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 **September 30, 2013**

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** (Address of principal executive offices)	**53202** (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	10/31/13	337,758,169

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
September 30, 2013 and December 31, 2012
(Unaudited)

	September 30, 2013	December 31, 2012
	(In thousands)	
ASSETS		
Investment portfolio (notes 7 and 8):		
Securities, available-for-sale, at fair value:		
Fixed maturities (amortized cost, 2013 - $5,078,232; 2012 - $4,185,937)	$ 5,017,288	$ 4,227,339
Equity securities	2,884	2,936
Total investment portfolio	5,020,172	4,230,275
Cash and cash equivalents	458,070	1,027,625
Restricted cash and cash equivalents (note 1)	60,348	-
Accrued investment income	34,250	27,243
Reinsurance recoverable on loss reserves (note 4)	70,621	104,848
Reinsurance recoverable on paid losses	14,377	15,605
Premium receivable	65,262	67,828
Home office and equipment, net	26,411	27,190
Deferred insurance policy acquisition costs	12,518	11,245
Other assets	95,509	62,465
Total assets	$ 5,857,538	$ 5,574,324
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Loss reserves (note 12)	$ 3,352,994	$ 4,056,843
Premium deficiency reserve (note 13)	57,035	73,781
Unearned premiums	149,369	138,840
Senior notes (note 3)	82,758	99,910
Convertible senior notes (note 3)	845,000	345,000
Convertible junior debentures (note 3)	389,522	379,609
Other liabilities	277,814	283,401
Total liabilities	5,154,492	5,377,384
Contingencies (note 5)		
Shareholders' equity (note 14):		
Common stock (one dollar par value, shares authorized 1,000,000; shares issued 2013 - 340,047; 2012 - 205,047; shares outstanding 2013 - 337,758; 2012 - 202,032)	340,047	205,047
Paid-in capital	1,659,914	1,135,296
Treasury stock (shares at cost 2013 - 2,289; 2012 - 3,015)	(64,435)	(104,959)
Accumulated other comprehensive loss, net of tax (note 9)	(159,270)	(48,163)
Accumulated deficit	(1,073,210)	(990,281)
Total shareholders' equity	703,046	196,940
Total liabilities and shareholders' equity	$ 5,857,538	$ 5,574,324

See accompanying notes to consolidated financial statements.

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
Three and Nine Months Ended September 30, 2013 and 2012
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In thousands, except per share data)			
Revenues:				
Premiums written:				
Direct	$ 247,254	$ 271,360	$ 749,282	$ 782,094
Assumed	509	597	1,591	1,852
Ceded	(13,485)	(8,452)	(31,473)	(26,850)
Net premiums written	234,278	263,505	719,400	757,096
(Increase) decrease in unearned premiums, net	(2,421)	2,927	(2,707)	14,369
Net premiums earned	231,857	266,432	716,693	771,465
Investment income, net of expenses	20,250	30,394	59,461	99,980
Realized investment gains, net	189	6,184	3,933	110,356
Total other-than-temporary impairment losses	(328)	-	(328)	(339)
Portion of losses recognized in other comprehensive income, before taxes	-	-	-	-
Net impairment losses recognized in earnings	(328)	-	(328)	(339)
Other revenue	2,481	3,209	7,735	25,530
Total revenues	254,449	306,219	787,494	1,006,992
Losses and expenses:				
Losses incurred, net (note 12)	180,189	490,121	642,671	1,378,617
Change in premium deficiency reserve (note 13)	(3,813)	(9,144)	(16,746)	(50,685)
Amortization of deferred policy acquisition costs	2,209	1,939	5,861	5,544
Other underwriting and operating expenses, net	45,761	48,739	139,683	144,387
Interest expense	17,653	24,478	62,001	74,017
Total losses and expenses	241,999	556,133	833,470	1,551,880
Income (loss) before tax	12,450	(249,914)	(45,976)	(544,888)
Provision for (benefit from) income taxes (note 11)	336	(2,972)	2,465	(4,500)
Net income (loss)	$ 12,114	$ (246,942)	$ (48,441)	$ (540,388)
Income (loss) per share (note 6):				
Basic	$ 0.04	$ (1.22)	$ (0.16)	$ (2.68)
Diluted	$ 0.04	$ (1.22)	$ (0.16)	$ (2.68)
Weighted average common shares outstanding - diluted (note 6)	339,426	202,014	302,996	201,851

See accompanying notes to consolidated financial statements.

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Three and Nine Months Ended September 30, 2013 and 2012
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In thousands)			
Net income (loss)	$ 12,114	$ (246,942)	$ (48,441)	$ (540,388)
Other comprehensive income (loss), net of tax (note 9):				
Change in unrealized investment gains and losses	7,277	44,487	(100,796)	6,781
Foreign currency translation adjustment	1,885	1,109	(10,311)	1,468
Other comprehensive income (loss), net of tax	9,162	45,596	(111,107)	8,249
Comprehensive income (loss)	$ 21,276	$ (201,346)	$ (159,548)	$ (532,139)

See accompanying notes to consolidated financial statements.

