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, 2014**

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

MGIC INVESTMENT CORPORATION

(Exact name of registrant as specified in its charter)

WISCONSIN	**39-1486475**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

250 E. KILBOURN AVENUE **MILWAUKEE, WISCONSIN**	**53202**
(Address of principal executive offices)	(Zip Code)

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

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

YES x **NO o**

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

YES x **NO o**

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

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

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

YES o **NO x**

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

CLASS OF STOCK	**PAR VALUE**	**DATE**	**NUMBER OF SHARES**
Common stock	$1.00	07/31/14	338,559,545

Forward Looking and Other Statements

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

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

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

	June 30, 2014	December 31, 2013
ASSETS	(In thousands)	
Investment portfolio (notes 7 and 8):		
Securities, available-for-sale, at fair value:		
Fixed maturities (amortized cost, 2014 - $4,611,685; 2013 - $4,948,543)	$ 4,611,468	$ 4,863,925
Equity securities	3,011	2,894
Total investment portfolio	4,614,479	4,866,819
Cash and cash equivalents	342,600	332,692
Restricted cash and cash equivalents (note 1)	17,203	17,440
Accrued investment income	29,030	31,660
Prepaid reinsurance premiums (note 4)	40,261	36,243
Reinsurance recoverable on loss reserves (note 4)	57,763	64,085
Reinsurance recoverable on paid losses (note 4)	7,517	10,425
Premium receivable	52,934	62,301
Home office and equipment, net	28,336	26,185
Deferred insurance policy acquisition costs	10,676	9,721
Other assets	178,345	143,819
Total assets	$ 5,379,144	$ 5,601,390
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Loss reserves (note 12)	$ 2,675,594	$ 3,061,401
Premium deficiency reserve (note 13)	35,455	48,461
Unearned premiums	168,200	154,479
Senior notes (note 3)	61,894	82,773
Convertible senior notes (note 3)	845,000	845,000
Convertible junior debentures (note 3)	389,522	389,522
Other liabilities	271,864	275,216
Total liabilities	4,447,529	4,856,852
Contingencies (note 5)		
Shareholders' equity (note 14):		
Common stock (one dollar par value, shares authorized 1,000,000; shares issued 2014 and 2013 - 340,047; shares outstanding 2014 - 338,560; 2013 - 337,758)	340,047	340,047
Paid-in capital	1,658,661	1,661,269
Treasury stock (shares at cost 2014 - 1,487; 2013 - 2,289)	(32,937)	(64,435)
Accumulated other comprehensive loss, net of tax (note 9)	(35,253)	(117,726)
Accumulated deficit	(998,903)	(1,074,617)
Total shareholders' equity	931,615	744,538
Total liabilities and shareholders' equity	$ 5,379,144	$ 5,601,390

See accompanying notes to consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(In thousands, except per share data)			
Revenues:				
Premiums written:				
Direct	$ 241,249	$ 247,481	$ 485,438	$ 502,028
Assumed	430	531	881	1,082
Ceded (note 4)	(28,294)	(11,390)	(54,914)	(17,988)
Net premiums written	213,385	236,622	431,405	485,122
(Increase) decrease in unearned premiums, net	(5,899)	1,155	(9,658)	(286)
Net premiums earned	207,486	237,777	421,747	484,836
Investment income, net of expenses	21,180	20,883	41,336	39,211
Realized investment gains, net	522	2,485	291	3,744
Total other-than-temporary impairment losses	-	-	-	-
Portion of losses recognized in other comprehensive income, before taxes	-	-	-	-
Net impairment losses recognized in earnings	-	-	-	-
Other revenue	2,048	2,715	2,944	5,254
Total revenues	231,236	263,860	466,318	533,045
Losses and expenses:				
Losses incurred, net (note 12)	141,141	196,274	263,749	462,482
Change in premium deficiency reserve (note 13)	(7,833)	(11,283)	(13,006)	(12,933)
Amortization of deferred policy acquisition costs	1,676	1,955	3,095	3,652
Other underwriting and operating expenses, net	32,238	45,607	70,219	93,922
Interest expense (note 3)	17,374	17,942	34,913	44,348
Total losses and expenses	184,596	250,495	358,970	591,471
Income (loss) before tax	46,640	13,365	107,348	(58,426)
Provision for income taxes (note 11)	1,118	990	1,844	2,129
Net income (loss)	$ 45,522	$ 12,375	$ 105,504	$ (60,555)
Income (loss) per share (note 6):				
Basic	$ 0.13	$ 0.04	$ 0.31	$ (0.21)
Diluted	$ 0.12	$ 0.04	$ 0.27	$ (0.21)
Weighted average common shares outstanding - basic (note 6)	338,626	337,868	338,419	285,336
Weighted average common shares outstanding - diluted (note 6)	413,481	339,341	413,374	285,336

See accompanying notes to consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(In thousands)			
Net income (loss)	$ 45,522	$ 12,375	$ 105,504	$ (60,555)
Other comprehensive income (loss), net of tax (note 9):				
Change in unrealized investment gains and losses (note 7)	44,501	(98,119)	84,099	(108,073)
Benefit plan adjustments	(1,980)	-	(3,466)	-
Foreign currency translation adjustment	587	(12,512)	1,840	(12,196)
Other comprehensive income (loss), net of tax	43,108	(110,631)	82,473	(120,269)
Comprehensive income (loss)	$ 88,630	$ (98,256)	$ 187,977	$ (180,824)

See accompanying notes to consolidated financial statements.

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

	Common stock	Paid-in capital	Treasury stock	Accumulated other comprehensive income (loss)	Accumulated deficit
			(In thousands)		
Balance, December 31, 2012	$ 205,047	$ 1,135,296	$ (104,959)	$ (48,163)	$ (990,281)
Net loss					(60,555)
Change in unrealized investment gains and losses, net	-	-	-	(108,073)	-
Common stock issuance (note 14)	135,000	528,392	-	-	-
Reissuance of treasury stock, net	-	(7,892)	40,524	-	(34,487)
Equity compensation	-	3,009	-	-	-
Unrealized foreign currency translation adjustment	-	-	-	(12,196)	-
Balance, June 30, 2013	$ 340,047	$ 1,658,805	$ (64,435)	$ (168,432)	$ (1,085,323)
Balance, December 31, 2013	$ 340,047	$ 1,661,269	$ (64,435)	$ (117,726)	$ (1,074,617)
Net income					105,504
Change in unrealized investment gains and losses, net (note 7)	-	-	-	84,099	-
Reissuance of treasury stock, net	-	(6,680)	31,498	-	(29,790)
Equity compensation	-	4,072	-	-	-
Benefit plan adjustments	-	-	-	(3,466)	-
Unrealized foreign currency translation adjustment	-	-	-	1,840	-
Balance, June 30, 2014	$ 340,047	$ 1,658,661	$ (32,937)	$ (35,253)	$ (998,903)

See accompanying notes to consolidated financial statements.

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

	Six Months Ended June 30,	
	2014	2013
	(In thousands)	
Cash flows from operating activities:		
Net income (loss)	$ 105,504	$ (60,555)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and other amortization	26,622	37,517
Deferred tax provision (benefit)	243	(21)
Realized investment gains, excluding impairment losses	(291)	(3,744)
Loss on repurchases of senior notes	837	-
Other	(45,745)	(31,862)
Change in certain assets and liabilities:		
Accrued investment income	2,630	(5,920)
Prepaid reinsurance premium	(4,018)	(3,465)
Reinsurance recoverable on loss reserves	6,322	20,950
Reinsurance recoverable on paid losses	2,908	1,433
Premium receivable	9,367	5,250
Deferred insurance policy acquisition costs	(955)	(1,133)
Loss reserves	(385,807)	(457,535)
Premium deficiency reserve	(13,006)	(12,933)
Unearned premiums	13,721	3,578
Income taxes payable (current)	(689)	(179)
Net cash used in operating activities	(282,357)	(508,619)
Cash flows from investing activities:		
Purchase of fixed maturities	(1,054,567)	(2,182,211)
Purchase of equity securities	(40)	(51)
Proceeds from sale of fixed maturities	718,938	483,171
Proceeds from maturity of fixed maturities	649,468	778,896
Net increase in payable for securities	(4)	(97,868)
Net change in restricted cash	237	(60,333)
Net cash provided by (used in) investing activities	314,032	(1,078,396)
Cash flows from financing activities:		
Net proceeds from convertible senior notes	-	484,697
Common stock shares issued	-	663,392
Repurchases of long-term debt	(21,767)	(17,235)
Net cash (used in) provided by financing activities	(21,767)	1,130,854
Net increase (decrease) in cash and cash equivalents	9,908	(456,161)
Cash and cash equivalents at beginning of period	332,692	1,027,625
Cash and cash equivalents at end of period	$ 342,600	$ 571,464

See accompanying notes to consolidated financial statements.

Note 1 – Nature of Business and Basis of Presentation

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

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

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

Capital - GSEs

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

On July 10, 2014, the conservator of the GSEs, the Federal Housing Finance Agency (“FHFA”), released draft Private Mortgage Insurer Eligibility Requirements (“draft PMIERs”). The FHFA has requested public input on the draft PMIERs by September 8, 2014. The draft PMIERs include revised financial requirements for mortgage insurers (the “GSE Financial Requirements”) that require a mortgage insurer’s “Available Assets” (generally only the most liquid assets of an insurer) to meet or exceed “Minimum Required Assets” (which are calculated from tables of factors with several risk dimensions and are subject to a floor amount).

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

We estimate that as of June 30, 2014, applying the rules of the draft PMIERs, MGIC would have a material shortfall in Available Assets. This shortfall would be affected by operations throughout the transition period, which is expected to end December 31, 2016. The shortfall assumes the risk in force and capital of MIC are repatriated to MGIC, and full credit is given in the calculation of Minimum Required Assets for our existing reinsurance transaction. However, we do not expect to receive full credit for our current reinsurance transaction. As a result, we have begun discussions with the reinsurance market to modify our existing reinsurance transaction so that any reduction in the credit would be minimized.

As of June 30, 2014, we had approximately $515 million of cash and investments at our holding company, a portion of which we believe may be available for future contribution to MGIC. Furthermore, there are regulated insurance affiliates of MGIC that have approximately $100 million of assets as of June 30, 2014. We expect that, subject to regulatory approval, we would be able to use a material portion of these assets to increase the Available Assets of MGIC. Additionally, if the draft PMIERs are implemented as released, we would consider seeking additional reinsurance and/or non-dilutive debt capital to mitigate the shortfall. There can be no assurance that MGIC will be in compliance with the GSE Financial Requirements within the transition period. Factors that may impact MGIC's compliance with the GSE Financial Requirements include the following:

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

Factors that could negatively affect MGIC's compliance with the GSE Financial Requirements are discussed throughout the financial statement footnotes. Such matters could decrease our revenues, increase our losses or require the use of assets, thereby reducing our Available Assets and increasing our shortfall in Available Assets, or they could increase the Minimum Required Assets, also increasing our shortfall in Available Assets.

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

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

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

Reclassifications

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

Restricted cash and cash equivalents

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

Subsequent events

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

Note 2 - New Accounting Guidance

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

Note 3 – Debt

5.375% Senior Notes – due November 2015

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

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

5% Convertible Senior Notes – due May 2017

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

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

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

2% Convertible Senior Notes – due April 2020

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

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

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

9% Convertible Junior Subordinated Debentures – due April 2063

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

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

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

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

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

We may redeem the debentures in whole or in part from time to time, at our option, at a redemption price equal to 100% of the principal amount of the debentures being redeemed, plus any accrued and unpaid interest, if the closing sale price of our common stock exceeds 130% of the then prevailing conversion price of the debentures for at least 20 of the 30 trading days preceding notice of the redemption.

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

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

All debt

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

	Par Value	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
			(In thousands)		
June 30, 2014					
Liabilities:					
Senior Notes	$ 61,953	$ 64,973	$ 64,973	$ -	$ -
Convertible Senior Notes due 2017	345,000	403,650	403,650	-	-
Convertible Senior Notes due 2020	500,000	746,750	746,750	-	-
Convertible Junior Subordinated Debentures	389,522	482,033	-	482,033	-
Total Debt	$ 1,296,475	$ 1,697,406	$ 1,215,373	$ 482,033	$ -
December 31, 2013					
Liabilities:					
Senior Notes	$ 82,883	$ 85,991	$ 85,991	$ -	$ -
Convertible Senior Notes due 2017	345,000	388,988	388,988	-	-
Convertible Senior Notes due 2020	500,000	685,625	685,625	-	-
Convertible Junior Subordinated Debentures	389,522	439,186	-	439,186	-
Total Debt	$ 1,317,405	$ 1,599,790	$ 1,160,604	$ 439,186	$ -

The fair value of our Senior Notes and Convertible Senior Notes was determined using publicly available trade information and those notes are considered Level 1 securities as described in Note 8 – “Fair Value Measurements.” The fair value of our debentures was determined using available pricing for these debentures or similar instruments and our debentures are considered Level 2 securities as described in Note 8 – “Fair Value Measurements.”

The Senior Notes, Convertible Senior Notes and Convertible Junior Debentures are obligations of our holding company, MGIC Investment Corporation, and not of its subsidiaries. At June 30, 2014, we had approximately $515 million in cash and investments at our holding company. The net unrealized losses on our holding company investment portfolio were approximately $2.8 million at June 30, 2014. The modified duration of the holding company investment portfolio, excluding cash and cash equivalents, was 3.4 years at June 30, 2014.

Note 4 – Reinsurance

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

As of June 30, 2014 and December 31, 2013, we have accrued a profit commission receivable of $47.1 million and $2.4 million, respectively, which is included in "Other assets" on our consolidated balance sheet. This receivable could increase materially through the term of the agreement, but the ultimate amount of the commission will depend on the ultimate level of premiums earned and losses incurred under the agreement. Any profit commission would be paid to us upon termination of the reinsurance agreement.

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

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

Captive agreements were written on an annual book of business and the captives are required to maintain a separate trust account to support the combined reinsured risk on all annual books. MGIC is the sole beneficiary of the trust, and the trust account is made up of capital deposits by the lender captive, premium deposits by MGIC, and investment income earned. These amounts are held in the trust account and are available to pay reinsured losses. The reinsurance recoverable on loss reserves related to captive agreements was $52 million at June 30, 2014 which was supported by $208 million of trust assets, while at December 31, 2013, the reinsurance recoverable on loss reserves related to captives was $64 million which was supported by $226 million of trust assets. At June 30, 2014 and December 31, 2013 there was an additional $20 million and $23 million, respectively, of trust assets in captive agreements where there was no related reinsurance recoverable on loss reserves. See Note 5 – "Litigation and Contingencies" for a discussion of requests or subpoenas for information regarding captive mortgage reinsurance arrangements.

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

	Six Months Ended June 30,	
	2014	2013
	(In thousands)	
Ceded premiums written, net of profit commission	$ 54,914	$ 17,988
Ceded premiums earned, net of profit commission	50,898	14,521
Ceded losses incurred	14,871	17,234
Ceding commissions	18,680	2,197

Note 5 – Litigation and Contingencies

Before paying a claim, we review the loan and servicing files to determine the appropriateness of the claim amount. All of our insurance policies provide that we can reduce or deny a claim if the servicer did not comply with its obligations under our insurance policy, including the requirement to mitigate our loss by performing reasonable loss mitigation efforts or, for example, diligently pursuing a foreclosure or bankruptcy relief in a timely manner. We call such reduction of claims submitted to us “curtailments.” In 2013 and the first half of 2014, curtailments reduced our average claim paid by approximately 5.8% and 6.2%, respectively. In addition, the claims submitted to us sometimes include costs and expenses not covered by our insurance policies, such as hazard insurance premiums for periods after the claim date and losses resulting from property damage that has not been repaired. These other adjustments reduced claim amounts by less than the amount of curtailments. After we pay a claim, servicers and insureds sometimes object to our curtailments and other adjustments. We review these objections if they are sent to us within 90 days after the claim was paid.

When reviewing the loan file associated with a claim, we may determine that we have the right to rescind coverage on the loan. Prior to 2008, rescissions of coverage on loans were not a material portion of our claims resolved during a year. However, beginning in 2008, our rescissions of coverage on loans have materially mitigated our paid losses. In 2009 through 2011, rescissions mitigated our paid losses in the aggregate by approximately $3.0 billion; and in 2012, 2013 and the first half of 2014, rescissions mitigated our paid losses by approximately $265 million, $135 million and $50 million, respectively (in each case, the figure includes amounts that would have either resulted in a claim payment or been charged to a deductible under a bulk or pool policy, and may have been charged to a captive reinsurer). In recent quarters, approximately 5% of claims received in a quarter have been resolved by rescissions, down from the peak of approximately 28% in the first half of 2009.

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

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

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

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

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

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

The Agreement with CHL covers loans that were purchased by non-GSE investors, including securitization trusts (the “other investors”). That Agreement will be implemented only as and to the extent that it is consented to by or on behalf of the other investors, and any such implementation is expected to occur later in 2014. While there can be no assurance that the Agreement with CHL will be implemented, we have determined that its implementation is probable.

We recorded the estimated impact of the Agreements and another probable settlement in our financial statements for the quarter ending December 31, 2012. We have also recorded the estimated impact of other probable settlements. The estimated impact that we recorded is our best estimate of our loss from these matters. We estimate that the maximum exposure above the best estimate provision we recorded is $510 million, of which about 45% is from rescission practices subject to the Agreement with CHL. If we are not able to implement the Agreement with CHL or the other settlements we consider probable, we intend to defend MGIC vigorously against any related legal proceedings.

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

We are involved in discussions and legal and consensual proceedings with customers with respect to our claims paying practices. These include a previously disclosed curtailment dispute with Countrywide that is in a mediation process. Although it is reasonably possible that when these discussions or proceedings are completed we will not prevail in all cases, we are unable to make a reasonable estimate or range of estimates of the potential liability. We estimate the maximum exposure associated with these discussions and proceedings to be approximately $220 million, although we believe we will ultimately resolve these matters for significantly less than this amount.

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

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

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

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

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

We are subject to comprehensive, detailed regulation by state insurance departments. These regulations are principally designed for the protection of our insured policyholders, rather than for the benefit of investors. Although their scope varies, state insurance laws generally grant broad supervisory powers to agencies or officials to examine insurance companies and enforce rules or exercise discretion affecting almost every significant aspect of the insurance business. Given the recent significant losses incurred by many insurers in the mortgage and financial guaranty industries, our insurance subsidiaries have been subject to heightened scrutiny by insurance regulators. State insurance regulatory authorities could take actions, including changes in capital requirements or termination of waivers of capital requirements, that could have a material adverse effect on us. In early 2013, the CFPB issued rules to implement laws requiring mortgage lenders to make ability-to-repay determinations prior to extending credit. We are uncertain whether the CFPB will issue any other rules or regulations that affect our business. Such rules and regulations could have a material adverse effect on us.

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

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

A non-insurance subsidiary of our holding company is a shareholder of the corporation that operates the Mortgage Electronic Registration System ("MERS"). Our subsidiary, as a shareholder of MERS, has been named as a defendant (along with MERS and its other shareholders) in eight lawsuits asserting various causes of action arising from allegedly improper recording and foreclosure activities by MERS. Seven of these lawsuits have been dismissed without any further opportunity to appeal. The remaining lawsuit had also been dismissed by the U.S. District Court, however, the plaintiff in that lawsuit filed a motion for reconsideration by the U.S. District Court and to certify a related question of law to the Supreme Court of the State in which the U.S. District Court is located. In April 2014, that motion for reconsideration was denied, however, on May 30, 2014, the plaintiff appealed the denial. The damages sought in this remaining case are substantial. We deny any wrongdoing and intend to defend ourselves vigorously against the allegations in the lawsuit.

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

Through a non-insurance subsidiary, we utilize our underwriting skills to provide an outsourced underwriting service to our customers known as contract underwriting. As part of the contract underwriting activities, that subsidiary is responsible for the quality of the underwriting decisions in accordance with the terms of the contract underwriting agreements with customers. That subsidiary may be required to provide certain remedies to its customers if certain standards relating to the quality of our underwriting work are not met, and we have an established reserve for such future obligations. Claims for remedies may be made a number of years after the underwriting work was performed. Beginning in the second half of 2009, our subsidiary experienced an increase in claims for contract underwriting remedies, which continued throughout 2012. The underwriting remedy expense for 2013 and the first half of 2014 was approximately $5 million and $2 million, respectively, but may increase in the future.

