

(In thousands, except ratio)	Six Months Ended June 30, 2016	
Net earnings before taxes	$	268,927
Fixed Charges:		
Interest expense		24,412
Amortization of debt expense		2,533
Rent expense (One-Fourth of all rentals, reasonable approximation of the interest factor)		260
Total fixed charges		27,205
Net earnings and fixed charges	$	296,132
Ratio of Earnings to Fixed Charges		**10.9**

Exhibit 31.1
CERTIFICATIONS

I, Patrick Sinks, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: August 1, 2016

/s/ Patrick Sinks
Patrick Sinks
Chief Executive Officer

Exhibit 31.2

CERTIFICATIONS

I, Timothy J. Mattke, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: August 1, 2016

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

Exhibit 32

SECTION 1350 CERTIFICATIONS

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

(1) the Quarterly Report on Form 10-Q of the Company for the three months ended June 30, 2016 (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 1, 2016

/s/ Patrick Sinks

Patrick Sinks
Chief Executive Officer

/s/ Timothy J. Mattke

Timothy J. Mattke
Chief Financial Officer

Exhibit 99

Risk Factors included in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2015, as supplemented by Part II, Item 1A of our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2016 and June 30, 2016, and through updating of various statistical and other information.

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

Our private mortgage insurance competitors include:

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

The level of competition within the private mortgage insurance industry has intensified over the past several years and is not expected to diminish. We believe that we currently compete with other private mortgage insurers based on pricing, underwriting requirements, financial strength, customer relationships, name recognition, reputation, the strength of our management team and field organization, the ancillary products and services provided to lenders (including contract underwriting services), the depth of our databases covering insured loans and the effective use of technology and innovation in the delivery and servicing of our mortgage insurance products.

Recent competitive pricing practices in the market have included: (i) reductions in standard filed rates on borrower-paid policies, (ii) use by certain competitors of a spectrum of filed rates to allow for formulaic, risk-based pricing (commonly referred to as "black-box" pricing); and (iii) use of customized rates (discounted from published rates) on lender-paid, single premium policies. The willingness of mortgage insurers to offer reduced pricing (through filed or customized rates) has been met with an increased demand from various lenders for reduced rate products. This has further intensified pricing competition.

We announced changes to our premium rates in January 2016 and March 2016, which became effective in April 2016. In general, the revisions decreased our filed premium rates on some higher-FICO score loans and increased our filed premium rates on some lower-FICO score loans. In addition to the revisions to our filed rates, we continue to use the authority set forth in our rate filings to negotiate customized lender-paid single premium policy rates on a selective basis. We expect that our current premium rates will put downward pressure on our new insurance written from lower-FICO score loans. We believe our pricing revisions will allow us to compete more effectively; however, there can be no assurance that pricing competition will not intensify further, which could result in a decrease in new insurance written and/or returns.

In each of 2015 and the first half of 2016, approximately 5% of our new insurance written was for loans for which one lender was the original insured. Our relationships with our customers could be adversely affected by a variety of factors, including premium rates higher than can be obtained from competitors, tightening of and adherence to our underwriting requirements, which may result in our declining to insure some of the loans originated by our customers, and insurance rescissions and curtailments that affect the customer. We have ongoing discussions with lenders who are significant customers regarding their objections to our claims paying practices.

Substantially all of our insurance written since 2008 has been for loans purchased by Fannie Mae and Freddie Mac (the "GSEs"). The current private mortgage insurer eligibility requirements (the "PMIERs") of the GSEs require a mortgage insurer to maintain a minimum amount of assets to support its insured risk, as discussed in our risk factor titled *"We may not continue to meet the GSEs' private mortgage insurer eligibility requirements and our returns may decrease as we are required to maintain more capital in order to maintain our eligibility."* The PMIERs do not require an insurer to maintain minimum financial strength ratings. However, a downgrade in our financial strength ratings could have an adverse effect on us in many ways, including increased scrutiny of our financial condition by our customers, potentially resulting in a decrease in the amount of our new insurance written. In addition, we believe that financial strength ratings may be a significant consideration for participants seeking to secure credit enhancement in the non-GSE mortgage market. While this market has been limited since the financial crisis, it may grow in the future. Our ability to participate in the non-GSE mortgage market could depend on our ability to maintain and improve our investment grade ratings for our mortgage insurance subsidiaries. We could be competitively disadvantaged with some market participants because the financial strength ratings of our insurance subsidiaries are lower than those of some competitors. For each of MGIC and MIC, the financial strength rating from Moody’s is Baa3 (with a stable outlook) and from Standard & Poor’s is BBB (with a stable outlook). It is possible that MGIC’s and MIC’s financial strength ratings could decline from these levels.