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
Year Ended December 31, 2012 and Nine Months Ended September 30, 2013
(Unaudited)

	Common stock	Paid-in capital	Treasury stock	Accumulated other comprehensive income (loss)	Accumulated deficit
			(In thousands)		
Balance, December 31, 2011	$ 205,047	$ 1,135,821	$ (162,542)	$ 30,124	$ (11,635)
Net loss					(927,079)
Change in unrealized investment gains and losses, net	-	-	-	(78,659)	-
Reissuance of treasury stock, net	-	(8,749)	57,583	-	(51,567)
Equity compensation	-	8,224	-	-	-
Defined benefit plan adjustments, net	-	-	-	(1,221)	-
Unrealized foreign currency translation adjustment	-	-	-	1,593	-
Balance, December 31, 2012	$ 205,047	$ 1,135,296	$ (104,959)	$ (48,163)	$ (990,281)
Net loss					(48,441)
Change in unrealized investment gains and losses, net (notes 7 and 8)	-	-	-	(100,796)	-
Common stock issuance (note 14)	135,000	528,335	-	-	-
Reissuance of treasury stock, net	-	(7,892)	40,524	-	(34,488)
Equity compensation	-	4,175	-	-	-
Unrealized foreign currency translation adjustment	-	-	-	(10,311)	-
Balance, September 30, 2013	$ 340,047	$ 1,659,914	$ (64,435)	$ (159,270)	$ (1,073,210)

See accompanying notes to consolidated financial statements.

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Nine Months Ended September 30, 2013 and 2012
(Unaudited)

	Nine Months Ended September 30,	
	2013	2012
	(In thousands)	
Cash flows from operating activities:		
Net loss	$ (48,441)	$ (540,388)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and other amortization	53,599	77,226
Deferred tax benefit	(11)	(2,645)
Realized investment gains, excluding impairment losses	(3,933)	(110,356)
Net investment impairment losses	328	339
Gain on repurchases of senior notes	-	(17,775)
Other	(14,147)	(14,449)
Change in certain assets and liabilities:		
Accrued investment income	(7,007)	13,249
Reinsurance recoverable on loss reserves	34,227	36,748
Reinsurance recoverable on paid losses	1,228	3,165
Premium receivable	2,566	2,435
Deferred insurance policy acquisition costs	(1,273)	(2,946)
Loss reserves	(703,849)	(553,511)
Premium deficiency reserve	(16,746)	(50,685)
Unearned premiums	10,529	(14,729)
Income taxes payable (current)	314	1,800
Net cash used in operating activities	(692,616)	(1,172,522)
Cash flows from investing activities:		
Purchase of fixed maturities	(2,669,778)	(3,330,811)
Purchase of equity securities	(69)	(70)
Proceeds from sale of fixed maturities	602,062	3,165,897
Proceeds from maturity of fixed maturities	1,120,152	1,138,371
Net increase (decrease) in payable for securities	317	(13,153)
Net change in restricted cash	(60,348)	-
Net cash (used in) provided by investing activities	(1,007,664)	960,234
Cash flows from financing activities:		
Net proceeds from convertible senior notes	484,625	-
Common stock shares issued	663,335	-
Repurchases of long-term debt	(17,235)	(53,107)
Net cash provided by (used in) financing activities	1,130,725	(53,107)
Net decrease in cash and cash equivalents	(569,555)	(265,395)
Cash and cash equivalents at beginning of period	1,027,625	995,799
Cash and cash equivalents at end of period	$ 458,070	$ 730,404

See accompanying notes to consolidated financial statements.

Note 1 - Basis of Presentation

MGIC Investment Corporation is a holding company which, through Mortgage Guaranty Insurance Corporation ("MGIC"), 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, 2012 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, 2013.

Capital

The insurance laws of 16 jurisdictions, including Wisconsin, our domiciliary state, require a mortgage insurer to maintain a minimum amount of statutory capital relative to 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 "Capital Requirements." While they vary among jurisdictions, the most common Capital Requirements allow for a maximum risk-to-capital ratio of 25 to 1. A risk-to-capital ratio will increase if the percentage decrease in capital exceeds the percentage decrease in insured risk. Therefore, as capital decreases, the same dollar decrease in capital will cause a greater percentage decrease in capital and a greater increase in the risk-to-capital ratio. 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.

During part of 2012 and 2013, MGIC's risk-to-capital ratio exceeded 25 to 1. In March 2013, our holding company issued additional equity and convertible debt securities and transferred $800 million to increase MGIC's capital. At September 30, 2013, MGIC's risk-to-capital ratio was 20.0 to 1, below the maximum allowed by the jurisdictions with Capital Requirements, and its policyholder position was $190 million above the required MPP of $1.2 billion. At September 30, 2013, the risk-to-capital ratio of our combined insurance operations (which includes reinsurance affiliates) was 22.7 to 1. A higher risk-to-capital ratio on a combined basis may indicate that, in order for MGIC to continue to utilize reinsurance arrangements with its subsidiaries or subsidiaries of our holding company, additional capital contributions to the reinsurance affiliates could be needed. These reinsurance arrangements permit MGIC to write insurance with a higher coverage percentage than it could on its own under certain state-specific requirements.