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

Note 6 – Earnings (Loss) per Share

Our basic EPS is based on the weighted average number of common shares outstanding, which excludes participating securities of 0.2 million for the six months ended June 30, 2013 because they were anti-dilutive due to our reported net loss. Participating securities of 0.1 million were included in our weighted average number of common shares outstanding for the three and six months ended June 30, 2014 and for the three months ended June 30, 2013. Typically, diluted EPS is based on the weighted average number of common shares outstanding plus common stock equivalents which include certain stock awards and the dilutive effect of our convertible debt. In accordance with accounting guidance, if we report a net loss from continuing operations then our diluted EPS is computed in the same manner as the basic EPS. In addition if any common stock equivalents are anti-dilutive they are excluded from the calculation. The following includes a reconciliation of the weighted average number of shares; however for the three months ended June 30, 2014 and 2013 common stock equivalents of 54.5 million and 126.5 million, respectively, and for the six months ended June 30, 2014 and 2013 common stock equivalents of 54.5 million and 100.3 million, respectively, were not included because they were anti-dilutive.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(In thousands, except per share data)			
Basic earnings per share:				
Net income (loss)	$ 45,522	$ 12,375	$ 105,504	$ (60,555)
Weighted average common shares outstanding	338,626	337,868	338,419	285,336
Basic income (loss) per share	$ 0.13	$ 0.04	$ 0.31	$ (0.21)
Diluted earnings per share:				
Net income (loss)	$ 45,522	$ 12,375	$ 105,504	$ (60,555)
Effect of dilutive securities:				
2% Convertible Senior Notes	3,049	-	6,098	-
Net income (loss) plus assumed conversions	$ 48,571	$ 12,375	$ 111,602	$ (60,555)
Weighted-average shares - Basic	338,626	337,868	338,419	285,336
Common stock equivalents	74,855	1,473	74,955	-
Weighted-average shares - Diluted	413,481	339,341	413,374	285,336
Diluted income (loss) per share	$ 0.12	$ 0.04	$ 0.27	$ (0.21)

Note 7 – Investments

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

June 30, 2014	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses (1)	Fair Value
	(In thousands)			
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 483,205	$ 2,540	$ (10,927)	$ 474,818
Obligations of U.S. states and political subdivisions	840,266	11,709	(3,605)	848,370
Corporate debt securities	2,185,994	16,842	(7,065)	2,195,771
Asset-backed securities	367,306	1,554	(54)	368,806
Residential mortgage-backed securities	359,908	170	(12,588)	347,490
Commercial mortgage-backed securities	274,102	1,336	(1,917)	273,521
Collateralized loan obligations	61,338	-	(875)	60,463
Debt securities issued by foreign sovereign governments	39,566	2,707	(44)	42,229
Total debt securities	4,611,685	36,858	(37,075)	4,611,468
Equity securities	2,949	69	(7)	3,011
Total investment portfolio	$ 4,614,634	$ 36,927	$ (37,082)	$ 4,614,479

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

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

Our foreign investments primarily consist of the investment portfolio supporting our Australian domiciled subsidiary. This portfolio is comprised of Australian government and semi government securities, representing 84% of the market value of our foreign investments with the remaining 9% invested in corporate securities and 7% in cash equivalents. Seventy-eight percent of the Australian portfolio is rated AAA, by one or more of Moody's, Standard & Poor's and Fitch Ratings, and the remaining 22% is rated AA.

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

June 30, 2014	Amortized Cost	Fair Value
	(In thousands)	
Due in one year or less	$ 434,813	$ 436,114
Due after one year through five years	1,877,498	1,892,200
Due after five years through ten years	783,152	783,800
Due after ten years	453,568	449,074
	$ 3,549,031	$ 3,561,188
Asset-backed securities	367,306	368,806
Residential mortgage-backed securities	359,908	347,490
Commercial mortgage-backed securities	274,102	273,521
Collateralized loan obligations	61,338	60,463
Total at June 30, 2014	$ 4,611,685	$ 4,611,468

At June 30, 2014 and December 31, 2013, the investment portfolio had gross unrealized losses of $37.1 million and $101.4 million, respectively. For those securities in an unrealized loss position, the length of time the securities were in such a position, as measured by their month-end fair values, is as follows:

June 30, 2014	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 10,902	$ 27	$ 374,597	$ 10,900	$ 385,499	$ 10,927
Obligations of U.S. states and political subdivisions	99,956	664	169,336	2,941	269,292	3,605
Corporate debt securities	397,503	964	277,677	6,101	675,180	7,065
Asset-backed securities	24,501	12	14,700	42	39,201	54
Residential mortgage-backed securities	-	-	328,343	12,588	328,343	12,588
Commercial mortgage-backed securities	61,372	456	104,802	1,461	166,174	1,917
Collateralized loan obligations	32,456	504	28,007	371	60,463	875
Debt securities issued by foreign sovereign governments	4,267	1	3,419	43	7,686	44
Equity securities	-	-	277	7	277	7
Total investment portfolio	$ 630,957	$ 2,628	$ 1,301,158	$ 34,454	$ 1,932,115	$ 37,082

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

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

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(In thousands)			
Net realized investment gains (losses) and OTTI on investments:				
Fixed maturities	$ 360	$ 1,891	$ 126	$ 3,148
Equity securities	162	594	165	596
	$ 522	$ 2,485	$ 291	$ 3,744

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(In thousands)			
Net realized investment gains (losses) and OTTI on investments:				
Gains on sales	$ 1,307	$ 3,027	$ 2,112	$ 4,961
Losses on sales	(785)	(542)	(1,821)	(1,217)
	$ 522	$ 2,485	$ 291	$ 3,744

Note 8 – Fair Value Measurements

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

Level 1 – Quoted prices for identical instruments in active markets that we can access. Financial assets utilizing Level 1 inputs primarily include certain U.S. Treasury Securities and obligations of U.S. government corporations and agencies 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 certain municipal and corporate bonds.

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

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

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

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In thousands)			
June 30, 2014				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 474,818	$ 474,818	$ -	$ -
Obligations of U.S. states and political subdivisions	848,370	-	846,139	2,231
Corporate debt securities	2,195,771	-	2,195,771	-
Asset-backed securities	368,806	-	368,806	-
Residential mortgage-backed securities	347,490	-	347,490	-
Commercial mortgage-backed securities	273,521	-	273,521	-
Collateralized loan obligations	60,463	-	60,463	-
Debt securities issued by foreign sovereign governments	42,229	42,229	-	-
Total debt securities	4,611,468	517,047	4,029,190	2,231
Equity securities	3,011	2,690	-	321
Total investments	$ 4,614,479	$ 519,737	$ 4,029,190	$ 2,552
Real estate acquired (1)	$ 10,804	$ -	$ -	$ 10,804

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In thousands)			
December 31, 2013				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 639,590	$ 639,590	$ -	$ -
Obligations of U.S. states and political subdivisions	921,367	-	918,944	2,423
Corporate debt securities	2,171,415	-	2,171,415	-
Asset-backed securities	400,486	-	400,486	-
Residential mortgage-backed securities	358,537	-	358,537	-
Commercial mortgage-backed securities	271,383	-	271,383	-
Collateralized loan obligations	60,295	-	60,295	-
Debt securities issued by foreign sovereign governments	40,852	40,852	-	-
Total debt securities	4,863,925	680,442	4,181,060	2,423
Equity securities	2,894	2,573	-	321
Total investments	$ 4,866,819	$ 683,015	$ 4,181,060	$ 2,744
Real estate acquired (1)	$ 13,280	$ -	$ -	$ 13,280

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

There were no transfers of securities between Level 1 and Level 2 during the first six months of 2014 or 2013.

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, 2014 and 2013 is as follows:

	Obligations of U.S. States and Political Subdivisions	Equity Securities	Total Investments	Real Estate Acquired
	(In thousands)			
Balance at March 31, 2014	$ 2,378	$ 321	$ 2,699	$ 11,137
Total realized/unrealized gains (losses):				
Included in earnings and reported as losses incurred, net	-	-	-	(1,157)
Purchases	-	-	-	11,367
Sales	(147)	-	(147)	(10,543)
Transfers into Level 3	-	-	-	-
Transfers out of Level 3	-	-	-	-
Balance at June 30, 2014	$ 2,231	$ 321	$ 2,552	$ 10,804
Amount of total losses included in earnings for the three months ended June 30, 2014 attributable to the change in unrealized losses on assets still held at June 30, 2014	$ -	$ -	$ -	$ -

	Obligations of U.S. States and Political Subdivisions	Equity Securities	Total Investments	Real Estate Acquired
	(In thousands)			
Balance at December 31, 2013	$ 2,423	$ 321	$ 2,744	$ 13,280
Total realized/unrealized gains (losses):				
Included in earnings and reported as losses incurred, net	-	-	-	(2,316)
Purchases	30	-	30	19,377
Sales	(222)	-	(222)	(19,537)
Transfers into Level 3	-	-	-	-
Transfers out of Level 3	-	-	-	-
Balance at June 30, 2014	$ 2,231	$ 321	$ 2,552	$ 10,804
Amount of total losses included in earnings for the six months ended June 30, 2014 attributable to the change in unrealized losses on assets still held at June 30, 2014	$ -	$ -	$ -	$ -

	Obligations of U.S. States and Political Subdivisions	Corporate Debt Securities	Equity Securities	Total Investments	Real Estate Acquired
			(In thousands)		
Balance at March 31, 2013	$ 2,957	$ -	$ 321	$ 3,278	$ 7,524
Total realized/unrealized gains (losses):					
Included in earnings and reported as losses incurred, net	-	-	-	-	(1,000)
Purchases	-	-	-	-	9,530
Sales	(146)	-	-	(146)	(7,313)
Transfers into Level 3	-	-	-	-	-
Transfers out of Level 3	-	-	-	-	-
Balance at June 30, 2013	$ 2,811	$ -	$ 321	$ 3,132	$ 8,741
Amount of total losses included in earnings for the three months ended June 30, 2013 attributable to the change in unrealized losses on assets still held at June 30, 2013	$ -	$ -	$ -	$ -	$ -

	Obligations of U.S. States and Political Subdivisions	Corporate Debt Securities	Equity Securities	Total Investments	Real Estate Acquired
			(In thousands)		
Balance at December 31, 2012	$ 3,130	$ 17,114	$ 321	$ 20,565	$ 3,463
Total realized/unrealized gains (losses):					
Included in earnings and reported as realized investment gains (losses), net	-	(225)	-	(225)	-
Included in earnings and reported as losses incurred, net	-	-	-	-	(2,302)
Purchases	30	-	-	30	17,544
Sales	(349)	(16,889)	-	(17,238)	(9,964)
Transfers into Level 3	-	-	-	-	-
Transfers out of Level 3	-	-	-	-	-
Balance at June 30, 2013	$ 2,811	$ -	$ 321	$ 3,132	$ 8,741
Amount of total losses included in earnings for the six months ended June 30, 2013 attributable to the change in unrealized losses on assets still held at June 30, 2013	$ -	$ -	$ -	$ -	$ -

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

Note 9 – Other Comprehensive Income

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

	Three Months Ended June 30, 2014			
	Before tax	Tax effect	Valuation allowance	Net of tax
	(In thousands)			
Other comprehensive income (loss):				
Change in unrealized gains and losses on investments	$ 44,818	$ (15,634)	$ 15,317	$ 44,501
Benefit plan adjustments	(1,980)	693	(693)	(1,980)
Unrealized foreign currency translation adjustment	904	(317)	-	587
Other comprehensive income (loss)	$ 43,742	$ (15,258)	$ 14,624	$ 43,108

	Six Months Ended June 30, 2014			
	Before tax	Tax effect	Valuation allowance	Net of tax
	(In thousands)			
Other comprehensive income (loss):				
Change in unrealized gains and losses on investments	$ 84,479	$ (29,505)	$ 29,125	$ 84,099
Benefit plan adjustments	(3,466)	1,213	(1,213)	(3,466)
Unrealized foreign currency translation adjustment	2,835	(995)	-	1,840
Other comprehensive income (loss)	$ 83,848	$ (29,287)	$ 27,912	$ 82,473

	Three Months Ended June 30, 2013			
	Before tax	Tax effect	Valuation allowance	Net of tax
	(In thousands)			
Other comprehensive income (loss):				
Change in unrealized gains and losses on investments	$ (99,092)	$ 34,520	$ (33,547)	$ (98,119)
Unrealized foreign currency translation adjustment	(19,255)	6,743	-	(12,512)
Other comprehensive income (loss)	$ (118,347)	$ 41,263	$ (33,547)	$ (110,631)

	Six Months Ended June 30, 2013			
	Before tax	Tax effect	Valuation allowance	Net of tax
	(In thousands)			
Other comprehensive income (loss):				
Change in unrealized gains and losses on investments	$ (109,631)	$ 38,112	$ (36,554)	$ (108,073)
Unrealized foreign currency translation adjustment	(18,769)	6,573	-	(12,196)
Other comprehensive income (loss)	$ (128,400)	$ 44,685	$ (36,554)	$ (120,269)

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

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

	Three Months Ended June 30, 2014			
	Unrealized gains and losses on available-for-sale securities	Defined benefit plans	Foreign currency translation	Total
	(In thousands)			
Balance at March 31, 2014, before tax	$ (44,973)	$ (5,252)	$ 13,115	$ (37,110)
Other comprehensive income (loss) before reclassifications	42,922	-	904	43,826
Amounts reclassified from accumulated other comprehensive income (loss)	(1,896) (1)	1,980 (2)	-	84
Net current period other comprehensive income (loss)	44,818	(1,980)	904	43,742
Balance at June 30, 2014, before tax	$ (155)	$ (7,232)	$ 14,019	$ 6,632

	Six Months Ended June 30, 2014			
	Unrealized gains and losses on available-for-sale securities	Defined benefit plans	Foreign currency translation	Total
	(In thousands)			
Balance at December 31, 2013, before tax	$ (84,634)	$ (3,766)	$ 11,184	$ (77,216)
Other comprehensive income (loss) before reclassifications	78,548	-	2,835	81,383
Amounts reclassified from accumulated other comprehensive income (loss)	(5,931) (1)	3,466 (2)	-	(2,465)
Net current period other comprehensive income (loss)	84,479	(3,466)	2,835	83,848
Balance at June 30, 2014, before tax	(155)	(7,232)	14,019	6,632
Tax effect (3)	(64,436)	26,940	(4,389)	(41,885)
Balance at June 30, 2014, net of tax	$ (64,591)	$ 19,708	$ 9,630	$ (35,253)

	Three Months Ended June 30, 2013				
	Unrealized gains and losses on available-for-sale securities		Defined benefit plans	Foreign currency translation	Total
	(In thousands)				
Balance at March 31, 2013, before tax	$ 31,002		$ (71,804)	$ 33,233	$ (7,569)
Other comprehensive income (loss) before reclassifications	(96,938)		-	(19,255)	(116,193)
Amounts reclassified from accumulated other comprehensive income (loss)	2,154	(1)	-	-	2,154
Net current period other comprehensive income (loss)	(99,092)		-	(19,255)	(118,347)
Balance at June 30, 2013, before tax	$ (68,090)		$ (71,804)	$ 13,978	$ (125,916)

	Six Months Ended June 30, 2013				
	Unrealized gains and losses on available-for-sale securities		Defined benefit plans	Foreign currency translation	Total
	(In thousands)				
Balance at December 31, 2012, before tax	$ 41,541		$ (71,804)	$ 32,747	$ 2,484
Other comprehensive income (loss) before reclassifications	(104,099)		-	(18,769)	(122,868)
Amounts reclassified from accumulated other comprehensive income (loss)	5,532	(1)	-	-	5,532
Net current period other comprehensive income (loss)	(109,631)		-	(18,769)	(128,400)
Balance at June 30, 2013, before tax	(68,090)		(71,804)	13,978	(125,916)
Tax effect (3)	(65,082)		26,940	(4,374)	(42,516)
Balance at June 30, 2013, net of tax	$ (133,172)		$ (44,864)	$ 9,604	$ (168,432)

(1) During the three and six months ended June 30, 2014, net unrealized losses of ($1.9) million and ($5.9) million, respectively, were reclassified to the Consolidated Statement of Operations and included in Realized investment gains, net. During the three and six months ended June 30, 2013, net unrealized gains of $2.2 million and $5.5 million, respectively were reclassified to the Consolidated Statement of Operations and included in Realized investment gains, net.

(2) During the three and six months ended June 30, 2014, other comprehensive income related to benefit plans of $2.0 million and $3.5 million, respectively, was reclassified to the Consolidated Statement of Operations and included in Underwriting and other expenses, net.

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

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

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

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

Note 10 - Benefit Plans

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

	Three Months Ended June 30,			
	Pension and Supplemental Executive Retirement Plans		Other Postretirement Benefits	
	2014	2013	2014	2013
	(In thousands)			
Service cost	$ 2,203	$ 2,952	$ 152	$ 212
Interest cost	3,985	3,845	144	156
Expected return on plan assets	(5,257)	(5,034)	(1,163)	(920)
Recognized net actuarial loss	250	1,557	(144)	-
Amortization of prior service cost	(423)	127	(1,662)	(1,662)
Net periodic benefit cost	$ 758	$ 3,447	$ (2,673)	$ (2,214)

	Six Months Ended June 30,			
	Pension and Supplemental Executive Retirement Plans		Other Postretirement Benefits	
	2014	2013	2014	2013
	(In thousands)			
Service cost	$ 4,283	$ 5,669	$ 329	$ 406
Interest cost	7,994	7,644	327	309
Expected return on plan assets	(10,515)	(10,072)	(2,324)	(1,840)
Recognized net actuarial loss	541	3,073	(217)	-
Amortization of prior service cost	(465)	252	(3,325)	(3,324)
Net periodic benefit cost	$ 1,838	$ 6,566	$ (5,210)	$ (4,449)

We currently do not intend to make any contributions to the plans during 2014.

Note 11 – Income Taxes

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(In thousands)			
Tax provision (benefit) before valuation allowance	$ 17,172	$ 4,472	$ 40,292	$ (17,118)
Change in valuation allowance	(16,054)	(3,482)	(38,448)	19,247
Provision for income taxes	$ 1,118	$ 990	$ 1,844	$ 2,129

The change in the valuation allowance that was included in other comprehensive income for the three months ended June 30, 2014 and 2013 was a decrease of $14.6 million and an increase of $33.5 million, respectively. The change in the valuation allowance that was included in other comprehensive income for the six months ended June 30, 2014 and 2013 was a decrease of $27.9 million and an increase of $36.6 million, respectively. The total valuation allowance as of June 30, 2014 and December 31, 2013 was $937.9 million and $1,004.2 million, respectively.

We have approximately $2.5 billion of net operating loss carryforwards on a regular tax basis and $1.7 billion of net operating loss carryforwards for computing the alternative minimum tax as of June 30, 2014. Any unutilized carryforwards are scheduled to expire at the end of tax years 2029 through 2033.

Tax Contingencies

The Internal Revenue Service ("IRS") completed examinations of our federal income tax returns for the years 2000 through 2007 and issued proposed assessments for unpaid 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. The proposed assessments for taxes and penalties related to these matters are $197.5 million and at June 30, 2014 there would also be interest of approximately $161.3 million. In addition, 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, 2014, those state taxes and interest would approximate $46.7 million. In addition, there could also be state tax penalties.

Our total amount of unrecognized tax benefits as of June 30, 2014 is $105.8 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, statutory capital and compliance with the GSE Financial Requirements. In this regard, see Note 1 – "Nature of Business – Capital-GSEs."

We appealed these assessments within the IRS and, in 2007, we made a payment of $65.2 million to the United States Department of the Treasury related to this assessment. In August 2010, we reached a tentative settlement agreement with the IRS which was not finalized. The IRS is pursuing this matter in full and absent a settlement we currently expect to be in litigation on this matter in 2014. Any such litigation could be lengthy and costly in terms of legal fees and related expenses.

The IRS is currently conducting an examination of our federal income tax returns for the years 2011 and 2012, which is scheduled to be completed in 2014.

The total amount of the unrecognized tax benefits, related to our aforementioned REMIC issue, that would affect our effective tax rate is $93.2 million, after taking into account the effect of NOL carrybacks. We recognize interest accrued and penalties related to unrecognized tax benefits in income taxes. As of June 30, 2014 and December 31, 2013, we had accrued $26.5 million and $26.1 million, respectively, for the payment of interest.