Financial strength ratings may also play a greater role if the GSEs no longer operate in their current capacities, for example, due to legislative or regulatory action. In addition, although the PMIERs do not require minimum financial strength ratings, the GSEs consider financial strength ratings to be important when utilizing forms of credit enhancement other than traditional mortgage insurance. If we are unable to compete effectively in the current or any future markets as a result of the financial strength ratings assigned to our mortgage insurance subsidiaries, our future new insurance written could be negatively affected.

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

Alternatives to private mortgage insurance include:

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

Investors (including the GSEs) have used risk mitigation and credit risk transfer techniques other than private mortgage insurance, such as obtaining insurance from non-mortgage insurers, engaging in credit-linked note transactions executed in the capital markets, or using other forms of debt issuances or securitizations that transfer credit risk directly to other investors; using other risk mitigation techniques in conjunction with reduced levels of private mortgage insurance coverage; or accepting credit risk without credit enhancement. Although the risk mitigation and credit risk transfer techniques used by the GSEs in the past several years have not displaced primary mortgage insurance, we cannot predict the impact of future transactions.

The FHA's share of the low down payment residential mortgages that were subject to FHA, VA or primary private mortgage insurance increased to an estimated 41.0% in the first quarter of 2016, up from 40.2% in 2015 and 33.9% in 2014. In the past ten years, the FHA’s share has been as low as 15.5% in 2006 and as high as 70.8% in 2009. Factors that influence the FHA’s market share include relative rates and fees, underwriting guidelines and loan limits of the FHA, VA, private mortgage insurers and the GSEs; flexibility for the FHA to establish new products as a result of federal legislation and programs; returns obtained by lenders for Ginnie Mae securitization of FHA-insured loans compared to those obtained from selling loans to Fannie Mae or Freddie Mac for securitization; and differences in policy terms, such as the ability of a borrower to cancel insurance coverage under certain circumstances. We cannot predict how these factors or 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 or primary private mortgage insurance increased to an estimated 26.3% in the first quarter of 2016, up from 24.7% in 2015 and 25.4% in 2014 (which had been its highest annual market share in ten years). The VA’s lowest market share in the past ten years was 5.4% in 2007. We believe that the VA’s market share has generally been increasing because the VA offers 100% LTV loans and charges a one-time funding fee that can be included in the loan amount but no additional monthly expense, and because of an increase in the number of borrowers that are eligible for the VA’s program.

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

The GSEs’ charters generally require credit enhancement for a low down payment mortgage loan (a loan amount that exceeds 80% of a home’s value) in order for such loan to be eligible for purchase by the GSEs. Lenders generally have used private mortgage insurance to satisfy this credit enhancement requirement and low down payment mortgages purchased by the GSEs generally are insured with private mortgage insurance. As a result, the business practices of the GSEs greatly impact our business and include:

- private mortgage insurer eligibility requirements of the GSEs (for information about the financial requirements included in the PMIERs, see our risk factor titled *"We may not continue to meet the GSEs' private mortgage insurer eligibility requirements and our returns may decrease as we are required to maintain more capital in order to maintain our eligibility"*),
- the level of private mortgage insurance coverage, subject to the limitations of the GSEs' charters (which may be changed by federal legislation), when private mortgage insurance is used as the required credit enhancement on low down payment mortgages,
- the amount of loan level price adjustments and guaranty fees (which result in higher costs to borrowers) that the GSEs assess on loans that require private mortgage insurance,
- whether the GSEs influence the mortgage lender's selection of the mortgage insurer providing coverage and, if so, any transactions that are related to that selection,
- the underwriting standards that determine which loans are eligible for purchase by the GSEs, which can affect the quality of the risk insured by the mortgage insurer and the availability of mortgage loans,
- the terms on which mortgage insurance coverage can be canceled before reaching the cancellation thresholds established by law,
- the programs established by the GSEs intended to avoid or mitigate loss on insured mortgages and the circumstances in which mortgage servicers must implement such programs,
- the terms that the GSEs require to be included in mortgage insurance policies for loans that they purchase,
- the extent to which the GSEs intervene in mortgage insurers' rescission practices or rescission settlement practices with lenders, and
- the maximum loan limits of the GSEs in comparison to those of the FHA and other investors.

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

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

We must comply with the PMIERs to be eligible to insure loans purchased by the GSEs. The PMIERs include financial requirements, as well as business, quality control and certain transaction approval requirements. The financial requirements of the PMIERs require a mortgage insurer's "Available Assets" (generally only the most liquid assets of an insurer) to equal or exceed its "Minimum Required Assets" (which are based on an insurer's book and are calculated from tables of factors with several risk dimensions and are subject to a floor amount). Based on our interpretation of the PMIERs, as of June 30, 2016, MGIC's Available

Assets are $4.7 billion and its Minimum Required Assets are $4.2 billion. MGIC is in compliance with the PMIERs and eligible to insure loans purchased by the GSEs.

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

- The GSEs may reduce the amount of credit they allow under the PMIERs for the risk ceded under our quota share reinsurance transaction. The GSEs' ongoing approval of that transaction is subject to several conditions and the transaction will be reviewed under the PMIERs at least annually by the GSEs. For more information about the transaction, see 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.*"

- The GSEs could make the PMIERs more onerous in the future; in this regard, the PMIERs provide that the tables of factors that determine Minimum Required Assets will be updated every two years and may be updated more frequently to reflect changes in macroeconomic conditions or loan performance. The GSEs will provide notice 180 days prior to the effective date of table updates. In addition, the GSEs may amend the PMIERs at any time.

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

While on an overall basis, the amount of Available Assets MGIC must hold in order to continue to insure GSE loans increased under the PMIERs over what state regulation currently requires, our reinsurance transaction mitigates the negative effect of the PMIERs on our returns. In this regard, see the first bullet point above.

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

As of June 30, 2016, we had approximately $1.7 billion of net operating losses for tax purposes that we can use in certain circumstances to offset future taxable income and thus reduce our federal income tax liability. Our ability to utilize these net operating losses to offset future taxable income may be significantly limited if we experience an "ownership change" as defined in Section 382 of the Internal Revenue Code of 1986, as amended (the "Code"). In general, an ownership change will occur if there is a cumulative change in our ownership by "5-percent shareholders" (as defined in the Code) that exceeds 50 percentage points over a rolling three-year period. A corporation that experiences an ownership change will generally be subject to an annual limitation on the corporation's subsequent use of net operating loss carryovers that arose from pre-ownership change periods and use of losses that are subsequently recognized with respect to assets that had a built-in-loss on the date of the ownership change. The amount of the annual limitation generally equals the fair value of the corporation immediately before the ownership change multiplied by the long-term tax-exempt interest rate (subject to certain adjustments). To the extent that the limitation in a post-ownership-change year is not fully utilized, the amount of the limitation for the succeeding year will be increased.

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

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

Before paying a claim, we review the loan and servicing files to determine the appropriateness of the claim amount. All of our insurance policies provide that we can reduce or deny a claim if the servicer did not comply with its obligations under our insurance policy. We call such reduction of claims "curtailments." In 2015 and the first half of 2016, curtailments reduced our average claim paid by approximately 6.7% and 5.5%, respectively.