Note 12 – Loss Reserves

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

Estimation of losses is inherently judgmental. The conditions that affect the claim rate and claim severity include the current and future state of the domestic economy, including unemployment, and the current and future strength of local housing markets. Current conditions in the housing and mortgage industries make these assumptions more volatile than they would otherwise be. The actual amount of the claim payments may be substantially different than our loss reserve estimates. Our estimates could be adversely affected by several factors, including a deterioration of regional or national economic conditions, including unemployment, leading to a reduction in borrowers' income and thus their ability to make mortgage payments, and a drop in housing values, 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, 2014 and 2013:

	Six Months Ended June 30,	
	2014	2013
	(In thousands)	
Reserve at beginning of period	$ 3,061,401	$ 4,056,843
Less reinsurance recoverable	64,085	104,848
Net reserve at beginning of period	2,997,316	3,951,995
Losses incurred:		
Losses and LAE incurred in respect of default notices related to:		
Current year	306,386	468,332
Prior years (1)	(42,637)	(5,850)
Subtotal	263,749	462,482
Losses paid:		
Losses and LAE paid in respect of default notices related to:		
Current year	2,674	5,137
Prior years	640,560	897,178
Reinsurance terminations (2)	-	(3,248)
Subtotal	643,234	899,067
Net reserve at end of period	2,617,831	3,515,410
Plus reinsurance recoverables	57,763	83,898
Reserve at end of period	$ 2,675,594	$ 3,599,308

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

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

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

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

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

	Six Months Ended June 30,	
	2014	2013
	(In millions)	
Prior year loss development (1):		
Decrease in estimated claim rate on primary defaults	$ (25)	$ -
(Decrease) increase in estimated severity on primary defaults	(8)	1
Change in estimates related to pool reserves, LAE reserves and reinsurance	(10)	(7)
Total prior year loss development	$ (43)	$ (6)

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

The prior year loss development was based on the resolution of approximately 40% and 37% for the six months ended June 30, 2014 and 2013, respectively of the prior year default inventory, as well as a re-estimation of amounts to be ultimately paid on defaults remaining in inventory from the end of the prior year and estimated incurred but not reported items from the end of the prior year. In the first six months of 2014, we recognized favorable development on our estimated claim rate as we experienced a better cure rate on previously received delinquencies. The favorable development we experienced in the first six months of 2014 was partially offset by a $20 million increase to our accrual for probable rescission related settlements. See Note 5 – “Litigation and Contingencies.”

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

The liability associated with our estimate of premiums to be refunded on expected claim payments is accrued for separately at June 30, 2014 and December 31, 2013 and approximated $127 million and $131 million, respectively. Separate components of this liability are included in “Other liabilities” and “Premium deficiency reserve” on our consolidated balance sheet. Changes in the liability affect premiums written and earned and change in premium deficiency reserve.

A rollforward of our primary default inventory for the three and six months ended June 30, 2014 and 2013 appears in the table below. The information concerning new notices and cures is compiled from monthly reports received from loan servicers. The level of new notice and cure activity reported in a particular month can be influenced by, among other things, the date on which a servicer generates its report, the number of business days in a month and transfers of servicing between loan servicers. Historically, losses incurred have followed a seasonal trend in which the second half of the year has weaker credit performance than the first half, with higher new notice activity and a lower cure rate.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Default inventory at beginning of period	91,842	126,610	103,328	139,845
New Notices	21,178	25,425	44,524	53,289
Cures	(21,182)	(25,450)	(48,500)	(56,572)
Paids (including those charged to a deductible or captive)	(6,068)	(9,051)	(13,132)	(18,496)
Rescissions and denials	(354)	(429)	(804)	(961)
Default inventory at end of period	85,416	117,105	85,416	117,105

Pool insurance notice inventory decreased from 7,006 at June 30, 2013 to 6,563 at December 31, 2013 and to 5,271 at June 30, 2014.

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

Aging of the Primary Default Inventory

	June 30, 2014		December 31, 2013		June 30, 2013	
Consecutive months in default						
3 months or less	15,297	18%	18,941	18%	18,760	16%
4 - 11 months	19,362	23%	24,514	24%	26,377	23%
12 months or more	50,757	59%	59,873	58%	71,968	61%
Total primary default inventory	85,416	100%	103,328	100%	117,105	100%
Primary claims received inventory included in ending default inventory (1)	5,398	6%	6,948	7%	10,637	9%

(1) Our claims received inventory includes suspended rescissions, as we have voluntarily suspended rescissions of coverage related to certain loans that we believed would be included in a potential resolution. As of June 30, 2014, rescissions of coverage on approximately 1,558 loans had been voluntarily suspended.

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

Number of Payments Delinquent

	June 30, 2014		December 31, 2013		June 30, 2013	
3 payments or less	22,867	27%	28,095	27%	27,498	24%
4 - 11 payments	19,666	23%	24,605	24%	27,299	23%
12 payments or more	42,883	50%	50,628	49%	62,308	53%
Total primary default inventory	85,416	100%	103,328	100%	117,105	100%

Claims paying practices

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

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

The liability associated with our estimate of premiums to be refunded on expected future rescissions is accrued for separately. At June 30, 2014 and December 31, 2013 the estimate of this liability totaled $13 million and $15 million, respectively. Separate components of this liability are included in “Other liabilities” and “Premium deficiency reserve” on our consolidated balance sheet. Changes in the liability affect premiums written and earned and change in premium deficiency reserve.

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

Note 13 – Premium Deficiency Reserve

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

	June 30, 2014	December 31, 2013	June 30, 2013
		(In millions)	
Present value of expected future paid losses and expenses, net of expected future premium	$ (591)	$ (669)	$ (749)
Established loss reserves	556	621	688
Net deficiency	$ (35)	$ (48)	$ (61)

The decrease in the premium deficiency reserve for the three and six months ended June 30, 2014 was $8 million and $13 million, respectively, as shown in the table below, which represents the net result of actual premiums, losses and expenses as well as a net change in assumptions for these periods. The net change in assumptions for both the three and six months ended June 30, 2014 is primarily related to higher estimated ultimate premiums and lower estimated ultimate losses.

	Three Months Ended		Six Months Ended	
	June 30, 2014			
	(In millions)			
Premium Deficiency Reserve at beginning of period		$ (43)		$ (48)
Paid claims and loss adjustment expenses	$ 44		$ 92	
Decrease in loss reserves	(23)		(65)	
Premium earned	(21)		(42)	
Effects of present valuing on future premiums, losses and expenses	(2)		(5)	
Change in premium deficiency reserve to reflect actual premium, losses and expenses recognized		(2)		(20)
Change in premium deficiency reserve to reflect change in assumptions relating to future premiums, losses, expenses and discount rate (1)		10		33
Premium Deficiency Reserve at end of period		$ (35)		$ (35)

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

The decrease in the premium deficiency reserve for the three and six months ended June 30, 2013 was $11 million and $13 million, respectively, as shown in the table below. The net change in assumptions for the three months ended June 30, 2013 is primarily related to higher estimated ultimate premiums and lower estimated ultimate losses. The net change in the assumptions for the six months ended June 30, 2013 is primarily related to higher estimated ultimate premiums, offset by higher estimated ultimate losses.

	Three Months Ended		Six Months Ended	
	June 30, 2013			
	(In millions)			
Premium Deficiency Reserve at beginning of period		$ (72)		$ (74)
Paid claims and loss adjustment expenses	$ 63		$ 121	
Decrease in loss reserves	(48)		(78)	
Premium earned	(25)		(48)	
Effects of present valuing on future premiums, losses and expenses	(2)		(1)	
Change in premium deficiency reserve to reflect actual premium, losses and expenses recognized		(12)		(6)
Change in premium deficiency reserve to reflect change in assumptions relating to future premiums, losses, expenses and discount rate (1)		23		19
Premium Deficiency Reserve at end of period		$ (61)		$ (61)

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

Note 14 – Shareholders' Equity

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

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

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

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

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

Note 15 – Statutory Capital

Statutory Capital Requirements

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

In 2013, we entered into a quota share reinsurance transaction with a group of unaffiliated reinsurers that reduced our risk-to-capital ratio. At June 30, 2014, MGIC's risk-to-capital ratio was 15.2 to 1, below the maximum allowed by the jurisdictions with State Capital Requirements, and its policyholder position was $555 million above the required MPP of $1.0 billion. It is possible that under the revised State Capital Requirements discussed below, MGIC will not be allowed full credit for the risk ceded to the reinsurers. If MGIC is disallowed full credit under either the State Capital Requirements or the GSE Financial Requirements, MGIC may terminate the transaction, without penalty, when such disallowance becomes effective. Matters that could negatively affect compliance with State Capital Requirements are discussed throughout the financial statement footnotes.

At June 30, 2014, the risk-to-capital ratio of our combined insurance operations (which includes reinsurance affiliates) was 17.3 to 1. Reinsurance transactions with affiliates permit MGIC to write insurance with a higher coverage percentage than it could on its own under certain state-specific requirements. A higher risk-to-capital ratio on a combined basis may indicate that, in order for MGIC to continue to utilize reinsurance arrangements with its affiliates, unless a waiver of the State Capital Requirements of Wisconsin continues to be effective, additional capital contributions to the reinsurance affiliates could be needed.

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

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

We have in place a longstanding plan to write new business in MIC, a direct subsidiary of MGIC, in the event MGIC cannot meet the State Capital Requirements of a jurisdiction or obtain a waiver of them. Writing business in MIC would be subject to any repatriation to MGIC of MIC's capital in order to comply with the PMIERs, as discussed in Note 1 – "Nature of Business and Basis of Presentation – Capital – GSEs." MIC is licensed to write business in all jurisdictions. During 2012, MIC began writing new business in the jurisdictions where MGIC did not have a waiver of the State Capital Requirements. Because MGIC again meets the State Capital Requirements, MGIC is writing new business in all jurisdictions and MIC suspended writing new business in 2013. As of June 30, 2014, MIC had statutory capital of $463 million and risk in force, net of reinsurance, of approximately $573 million. Before MIC may again write new business, it must obtain the necessary approvals from the OCI and the GSEs.

We cannot assure you that the OCI or GSEs will approve MIC to write new business in all jurisdictions in which MGIC may become unable to do so. If we are unable to write business in all jurisdictions utilizing a combination of MGIC and MIC, lenders may be unwilling to procure insurance from us anywhere. In addition, a lender's assessment of the future ability of our insurance operations to meet the Financial Requirements may affect its willingness to procure insurance from us.

Statement of Statutory Accounting Principles No. 101 ("SSAP No. 101") became effective January 1, 2012 and prescribed new standards for determining the amount of deferred tax assets that can be recognized as admitted assets for determining statutory capital. Under a permitted practice effective September 30, 2012 and until further notice, the OCI has approved MGIC to report its net deferred tax asset as an admitted asset in an amount not to exceed 10% of surplus as regards policyholders, notwithstanding any contrary provisions of SSAP No. 101. Deferred tax assets of $136 million and $138 million were included in MGIC's statutory capital at June 30, 2014 and December 31, 2013, respectively.

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

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

Overview

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

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

Forward Looking and Other Statements

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

Outlook

Since 2008, substantially all of the loans we insured have been sold to the GSEs, which have been in conservatorship since late 2008. When the conservatorship will end and what role, if any, the GSEs will play in the secondary mortgage market post-conservatorship will be determined by Congress. The scope of the Federal Housing Administration's (the “FHA”) large market presence may also change in connection with the determination of the future of the GSEs. Capital standards for private mortgage insurers are being revised; see “Capital” below. There are also pending regulatory changes that could affect demand for private mortgage insurance; see our risk factor titled “The amount of insurance we write could be adversely affected if the definition of Qualified Residential Mortgage results in a reduced number of low down payment loans available to be insured or if lenders and investors select alternatives to private mortgage insurance.” While we strongly believe private mortgage insurance should be an integral part of credit enhancement in a future mortgage market, its role in that market cannot be predicted.

Capital

GSEs

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

On July 10, 2014, the conservator of the GSEs, the Federal Housing Finance Agency ("FHFA"), released draft Private Mortgage Insurer Eligibility Requirements ("draft PMIERs"). The FHFA has requested public input on the draft PMIERs by September 8, 2014. The draft PMIERs include revised financial requirements for mortgage insurers (the "GSE Financial Requirements") that require a mortgage insurer's "Available Assets" (generally only the most liquid assets of an insurer) to meet or exceed "Minimum Required Assets" (which are calculated from tables of factors with several risk dimensions and are subject to a floor amount).

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

Although we believe we have sufficient claims paying resources to meet our claim obligations on our insurance in force on a timely basis, we estimate that if the draft PMIERs are implemented as released, as of December 31, 2014 (the expected publication date), MGIC would have a shortfall in Available Assets of approximately $600 million, with Available Assets of approximately $5.3 billion and Minimum Required Assets of approximately $5.9 billion. We believe this shortfall would be reduced through operations so that as of December 31, 2016 (the expected end of the transition period), it would be approximately $300 million. The shortfall projections at both dates assume the risk in force and capital of MIC are repatriated to MGIC, and full credit is given in the calculation of Minimum Required Assets for our existing reinsurance transaction (approximately $500 million of credit at December 31, 2014, increasing to $600 million of credit at December 31, 2016). However, we do not expect to receive full credit for our current reinsurance transaction. As a result, we have begun discussions with the reinsurance market to modify our existing reinsurance transaction so that any reduction in the credit would be minimized.

As of June 30, 2014, we had approximately $515 million of cash and investments at our holding company, a portion of which we believe may be available for future contribution to MGIC. Furthermore, there are regulated insurance affiliates of MGIC that have approximately $100 million of assets as of June 30, 2014. We expect that, subject to regulatory approval, we would be able to use a material portion of these assets to increase the Available Assets of MGIC. Additionally, if the draft PMIERs are implemented as released, we would consider seeking additional reinsurance and/or non-dilutive debt capital to mitigate the shortfall. We believe we will be able to use a combination of the alternatives outlined above so that MGIC would meet the GSE Financial Requirements of the draft PMIERs even if they are implemented as released. However, there can be no assurance that MGIC will be in compliance with the GSE Financial Requirements within the transition period. Factors that may impact MGIC's compliance with the GSE Financial Requirements include the following:

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

You should read our risk factors for information about matters that also could negatively affect MGIC's compliance with the GSE Financial Requirements. Such matters could decrease our revenues, increase our losses or require the use of assets, thereby reducing our Available Assets and increasing our shortfall in Available Assets, or they could increase the Minimum Required Assets, also increasing our shortfall in Available Assets.

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

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

State Regulations

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

In 2013, we entered into a quota share reinsurance transaction with a group of unaffiliated reinsurers that reduced our risk-to-capital ratio. At June 30, 2014, MGIC's risk-to-capital ratio was 15.2 to 1, below the maximum allowed by the jurisdictions with State Capital Requirements, and its policyholder position was $555 million above the required MPP of $1.0 billion. It is possible that under the revised State Capital Requirements discussed below, MGIC will not be allowed full credit for the risk ceded to the reinsurers. If MGIC is disallowed full credit under either the State Capital Requirements or the GSE Financial Requirements, MGIC may terminate the transaction, without penalty, when such disallowance becomes effective. At this time, we expect MGIC to continue to comply with the current State Capital Requirements, although we cannot assure you of such compliance.

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

Qualified Residential Mortgages

The financial reform legislation that was passed in July 2010 (the "Dodd-Frank Act" or "Dodd-Frank") requires lenders to consider a borrower's ability to repay a home loan before extending credit. The Consumer Financial Protection Bureau ("CFPB") rule defining "Qualified Mortgage" ("QM") for purposes of implementing the "ability to repay" law became effective in January 2014. There is a temporary category of QMs for mortgages that satisfy the general product feature requirements of QMs and meet the GSEs' underwriting requirements (the "temporary category"). The temporary category will phase out when the GSEs' conservatorship ends, or if sooner, after seven years. In May 2013, the FHFA directed the GSEs to limit their mortgage acquisitions to loans that meet the requirements of a QM under the ability to repay rule, including those that meet the temporary category, and loans that are exempt from the "ability to repay" requirements. We may insure loans that do not qualify as QMs, however, we are unsure the extent to which lenders will make non-QM loans because they will not be entitled to the presumptions about compliance with the "ability to repay" requirements that the law allows lenders with respect to QM loans. We are also unsure the extent to which lenders will purchase private mortgage insurance for loans that cannot be sold to the GSEs.

The U.S. Department of Housing and Urban Development ("HUD") definition of QM that applies to loans insured by the FHA became effective in January 2014. HUD's QM definition is less restrictive than the CFPB's definition in certain respects, including that (i) it has no limit on the debt-to-income ratio of a borrower, and (ii) it allows the lender certain presumptions about compliance with the "ability to repay" requirements on higher priced loans. It is possible that lenders will prefer FHA-insured loans to loans insured by private mortgage insurance as a result of the FHA's less restrictive QM definition.

Given the credit characteristics presented to us, we estimate that approximately 87% of our new risk written in 2013 and 84% of our new risk written in the first half of 2014 was for loans that would have met the CFPB's general QM definition. We estimate that approximately 99% of our new risk written in 2013 and in the first half of 2014 was for loans that would have met the CFPB's QM definition, when giving effect to the temporary category. In making these estimates, we have not considered the limitation on points and fees because the information is not available to us. We do not believe such limitation would materially affect the percentage of our new risk written meeting the QM definitions.

The Dodd-Frank Act requires a securitizer to retain at least 5% of the risk associated with mortgage loans that are securitized, and in some cases the retained risk may be allocated between the securitizer and the lender that originated the loan. This risk retention requirement does not apply to mortgage loans that are Qualified Residential Mortgages ("QRMs") or that are insured by the FHA or another federal agency. In 2011, federal regulators released a proposed risk retention rule that included a definition of QRM. In response to public comments regarding the proposed rule, federal regulators issued a revised proposed rule in August 2013. The revised proposed rule generally defines QRM as a mortgage meeting the requirements of a QM. The regulators also proposed an alternative QRM definition ("QM-plus") which utilizes certain QM criteria but also includes a maximum loan-to-value ratio ("LTV") of 70%. Neither of the revised definitions of QRM considers the use of mortgage insurance for purposes of calculating LTV. While substantially all of our new risk written in 2013 and in the first half of 2014 was on loans that met the QM definition (and, therefore, the proposed general QRM definition), none of our new insurance written met the QM-plus definition. The public comment period for the revised proposed rule expired on October 30, 2013. The final timing of the adoption of any risk retention regulation and the definition of QRM remains uncertain. Because of the capital support provided by the U.S. Government, the GSEs satisfy the Dodd-Frank risk-retention requirements while they are in conservatorship. Therefore, lenders that originate loans that are sold to the GSEs while they are in conservatorship would not be required to retain risk associated with those loans.

The amount of new insurance that we write may be materially adversely affected depending on, among other things, (a) the final definition of QRM and its LTV requirements and (b) whether lenders choose mortgage insurance for non-QRM loans. In addition, changes in the final regulations regarding treatment of GSE-guaranteed mortgage loans, or changes in the conservatorship or capital support provided to the GSEs by the U.S. Government, could impact the manner in which the risk-retention rules apply to GSE securitizations, originators who sell loans to GSEs and our business. For other factors that could decrease the demand for mortgage insurance, see our risk factor titled "If the volume of low down payment home mortgage originations declines, the amount of insurance that we write could decline, which would reduce our revenues."

GSE Reform

The FHFA is the conservator of the GSEs and has the authority to control and direct their operations. The increased role that the federal government has assumed in the residential mortgage market through the GSE conservatorship may increase the likelihood that the business practices of the GSEs change in ways that have a material adverse effect on us. In addition, these factors may increase the likelihood that the charters of the GSEs are changed by new federal legislation. The Dodd-Frank Act required the U.S. Department of the Treasury to report its recommendations regarding options for ending the conservatorship of the GSEs. This report was released in February 2011 and while it does not provide any definitive timeline for GSE reform, it does recommend using a combination of federal housing policy changes to wind down the GSEs, shrink the government's footprint in housing finance (including FHA insurance), and help bring private capital back to the mortgage market. Since then, Members of Congress introduced several bills intended to change the business practices of the GSEs and the FHA; however, no legislation has been enacted. As a result of the matters referred to above, it is uncertain what role the GSEs, FHA and private capital, including private mortgage insurance, will play in the domestic residential housing finance system in the future or the impact of any such changes on our business. In addition, the timing of the impact of any resulting changes on our business is uncertain. Most meaningful changes would require Congressional action to implement and it is difficult to estimate when Congressional action would be final and how long any associated phase-in period may last.

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

Loan Modification and Other Similar Programs

Beginning in the fourth quarter of 2008, the federal government, including through the Federal Deposit Insurance Corporation and the GSEs, and several lenders implemented programs to modify loans to make them more affordable to borrowers with the goal of reducing the number of foreclosures. During 2012, 2013 and the first half of 2014, we were notified of modifications that cured delinquencies that had they become paid claims would have resulted in approximately $1.2 billion, $1.0 billion and $420 million, respectively, of estimated claim payments. As noted below, we cannot predict with a high degree of confidence what the ultimate re-default rate on these modifications will be. Although the recent re-default rate has been lower, for internal reporting and planning purposes, we assume approximately 50% of these modifications will ultimately re-default, and those re-defaults may result in future claim payments. Because modifications cure the defaults with respect to the previously defaulted loans, our loss reserves do not account for potential re-defaults unless at the time the reserve is established, the re-default has already occurred. Based on information that is provided to us, most of the modifications resulted in reduced payments from interest rate and/or amortization period adjustments; from 2012 through the first half of 2014, approximately 9% resulted in principal forgiveness.