When reviewing the loan file associated with a claim, 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 recent quarters, approximately 5% of claims received in a quarter have been resolved by rescissions, down from the peak of approximately 28% in the first half of 2009. 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 curtail claims or rescind coverage, we generally engage in discussions in an attempt to settle the dispute. If we are unable to reach a settlement, the outcome of a dispute ultimately would be determined by legal proceedings.

Until a liability associated with settlement discussions or legal proceedings becomes probable and can be reasonably estimated, we consider our claim payment or rescission resolved for financial reporting purposes . Under ASC 450-20, an estimated loss from such discussions and proceedings is accrued for only if we determine that the loss is probable and can be reasonably estimated. In such cases, we have recorded our best estimate of our probable loss . If we are not able to implement settlements we consider probable, we intend to defend MGIC vigorously against any related legal proceedings.

In addition to matters for which we have recorded a probable loss, we are involved in other discussions and/or proceedings with insureds with respect to our claims paying practices. Although it is reasonably possible that when these matters are resolved we will not prevail in all cases, we are unable to make a reasonable estimate or range of estimates of the potential liability. We estimate the maximum exposure associated with matters where a loss is reasonably possible to be approximately $193 million, although we believe (but can give no assurance that) we will ultimately resolve these matters for significantly less than this amount. This estimate of our maximum exposure does not include interest or consequential or exemplary damages.

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

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

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

We are subject to comprehensive, detailed regulation by state insurance departments. These regulations are principally designed for the protection of our insured policyholders, rather than for the benefit of investors. Although their scope varies, state insurance laws generally grant broad supervisory powers to agencies or officials to examine insurance companies and enforce rules or exercise discretion affecting almost every significant aspect of the insurance business. As noted 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," we use the authority set forth in our rate filings to negotiate customized lender-paid single premium policy rates on a selective basis. In July 2016, officials of an insurance regulator advised us that customized rates did not comply with the law of their jurisdiction because such rates were not available to all lenders who might qualify for them. We are evaluating how to comply with this advice, which could result in some lenders receiving higher rates than at present and other lenders receiving lower rates. Higher rates may adversely affect our competitive position and lower rates may adversely affect our returns. State insurance regulatory authorities could take other actions, including changes in capital requirements, that could have a material adverse effect on us. For more information about state capital requirements, see our risk factor titled "*State capital requirements may prevent us from continuing to write new insurance on an uninterrupted basis.*" To the extent that we are construed to make independent credit decisions in connection with our contract underwriting activities, we also could be subject to increased regulatory requirements under the Equal Credit Opportunity Act, commonly known as ECOA, the FCRA, and other laws. For more details about the various ways in which our subsidiaries are regulated, see "Regulation" in Item 1 of our Annual Report on Form 10-K filed with the SEC on February 26, 2016. In addition to regulation by state insurance regulators, the CFPB may issue additional rules or regulations, which may materially affect our business.

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

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

As previously disclosed, the Internal Revenue Service ("IRS") completed examinations of our federal income tax returns for the years 2000 through 2007 and issued proposed assessments for taxes, interest and penalties related to our treatment of the flow-through income and loss from an investment in a portfolio of residual interests of Real Estate Mortgage Investment Conduits ("REMICs"). The IRS indicated that it did not believe that, for various reasons, we had established sufficient tax basis in the REMIC residual interests to deduct the losses from taxable income. We appealed these assessments within the IRS and in August 2010, we reached a tentative settlement agreement with the IRS which was not finalized.

In 2014, we received Notices of Deficiency (commonly referred to as "90 day letters") covering the 2000-2007 tax years. The Notices of Deficiency reflect taxes and penalties related to the REMIC matters of $197.5 million and at June 30, 2016, there would also be interest related to these matters of approximately $191.2 million. In 2007, we made a payment of $65.2 million to the United States Department of the Treasury which will reduce any amounts we would ultimately owe. The Notices of Deficiency also reflect additional amounts due of $261.4 million, which are primarily associated with the disallowance of the carryback of the 2009 net operating loss to the 2004-2007 tax years. We believe the IRS included the carryback adjustments as a precaution to keep open the statute of limitations on collection of the tax that was refunded when this loss was carried back, and not because the IRS actually intends to disallow the carryback permanently.

We filed a petition with the U.S. Tax Court contesting most of the IRS' proposed adjustments reflected in the Notices of Deficiency and the IRS filed an answer to our petition which continues to assert their claim. The case has twice been scheduled for trial and in each instance, the parties jointly filed, and the U.S. Tax Court approved (most recently in February 2016), motions for continuance to postpone the trial date. Also in February 2016, the U.S. Tax Court approved a joint motion to consolidate for trial, briefing, and opinion, our case with similar cases of Radian Group, Inc., as successor to Enhance Financial Services Group, Inc., et al. Litigation to resolve our dispute with the IRS could be lengthy and costly in terms of legal fees and related expenses. We can provide no assurance regarding the outcome of any such litigation or whether a compromised settlement with the IRS will ultimately be reached and finalized. Depending on the outcome of this matter, additional state income taxes and state interest may become due when a final resolution is reached. As of June 30, 2016, those state taxes and interest would approximate $49.7 million. In addition, there could also be state tax penalties. Our total amount of unrecognized tax benefits as of June 30, 2016 is $107.6 million, which represents the tax benefits generated by the REMIC portfolio included in our tax returns that we have not taken benefit for in our financial statements, including any related interest. We continue to believe that our previously recorded tax provisions and liabilities are appropriate. However, we would need to make appropriate adjustments, which could be material, to our tax provision and liabilities if our view of the probability of success in this matter changes, and the ultimate resolution of this matter could have a material negative impact on our effective tax rate, results of operations, cash flows, available assets and statutory capital. In this regard, see our risk factors titled "*We may not continue to meet the GSEs' private mortgage insurer eligibility requirements and our returns may decrease as we are required to maintain more capital in order to maintain our eligibility*" and "*State capital requirements may prevent us from continuing to write new insurance on an uninterrupted basis*."

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

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

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

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

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

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

Loan modification and other similar programs may not continue to provide substantial benefits to us.

The federal government, including through the U.S. Department of the Treasury and the GSEs, and several lenders have modification and refinance programs to make loans more affordable to borrowers with the goal of reducing the number of foreclosures. These programs include the Home Affordable Modification Program ("HAMP") and the Home Affordable Refinance Program ("HARP"). During 2015 and the first half of 2016, we were notified of modifications that cured delinquencies that had they become paid claims would have resulted in approximately $0.6 billion and $0.3 billion, respectively, of estimated claim payments. These levels are down from a high of $3.2 billion in 2010.

In 2015 and the first half of 2016, approximately 16% and 14%, respectively, of our primary cures were the result of modifications, with HAMP accounting for approximately 66% and 64% of the modifications in each of those periods, respectively. Although the HAMP and HARP programs have been extended through December 2016, we believe that we have realized the majority of the benefits from them because the number of loans insured by us that we are aware are entering those programs has decreased significantly.

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.

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

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

- restrictions on mortgage credit due to more stringent underwriting standards, liquidity issues or risk-retention and/or capital requirements affecting lenders ,
- the level of home mortgage interest rates and the deductibility of mortgage interest for income tax purposes,
- the health of the domestic economy as well as conditions in regional and local economies and the level of consumer confidence,
- housing affordability,
- population trends, including the rate of household formation,

- the rate of home price appreciation, which in times of heavy refinancing can affect whether refinanced loans have loan-to-value ratios that require private mortgage insurance, and

- government housing policy encouraging loans to first-time homebuyers.