One loan modification program is the Home Affordable Modification Program (“HAMP”) which began in 2009. We believe that it could take several months from the time a borrower has made all of the payments during HAMP’s three month “trial modification” period for the loan to be reported to us as a cured delinquency. We rely on information provided to us by the GSEs and servicers. We do not receive all of the information from such sources that is required to determine with certainty the number of loans that are participating in, have successfully completed, or are eligible to participate in, HAMP. We are aware of approximately 6,270 loans in our primary delinquent inventory at June 30, 2014 for which the HAMP trial period has begun and which trial periods have not been reported to us as completed or cancelled. Through June 30, 2014, approximately 53,700 delinquent primary loans have cured their delinquency after entering HAMP and are not in default. In 2013 and the first half of 2014, approximately 17% and 16%, respectively, of our primary cures were the result of a modification, with HAMP accounting for approximately 68% of those modifications in each of 2013 and the first half of 2014. Although the HAMP program has been extended through December 2016, we believe that we have realized the majority of the benefits from HAMP because the number of loans insured by us that we are aware are entering HAMP trial modification periods has decreased significantly since 2010. The interest rates on certain loans modified under HAMP are subject to adjustment five years after the modification was entered into. Such adjustments are limited to an increase of one percentage point per year.

In 2009, the GSEs began offering the Home Affordable Refinance Program ("HARP"). HARP, which has been extended through December 2015, allows borrowers who are not delinquent but who may not otherwise be able to refinance their loans under the current GSE underwriting standards, to refinance their loans. We allow HARP refinances on loans that we insure, regardless of whether the loan meets our current underwriting standards, and we account for the refinance as a loan modification (even where there is a new lender) rather than new insurance written. Approximately 16% of our primary insurance in force has benefitted from HARP and is still in force.

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

As shown in the following table, as of June 30, 2014 approximately 27% of our primary risk in force has been modified.

Policy Year	HARP (1) Modifications	HAMP Modifications	Other Modifications
2003 and Prior	9.3%	11.3%	11.2%
2004	14.3%	11.3%	9.7%
2005	19.0%	13.2%	10.3%
2006	22.5%	15.5%	11.1%
2007	31.7%	16.4%	7.0%
2008	45.5%	9.7%	3.3%
2009	18.0%	0.7%	0.5%
2010 – Q2 2014	0.0%	0.0%	0.0%
Total	15.5%	7.3%	4.3%

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

As of June 30, 2014 based on loan count, the loans associated with 98.5% of all HARP (or similar) modifications, 77.9% of HAMP modifications and 69.9% of other modifications were current.

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

Factors Affecting Our Results

Our results of operations are affected by:

- Premiums written and earned

  Premiums written and earned in a year are influenced by:

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

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

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

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

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

- Investment income

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

- Losses incurred

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

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

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

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

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

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

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

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

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

- Changes in premium deficiency reserve

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

- Underwriting and other expenses

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

- Interest expense

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

Mortgage Insurance Earnings and Cash Flow Cycle

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

Summary of 2014 Second Quarter Results

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

- Net premiums written and earned

Net premiums written and earned during the second quarter of 2014 decreased when compared to the same period in 2013. The decrease was due to our lower average insurance in force, as well as an increase in premiums ceded under reinsurance agreements.

- Investment income

Investment income in the second quarter of 2014 was higher when compared to the same period in 2013 due to an increase in our average investment yield.

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

Net realized gains (losses) for the second quarter of 2014 were $0.5 million compared to $2.5 million for the second quarter of 2013. There were no OTTI losses in the second quarter of 2014 or 2013. At June 30, 2014, the net unrealized losses in our investment portfolio were $0.2 million, which included $37.1 million of gross unrealized losses, partially offset by $36.9 million of gross unrealized gains.

- Losses incurred

Losses incurred for the second quarter of 2014 decreased compared to the same period in 2013, primarily due to fewer new notices of default being received and a lower claim rate on new and previously received delinquencies. There were 21,178 new notices received in the second quarter of 2014 compared to 25,425 new notices received in the second quarter of 2013. There was an increase in the average estimated claim rate in both the second quarter of 2014 and 2013. The average estimated severity remained flat in both the second quarter of 2014 and 2013.

- Change in premium deficiency reserve

The premium deficiency reserve as of June 30, 2014 reflects the present value of expected future losses and expenses that exceeds the present value of expected future premiums and already established loss reserves. During the second quarter of 2014 the premium deficiency reserve on Wall Street bulk transactions declined by $8 million to $35 million. The decrease in the premium deficiency reserve represents the net result of actual premiums, losses and expenses as well as a change in net assumptions for the period. The change in net assumptions for the second quarter of 2014 is primarily related to lower estimated ultimate losses and higher estimated ultimate premiums.

· Underwriting and other expenses

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

· Interest expense

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

· Provision for income taxes

We had a net provision for income taxes of $1.1 million and $1.0 million in the second quarter of 2014 and 2013, respectively. The provision for income taxes was offset by a decrease in the valuation allowance of $16.1 million and $3.5 million for the three months ended June 30, 2014 and 2013, respectively.

Results of Consolidated Operations

New insurance written

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Total Primary NIW (In billions)	$ 8.3	$ 8.0	$ 13.5	$ 14.5
Refinance volume as a % of primary NIW	10%	30%	12%	37%

The decrease in new insurance written in the first half of 2014 compared to the same period last year was due to a significant decrease in refinance volume, somewhat offset by an increase in purchase volume. We continue to believe that new insurance written volumes in 2014 will be similar to our 2013 levels. Our industry continues to regain market share from the FHA but the pace of that recovery is slower than we expected given the continued differences in underwriting guidelines, loan level price adjustments by the GSEs and the secondary market benefits associated with government insured loans versus loans insured by the private sector.

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

Historically, the level of competition within the private mortgage insurance industry has been intense and is not expected to diminish given the presence of new entrants. Effective in December 2013, we reduced all of our borrower-paid monthly premium rates and most of our single premium rates to match competition, although in certain states these reductions are not yet effective due to the need for regulatory approval. During most of 2013, when almost all of our single premium rates were above those most commonly used in the market, single premium policies were approximately 10% of our total new insurance written; they were approximately 13% in the first half of 2014. In addition, during periods of declining loan originations, lenders may seek to expand their mortgage lending businesses by requesting discounts from mortgage insurers in order to offer products that are less expensive to borrowers or by requesting more liberal underwriting requirements.

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

During the second quarter of 2012, we began writing a portion of our new insurance under an endorsement to our master policy (the "Gold Cert Endorsement"). Our Gold Cert Endorsement limits our ability to rescind coverage under certain circumstances. As of June 30, 2014, approximately 21% of our flow, primary insurance in force was written under our Gold Cert Endorsement. However, approximately 65% and 74% of our flow, primary new insurance written in 2013 and the first half of 2014, respectively, was written under this endorsement. The Gold Cert Endorsement is filed as Exhibit 99.7 to our quarterly report on Form 10-Q for the quarter ended March 31, 2012 (filed with the SEC on May 10, 2012).

We revised our master policy to, among other things, comply with various requirements the GSEs have communicated to the industry. These requirements contain limitations on rescission rights that, while generally similar, differ in some respects from the limitations in our Gold Cert Endorsement. The GSEs require the new master policy be used for all loans sold to them with an application date on or after October 1, 2014. Although our new master policy has been approved by the GSEs, it remains subject to review and approval in a few jurisdictions.

Cancellations, insurance in force and risk in force

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(In billions)			
NIW	$ 8.3	$ 8.0	$ 13.5	$ 14.5
Cancellations	(6.9)	(8.9)	(12.9)	(18.0)
Change in primary insurance in force	$ 1.4	$ (0.9)	$ 0.6	$ (3.5)
Direct primary insurance in force as of June 30,	$ 159.3	$ 158.6		
Direct primary risk in force as of June 30,	$ 41.4	$ 40.9		

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

Our persistency rate was 82.4% at June 30, 2014 compared to 79.5% at December 31, 2013 and 78.0% at June 30, 2013. Our persistency rate is affected by the level of current mortgage interest rates compared to the mortgage interest rates on our insurance in force, which affects the vulnerability of the insurance in force to refinancing. In the first half of 2013, due to refinancing, we experienced lower persistency on our 2009 through 2011 books of business. We are currently experiencing better persistency on these books. During the 1990s, our year-end persistency ranged from a high of 87.4% at December 31, 1990 to a low of 68.1% at December 31, 1998. Since 2000, our year-end persistency ranged from a high of 84.7% at December 31, 2009 to a low of 47.1% at December 31, 2003.

Bulk transactions

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

Pool insurance

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

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

Net premiums written and earned

Net premiums written and earned during the second quarter and first six months of 2014 decreased when compared to the same periods in 2013. The decrease was due to our lower average insurance in force as well as an increase in premiums ceded under reinsurance agreements.

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

Reinsurance agreements

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

At June 30, 2014, approximately 58% of our insurance in force is subject to reinsurance agreements (most of which are not captive agreements), compared to 14% at June 30, 2013 and 55% at December 31, 2013. For the first half of 2014 approximately 92% of our new insurance written was subject to reinsurance agreements, compared to 50% in the first half of 2013.

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

Investment income

Investment income in the second quarter and first six months of 2014 increased compared to the same periods in 2013, in part, due to an increase in our investment yield. Higher reinvestment rates would provide some investment income offset to the continuing claim payments and expected decline in invested assets, as discussed under “Liquidity and Capital Resources” below. The portfolio’s average pre-tax investment yield was 2.0% at June 30, 2014 and 1.6% at June 30, 2013. The portfolio’s average pre-tax investment yield was 1.7% at December 31, 2013.

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

Net realized gains for the second quarter and first six months of 2014 were $0.5 million and $0.3 million, respectively, compared to $2.5 million and $3.7 million, respectively, for the second quarter and first six months of 2013. There were no other-than-temporary impairments in the first six months of 2014 and 2013. At June 30, 2014, the net unrealized losses in our investment portfolio were $0.2 million, which included $37.1 million of gross unrealized losses, partially offset by $36.9 million of gross unrealized gains.

Losses

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

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

Losses incurred

Losses incurred for the second quarter of 2014 decreased compared to the same period in 2013, primarily due to fewer new notices of default being received and a lower claim rate on new and previously received delinquencies. There were 21,178 new notices received in the second quarter of 2014 compared to 25,425 new notices received in the second quarter of 2013. There was an increase in the average estimated claim rate in both the second quarter of 2014 and 2013. The average estimated severity remained flat in both the second quarter of 2014 and 2013.

In the first six months of 2014, net losses incurred were $264 million, comprised of $307 million of current year loss development partially offset by $43 million of favorable prior years' loss development. In the first six months of 2013, net losses incurred were $462 million, comprised of $468 million of current year loss development partially offset by $6 million of favorable prior years' loss development.

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

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

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

	June 30, 2014	December 31, 2013	June 30, 2013
Total loans delinquent (1)	85,416	103,328	117,105
Percentage of loans delinquent (default rate)	8.98%	10.76%	12.00%
Prime loans delinquent (2)	53,651	65,724	75,310
Percentage of prime loans delinquent (default rate)	6.39%	7.82%	8.89%
A-minus loans delinquent (2)	13,699	16,496	17,682
Percentage of A-minus loans delinquent (default rate)	27.19%	30.41%	30.06%
Subprime credit loans delinquent (2)	5,555	6,391	6,676
Percentage of subprime credit loans delinquent (default rate)	35.40%	38.70%	37.82%
Reduced documentation loans delinquent (3)	12,511	14,717	17,437
Percentage of reduced documentation loans delinquent (default rate)	27.85%	30.41%	33.08%

General Notes: (a) For the information presented, the FICO credit score for a loan with multiple borrowers is the lowest of the borrowers' "decision FICO scores." A borrower's "decision FICO score" is determined as follows: if there are three FICO scores available, the middle FICO score is used; if two FICO scores are available, the lower of the two is used; if only one FICO score is available, it is used.
(b) Servicers continue to pay our premiums for nearly all of the loans in our default inventory, but in some cases, servicers stop paying our premiums. In those cases, even though the loans continue to be included in our default inventory, the applicable loans are removed from our insurance in force and risk in force. Loans where servicers have stopped paying premiums include 4,729 defaults with a risk of $234.4 million as of June 30, 2014.

(1) At June 30, 2014, December 31, 2013 and June 30, 2013, 18,345, 20,955 and 22,218 loans in the default inventory, respectively, related to Wall Street bulk transactions.
(2) We define prime loans as those having FICO credit scores of 620 or greater, A-minus loans as those having FICO credit scores of 575-619, and subprime credit loans as those having FICO credit scores of less than 575, all as reported to us at the time a commitment to insure is issued. Most A-minus and subprime credit loans were written through the bulk channel. However, we classify all loans without complete documentation as "reduced documentation" loans regardless of FICO score rather than as a prime, "A-minus" or "subprime" loan; in the table above, such loans appear only in the reduced documentation category and they do not appear in any of the other categories.
(3) In accordance with industry practice, loans approved by GSE and other automated underwriting (AU) systems under "doc waiver" programs that do not require verification of borrower income are classified by MGIC as "full documentation." Based in part on information provided by the GSEs, we estimate full documentation loans of this type were approximately 4% of 2007 NIW. Information for other periods is not available. We understand these AU systems grant such doc waivers for loans they judge to have higher credit quality. We also understand that the GSEs terminated their "doc waiver" programs, with respect to new commitments, in the second half of 2008.

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

Gross Reserves	June 30, 2014	December 31, 2013	June 30, 2013
Primary:			
Direct loss reserves (in millions)	$ 2,491	$ 2,834	$ 3,334
Ending default inventory	85,416	103,328	117,105
Average direct reserve per default	$ 29,160	$ 27,425	$ 28,473
Primary claims received inventory included in ending default inventory	5,398	6,948	10,637
Pool (1):			
Direct loss reserves (in millions):			
With aggregate loss limits (2)	$ 63	$ 82	$ 96
Without aggregate loss limits	14	17	17
Reserves related to Freddie Mac Settlement (2)	105	126	147
Total pool direct loss reserves	$ 182	$ 225	$ 260
Ending default inventory:			
With aggregate loss limits (2)	4,396	5,496	5,877
Without aggregate loss limits	875	1,067	1,129
Total pool ending default inventory	5,271	6,563	7,006
Pool claims received inventory included in ending default inventory	173	173	253
Other gross reserves (in millions)	$ 3	$ 2	$ 5

(1) Since a number of our pool policies include aggregate loss limits and/or deductibles, we do not disclose an average direct reserve per default for our pool business.
(2) See our Form 8-K filed with the Securities and Exchange Commission on November 30, 2012 for a discussion of our settlement with Freddie Mac regarding a pool policy.

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

Primary Default Inventory

Region	June 30, 2014	December 31, 2013	June 30, 2013
Great Lakes	9,779	12,049	13,583
Mid-Atlantic	4,592	5,469	6,020
New England	4,308	5,056	5,498
North Central	9,058	11,225	13,339
Northeast	13,557	15,223	15,973
Pacific	6,898	8,313	10,499
Plains	2,498	3,156	3,311
South Central	9,449	11,606	12,597
Southeast	25,277	31,231	36,285
Total	85,416	103,328	117,105

Primary Loss Reserves
(In millions)

Region	June 30, 2014	December 31, 2013	June 30, 2013
Great Lakes	$ 162	$ 206	$ 266
Mid-Atlantic	119	123	144
New England	127	139	159
North Central	238	313	423
Northeast	450	417	348
Pacific	306	360	497
Plains	39	53	60
South Central	153	192	251
Southeast	723	849	1,015
Total before IBNR and LAE	$ 2,317	$ 2,652	$ 3,163
IBNR and LAE	174	182	171
Total	$ 2,491	$ 2,834	$ 3,334

Regions contain the states as follows:

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

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

Primary loss reserves (In millions)	June 30, 2014	December 31, 2013	June 30, 2013
Flow	$ 1,626	$ 1,911	$ 2,345
Bulk	691	741	818
Total primary reserves	$ 2,317	$ 2,652	$ 3,163

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

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

Primary average claim paid	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Florida	$ 55,835	$ 52,183	$ 54,854	$ 53,441
Illinois	47,432	48,136	47,766	48,524
California	76,544	83,550	78,786	85,447
Maryland	66,593	73,890	67,257	72,949
Ohio	31,468	30,433	31,436	30,988
All other states	40,677	40,676	40,949	41,561
All states	$ 45,531	$ 45,340	$ 45,728	$ 46,403

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

Primary average loan size	June 30, 2014	December 31, 2013	June 30, 2013
Total insurance in force	$ 167,610	$ 165,310	$ 162,500
Prime (FICO 620 & >)	170,170	167,660	164,480
A-Minus (FICO 575-619)	127,100	127,280	127,920
Subprime (FICO < 575)	118,260	118,510	119,210
Reduced doc (All FICOs)(1)	182,310	183,050	183,740

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

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

Primary average loan size	June 30, 2014	December 31, 2013	June 30, 2013
Florida	$ 175,404	$ 172,869	$ 171,001
Illinois	155,054	154,694	153,968
California	282,778	282,660	282,107
Maryland	238,339	236,840	234,918
Ohio	126,249	124,709	122,897
All other states	162,453	160,049	157,033

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

Net paid claims (In millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Prime (FICO 620 & >)	$ 191	$ 292	$ 419	$ 621
A-Minus (FICO 575-619)	33	47	72	96
Subprime (FICO < 575)	10	14	21	28
Reduced doc (All FICOs)(1)	43	57	89	113
Pool (2)	24	30	48	57
Other	-	2	-	2
Direct losses paid	301	442	649	917
Reinsurance	(8)	(18)	(20)	(33)
Net losses paid	293	424	629	884
Net LAE paid	7	9	14	18
Net losses and LAE paid before terminations	300	433	643	902
Reinsurance terminations	-	-	-	(3)
Net losses and LAE paid	$ 300	$ 433	$ 643	$ 899

(1) In this report we classify loans without complete documentation as "reduced documentation" loans regardless of FICO credit score rather than as prime, "A-" or "subprime" loans; in the table above, such loans appear only in the reduced documentation category and they do not appear in any of the other categories.
(2) The three and six months ended June 30, 2014 and 2013, both include $11 million and $21 million, respectively, paid under the terms of the settlement with Freddie Mac.

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

Paid Claims by state (In millions)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Florida	$ 69	$ 71	$ 144	$ 142
Illinois	22	37	50	74
California	12	41	32	94
Maryland	13	11	28	23
Ohio	10	15	22	32
Washington	10	17	21	37
Pennsylvania	10	11	20	21
New Jersey	9	6	19	12
Michigan	7	16	18	34
Georgia	8	17	17	35
New York	7	4	14	8
Arizona	6	16	13	34
North Carolina	5	9	13	19
Nevada	6	12	12	27
Wisconsin	5	11	12	22
All other states	78	116	166	244
	$ 277	$ 410	$ 601	$ 858
Other (Pool, LAE, Reinsurance)	23	23	42	41
Net losses and LAE paid	$ 300	$ 433	$ 643	$ 899

We believe paid claims will continue to decline in the remainder of 2014, excluding the expected impact of the remaining Countrywide settlement as discussed in Note 5 – “Litigation and Contingencies” to our consolidated financial statements and in our risk factor titled “We are involved in legal proceedings and are subject to the risk of additional legal proceedings in the future.”

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

Primary default inventory by state

	June 30, 2014	December 31, 2013	June 30, 2013
Florida	11,392	14,685	18,201
Illinois	4,941	6,167	7,593
California	3,036	3,656	4,780
Maryland	2,315	2,791	3,048
Ohio	4,155	5,055	5,620
Washington	1,623	1,986	2,479
Pennsylvania	4,654	5,449	5,736
New Jersey	4,240	4,646	4,963
Michigan	2,611	3,284	3,755
Georgia	2,863	3,515	4,014
New York	4,663	5,128	5,274
Arizona	932	1,195	1,516
North Carolina	2,311	2,886	3,243
Nevada	972	1,189	1,559
Wisconsin	1,792	2,176	2,522
All other states	32,916	39,520	42,802
	85,416	103,328	117,105

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

Primary default inventory

	June 30, 2014	December 31, 2013	June 30, 2013
Flow	63,308	77,851	89,822
Bulk	22,108	25,477	27,283
	85,416	103,328	117,105

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

Flow default inventory by policy year

Policy year:	June 30, 2014	December 31, 2013	June 30, 2013
2003 and prior	8,266	10,584	11,959
2004	5,054	6,085	6,822
2005	7,596	9,217	10,498
2006	10,753	13,385	15,379
2007	22,990	28,350	33,676
2008	7,120	8,674	10,133
2009	650	749	802
2010	290	327	295
2011	219	243	179
2012	221	189	74
2013	138	48	5
2014	11	-	-
	63,308	77,851	89,822

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 45% of our total primary risk in force at June 30, 2014 compared to approximately 49% at December 31, 2013 and 53% at June 30, 2013.

As of June 30, 2014, 44% of our primary risk in force was written subsequent to December 31, 2009, 47% of our primary risk in force was written subsequent to December 31, 2008, and 57% of our primary risk in force was written subsequent to December 31, 2007. On our flow business, the highest claim frequency years have typically been the third and fourth year after the year of loan origination. On our bulk business, the period of highest claims frequency has generally occurred earlier than in the historical pattern on our flow business. However, the pattern of claims frequency can be affected by many factors, including persistency and deteriorating economic conditions. Low persistency can accelerate the period in the life of a book during which the highest claim frequency occurs. Deteriorating economic conditions can result in increasing claims following a period of declining claims.