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

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

The insurance laws of 16 jurisdictions, including Wisconsin, our domiciliary state, require a mortgage insurer to maintain a minimum amount of statutory capital relative to the risk in force (or a similar measure) in order for the mortgage insurer to continue to write new business. We refer to these requirements as the "State Capital Requirements." 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, 2016, MGIC's risk-to-capital ratio was 11.6 to 1, below the maximum allowed by the jurisdictions with State Capital Requirements, and its policyholder position was $1.3 billion above the required MPP of $1.1 billion. In calculating our risk-to-capital ratio and MPP, we are allowed full credit for the risk ceded under our reinsurance transaction with a group of unaffiliated reinsurers. It is possible that under the revised State Capital Requirements discussed below, MGIC will not be allowed full credit for the risk ceded to the reinsurers. If MGIC is not allowed an agreed level of credit under either the State Capital Requirements or the PMIERs, MGIC may terminate the reinsurance agreement, without penalty. At this time, we expect MGIC to continue to comply with the current State Capital Requirements; however, you should read the rest of these risk factors for information about matters that could negatively affect such compliance.

At June 30, 2016, the risk-to-capital ratio of our combined insurance operations (which includes a reinsurance affiliate) was 13.2 to 1. Reinsurance transactions with our affiliate permit MGIC to write insurance with a higher coverage percentage than it could on its own under certain state-specific requirements. A higher risk-to-capital ratio on a combined basis may indicate that, in order for MGIC to continue to utilize reinsurance arrangements with its affiliates, additional capital contributions to the reinsurance affiliates could be needed.

The NAIC previously announced that it plans to revise the minimum capital and surplus requirements for mortgage insurers that are provided for in its Mortgage Guaranty Insurance Model Act. In May 2016, a working group of state regulators released an exposure draft of a risk-based capital framework to establish capital requirements for mortgage insurers, although no date has been established by which the NAIC must propose revisions to the capital requirements. We are currently evaluating the impact of the framework contained in the exposure draft, including the potential impact of certain items that have not yet been completely addressed by the framework which include: the treatment of ceded risk, minimum capital floors, and action level triggers.

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

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

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

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

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

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

Beginning in 2014, we have increased the percentage of our business from lender-paid single premium policies. Depending on the actual life of a single premium policy and its premium rate relative to that of a monthly premium policy, a single premium policy may generate more or less premium than a monthly premium policy over its life. Currently, we expect to receive less lifetime premium from a new lender-paid single premium policy than we would from a new borrower-paid monthly premium policy.

We entered into a quota share reinsurance transaction with a group of unaffiliated reinsurers that was restructured effective July 1, 2015. Although the transaction reduces our premiums, it has a lesser impact on our overall results, as losses ceded under the transaction reduce our losses incurred and the ceding commission we receive reduces our underwriting expenses. The net cost of reinsurance, with respect to a covered loan, is 6% (but can be lower if losses are materially higher than we expect). This cost is derived by dividing the reduction in our pre-tax net income from such loan with reinsurance by our direct (that is, without reinsurance) premiums from such loan. Although the net cost of the reinsurance is generally constant at 6%, the effect of the reinsurance on the various components of pre-tax income will vary from period to period, depending on the level of ceded losses. The 2015 restructuring of the reinsurance transaction caused volatility in our 2015 premium yield and we expect it to modestly reduce our premium yield in 2016.

In addition to the effect of reinsurance on our premium yield, we expect a modest decline in premium yield resulting from the premium rates themselves: the books we wrote before 2009, which have a higher average premium rate than subsequent books, are expected to continue to decline as a percentage of the insurance in force; and the average premium rate on these books is also expected to decline as the premium rates reset to lower levels at the time the loans reach the ten-year anniversary of their initial coverage date. However, for loans that have utilized HARP, the initial ten-year period was reset to begin as of the date of the HARP transaction. As of June 30, 2016, approximately 4%, 8% and 3% of our primary risk in force was written in 2006, 2007, and 2008, respectively, was not refinanced under HARP and is subject to a reset after ten years.

The circumstances in which we are entitled to rescind coverage have narrowed for insurance we have written in recent years. During the second quarter of 2012, we began writing a portion of our new insurance under an endorsement to our then existing master policy (the “Gold Cert Endorsement”), which limited our ability to rescind coverage compared to that master policy. The Gold Cert Endorsement is filed as Exhibit 99.7 to our quarterly report on Form 10-Q for the quarter ended March 31, 2012 (filed with the SEC on May 10, 2012).