Premium deficiency

Beginning in 2007, when we stopped writing Wall Street bulk business, we began to separately measure the performance of these transactions and established a premium deficiency reserve related to this business. The premium deficiency reserve reflects the present value of expected future losses and expenses that exceeded the present value of expected future premiums and already established loss reserves. This premium deficiency reserve as of June 30, 2014 was $35 million. The discount rate used in the calculation of the premium deficiency reserve at June 30, 2014 was 1.8%.

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

Underwriting and other expenses

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

Underwriting and other expenses for the first six months of 2014 decreased when compared to the same period last year primarily due to an increase in the ceding commission on our reinsurance agreements, as well as a decrease in employee costs and legal fees.

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

Ratios

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Loss ratio	68.0%	82.5%	62.5%	95.4%
Underwriting expense ratio	14.4%	17.7%	15.0%	17.9%
Combined ratio	82.4%	100.2%	77.5%	113.3%

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

Interest expense

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

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

Income taxes

The effective tax rate on our pre-tax income (loss) was 1.7% and (3.6%) in the first six months of 2014 and 2013, respectively. During those periods, the provision (benefit) from income taxes was reduced by the change in the valuation allowance.

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

Financial Condition

At June 30, 2014 the total fair value of our investment portfolio was $4.6 billion. In addition, at June 30, 2014 our total assets included approximately $360 million of cash and cash equivalents as shown on our consolidated balance sheet. At June 30, 2014, based on fair value, virtually all of our fixed income securities were investment grade securities. The percentage of investments rated BBB may increase as we reinvest to achieve higher yields and, in part, due to the reduced availability of highly rated corporate securities. Lower rated investments have greater risk. More than 99% of our fixed income securities are readily marketable. The composition of ratings at June 30, 2014, December 31, 2013 and June 30, 2013 are shown in the table below.

Investment Portfolio Ratings

	June 30, 2014	December 31, 2013	June 30, 2013
AAA	37%	42%	46%
AA	17%	17%	17%
A	30%	27%	27%
BBB	16%	14%	10%
Investment grade	100%	100%	100%
Below investment grade	-	-	-
Total	100%	100%	100%

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

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

We primarily place our investments in investment grade securities pursuant to our investment policy guidelines. The policy guidelines also limit the amount of our credit exposure to any one issue, issuer and type of instrument. At June 30, 2014, the modified duration of our fixed income investment portfolio was 3.7 years, which means that an instantaneous parallel shift in the yield curve of 100 basis points would result in a change of 3.7% in the fair value of our fixed income portfolio. For an upward shift in the yield curve, the fair value of our portfolio would decrease and for a downward shift in the yield curve, the fair value would increase. See Note 7 – “Investments” to our consolidated financial statements for additional disclosure surrounding our investment portfolio.

At June 30, 2014, we had outstanding $62 million, 5.375% Senior Notes due in November 2015, with an approximate fair value of $65 million, $345 million principal amount of 5% Convertible Senior Notes outstanding due in 2017, with an approximate fair value of $404 million, $500 million principal amount of 2% Convertible Senior Notes outstanding due in 2020, with an approximate fair value of $747 million and $390 million principal amount of 9% Convertible Junior Subordinated Debentures due in 2063 outstanding, with an approximate fair value of $482 million. See Note 3 – “Debt” to our consolidated financial statements for additional disclosure on our debt.

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

Our principal exposure to loss is our obligation to pay claims under MGIC's mortgage guaranty insurance policies. At June 30, 2014, MGIC's direct (before any reinsurance) primary and pool risk in force, which is the unpaid principal balance of insured loans as reflected in our records multiplied by the coverage percentage, and taking account of any loss limit, was approximately $42.3 billion. In addition, as part of our contract underwriting activities provided through a non-insurance subsidiary, that subsidiary is responsible for the quality of the underwriting decisions in accordance with the terms of the contract underwriting agreements with customers. That subsidiary may be required to provide certain remedies to our customers if certain standards relating to the quality of our underwriting work are not met, and we have an established reserve for such future obligations. Claims for remedies may be made a number of years after the underwriting work was performed. Beginning in the second half of 2009, our subsidiary experienced an increase in claims for contract underwriting remedies, which continued throughout 2012. The related contract underwriting remedy expense was approximately $27 million, $23 million and $19 million for the years ended December 31, 2012, 2011 and 2010. The underwriting remedy expense for 2013 and the first six months of 2014 was approximately $5 million and $2 million, respectively, but may increase in the future.

Liquidity and Capital Resources

Overview

Our sources of funds consist primarily of:

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

Our obligations consist primarily of:

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

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

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

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

	For the Six Months ended June 30,	
	2014	2013
	(In thousands)	
Total cash (used in) provided by:		
Operating activities	$ (282,357)	$ (508,619)
Investing activities	314,032	(1,078,396)
Financing activities	(21,767)	1,130,854
Increase (decrease) in cash and cash equivalents	$ 9,908	$ (456,161)

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

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

Debt at Our Holding Company and Holding Company Capital Resources

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

At June 30, 2014, we had approximately $515 million in cash and investments at our holding company.

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

- $62 million in par value of 5.375% Senior Notes due in November 2015, with an annual interest cost of $3 million;
- $345 million in par value of 5% Convertible Senior Notes due in 2017, with an annual interest cost of $17 million;
- $500 million in par value of 2% Convertible Senior Notes due in 2020, with an annual interest cost of $10 million; and
- $390 million in par value of 9% Convertible Junior Debentures due in 2063, with an annual interest cost of $35 million.

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

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

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

Risk-to-Capital

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

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

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

	June 30, 2014		December 31, 2013	
	(In millions, except ratio)			
Risk in force - net (1)	$	24,671	$	24,054
Statutory policyholders' surplus	$	1,499	$	1,521
Statutory contingency reserve		121		-
Statutory policyholders' position	$	1,620	$	1,521
Risk-to-capital		15.2:1		15.8:1

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

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

	June 30, 2014		December 31, 2013	
	(In millions, except ratio)			
Risk in force - net (1)	$	30,158	$	29,468
Statutory policyholders' surplus	$	1,565	$	1,584
Statutory contingency reserve		176		19
Statutory policyholders' position	$	1,741	$	1,603
Risk-to-capital		17.3:1		18.4:1

(1) Risk in force – net, as shown in the table above, is net of reinsurance and exposure on policies currently in default ($3.9 billion at June 30, 2014 and $4.7 billion at December 31, 2013) and for which loss reserves have been established.

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

For additional information regarding regulatory capital see Note 1 – "Nature of Business – Capital - GSEs" and Note 15 – "Statutory Capital" to our consolidated financial statements as well as our risk 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 rated Ba3 by Moody's Investors Service with a stable outlook. Standard & Poor's Rating Services' insurer financial strength rating of MGIC is BB with a positive outlook. For further information about the importance of MGIC's ratings, see our risk factors titled "We may not continue to meet the GSEs' mortgage insurer eligibility requirements and our returns may decrease if we are required to maintain significantly more capital in order to maintain our eligibility" and "Competition or changes in our relationships with our customers could reduce our revenues or increase our losses."

Contractual Obligations

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

Contractual Obligations (In millions):	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term debt obligations	$ 3,131	$ 66	$ 533	$ 90	$ 2,442
Operating lease obligations	3	1	1	1	-
Tax obligations	19	-	-	19	-
Purchase obligations	3	2	1	-	-
Pension, SERP and other post-retirement benefit plans	182	13	29	33	107
Other long-term liabilities	2,676	1,311	1,177	188	-
Total	$ 6,014	$ 1,393	$ 1,741	$ 331	$ 2,549

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

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

Forward Looking Statements and Risk Factors

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

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

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

At June 30, 2014, the derivative financial instruments in our investment portfolio were immaterial. We place our investments in instruments that meet high credit quality standards, as specified in our investment policy guidelines; the policy also limits the amount of credit exposure to any one issue, issuer and type of instrument. At June 30, 2014, the modified duration of our fixed income investment portfolio was 3.7 years, which means that an instantaneous parallel shift in the yield curve of 100 basis points would result in a change of 3.7% in the market value of our fixed income portfolio. For an upward shift in the yield curve, the market value of our portfolio would decrease and for a downward shift in the yield curve, the market value would increase.

Item 4. Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended), as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on such evaluation, our principal executive officer and principal financial officer concluded that such controls and procedures were effective as of the end of such period. There was no change in our internal control over financial reporting that occurred during the second quarter of 2014 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, 2013 as supplemented by Part II, Item I A of our Quarterly Report on Form 10-Q for the Quarter ended March 31, 2014. 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 may not continue to meet the GSEs' mortgage insurer eligibility requirements and our returns may decrease if we are required to maintain significantly more capital in order to maintain our eligibility.

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

On July 10, 2014, the conservator of the GSEs, the Federal Housing Finance Agency ("FHFA"), released draft Private Mortgage Insurer Eligibility Requirements ("draft PMIERs"). The FHFA has requested public input on the draft PMIERs by September 8, 2014. The draft PMIERs include revised financial requirements for mortgage insurers (the "GSE Financial Requirements") that require a mortgage insurer's "Available Assets" (generally only the most liquid assets of an insurer) to meet or exceed "Minimum Required Assets" (which are calculated from tables of factors with several risk dimensions and are subject to a floor amount).

The PMIERs will become effective 180 days after the date they are published in final form (the "publication date"). Mortgage insurers would have up to two years after the publication date to meet the GSE Financial Requirements (the "transition period"). During the transition period, a mortgage insurer that fails to meet the GSE Financial Requirements would be subject to a transition plan having milestones for actions to achieve compliance. The transition plan would be submitted for the approval of each GSE within 90 days after the effective date, and if approved, the GSEs would monitor the insurer's progress. During the transition period for an insurer with an approved transition plan, an insurer would be in remediation (a status similar to the one under which MGIC has been operating with the GSEs for over five years) and eligible to provide mortgage insurance on loans owned or guaranteed by the GSEs**.**

Although we believe we have sufficient claims paying resources to meet our claim obligations on our insurance in force on a timely basis, we estimate that if the draft PMIERs are implemented as released, as of December 31, 2014 (the expected effective date), MGIC would have a shortfall in Available Assets of approximately $600 million, with Available Assets of approximately $5.3 billion and Minimum Required Assets of approximately $5.9 billion. We believe this shortfall would be reduced through operations so that as of December 31, 2016 (the expected end of the transition period), it would be approximately $300 million. The shortfall projections at both dates assume the risk in force and capital of MIC are repatriated to MGIC, and full credit is given in the calculation of Minimum Required Assets for our existing reinsurance transaction (approximately $500 million of credit at December 31, 2014, increasing to $600 million of credit at December 31, 2016). However, we do not expect to receive full credit for our current reinsurance transaction. As a result, we have begun discussions with the reinsurance market to modify our existing reinsurance transaction so that any reduction in the credit would be minimized.

As of June 30, 2014, we had approximately $515 million of cash and investments at our holding company, a portion of which we believe may be available for future contribution to MGIC. Furthermore, there are regulated insurance affiliates of MGIC that have approximately $100 million of assets as of June 30, 2014. We expect that, subject to regulatory approval, we would be able to use a material portion of these assets to increase the Available Assets of MGIC. Additionally, if the draft PMIERs are implemented as released, we would consider seeking additional reinsurance and/or non-dilutive debt capital to mitigate the shortfall. We believe we will be able to use a combination of the alternatives outlined above so that MGIC would meet the GSE Financial Requirements of the draft PMIERs even if they are implemented as released. However, there can be no assurance that MGIC will be in compliance with the GSE Financial Requirements within the transition period. Factors that may impact MGIC's compliance with the GSE Financial Requirements include the following:

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

You should read the rest of these risk factors for information about matters that also could negatively affect MGIC's compliance with the GSE Financial Requirements. Such matters could decrease our revenues, increase our losses or require the use of assets, thereby reducing our Available Assets and increasing our shortfall in Available Assets, or they could increase the Minimum Required Assets, also increasing our shortfall in Available Assets.

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

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

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

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

In 2013, we entered into a quota share reinsurance transaction with a group of unaffiliated reinsurers that reduced our risk-to-capital ratio. At June 30, 2014, MGIC’s risk-to-capital ratio was 15.2 to 1, below the maximum allowed by the jurisdictions with State Capital Requirements, and its policyholder position was $555 million above the required MPP of $1.0 billion. It is possible that under the revised State Capital Requirements discussed below, MGIC will not be allowed full credit for the risk ceded to the reinsurers. If MGIC is disallowed full credit under either the State Capital Requirements or the GSE Financial Requirements, MGIC may terminate the transaction, without penalty, when such disallowance becomes effective. At this time, we expect MGIC to continue to comply with the current State Capital Requirements, although we cannot assure you of such compliance. You should read the rest of these risk factors for information about matters that could negatively affect such compliance.

At June 30, 2014, the risk-to-capital ratio of our combined insurance operations (which includes reinsurance affiliates) was 17.3 to 1. Reinsurance transactions with affiliates permit MGIC to write insurance with a higher coverage percentage than it could on its own under certain state-specific requirements. A higher risk-to-capital ratio on a combined basis may indicate that, in order for MGIC to continue to utilize reinsurance arrangements with its affiliates, unless a waiver of the State Capital Requirements of Wisconsin continues to be effective, additional capital contributions to the reinsurance affiliates could be needed.

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

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

We have in place a longstanding plan to write new business in MIC, a direct subsidiary of MGIC, in the event MGIC cannot meet the State Capital Requirements of a jurisdiction or obtain a waiver of them. Writing business in MIC would be subject to any repatriation to MGIC of MIC's capital in order to comply with the PMIERs, as discussed in our risk factor titled "*We may not continue to meet the GSEs' mortgage insurer eligibility requirements and our returns may decrease if we are required to maintain significantly more capital in order to maintain our eligibility.*" MIC is licensed to write business in all jurisdictions. During 2012, MIC began writing new business in the jurisdictions where MGIC did not have a waiver of the State Capital Requirements. Because MGIC again meets the State Capital Requirements, MGIC is writing new business in all jurisdictions and MIC suspended writing new business in 2013. As of June 30, 2014, MIC had statutory capital of $463 million and risk in force, net of reinsurance, of approximately $573 million. Before MIC may again write new business, it must obtain the necessary approvals from the OCI and the GSEs.

We cannot assure you that the OCI or GSEs will approve MIC to write new business in all jurisdictions in which MGIC may become unable to do so. If we are unable to write business in all jurisdictions utilizing a combination of MGIC and MIC, lenders may be unwilling to procure insurance from us anywhere. In addition, a lender's assessment of the future ability of our insurance operations to meet the Financial Requirements may affect its willingness to procure insurance from us. In this regard, see our risk factor titled "*Competition or changes in our relationships with our customers could reduce our revenues or increase our losses.*"

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

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

In recent years, the level of competition within the private mortgage insurance industry has been intense as many large mortgage lenders reduced the number of private mortgage insurers with whom they do business. At the same time, consolidation among mortgage lenders has increased the share of the mortgage lending market held by large lenders. During 2013 and the first half of 2014, approximately 7% and 4%, respectively, of our new insurance written was for loans for which one lender was the original insured and our revenue from such loans was significantly less than 10% of our revenues during each of those periods. Our private mortgage insurance competitors include:

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

Until 2010 the mortgage insurance industry had not had new entrants in many years. Since 2010, two new public companies were formed and began writing business and a worldwide insurer and reinsurer with mortgage insurance operations in Europe completed the purchase of a competitor and is currently writing business. The perceived increase in credit quality of loans that are being insured today; the possibility of a decrease in the FHA's share of the mortgage insurance market; and the significantly more favorable treatment that new mortgage insurance companies, unencumbered with a portfolio of pre-crisis mortgages, are given under the draft GSE Financial Requirements, may encourage additional new entrants, although the lower expected returns that may result from the draft GSE Financial Requirements if adopted as proposed, may discourage additional new entrants.

Our relationships with our customers could be adversely affected by a variety of factors, including tightening of and adherence to our underwriting requirements, which have resulted in our declining to insure some of the loans originated by our customers and insurance rescissions that affect the customer. We have ongoing discussions with lenders who are significant customers regarding their objections to our rescissions.

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

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

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

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 8, 2014.

MGIC INVESTMENT CORPORATION

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

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

INDEX TO EXHIBITS
(Part II, Item 6)

Exhibit Number	Description of Exhibit
3.2	Amended and Restated Bylaws, as amended (incorporated by reference to Exhibit 3.2 to the Company's Form 8-K filed July 25, 2014)
31.1	Certification of CEO under Section 302 of Sarbanes-Oxley Act of 2002
31.2	Certification of CFO under Section 302 of Sarbanes-Oxley Act of 2002
32	Certification of CEO and CFO under Section 906 of Sarbanes-Oxley Act of 2002 (as indicated in Item 6 of Part II, this Exhibit is not being "filed")
99	Risk Factors included in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2013, as supplemented by Part II, Item 1A of our Quarterly Reports on Form 10-Q for the quarters ended March 31 and June 30, 2014, and through updating of various statistical and other information
99.14	Second Amendment to Confidential Settlement Agreement and Release made as of June 5, 2014 between Mortgage Guaranty Insurance Corporation ("MGIC") and Bank of America, N.A. ("BANA"), as successor to BAC Home Loans Servicing f/k/a Countrywide Home Loans Servicing LP, on its own behalf and as successor in interest by de jure merger to Countrywide Bank FSB, and for limited purposes Countrywide Home Loans, Inc. *
99.15	Fourth Amendment to Confidential Settlement Agreement and Release made as of May 19, 2014 among Mortgage Guaranty Insurance Corporation ("MGIC"), Countrywide Home Loans, Inc. ("CHL") and Bank of America, N.A., in its capacity as master servicer or servicer of Subject Loans (as defined in the settlement agreement).
99.16	Fifth Amendment to Confidential Settlement Agreement and Release made as of June 5, 2014 among Mortgage Guaranty Insurance Corporation ("MGIC"), Countrywide Home Loans, Inc. ("CHL") and Bank of America, N.A., in its capacity as master servicer or servicer of Subject Loans (as defined in the settlement agreement).*
101	The following financial information from MGIC Investment Corporation's Quarterly Report on Form 10-Q for the quarter ended June 30, 2014, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets as of June 30, 2014 and December 31, 2013, (ii) Consolidated Statements of Operations for the three and six months ended June 30, 2014 and 2013, (iii) Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2014 and 2013, (iv) Consolidated Statements of Shareholders' Equity for the six months ended June 30, 2014 and 2013, (v) Consolidated Statements of Cash Flows for the six months ended June 30, 2014 and 2013, and (vi) the Notes to Consolidated Financial Statements.

*Confidential treatment has been requested with respect to certain portions of these exhibits. These exhibits omit the information subject to this confidential treatment request. Omitted portions have been filed separately with the Securities and Exchange Commission.

Exhibit 31.1

CERTIFICATIONS

I, Curt S. Culver, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: August 8, 2014

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

Exhibit 31.2

CERTIFICATIONS

I, Timothy J. Mattke, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: August 8, 2014

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

Exhibit 32

SECTION 1350 CERTIFICATIONS

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

(1) the Quarterly Report on Form 10-Q of the Company for the three months ended June 30, 2014 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

Date: August 8, 2014

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

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

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

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

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

On July 10, 2014, the conservator of the GSEs, the Federal Housing Finance Agency ("FHFA"), released draft Private Mortgage Insurer Eligibility Requirements ("draft PMIERs"). The FHFA has requested public input on the draft PMIERs by September 8, 2014. The draft PMIERs include revised financial requirements for mortgage insurers (the "GSE Financial Requirements") that require a mortgage insurer's "Available Assets" (generally only the most liquid assets of an insurer) to meet or exceed "Minimum Required Assets" (which are calculated from tables of factors with several risk dimensions and are subject to a floor amount).

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

Although we believe we have sufficient claims paying resources to meet our claim obligations on our insurance in force on a timely basis, we estimate that if the draft PMIERs are implemented as released, as of December 31, 2014 (the expected effective date), MGIC would have a shortfall in Available Assets of approximately $600 million, with Available Assets of approximately $5.3 billion and Minimum Required Assets of approximately $5.9 billion. We believe this shortfall would be reduced through operations so that as of December 31, 2016 (the expected end of the transition period), it would be approximately $300 million. The shortfall projections at both dates assume the risk in force and capital of MIC are repatriated to MGIC, and full credit is given in the calculation of Minimum Required Assets for our existing reinsurance transaction (approximately $500 million of credit at December 31, 2014, increasing to $600 million of credit at December 31, 2016). However, we do not expect to receive full credit for our current reinsurance transaction. As a result, we have begun discussions with the reinsurance market to modify our existing reinsurance transaction so that any reduction in the credit would be minimized.