To comply with requirements of the GSEs, in 2014 we introduced a new master policy. Our rescission rights under our new master policy are comparable to those under our previous master policy, as modified by the Gold Cert Endorsement, but may be further narrowed if the GSEs permit modifications to them. Our new master policy is filed as Exhibit 99.19 to our quarterly report on Form 10-Q for the quarter ended September 30, 2014 (filed with the SEC on November 7, 2014). All of our primary new insurance on loans with mortgage insurance application dates on or after October 1, 2014, was written under our new master policy. As of June 30, 2016, approximately 55% of our flow, primary insurance in force was written under our Gold Cert Endorsement or our new master policy.

From time to time, in response to market conditions, we change the types of loans that we insure and the requirements under which we insure them. We also change our underwriting guidelines, in part through aligning some of them with Fannie Mae and Freddie Mac for loans that receive and are processed in accordance with certain approval recommendations from a GSE automated underwriting system. As a result of changes to our underwriting guidelines and requirements and other factors, our business written beginning in the second half of 2013 is expected to have a somewhat higher claim incidence than business written in 2009 through the first half of 2013. However, we believe this business presents an acceptable level of risk. Our underwriting requirements are available on our website at http://www.mgic.com/underwriting/ index.html. We monitor the competitive landscape and will make adjustments to our pricing and underwriting guidelines as warranted. We also make exceptions to our underwriting requirements on a loan-by-loan basis and for certain customer programs. Together, the number of loans for which exceptions were made accounted for fewer than 2% of the loans we insured in each of 2015 and the first half of 2016.

Even when housing values are stable or rising, mortgages with certain characteristics have higher probabilities of claims. These characteristics include loans with higher loan-to-value ratios, lower FICO scores, limited underwriting, including limited borrower documentation, or higher total debt-to-income ratios, as well as loans having combinations of higher risk factors. As of June 30, 2016, approximately 15.2% of our primary risk in force consisted of loans with loan-to-value ratios greater than 95%, 4.2% had FICO scores below 620, and 4.2% had limited underwriting, including limited borrower documentation, each attribute as determined at the time of loan origination. A material number of these loans were originated in 2005 - 2007 or the first half of 2008. For information about our classification of loans by FICO score and documentation, see footnotes (1) and (2) to the composition of primary default inventory table under “Results of Consolidated Operations – Losses – Losses incurred” in Management’s Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K filed with the SEC on February 26, 2016.

As of June 30, 2016, approximately 2% of our primary risk in force consisted of adjustable rate mortgages in which the initial interest rate may be adjusted during the five years after the mortgage closing (“ARMs”). We classify as fixed rate loans adjustable rate mortgages in which the initial interest rate is fixed during the five years after the mortgage closing. If interest rates should rise between the time of origination of such loans and when their interest rates may be reset, claims on ARMs and adjustable rate mortgages whose interest rates may only be adjusted after five years would be substantially higher than for fixed rate loans. In addition, we have insured “interest-only” loans, which may also be ARMs, and loans with negative amortization features, such as pay option ARMs. We believe claim rates on these loans will be substantially higher than on loans without scheduled payment increases that are made to borrowers of comparable credit quality.

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

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

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

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

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

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

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

The premium from a single premium policy is collected upfront and generally earned over the estimated life of the policy. In contrast, premiums from a monthly premium policy are received and earned each month over the life of the policy. In each year, most of our premiums received are from insurance that has been written in prior years. As a result, the length of time insurance remains in force, which is also generally referred to as persistency, is a significant determinant of our revenues. 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.

The monthly premium policies for the substantial majority of loans we insured provides that, for the first ten years of the policy, the premium is determined by the product of the premium rate and the initial loan balance; thereafter, a lower premium rate is applied to the initial loan balance. The initial ten-year period is reset when the loan is refinanced under HARP. The premiums on many of the policies in our 2005 book that were not refinanced under HARP reset in 2015 and the premiums on many of the policies in our 2006 book that were not refinanced under HARP will reset in 2016. As of June 30, 2016, approximately 4%, 8% and 3% of our primary risk-in-force was written in 2006, 2007 and 2008, respectively, was not refinanced under HARP, and is subject to a rate reset after ten years.

Our persistency rate was 79.6% at June 30, 2016, compared to 79.7% at December 31, 2015 and 82.8% at December 31, 2014. 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 mortgage insurance cancellation policies of mortgage investors along with the current value of the homes underlying the mortgages in the insurance in force.

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

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

At June 30, 2016, we had $257 million principal amount of 9% Convertible Junior Subordinated Debentures outstanding. The principal amount of the debentures is currently convertible, at the holder's option, at an initial conversion rate, which is subject to adjustment, of 74.0741 common shares per $1,000 principal amount of debentures. This represents an initial conversion price of approximately $13.50 per share. We have the right, and may elect, to defer interest payable under the debentures in the future. If a holder elects to convert its debentures, the interest that has been deferred on the debentures being converted is also convertible into shares of our common stock. The conversion rate for such deferred interest is based on the average price that our shares traded at during a 5-day period immediately prior to the election to convert the associated debentures. We may elect to pay cash for some or all of the shares issuable upon a conversion of the debentures.

At June 30, 2016, we also had $145 million principal amount of 5% Convertible Senior Notes and $500 million principal amount of 2% Convertible Senior Notes outstanding. The 5% Convertible Senior Notes are convertible, at the holder's option, at an initial conversion rate, which is subject to adjustment, of 74.4186 shares per $1,000 principal amount at any time prior to the maturity date. This represents an initial conversion price of approximately $13.44 per share. Prior to January 1, 2020, the 2% Convertible Senior Notes are convertible only upon satisfaction of one or more conditions. One such condition is that conversion may occur during any calendar quarter commencing after March 31, 2014, if the last reported sale price of our common stock for each of at least 20 trading days during the 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the applicable conversion price on each applicable trading day. The notes are convertible at an initial conversion rate, which is subject to adjustment, of 143.8332 shares per $1,000 principal amount. This represents an initial conversion price of approximately $6.95 per share. 130% of such conversion price is $9.03. On or after January 1, 2020, holders may convert their notes irrespective of satisfaction of the conditions. We do not have the right to defer interest on our Convertible Senior Notes. For a discussion of the dilutive effects of our convertible securities on our earnings per share, see Note 6 – "Earnings per Share" to our consolidated financial statements .

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

At June 30, 2016, we had approximately $217 million in cash and investments at our holding company and our holding company's debt obligations were $1,035 million in aggregate principal amount, consisting of $145 million of 5% Convertible Senior Notes due in 2017, $500 million of 2% Convertible Senior Notes due in 2020 and $390 million of 9% Convertible Junior Subordinated Debentures due in 2063 (of which approximately $133 million was purchased by and is held by MGIC, and is eliminated on the consolidated balance sheet). Annual debt service on the outstanding holding company debt as of June 30, 2016, is approximately $52 million (of which approximately $12 million will be paid to MGIC and will be eliminated on the consolidated income statement). For more information about the purchase by MGIC of a portion of our outstanding 9% Convertible Junior Subordinated Debentures, see "Management's Discussion and Analysis – Debt at Our Holding Company and Holding Company Capital Resources" in our Annual Report on Form 10-K filed with the SEC on February 26, 2016. We have from time to time purchased our debt securities, including as recently as June of 2016, and may continue to do so in the future. 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.

The Convertible Senior Notes and Convertible Junior Subordinated Debentures are obligations of our holding company, MGIC Investment Corporation, and not of its subsidiaries. The payment of dividends from our insurance subsidiaries which, other than investment income and raising capital in the public markets, is the principal source of our holding company cash inflow, is restricted by insurance regulation. MGIC is the principal source of dividend-paying capacity and OCI authorization is required for MGIC to pay dividends. In each of April and June of 2016, MGIC paid $16 million dividends to our holding company, its first dividends since 2008, and we expect to continue to receive quarterly dividends. If any additional capital contributions to our subsidiaries were required, such contributions would decrease our holding company cash and investments.

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

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

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