As of June 30, 2014, we had approximately $515 million of cash and investments at our holding company, a portion of which we believe may be available for future contribution to MGIC. Furthermore, there are regulated insurance affiliates of MGIC that have approximately $100 million of assets as of June 30, 2014. We expect that, subject to regulatory approval, we would be able to use a material portion of these assets to increase the Available Assets of MGIC. Additionally, if the draft PMIERs are implemented as released, we would consider seeking additional reinsurance and/or non-dilutive debt capital to mitigate the shortfall. We believe we will be able to use a combination of the alternatives outlined above so that MGIC would meet the GSE Financial Requirements of the draft PMIERs even if they are implemented as released. However, there can be no assurance that MGIC will be in compliance with the GSE Financial Requirements within the transition period. Factors that may impact MGIC's compliance with the GSE Financial Requirements include the following:

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

You should read the rest of these risk factors for information about matters that also could negatively affect MGIC's compliance with the GSE Financial Requirements. Such matters could decrease our revenues, increase our losses or require the use of assets, thereby reducing our Available Assets and increasing our shortfall in Available Assets, or they could increase the Minimum Required Assets, also increasing our shortfall in Available Assets.

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

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

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

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

In 2013, we entered into a quota share reinsurance transaction with a group of unaffiliated reinsurers that reduced our risk-to-capital ratio. At June 30, 2014, MGIC’s risk-to-capital ratio was 15.2 to 1, below the maximum allowed by the jurisdictions with State Capital Requirements, and its policyholder position was $555 million above the required MPP of $1.0 billion. It is possible that under the revised State Capital Requirements discussed below, MGIC will not be allowed full credit for the risk ceded to the reinsurers. If MGIC is disallowed full credit under either the State Capital Requirements or the GSE Financial Requirements, MGIC may terminate the transaction, without penalty, when such disallowance becomes effective. At this time, we expect MGIC to continue to comply with the current State Capital Requirements, although we cannot assure you of such compliance. You should read the rest of these risk factors for information about matters that could negatively affect such compliance.

At June 30, 2014, the risk-to-capital ratio of our combined insurance operations (which includes reinsurance affiliates) was 17.3 to 1. Reinsurance transactions with affiliates permit MGIC to write insurance with a higher coverage percentage than it could on its own under certain state-specific requirements. A higher risk-to-capital ratio on a combined basis may indicate that, in order for MGIC to continue to utilize reinsurance arrangements with its affiliates, unless a waiver of the State Capital Requirements of Wisconsin continues to be effective, additional capital contributions to the reinsurance affiliates could be needed.

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

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

We have in place a longstanding plan to write new business in MIC, a direct subsidiary of MGIC, in the event MGIC cannot meet the State Capital Requirements of a jurisdiction or obtain a waiver of them. Writing business in MIC would be subject to any repatriation to MGIC of MIC's capital in order to comply with the PMIERs, as discussed in our risk factor titled "*We may not continue to meet the GSEs' mortgage insurer eligibility requirements and our returns may decrease if we are required to maintain significantly more capital in order to maintain our eligibility.*" MIC is licensed to write business in all jurisdictions. During 2012, MIC began writing new business in the jurisdictions where MGIC did not have a waiver of the State Capital Requirements. Because MGIC again meets the State Capital Requirements, MGIC is writing new business in all jurisdictions and MIC suspended writing new business in 2013. As of June 30, 2014, MIC had statutory capital of $463 million and risk in force, net of reinsurance, of approximately $573 million. Before MIC may again write new business, it must obtain the necessary approvals from the OCI and the GSEs.

We cannot assure you that the OCI or GSEs will approve MIC to write new business in all jurisdictions in which MGIC may become unable to do so. If we are unable to write business in all jurisdictions utilizing a combination of MGIC and MIC, lenders may be unwilling to procure insurance from us anywhere. In addition, a lender's assessment of the future ability of our insurance operations to meet the Financial Requirements may affect its willingness to procure insurance from us. In this regard, see our risk factor titled "*Competition or changes in our relationships with our customers could reduce our revenues or increase our losses.*"

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

The financial reform legislation that was passed in July 2010 (the "Dodd-Frank Act" or "Dodd-Frank") requires lenders to consider a borrower's ability to repay a home loan before extending credit. The Consumer Financial Protection Bureau ("CFPB") rule defining "Qualified Mortgage" ("QM") for purposes of implementing the "ability to repay" law became effective in January 2014. There is a temporary category of QMs for mortgages that satisfy the general product feature requirements of QMs and meet the GSEs' underwriting requirements (the "temporary category"). The temporary category will phase out when the GSEs' conservatorship ends, or if sooner, after seven years. In May 2013, the FHFA directed the GSEs to limit their mortgage acquisitions to loans that meet the requirements of a QM under the ability to repay rule, including those that meet the temporary category, and loans that are exempt from the "ability to repay" requirements. We may insure loans that do not qualify as QMs, however, we are unsure the extent to which lenders will make non-QM loans because they will not be entitled to the presumptions about compliance with the "ability to repay" requirements that the law allows lenders with respect to QM loans. We are also unsure the extent to which lenders will purchase private mortgage insurance for loans that cannot be sold to the GSEs.

The U.S. Department of Housing and Urban Development ("HUD") definition of QM that applies to loans insured by the Federal Housing Administration ("FHA") became effective in January 2014. HUD's QM definition is less restrictive than the CFPB's definition in certain respects, including that (i) it has no limit on the debt-to-income ratio of a borrower, and (ii) it allows the lender certain presumptions about compliance with the "ability to repay" requirements on higher priced loans. It is possible that lenders will prefer FHA-insured loans to loans insured by private mortgage insurance as a result of the FHA's less restrictive QM definition.

Given the credit characteristics presented to us, we estimate that approximately 87% of our new risk written in 2013 and 84% of our new risk written in the first half of 2014 was for loans that would have met the CFPB's general QM definition. We estimate that approximately 99% of our new risk written in 2013 and in the first half of 2014 was for loans that would have met the CFPB's QM definition, when giving effect to the temporary category. In making these estimates, we have not considered the limitation on points and fees because the information is not available to us. We do not believe such limitation would materially affect the percentage of our new risk written meeting the QM definitions.

The Dodd-Frank Act requires a securitizer to retain at least 5% of the risk associated with mortgage loans that are securitized, and in some cases the retained risk may be allocated between the securitizer and the lender that originated the loan. This risk retention requirement does not apply to mortgage loans that are Qualified Residential Mortgages ("QRMs") or that are insured by the FHA or another federal agency. In 2011, federal regulators released a proposed risk retention rule that included a definition of QRM. In response to public comments regarding the proposed rule, federal regulators issued a revised proposed rule in August 2013. The revised proposed rule generally defines QRM as a mortgage meeting the requirements of a QM. The regulators also proposed an alternative QRM definition ("QM-plus") which utilizes certain QM criteria but also includes a maximum loan-to-value ratio ("LTV") of 70%. Neither of the revised definitions of QRM considers the use of mortgage insurance for purposes of calculating LTV. While substantially all of our new risk written in 2013 and in the first half of 2014 was on loans that met the QM definition (and, therefore, the proposed general QRM definition), none of our new insurance written met the QM-plus definition. The public comment period for the revised proposed rule expired on October 30, 2013. The final timing of the adoption of any risk retention regulation and the definition of QRM remains uncertain. Because of the capital support provided by the U.S. Government, the GSEs satisfy the Dodd-Frank risk-retention requirements while they are in conservatorship. Therefore, lenders that originate loans that are sold to the GSEs while they are in conservatorship would not be required to retain risk associated with those loans.

The amount of new insurance that we write may be materially adversely affected depending on, among other things, (a) the final definition of QRM and its LTV requirements and (b) whether lenders choose mortgage insurance for non-QRM loans. In addition, changes in the final regulations regarding treatment of GSE-guaranteed mortgage loans, or changes in the conservatorship or capital support provided to the GSEs by the U.S. Government, could impact the manner in which the risk-retention rules apply to GSE securitizations, originators who sell loans to GSEs and our business. For other factors that could decrease the demand for mortgage insurance, see our risk factor titled *"If the volume of low down payment home mortgage originations declines, the amount of insurance that we write could decline, which would reduce our revenues."*

Alternatives to private mortgage insurance include:

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

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

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

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

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

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

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

- the level of private mortgage insurance coverage, subject to the limitations of the GSEs' charters (which may be changed by federal legislation), when private mortgage insurance is used as the required credit enhancement on low down payment mortgages,
- the amount of loan level price adjustments and guaranty fees (which result in higher costs to borrowers) that the GSEs assess on loans that require mortgage insurance,
- whether the GSEs influence the mortgage lender's selection of the mortgage insurer providing coverage and, if so, any transactions that are related to that selection,
- the underwriting standards that determine what loans are eligible for purchase by the GSEs, which can affect the quality of the risk insured by the mortgage insurer and the availability of mortgage loans,
- the terms on which mortgage insurance coverage can be canceled before reaching the cancellation thresholds established by law,
- the programs established by the GSEs intended to avoid or mitigate loss on insured mortgages and the circumstances in which mortgage servicers must implement such programs,
- the terms that the GSEs require to be included in mortgage insurance policies for loans that they purchase,

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

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

The FHFA is the conservator of the GSEs and has the authority to control and direct their operations. The increased role that the federal government has assumed in the residential mortgage market through the GSE conservatorship may increase the likelihood that the business practices of the GSEs change in ways that have a material adverse effect on us. In addition, these factors may increase the likelihood that the charters of the GSEs are changed by new federal legislation. The Dodd-Frank Act required the U.S. Department of the Treasury to report its recommendations regarding options for ending the conservatorship of the GSEs. This report was released in February 2011 and while it does not provide any definitive timeline for GSE reform, it does recommend using a combination of federal housing policy changes to wind down the GSEs, shrink the government's footprint in housing finance (including FHA insurance), and help bring private capital back to the mortgage market. Since then, Members of Congress introduced several bills intended to change the business practices of the GSEs and the FHA; however, no legislation has been enacted. As a result of the matters referred to above, it is uncertain what role the GSEs, FHA and private capital, including private mortgage insurance, will play in the domestic residential housing finance system in the future or the impact of any such changes on our business. In addition, the timing of the impact of any resulting changes on our business is uncertain. Most meaningful changes would require Congressional action to implement and it is difficult to estimate when Congressional action would be final and how long any associated phase-in period may last.

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

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

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

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

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

Before paying a claim, we review the loan and servicing files to determine the appropriateness of the claim amount. All of our insurance policies provide that we can reduce or deny a claim if the servicer did not comply with its obligations under our insurance policy, including the requirement to mitigate our loss by performing reasonable loss mitigation efforts or, for example, diligently pursuing a foreclosure or bankruptcy relief in a timely manner. We call such reduction of claims submitted to us "curtailments." In 2013 and the first half of 2014, curtailments reduced our average claim paid by approximately 5.8% and 6.2%, respectively. In addition, the claims submitted to us sometimes include costs and expenses not covered by our insurance policies, such as hazard insurance premiums for periods after the claim date and losses resulting from property damage that has not been repaired. These other adjustments reduced claim amounts by less than the amount of curtailments. After we pay a claim, servicers and insureds sometimes object to our curtailments and other adjustments. We review these objections if they are sent to us within 90 days after the claim was paid.

When reviewing the loan file associated with a claim, we may determine that we have the right to rescind coverage on the loan. Prior to 2008, rescissions of coverage on loans were not a material portion of our claims resolved during a year. However, beginning in 2008, our rescissions of coverage on loans have materially mitigated our paid losses. In 2009 through 2011, rescissions mitigated our paid losses in the aggregate by approximately $3.0 billion; and in 2012, 2013 and the first half of 2014, rescissions mitigated our paid losses by approximately $0.3 billion, $135 million and $50 million, respectively (in each case, the figure includes amounts that would have either resulted in a claim payment or been charged to a deductible under a bulk or pool policy, and may have been charged to a captive reinsurer). In recent quarters, approximately 5% of claims received in a quarter have been resolved by rescissions, down from the peak of approximately 28% in the first half of 2009.

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

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

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

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

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

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

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

The Agreement with CHL covers loans that were purchased by non-GSE investors, including securitization trusts (the “other investors”). That Agreement will be implemented only as and to the extent that it is consented to by or on behalf of the other investors, and any such implementation is expected to occur later in 2014. While there can be no assurance that the Agreement with CHL will be implemented, we have determined that its implementation is probable.

We recorded the estimated impact of the Agreements and another probable settlement in our financial statements for the quarter ending December 31, 2012. We have also recorded the estimated impact of other probable settlements. The estimated impact that we recorded is our best estimate of our loss from these matters. We estimate that the maximum exposure above the best estimate provision we recorded is $510 million, of which about 45% is from rescission practices subject to the Agreement with CHL. If we are not able to implement the Agreement with CHL or the other settlements we consider probable, we intend to defend MGIC vigorously against any related legal proceedings.

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

We are involved in discussions and legal and consensual proceedings with customers with respect to our claims paying practices. These include a previously disclosed curtailment dispute with Countrywide that is in a mediation process. Although it is reasonably possible that when these discussions or proceedings are completed we will not prevail in all cases, we are unable to make a reasonable estimate or range of estimates of the potential liability. We estimate the maximum exposure associated with these discussions and proceedings to be approximately $220 million, although we believe we will ultimately resolve these matters for significantly less than this amount.

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

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

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

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

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

We are subject to comprehensive, detailed regulation by state insurance departments. These regulations are principally designed for the protection of our insured policyholders, rather than for the benefit of investors. Although their scope varies, state insurance laws generally grant broad supervisory powers to agencies or officials to examine insurance companies and enforce rules or exercise discretion affecting almost every significant aspect of the insurance business. Given the recent significant losses incurred by many insurers in the mortgage and financial guaranty industries, our insurance subsidiaries have been subject to heightened scrutiny by insurance regulators. State insurance regulatory authorities could take actions, including changes in capital requirements or termination of waivers of capital requirements, that could have a material adverse effect on us. As noted above, in early 2013, the CFPB issued rules to implement laws requiring mortgage lenders to make ability-to-repay determinations prior to extending credit. We are uncertain whether the CFPB will issue any other rules or regulations that affect our business. Such rules and regulations could have a material adverse effect on us.

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

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

A non-insurance subsidiary of our holding company is a shareholder of the corporation that operates the Mortgage Electronic Registration System ("MERS"). Our subsidiary, as a shareholder of MERS, has been named as a defendant (along with MERS and its other shareholders) in eight lawsuits asserting various causes of action arising from allegedly improper recording and foreclosure activities by MERS. Seven of these lawsuits have been dismissed without any further opportunity to appeal. The remaining lawsuit had also been dismissed by the U.S. District Court, however, the plaintiff in that lawsuit filed a motion for reconsideration by the U.S. District Court and to certify a related question of law to the Supreme Court of the State in which the U.S. District Court is located. In April 2014, that motion for reconsideration was denied, however, on May 30, 2014, the plaintiff appealed the denial. The damages sought in this remaining case are substantial. We deny any wrongdoing and intend to defend ourselves vigorously against the allegations in the lawsuit.

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

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

The Internal Revenue Service ("IRS") completed examinations of our federal income tax returns for the years 2000 through 2007 and issued proposed assessments for unpaid 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. The proposed assessment for taxes and penalties related to these matters is $197.5 million and at June 30, 2014, there would also be interest of approximately $161.3 million. In addition, 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, 2014, those state taxes and interest would approximate $46.7 million. In addition, there could also be state tax penalties.

Our total amount of unrecognized tax benefits as of June 30, 2014 is $105.8 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 and statutory capital. In this regard, see our risk factors titled "*We may not continue to meet the GSEs' mortgage insurer eligibility requirements and our returns may decrease if we are required to maintain significantly more capital in order to maintain our eligibility*" and "*State capital requirements may prevent us from continuing to write new insurance on an uninterrupted basis*."

We appealed these assessments within the IRS and, in 2007, we made a payment of $65.2 million to the United States Department of the Treasury related to this assessment. In August 2010, we reached a tentative settlement agreement with the IRS which was not finalized. The IRS is pursuing this matter in full and absent a settlement we currently expect to be in litigation on this matter in 2014. Any such litigation could be lengthy and costly in terms of legal fees and related expenses.

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

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

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

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

The establishment of loss reserves is subject to inherent uncertainty and requires judgment by management. Current conditions in the housing and mortgage industries make the assumptions that we use to establish loss reserves more volatile than they would otherwise be. The actual amount of the claim payments may be substantially different than our loss reserve estimates. Our estimates could be adversely affected by several factors, including a deterioration of regional or national economic conditions, including unemployment, leading to a reduction in borrowers’ income and thus their ability to make mortgage payments and a drop in housing values that could result in, among other things, greater losses on loans that have pool insurance, and may affect borrower willingness to continue to make mortgage payments when the value of the home is below the mortgage balance. Changes to our estimates could result in material impact to our results of operations, even in a stable economic environment. For example, better or worse loss development than we had assumed at the end of the prior period could have a material impact on our results. In addition, historically, losses incurred have followed a seasonal trend in which the second half of the year has weaker credit performance than the first half, with higher new notice activity and a lower cure rate.

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

Our industry is undergoing a fundamental shift following the mortgage crisis: long-standing competitors have gone out of business and two newly capitalized start-ups that are not encumbered with a portfolio of pre-crisis mortgages have been formed. Former executives from other mortgage insurers have joined these two new competitors. In addition, in January 2014, a worldwide insurer and reinsurer with mortgage insurance operations in Europe announced that it had completed the purchase of a competitor, CMG Mortgage Insurance Company, and that it had received approval as an eligible insurer from both GSEs. Our success depends, in part, on the skills, working relationships and continued services of our management team and other key personnel. The departure of key personnel could adversely affect the conduct of our business. In such event, we would be required to obtain other personnel to manage and operate our business, and there can be no assurance that we would be able to employ a suitable replacement for the departing individuals, or that a replacement could be hired on terms that are favorable to us. We currently have not entered into any employment agreements with our officers or key personnel. Volatility or lack of performance in our stock price may affect our ability to retain our key personnel or attract replacements should key personnel depart.

Our reinsurance transactions with unaffiliated reinsurers allow each reinsurer, under certain circumstances, to terminate such reinsurer's portion of the transactions on a run-off basis if during any six month period two or more of our top five executives leave and such reinsurer objects to the replacements of such executives. We view such a termination as unlikely. No objection was made by the reinsurers within the timeframe allowed under the reinsurance agreement for our Chief Financial Officer replacement in the first quarter of 2014. Therefore, that replacement may no longer be considered for purposes of the termination provision.

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

Beginning in the fourth quarter of 2008, the federal government, including through the Federal Deposit Insurance Corporation and the GSEs, and several lenders implemented programs to modify loans to make them more affordable to borrowers with the goal of reducing the number of foreclosures. During 2012, 2013 and the first half of 2014, we were notified of modifications that cured delinquencies that had they become paid claims would have resulted in approximately $1.2 billion, $1.0 billion and $420 million, respectively, of estimated claim payments. As noted below, we cannot predict with a high degree of confidence what the ultimate re-default rate on these modifications will be. Although the recent re-default rate has been lower, for internal reporting and planning purposes, we assume approximately 50% of these modifications will ultimately re-default, and those re-defaults may result in future claim payments. Because modifications cure the defaults with respect to the previously defaulted loans, our loss reserves do not account for potential re-defaults unless at the time the reserve is established, the re-default has already occurred. Based on information that is provided to us, most of the modifications resulted in reduced payments from interest rate and/or amortization period adjustments; from 2012 through the first half of 2014, approximately 9% resulted in principal forgiveness.

One loan modification program is the Home Affordable Modification Program ("HAMP") which began in 2009. We believe that it could take several months from the time a borrower has made all of the payments during HAMP's three month "trial modification" period for the loan to be reported to us as a cured delinquency. We rely on information provided to us by the GSEs and servicers. We do not receive all of the information from such sources that is required to determine with certainty the number of loans that are participating in, have successfully completed, or are eligible to participate in, HAMP. We are aware of approximately 6,270 loans in our primary delinquent inventory at June 30, 2014 for which the HAMP trial period has begun and which trial periods have not been reported to us as completed or cancelled. Through June 30, 2014, approximately 53,700 delinquent primary loans have cured their delinquency after entering HAMP and are not in default. In 2013 and the first half of 2014, approximately 17% and 16%, respectively, of our primary cures were the result of a modification, with HAMP accounting for approximately 68% of those modifications in each of 2013 and the first half of 2014. Although the HAMP program has been extended through December 2016, we believe that we have realized the majority of the benefits from HAMP because the number of loans insured by us that we are aware are entering HAMP trial modification periods has decreased significantly since 2010. The interest rates on certain loans modified under HAMP are subject to adjustment five years after the modification was entered into. Such adjustments are limited to an increase of one percentage point per year.

In 2009, the GSEs began offering the Home Affordable Refinance Program ("HARP"). HARP, which has been extended through December 2015, allows borrowers who are not delinquent but who may not otherwise be able to refinance their loans under the current GSE underwriting standards, to refinance their loans. We allow HARP refinances on loans that we insure, regardless of whether the loan meets our current underwriting standards, and we account for the refinance as a loan modification (even where there is a new lender) rather than new insurance written. Approximately 16% of our primary insurance in force has benefitted from HARP and is still in force.

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

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

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

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

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

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

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

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

In recent years, the level of competition within the private mortgage insurance industry has been intense as many large mortgage lenders reduced the number of private mortgage insurers with whom they do business. At the same time, consolidation among mortgage lenders has increased the share of the mortgage lending market held by large lenders. During 2013 and the first half of 2014, approximately 7% and 4%, respectively, of our new insurance written was for loans for which one lender was the original insured and our revenue from such loans was significantly less than 10% of our revenues during each of those periods. Our private mortgage insurance competitors include:

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

Until 2010 the mortgage insurance industry had not had new entrants in many years. Since 2010, two new public companies were formed and began writing business and a worldwide insurer and reinsurer with mortgage insurance operations in Europe completed the purchase of a competitor and is currently writing business. The perceived increase in credit quality of loans that are being insured today; the possibility of a decrease in the FHA's share of the mortgage insurance market; and the significantly more favorable treatment that new mortgage insurance companies, unencumbered with a portfolio of pre-crisis mortgages, are given under the draft GSE Financial Requirements, may encourage additional new entrants, although the lower expected returns that may result from the draft GSE Financial Requirements if adopted as proposed, may discourage additional new entrants.

Our relationships with our customers could be adversely affected by a variety of factors, including tightening of and adherence to our underwriting requirements, which have resulted in our declining to insure some of the loans originated by our customers and insurance rescissions that affect the customer. We have ongoing discussions with lenders who are significant customers regarding their objections to our rescissions.

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

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

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

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

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

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

Even when housing values are stable or rising, mortgages with certain characteristics have higher probabilities of claims. These characteristics include loans with loan-to-value ratios over 95% (or in certain markets that have experienced declining housing values, over 90%), FICO credit scores below 620, limited underwriting, including limited borrower documentation, or higher total debt-to-income ratios, as well as loans having combinations of higher risk factors. As of June 30, 2014, approximately 20.6% of our primary risk in force consisted of loans with loan-to-value ratios greater than 95%, 6.3% had FICO credit scores below 620, and 6.3% had limited underwriting, including limited borrower documentation, each attribute as determined at the time of loan origination. A material portion of these loans were written in 2005 — 2007 or the first quarter of 2008. In accordance with industry practice, loans approved by GSEs and other automated underwriting systems under "doc waiver" programs that do not require verification of borrower income are classified by us as "full documentation." For additional information about such loans, see footnote (3) to the composition of primary default inventory table under "Results of Consolidated Operations-Losses-Losses incurred in Management's Discussion and Analysis of Financial Condition and Results of Operations.

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

Historically, the level of competition within the private mortgage insurance industry has been intense and is not expected to diminish given the presence of new entrants. Effective in December 2013, we reduced all of our borrower-paid monthly premium rates and most of our single premium rates to match competition, although in certain states these reductions are not yet effective due to the need for regulatory approval. During most of 2013, when almost all of our single premium rates were above those most commonly used in the market, single premium policies were approximately 10% of our total new insurance written; they were approximately 13% in the first half of 2014. In addition, during periods of declining loan originations, lenders may seek to expand their mortgage lending businesses by requesting discounts from mortgage insurers in order to offer products that are less expensive to borrowers or by requesting more liberal underwriting requirements.

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

As noted above in our risk factor titled “State capital requirements may prevent us from continuing to write new insurance on an uninterrupted basis,” in 2013, we entered into a quota share reinsurance transaction with a group of unaffiliated reinsurers. Although that transaction reduces our premium yields, the transaction will have a lesser impact on our overall results, as losses ceded under this transaction reduce our losses incurred and the ceding commission we receive reduces our underwriting expenses. As of June 30, 2014, we have accrued a profit commission receivable of $47.1 million, which is included in other assets on our consolidated balance sheet. This receivable is expected to grow materially through the term of the agreement, but the ultimate amount of the commission will depend on the ultimate level of premiums earned and losses incurred under the agreement. Any profit commission would be paid to us upon termination of the reinsurance agreement. The reinsurers are required to maintain trust funds or letters of credit to support recoverable balances for reinsurance, such as loss reserves, paid losses, prepaid reinsurance premiums and profit commissions. As such forms of collateral are in place, we have not established an allowance against these balances.

During the second quarter of 2012, we began writing a portion of our new insurance under an endorsement to our master policy (the “Gold Cert Endorsement”). Our Gold Cert Endorsement limits our ability to rescind coverage under certain circumstances. As of June 30, 2014, approximately 21% of our flow, primary insurance in force was written under our Gold Cert Endorsement. However, approximately 65% and 74% of our flow, primary new insurance written in 2013 and the first half of 2014, respectively, was written under this endorsement. The Gold Cert Endorsement is filed as Exhibit 99.7 to our quarterly report on Form 10-Q for the quarter ended March 31, 2012 (filed with the SEC on May 10, 2012).

We revised our master policy to, among other things, comply with various requirements the GSEs have communicated to the industry. These requirements contain limitations on rescission rights that, while generally similar, differ in some respects from the limitations in our Gold Cert Endorsement. The GSEs require the new master policy be used for all loans sold to them with an application date on or after October 1, 2014. Although our new master policy has been approved by the GSEs, it remains subject to review and approval in a few jurisdictions.

As of June 30, 2014, approximately 1.6% of our primary risk in force written through the flow channel, and 21.3% of our primary risk in force written through the bulk channel, consisted of adjustable rate mortgages in which the initial interest rate may be adjusted during the five years after the mortgage closing ("ARMs"). We classify as fixed rate loans adjustable rate mortgages in which the initial interest rate is fixed during the five years after the mortgage closing. If interest rates should rise between the time of origination of such loans and when their interest rates may be reset, claims on ARMs and adjustable rate mortgages whose interest rates may only be adjusted after five years would be substantially higher than for fixed rate loans. In addition, we have insured "interest-only" loans, which may also be ARMs, and loans with negative amortization features, such as pay option ARMs. We believe claim rates on these loans will be substantially higher than on loans without scheduled payment increases that are made to borrowers of comparable credit quality.

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

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

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

In January 2008, we announced that we had decided to stop writing the portion of our bulk business that insures loans included in Wall Street securitizations because the performance of such loans deteriorated materially in the fourth quarter of 2007 and this deterioration was materially worse than we experienced for loans insured through the flow channel or loans insured through the remainder of our bulk channel. As of December 31, 2007 we established a premium deficiency reserve of approximately $1.2 billion. As of June 30, 2014, the premium deficiency reserve was $36 million, which reflects the present value of expected future losses and expenses that exceeds the present value of expected future premium and already established loss reserves on these bulk transactions.

We continue to experience material losses, especially on the 2006 and 2007 books. The ultimate amount of these losses will depend in part on general economic conditions, including unemployment, and the direction of home prices, which in turn will be influenced by general economic conditions and other factors. Because we cannot predict future home prices or general economic conditions with confidence, there is significant uncertainty surrounding what our ultimate losses will be on our 2006 and 2007 books. Our current expectation, however, is that these books will continue to generate material incurred and paid losses, although declining, for a number of years. There can be no assurance that an additional premium deficiency reserve on Wall Street Bulk or on other portions of our insurance portfolio will not be required.

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

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

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

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

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

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

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

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

Our persistency rate was 82.4% at June 30, 2014, compared to 79.5% at December 31, 2013, and 79.8% at December 31, 2012. During the 1990s, our year-end persistency ranged from a high of 87.4% at December 31, 1990 to a low of 68.1% at December 31, 1998. Since 2000, our year-end persistency ranged from a high of 84.7% at December 31, 2009 to a low of 47.1% at December 31, 2003.

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

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

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

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

Our debt obligations materially exceed our holding company cash and investments

At June 30, 2014, we had approximately $515 million in cash and investments at our holding company and our holding company's debt obligations were $1,297 million in aggregate principal amount, consisting of $62 million of Senior Notes due in November 2015, $345 million of Convertible Senior Notes due in 2017, $500 million of Convertible Senior Notes due in 2020 and $390 million of Convertible Junior Debentures due in 2063. Annual debt service on the debt outstanding as of June 30, 2014, is approximately $66 million.

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

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

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

Our Australian operations may suffer significant losses.

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

CONFIDENTIAL TREATMENT REQUESTED. INFORMATION FOR WHICH CONFIDENTIAL TREATMENT HAS BEEN REQUESTED IS OMITTED AND MARKED WITH "[***]" AND HAS BEEN FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION.

Execution Copy

Exhibit 99.14

SECOND AMENDMENT TO

CONFIDENTIAL SETTLEMENT AGREEMENT AND RELEASE

This SECOND AMENDMENT TO CONFIDENTIAL SETTLEMENT AGREEMENT AND RELEASE ("Second Amendment") is made and is effective as of this 5th day of June, 2014, by and between Mortgage Guaranty Insurance Corporation ("MGIC") and Bank of America, N.A. (as a successor to BAC Home Loans Servicing f/k/a Countrywide Home Loans Servicing LP ("Servicing")) ("Bank of America"), on its own behalf and as successor in interest by *de jure* merger to Countrywide Bank FSB, formerly Treasury Bank ("Countrywide Bank"). Countrywide Home Loans, Inc. ("CHL") is a party to the Settlement Agreement only to the extent specified in the Settlement Agreement. Capitalized terms used in this Second Amendment without definition have the meaning given them in the Settlement Agreement.

RECITALS

WHEREAS, MGIC and Bank of America are Parties to a Confidential Settlement Agreement and Release, dated as of April 19, 2013, as amended by an Amendment dated as of September 24, 2013 (the "Settlement Agreement"), and CHL is a party to the Settlement Agreement to the extent specified in the Settlement Agreement;

WHEREAS, the Parties and CHL desire to further amend the Settlement Agreement to (a) include the CHL/GSE Loans and the CHL/PLS Loans (both as defined below) in the settlement as specified in this Second Amendment and (b) provide that [***]; and

WHEREAS, the Parties and CHL acknowledge that the Initial Implementation Date has occurred under the Settlement Agreement and certain provisions of this Second Amendment will not become effective until the CHL/GSE/PLS Implementation Date (as defined below).

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

1. Definitions. The following definitions are added or amended in Section 1 of the Settlement Agreement:

    a. Section 1(h) is amended by adding the following sentence at the end of the definition: "Illustrative examples of the calculation of the Bank of America Share are provided on Exhibit N."

b. Section 1(qqq) is amended and restated as follows: "**"Settlement Percentage"** means the following percentages with respect to each of the designated loans: (i) [***] with respect to each of the GSE/HFI Loans and CHL/GSE Loans, (ii) [***] with respect to each of the Countrywide PLS Loans, and (iii) [***] with respect to each of the Third Party PLS/Other Loans, for, among other things, payment of Perfected Claims pursuant to Section 10(c)."

c. The following Section 1(cccc) is added: "**"Additional GSE Consents"** means written consent from each of the GSEs pursuant to Section 4(f)."

d. The following Section 1(dddd) is added: "**"CHL/GSE Loans"** means those loans identified as CHL/GSE Loans on any of the Schedules."

e. The following Section 1(eeee) is added: "**"CHL/GSE Reimbursement Amount"** means the product of (x) one minus the applicable Settlement Percentage and (y) the aggregate amount of Recently Paid Loans for the CHL/GSE Loans that are Class 2 GSE Loans, calculated as of the CHL/GSE/PLS Implementation Date."

f. The following Section 1(ffff) is added: "**"CHL/GSE/PLS Implementation Date"** means a date mutually agreed upon by the Parties that occurs on the last day of a month on or before the later of (i) ninety (90) days after the entry of orders dismissing the Arbitration Action as to the CHL/GSE/PLS Loans pursuant to Section 6(g) and (ii) October 31, 2014."

g. The following Section 1(gggg) is added: "**"CHL/GSE/PLS Loans**" means the CHL/GSE Loans and the CHL/PLS Loans."

h. The following Section 1(hhhh) is added: "**"CHL/GSE/PLS Reimbursement Payment"** means the product of (x) one minus the applicable Settlement Percentage and (y) the aggregate amount of Recently Paid Loans for the CHL/GSE Loans that are Class 1 GSE Loans and HFI Loans, the Countrywide PLS Loans, and the Third Party PLS/Other Loans, calculated as of the CHL/GSE/PLS Implementation Date, to be paid by Bank of America as set forth in Section 2(g)."

i. The following Section 1(iiii) is added: "**"CHL/GSE/PLS Signing Date"** means the date the Second Amendment is made, as specified in the Preamble to the Second Amendment."

j. The following Section 1(jjjj) is added: "**"CHL/GSE/PLS Terminated Provisions"** means Sections 1(b), 1(e), 1(f), 1(h), 1(l), 1(n), 1(u), 2, 3, 5 through 7, 9, and 10(b) and 10(d) of the Second Amendment."

k. The following Section 1(kkkk) is added: "**"CHL/PLS Agreement"** means the Confidential Settlement Agreement and Release, dated as of April 19, 2013, as amended, by and among MGIC, CHL, and BANA, in its capacity as master servicer or servicer."

l. The following Section 1(llll) is added: "**"CHL/PLS Denial Settlement Payment"** means the amount of [***], to be paid by MGIC as set forth in Section 2(f)."

m. The following Section 1(mmmm) is added: "**"CHL/PLS Loans**" means those loans that are designated as Countrywide PLS Loans or Third Party PLS/Other Loans on any of the Schedules, which were previously identified on Schedules 1 through 9 to the CHL/PLS Agreement, and which shall be treated as Class 1 GSE Loans for all purposes of this Settlement Agreement."

n. The following Section 1(oooo) is added: "**"CHL/PLS Settlement Payment"** means the amount of [***] (calculated by the amount of [***] *less* [***] (the proportional amount of the premium refund checks associated with CHL/PLS Loans that are identified on Supplemental Schedule 2) to be paid by MGIC as set forth in Section 2(f)."

o. The following Section 1(pppp) is added: "**"Countrywide PLS Loans"** means those loans identified as Countrywide PLS Loans on any of the Schedules."

p. The following Section 1(qqqq) is added: [***]

q. The following Section 1(rrrr) is added: "**"Schedules"** means the schedules to this Settlement Agreement (i) identified in Section 18 as of the Signing Date, as updated pursuant to Section 3(a), and as finalized with respect to the Initial Implementation Date pursuant to Section 3(b), (ii) as supplemented by the Supplemental Schedules, and (iii) as may be restated by agreement of the Parties following the CHL/GSE/PLS Implementation Date by combining the schedules referenced in the foregoing clauses (i) and (ii) ."

r. The following Section 1(ssss) is added: "**"Second Amendment"** means the Second Amendment, dated as of June 5, 2014, to this Settlement Agreement."

s. The following Section 1(tttt) is added: "**"Supplemental Schedules"** means the Supplemental Schedules 1 through 9 attached to the Second Amendment as of the CHL/GSE/PLS Signing Date, as updated pursuant to Section 3(a), and thereafter as finalized as of the CHL/GSE/PLS Implementation Date pursuant to Section 3(b)."

t. The following Section 1(uuuu) is added: "**"Third Party PLS/Other Loans"** means those loans identified as Third Party PLS/Other Loans on any of the Schedules."

u. Each of the definitions of "Covered Loans," "Past Coverage Determination Loans," "Past Paid Loans," "Pending Rescission Loans," "Recently Denied Loans," "Recently Paid Loans," "Recently Rescinded Loans," "Subject Loan," and "True-Up Loans" is amended by (i) adding the characters "(x)" before the words "listed on Schedule", (ii) adding the words ", (y) as listed on Supplemental Schedule [insert corresponding Supplemental Schedule number]" after "and as finalized with respect to the Initial Implementation Date pursuant to Section 3(b),", and (iii) adding the words ", or (z) as listed on Schedule [insert corresponding Schedule number] as such combined Schedule and Supplemental Schedule may be restated by agreement of the Parties following the CHL/GSE/PLS Implementation Date." at the end of the definition.

2. <u>CHL/PLS Settlement Payment, CHL/PLS Denial Settlement Payment and CHL/GSE/PLS Reimbursement Payment</u>.

a. Section 2(f) is added as follows: "(f) <u>Payment of the CHL/PLS Settlement Payment and the CHL/PLS Denial Settlement Payment</u>. Within five (5) business days after the finalization of the Supplemental Schedules following the CHL/GSE/PLS Implementation Date, MGIC shall pay to Fannie Mae the CHL/PLS Settlement Payment and the CHL/PLS Denial Settlement Payment."

b. Section 2(g) is added as follows: "(g) <u>Payment of the CHL/GSE/PLS Reimbursement Payment</u>. Within five (5) business days after finalization of the Supplemental Schedules following the CHL/GSE/PLS Implementation Date, Bank of America shall pay to MGIC the CHL/GSE/PLS Reimbursement Payment."

3. <u>Continuing Reconciliation; Finalizing Supplemental Schedules; Manifest Error; Subject Loans Reports; Bank of America Share Reports</u>. Section 3(f) is added as follows: "Sections 3(a)-(e) shall apply to the CHL/GSE/PLS Loans as follows: (i) references to the Signing Date shall mean the CHL/GSE/PLS Signing Date, <u>provided</u> that the first Monthly Loan Report pursuant to Section 3(a)(i) shall update and supplement the changes between January 1, 2013 and the end of the month following the CHL/GSE/PLS Signing Date; (ii) references to the Initial Implementation Date shall mean the CHL/GSE/PLS Implementation Date; (iii) neither Party will cause or permit any CHL/PLS Loan to be designated or treated as an HFI or Class 2 GSE Loan pursuant to Section 3 or otherwise; (iv) for purposes of Section 3(d), the CHL/GSE/PLS Loans will be included on the Subject Loan Reports only on and after the CHL/GSE/PLS Implementation Date; and (v) for purposes of Section 3(e), the CHL/GSE/PLS Loans that are treated as Class 1 GSE Loans will be included on Bank of America Share Reports only on and after the CHL/GSE/PLS Implementation Date."

4. <u>Additional GSE Consents</u>.

a. Section 4(e) is amended and restated as follows:

"(e) <u>Additional GSE Consents</u>. The obligations of the Parties to consummate the actions relating to the CHL/GSE/PLS Loans set forth in this Settlement Agreement on and after the CHL/GSE/PLS Implementation Date are subject to and conditioned upon receiving the Additional GSE Consents.

(i) The Additional GSE Consents shall be substantially in the form of the consent of Freddie Mac to the Settlement Agreement dated September 26, 2013 and the consent of Fannie Mae to the Settlement Agreement dated October 9, 2013.

(ii) Bank of America shall be the primary party responsible for obtaining the Additional GSE Consents from the GSEs. Notwithstanding the foregoing, (A) the Parties will use their best efforts to cooperate with each other in seeking to obtain the Additional GSE Consents; and (B) such cooperation shall include permitting MGIC to participate in interactions with the GSEs, although Bank of America may exclude MGIC from its negotiations with the GSEs, at Bank of America's discretion exercised in good faith.

(iii) Either of MGIC or Bank of America may terminate the CHL/GSE/PLS Terminated Provisions by written notification to the other if the Additional GSE Consents have not been received within six (6) months after the CHL/GSE/PLS Signing Date; provided that (A) the Parties may agree in writing to extend the time period for obtaining Additional GSE Consents; (B) MGIC shall not be entitled to so terminate the CHL/GSE/PLS Terminated Provisions if it has breached its obligation to cooperate in seeking to obtain the Additional GSE Consents; (C) Bank of America shall not be entitled to so terminate the CHL/GSE/PLS Terminated Provisions if it has breached its obligation to cooperate in seeking to obtain the Additional GSE Consents; and (D) no Party shall be entitled to so terminate the CHL/GSE/PLS Terminated Provisions if the Parties are actively seeking consent from the GSEs, including but not limited to having in-person meetings with the GSEs on multiple occasions, as the case may be, at the end of such six (6) month period, and the right to terminate the CHL/GSE/PLS Terminated Provisions shall be suspended until the termination of such period during which the Parties are actively seeking to obtain the Additional GSE Consents.

(iv) Upon any termination of the CHL/GSE/PLS Terminated Provisions pursuant to Section 4(e)(iii), (x) all of the provisions of this Settlement Agreement except for the CHL/GSE/PLS Terminated Provisions shall remain in full force and effect with respect to the Subject Loans other than the CHL/GSE/PLS Loans; and (y) the provisions with respect to perfection and processing of Claims on and after January 1, 2013, that are specified in Section 10(b), and the releases in Sections 13 and 14, shall be deemed null and void and of no further force and effect with respect to the CHL/GSE/PLS Loans and the Parties (and CHL, to the extent of its interest in the CHL/GSE/PLS Loans) shall be deemed to have reverted to their respective status as of the day prior to the Signing Date with respect to the CHL/GSE/PLS Loans; provided that (A) the definitions in Section 1 related to any provisions not terminated, this Section 4(e)(iv), the provisions of dispute resolution in Section 11(c) to the extent that they relate to the resolution of any Dispute regarding the termination of the CHL/GSE/PLS Terminated Provisions, Section 16 (Confidentiality) and paragraphs (a), (c), (d), (e), (f), (g), (h), (i), (k), and (m), and solely for the purpose of enforcing provisions that survive termination of the CHL/GSE/PLS Terminated Provisions, (n) of Section 19 (Miscellaneous Provisions) shall continue in full force and effect with respect to the CHL/GSE/PLS Loans despite any termination of the CHL/GSE/PLS Terminated Provisions; (B) in the event of any such termination of the CHL/GSE/PLS Terminated Provisions, MGIC may effect rescission or denial of the Claims with respect to any CHL/GSE/PLS Loan for which MGIC has communicated an intent to complete a denial after October 31, 2011, and before January 1, 2013, or to complete a rescission after October 31, 2011, without regard to the passage of time, and Bank of America and CHL hereby waive any claim or defense as to the lack of timely assertion of any such rescission or denial with respect to any such Claim, but not, except as provided in this Settlement Agreement, with respect to any other available claim or defense as set forth herein, in the applicable Master Policy, or by operation of law, and provided that any Claim paid pursuant to Section 10(b) with respect to a CHL/GSE/PLS Loan prior to such termination shall remain a paid Claim; (C) the applicable time period for Bank of America to submit the documents that MGIC may require Bank of America to provide in order to perfect a Claim with respect to a CHL/GSE/PLS Loan shall terminate on the later of (x) the applicable time period for perfection of a Claim under the applicable Master Policy and (y) three months after the date of such termination of the CHL/GSE/PLS Terminated Provisions; and (D) any legal or contractual limitations period and any defense based on the passage of time with respect to Causes of Action relating to the CHL/GSE/PLS Loans included in the Litigation Action or the Arbitration Action are tolled from the date such Causes of Action were made in such actions and shall continue to be tolled through [***], in addition to any other tolling periods that may apply by operation of law. Any legal or contractual limitations period and any defense based on the passage of time with respect to Causes of Action relating to the CHL/GSE/PLS Loans within the scope of the Mortgage Insurance Dispute that are not included in such actions shall be tolled from [***] and shall continue to be tolled through [***], in addition to any tolling that may apply by operation of law. No tolling that occurs pursuant to this Section 4(e)(iv) and/or by operation of law shall have the effect of reviving any Cause of Action relating to a CHL/GSE/PLS Loan that was otherwise barred by any statute of limitations or similar rule of law or equity prior to [***].”

5. Dismissal of Arbitration Action and Litigation Action. Section 6(g) is added as follows:

> "(g) CHL/GSE/PLS Loans. As soon as practicable after the Additional GSE Consents are obtained, each of Bank of America and CHL shall take all necessary steps to dismiss the Arbitration Action *with prejudice* as to all of the CHL/GSE/PLS Loans, and such dismissal shall be substantially in the form of Stipulation and Order of Dismissal on Exhibit J. On and after the CHL/GSE/PLS Signing Date, Section 6(c) (Stay of Arbitration Action) applies to the CHL/GSE/PLS Loans. On and after the CHL/GSE/PLS Implementation Date, Section 6(e) (Dismissal of the Litigation Action) applies to the CHL/GSE/PLS Loans and the CHL/GSE/PLS Loans shall be included in such dismissal. On and after the CHL/GSE/PLS Implementation Date, Section 6(f) (Effect of Dismissals with Prejudice) applies to the CHL/GSE/PLS Loans. Upon Bank of America and CHL dismissing the part of the Arbitration Action with respect to the CHL/GSE/PLS Loans with prejudice pursuant to this Section 6(g), Sections 13 and 14 shall apply to the CHL/GSE/PLS Loans, provided that with respect to the CHL/GSE/PLS Loans, the references to the Initial Implementation Date shall mean the CHL/GSE/PLS Implementation Date."

6. Compensation for Recently Paid Loans. Section 7(c) is added as follows: "Section 7(b) of the Settlement Agreement applies to the compensation of MGIC for the CHL/GSE Loans that are Class 2 GSE Loans, in the same manner and process applied to the Class 2 GSE Loans in connection with the Initial Implementation Date, provided that (i) the credits and payments with respect to the CHL/GSE Loans will begin ten (10) business days after the Supplemental Schedules have been finalized with respect to the CHL/GSE/PLS Loans for the CHL/GSE/PLS Implementation Date, (ii) references to the Reimbursement Amount shall mean the CHL/GSE Reimbursement Amount, and (iii) Bank of America shall pay any shortfall pursuant to Section 7(b)(iii) within five (5) days after the finalization of the Supplemental Schedules following the CHL/GSE/PLS Implementation Date."

7. Recently Rescinded Loans and Pending Rescission Loans; Perfection and Processing of Certain Claims; Perfection of Claims and Payment of Perfected Claims; MGIC Account; Request for Additional Documents; Delivery of Documents to Bank of America. Section 10(h) is added as follows: "(h) CHL/GSE/PLS Loans. Section 10 of the Settlement Agreement shall apply to the CHL/GSE/PLS Loans as follows: (i) the references to the Initial Implementation Date shall mean the CHL/GSE/PLS Implementation Date, except that the references to the Initial Implementation Date in Sections 10(d)(i)-(ii) shall mean the Initial Implementation Date, and (ii) Section 10(h) applies to the CHL/GSE/PLS Loans only on and after the CHL/GSE/PLS Implementation Date."

8. Alternative Dispute Resolution. Section 11(f) is added as follows: "Section 11 of the Settlement Agreement shall apply to the CHL/GSE/PLS Loans as follows: (i) Sections 11(a), 11(b), and 11(d) apply only on and after the CHL/GSE/PLS Implementation Date and (ii) Section 11(c) applies only on and after the CHL/GSE/PLS Signing Date."

9. Indemnification. Section 15(b)(i) is amended by adding [***] before the words [***] and adding [***].

10. Additional Matters with Respect to the CHL/GSE/PLS Loans.

    a. Each of the CHL/GSE/PLS Loans added to the Supplemental Schedules on the CHL/GSE/PLS Signing Date shall be deemed to have been included on the Schedules as of the Signing Date, except as otherwise specified in this Second Amendment. In the event that either Party terminates the CHL/GSE/PLS Terminated Provisions, each of the CHL/GSE/PLS Loans shall be removed from the Schedules as of the date of such termination.

    b. On and after the CHL/GSE/PLS Implementation Date, Section 12 (Effect of Certain Action by the OCI) shall apply to the CHL/GSE/PLS Loans without modification and Section 15 (Indemnification) shall apply to the CHL/GSE/PLS Loans as modified in this Second Amendment.

    c. On and after the CHL/GSE/PLS Signing Date, Section 16 (Confidentiality), Section 17 (Notices and Payments), Section 18 (Schedules and Exhibits), and Section 19 (Miscellaneous) shall apply to the CHL/GSE Loans without modification.

    d. For the avoidance of doubt, Sections 2(a)-(e) (Settlement Payment, Denial Settlement Payment, and Reimbursement Payment; Establishing Escrow; Effect of Deposits into Escrow Accounts; Security Interest), Sections 4(b)-(e) (Required Consents), Section 6(a) (Dismissal of Arbitration Action and Litigation Action—Required Consents), Section 7(a) (Compensation for Recently Paid Loans—Updating Reimbursement Payment for Class 1 GSE Loans and HFI Loans), and Section 8 (Disbursements from the Escrow Accounts) do not apply with respect to the CHL/GSE/PLS Loans.

11. MGIC Account. Section 10(d)(iv) is added as follows: "On and after the Implementation Date [***], the MGIC Account (as defined in this Settlement Agreement) [***], including Bank of America's obligation to make deposits and replenish the funds necessary to reimburse MGIC under this Settlement Agreement [***], Bank of America's delivery of reports regarding the MGIC Account and MGIC's access to the MGIC Account, and the resolution of any Payment Dispute [***]; provided that (A) the required minimum balance of the MGIC Account shall be adjusted annually [***], (B) Bank of America shall deliver reports [***], and the funds remaining in the MGIC Account shall be disbursed [***]."

12. Supplemental Schedules and Exhibits. The following is added to Section 18 at the end: "This Settlement Agreement includes (i) Supplemental Schedules and (ii) Exhibit N ("Illustrative Settlement Percentage Claim Payment and Bank of America Share Calculations"), each as of the Signing Date of this Settlement Agreement."

13. Affirmance. The Parties hereby affirm all other terms, provisions, and conditions of the Settlement Agreement, as amended, which is and shall continue to be in full force and effect and is hereby ratified and confirmed in all respects. All references in the Settlement Agreement to the Settlement Agreement shall mean the Settlement Agreement as amended by the Amendment dated September 24, 2013 and this Second Amendment.

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

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

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

17. Representations and Warranties. Each of the Parties (and for purposes of this Section 17, CHL is included as a Party) represents that: (1) it has full power and authority to execute and deliver this Second Amendment and to perform its obligations under the Second Amendment; (2) it has taken all necessary corporate action to authorize the execution and delivery of this Second Amendment and the performance of its duties and obligations contemplated hereby, (3) none of such execution, delivery, or performance of this Second Amendment and the transactions contemplated hereby: (A) conflicts with the obligations of such Party under any material agreement binding upon it; (B) requires any authorization, consent or approval by, or registration, declaration or filing with, or notice to, any governmental authority, agency or instrumentality, or any third party, except for (i) any authorization, consent, approval, registration, declaration, filing, or notice that has been obtained or given prior to the date hereof and (ii) the Additional GSE Consents; (C) results in, or requires, the creation or imposition of any lien or other charge upon or with respect to any of the assets now owned or hereafter acquired by a Party, and (4) this Second Amendment, upon execution and delivery, is a valid and binding agreement, enforceable against it in accordance with the terms of the Settlement Agreement, as amended by this Second Amendment, subject to applicable bankruptcy, insolvency, reorganization, moratorium, insurers' rehabilitation and liquidation, and other similar laws affecting creditor's rights generally and general principles of equity.

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

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

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

MORTGAGE GUARANTY INSURANCE CORPORATION

/s/ Patrick Sinks
Name: Patrick Sinks
Title: President and Chief Operating Officer

BANK OF AMERICA, N.A.

/s/ John S. Cousins
Name: John S. Cousins
Title: Senior Vice President

COUNTRYWIDE HOME LOANS, INC.

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

Exhibit N
Illustrative Settlement Percentage Claim Payment and Bank of America Share Calculations

	Percentage Guaranty Option (30%)		Pre-Claim Sale Option		Property Acquisition Settlement Option	
	Standard	Settlement Percentage Claim Payment	Standard	Settlement Percentage Claim Payment	Standard	Settlement Percentage Claim Payment
Unpaid Principal Balance	200,000	200,000	200,000	200,000	200,000	200,000
Interest	10,000	10,000	10,000	10,000	10,000	10,000
Expenses	10,000	10,000	10,000	10,000	10,000	10,000
Interest Since Claim Filing					1,000	1,000
Adjusted Claim Amount (After corrections and curtailments)	220,000	220,000	220,000	220,000	221,000	221,000
Less: Net Sales Proceeds			(180,000)	(180,000)		
Plus: Interest to sale closing			10,000	10,000		
Plus: Post Claim Expenses					5,000	5,000
Claim Benefit Amount	**66,000**	66,000	**50,000**	50,000	**226,000**	226,000
Settlement Percentage (%) **		[***]		[***]		[***]
Settlement Percentage Reduction (the Bank of America Share)		[***]		[***]		[***]
Settlement Percentage Claim Payment		**[***]**		**[***]**		**[***]**

*** Examples show the most common amounts included on a claim.**
**** Examples show only the GSE/HFI Settlement Percentage.**

Exhibit 99.15

Execution Copy

FOURTH AMENDMENT TO

CONFIDENTIAL SETTLEMENT AGREEMENT AND RELEASE

This FOURTH AMENDMENT TO CONFIDENTIAL SETTLEMENT AGREEMENT AND RELEASE ("Amendment") is made and is effective as of this 19th day of May, 2014, by and among Mortgage Guaranty Insurance Corporation ("MGIC"), Countrywide Home Loans, Inc. ("CHL") and Bank of America, N.A., in its capacity as master servicer or servicer of Subject Loans ("Servicer"). Capitalized terms used in this Amendment without definition have the meaning given them in the Settlement Agreement.

RECITALS

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

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

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

1. Other Consents. The second sentence of Section 5(a) is amended and restated as follows: "The Parties will cooperate with each other in seeking to obtain Other Consents, which shall be obtained (or not) by October 31, 2014, provided that the Parties may agree in writing to extend the time period for obtaining Other Consents."

2. Termination of Settlement Agreement for Failure to Obtain Other Consent. Sections 5(c)(i) and (ii) are amended and restated as follows:

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

"(ii) If no Other Implementation Date has occurred by October 31, 2014, MGIC, on the one hand, and CHL and Servicer, on the other hand, may terminate this Settlement Agreement by written notice to the other Parties within thirty (30) days thereafter."

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

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

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

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

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

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

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

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

MORTGAGE GUARANTY INSURANCE CORPORATION

/s/ Timothy J. Mattke
Name: Timothy J. Mattke
Title: EVP – Chief Financial Officer

COUNTRYWIDE HOME LOANS, INC.

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

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

/s/ John (Josh) Cousins
Name: John (Josh) Cousins
Title: Senior Vice President

CONFIDENTIAL TREATMENT REQUESTED. INFORMATION FOR WHICH CONFIDENTIAL TREATMENT HAS BEEN REQUESTED IS OMITTED AND MARKED WITH "[***]" AND HAS BEEN FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION.

Execution Copy

Exhibit 99.16

FIFTH AMENDMENT TO

CONFIDENTIAL SETTLEMENT AGREEMENT AND RELEASE

This FIFTH AMENDMENT TO CONFIDENTIAL SETTLEMENT AGREEMENT AND RELEASE ("Fifth Amendment") is made and is effective as of this 5th day of June, 2014, by and among Mortgage Guaranty Insurance Corporation ("MGIC"), Countrywide Home Loans, Inc. ("CHL") and Bank of America, N.A., in its capacity as master servicer or servicer of Subject Loans ("Servicer"). Capitalized terms used in this Amendment without definition have the meanings given them in the Settlement Agreement.

RECITALS

WHEREAS, MGIC, CHL, and Servicer are Parties to a Confidential Settlement Agreement and Release, dated as of April 19, 2013, as amended by the Amendment to Confidential Settlement Agreement and Release, dated as of September 24, 2013, the Second Amendment to Confidential Settlement Agreement and Release, dated as of November 8, 2013, the Third Amendment to Confidential Settlement Agreement and Release, dated as of March 13, 2014, and the Fourth Amendment to Confidential Settlement Agreement and Release, dated as of May 19, 2014 (as amended, collectively, the "Settlement Agreement"); and

WHEREAS, the Parties desire further to amend the Settlement Agreement (i) to remove the CHL/PLS Loans (as defined below) from the Settlement Agreement effective as of the Fifth Amendment Signing Date (as defined below) and (ii) to reduce the Settlement Payment and the Denial Settlement Payment by the amount attributable to the CHL/PLS Loans, such amount to be disbursed to MGIC from the MGIC Escrow Account.

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

1. Definitions. The following definitions are amended or added in Section 1 of the Settlement Agreement:

   a. Section 1(u) is amended by deleting the current section and replacing it as follows:

      "(u) **"Denial Settlement Payment"** means the amount of [***], to be deposited to the MGIC Escrow Account by MGIC as set forth in Section 2(a), and disbursed as set forth in Section 8. The Denial Settlement Payment with respect to the Countrywide PLS Loans and the Third Party PLS/Other Loans shall be allocated among the loans identified on Schedule 9, as revised on the Fifth Amendment Signing Date in accordance with Attachment A to the Fifth Amendment, as finalized pursuant to Section 3(b)(iii)."

b. Section 1(kkk) is amended by deleting the current section and replacing it as follows:

> "(kkk) "**Settlement Payment**" means the amount of [***] (calculated by [***] *less* [***] (the applicable Premium Refund Credit with respect to both Categories, and the premium refunds that have escheated to the states pursuant to applicable law with respect to both Categories)), to be deposited to the MGIC Escrow Account by MGIC as set forth in Section 2(a), and disbursed as set forth in Section 8. The Settlement Payment shall be allocated among each Trust/Other as identified on Schedule 2, as revised on the Fifth Amendment Signing Date in accordance with Attachment A to the Fifth Amendment, as finalized pursuant to Section 3(b)(i), in amounts equal to the product of (x) the percentage calculated by dividing (i) the sum of all Claim benefit amounts calculated by MGIC using the Claim amounts submitted to MGIC of all Past Coverage Determination Loans held by each such Trust/Other by (ii) the sum of all Claim benefit amounts calculated by MGIC using the Claim amounts submitted to MGIC of all Past Coverage Determination Loans in a given Category and (y) the amount of the Settlement Payment identified in Section 2(a) with respect to such Category."

c. The following Section 1(aaaa) is added: "**"CHL/PLS Loans"** means the Countrywide PLS Loans and Third Party PLS/Other Loans listed on Attachment A to the Fifth Amendment."

d. The following Section 1(bbbb) is added: "**"Fifth Amendment"** means the Fifth Amendment, dated as of June 5, 2014, to the Settlement Agreement."

e. The following Section 1(cccc) is added: "**"Fifth Amendment Signing Date"** means the date the Fifth Amendment is made, as specified in the Preamble to the Fifth Amendment."

f. The following Section 1(dddd) is added**:** "**"Refund Payment"** means the amount of [***] to be paid to MGIC pursuant to Section 8(f)."

g. Each of the definitions of "Covered Loans," "Past Coverage Determination Loans," "Pending Rescission Loans," "Recently Denied Loans," "Recently Paid Loans," "Recently Rescinded Loans," "Subject Loan," and "True-Up Loans" is amended by adding the following at the end of each definition "<u>provided</u> that the CHL/PLS Loans shall be removed from the corresponding Schedule effective as of the Fifth Amendment Signing Date."

2. Reduction of Settlement Payment to Reflect Removal of CHL/PLS Loans.

   a. Section 2(a)(i)(A) is amended by deleting the current section and replacing it as follows:

      "(A) [***] (applicable Settlement Payment after deductions) (calculated by: [***] (applicable Settlement Payment before deductions) *less* [***] (the sum of the applicable Premium Refund Credit and those premium refunds that have escheated to the states pursuant to applicable law)); and

      (B) [***] (applicable Denial Settlement Payment); and"

   b. Section 8(f) is added as follows:

      "(f) Refund to MGIC. As soon as practicable after the Fifth Amendment Signing Date, the Parties shall jointly instruct the escrow agent to disburse to MGIC the amount of funds in the MGIC Escrow Account equal to the Refund Payment."

   c. Section 2(e)(iv) is added as follows:

      "iv. Effective as of the Fifth Amendment Signing Date, the balance in the MGIC Escrow Account shall be reduced by an amount equal to the Refund Payment and such amount shall be paid to MGIC. The Parties acknowledge and agree that the payment of the Refund Payment to MGIC does not constitute a disbursement to MGIC for the purposes of the grant of a security interest under Section 2(e)(i) above but rather reflects the amendment of the definitions of Settlement Payment and Denial Settlement Payment. Servicer releases and discharges any security interest which may have been granted to Servicer by MGIC in Section 2(e)(i) to the portion of the Settlement Payment and the Denial Settlement Payment that constitutes the Refund Payment and waives any and all claims or interest it has or might have in and to the Refund Payment. Servicer shall promptly file an amendment to the UCC-1 financing statement previously filed by Servicer with respect to the disbursements from the MGIC Escrow Account, such amendment to reflect the termination of Servicer's security interest, if any, in the Refund Payment."

3. Failure to Obtain Certain Consents. Section 4(g) is added as follows:

   "(g) If either MGIC or Servicer terminates the CHL/GSE/PLS Terminated Provisions (as defined in the Second Amendment, dated as of June 5, 2014 to the MGIC/BANA Settlement Agreement), then the CHL/PLS Loans, (x) if an Other Implementation Date has occurred, shall become Non-Consenting Loans at the time that the Non-Consenting Loans are listed on Schedule 11, or (y) if this Settlement Agreement is terminated, shall be subject to the termination provisions in Section 4(f)."

4. Corrections to the Settlement Agreement.

    a. The reference in the twelfth line of Section 4(f) to "this Section 4(e)" is amended and replaced with the words "this Section 4(f)."

    b. The reference in Section 5(c)(iii) to "Section 4(d)" is amended and replaced with the words "Section 4(f)."

5. Settlement Agreement. The Parties hereby affirm all other terms, provisions, and conditions of the Settlement Agreement, as amended, which is and shall continue to be in full force and effect and is hereby ratified and confirmed in all respects. All references in the Settlement Agreement to the Settlement Agreement shall mean the Settlement Agreement as amended by all Amendments.

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

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

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

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

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

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

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

MORTGAGE GUARANTY INSURANCE CORPORATION

By: /s/ Patrick Sinks
Name: Patrick Sinks
Title: President and Chief Operating Officer

COUNTRYWIDE HOME LOANS, INC.

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

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

By: /s/ John S. Cousins
Name: John S. Cousins
Title: Senior Vice President