At this time, we expect MGIC to continue to comply with the current Capital Requirements, although we cannot assure you of such compliance. Matters that could negatively affect such compliance are discussed throughout the financial statement footnotes.

If MGIC fails to meet the Capital Requirements 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 were prevented from writing new business in all jurisdictions, our insurance operations in MGIC would be in run-off (meaning no new loans would be insured but loans previously insured would continue to be covered, with premiums continuing to be received and losses continuing to be paid on those loans) until MGIC either met the Capital Requirements or obtained a waiver to allow it to once again write new business.

If MGIC fails to meet the Capital Requirements and is unable to obtain a waiver of them from a jurisdiction other than Wisconsin, MGIC could be prevented from writing new business in that particular jurisdiction. New insurance written in the jurisdictions that have Capital Requirements represented approximately 50% of our new insurance written in the first nine months of 2013.

The National Association of Insurance Commissioners ("NAIC") is reviewing the minimum capital and surplus requirements for mortgage insurers, although it has not established a date by which it must make proposals to change such requirements. Depending on the scope of proposals made by the NAIC, MGIC may be prevented from writing new business in the jurisdictions adopting such proposals. The GSEs, in conjunction with the Federal Housing Finance Agency ("FHFA") are also developing mortgage insurer capital standards that would replace the use of external credit ratings. Revised capital standards are expected to be released in 2013. We have not been informed of the revised capital requirements or their timeframes for effectiveness. We have various alternatives available to improve our existing risk-to-capital position, including contributing additional funds that are on hand today from our holding company to MGIC, entering into additional external reinsurance transactions, seeking approval to write business in MIC and raising additional capital. While there can be no assurance that MGIC would meet the GSE's revised capital requirements by their effective date, we believe we could implement one or more of these alternatives so that we would continue to be an eligible mortgage insurer after the revised capital requirements are fully effective.

A possible future failure by MGIC to meet the Capital 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, we cannot assure you that events that may lead MGIC to fail to meet Capital Requirements would not also result in it not having sufficient claims paying resources. Furthermore, our estimates of MGIC's claims paying resources and claim obligations are based on various assumptions. These assumptions include the timing of the receipt of claims on loans in our delinquency inventory and future claims that we anticipate will ultimately be received, our anticipated rescission activity, premiums, housing values and unemployment rates. These assumptions are subject to inherent uncertainty and require judgment by management. Current conditions in the domestic economy make the assumptions about when anticipated claims will be received, housing values, and unemployment rates highly volatile in the sense that there is a wide range of reasonably possible outcomes. Our anticipated rescission activity is also subject to inherent uncertainty due to the difficulty of predicting the amount of claims whose policies will be rescinded and the outcome of any legal proceedings or settlement discussions related to rescissions. 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 Capital Requirements of a jurisdiction or obtain a waiver of them. MIC is licensed to write business in all jurisdictions and, subject to certain conditions and restrictions, has received the necessary approvals from the OCI and the GSEs to write business. During 2012, MIC began writing new business in the jurisdictions where MGIC did not have waivers of the Capital Requirements. Because MGIC again meets the Capital Requirements, MGIC is again writing new business in all jurisdictions and MIC has suspended writing new business. As of September 30, 2013, MIC had statutory capital of $455 million and risk in force of approximately $950 million.

The OCI and GSE approvals of MIC expire at the end of 2013 and we do not expect to need an extension of such approvals. Fannie Mae's and Freddie Mac's approvals of MIC contain certain conditions and restrictions to its continued effectiveness.

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 $132 million and $63 million were included in MGIC's statutory capital at September 30, 2013 and December 31, 2012, respectively.

Reclassifications

Certain reclassifications have been made in the accompanying financial statements to 2012 amounts to conform to 2013 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. 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 June 2011, as amended in December 2011, new guidance was issued requiring entities to present net income and other comprehensive income in either a single continuous statement or in two separate, but consecutive, statements of net income and other comprehensive income. The option to present items of other comprehensive income in the statement of changes in equity was eliminated. Our disclosures reflected the requirements of this new guidance beginning with the first quarter of 2012. Other provisions of this guidance regarding reclassifications out of other comprehensive income were finalized in February 2013. Our disclosures reflect the requirements of this additional guidance beginning with the first quarter of 2013.

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 evaluating the impact this new guidance will have on our consolidated financial statements and disclosures. We do not expect the impact to be significant.

Note 3 – Debt

5.375% Senior Notes – due November 2015

At September 30, 2013 and December 31, 2012 we had outstanding $82.9 million and $100.1 million, respectively, of 5.375% Senior Notes due in November 2015. During the second quarter of 2013 we repurchased $17.2 million of those Senior Notes at par value. Covenants in the Senior Notes include the requirement that there be no liens on the stock of the designated subsidiaries unless the Senior Notes are equally and ratably secured; that there be no disposition of the stock of designated subsidiaries unless all of the stock is disposed of for consideration equal to the fair market value of the stock; and that we and the designated subsidiaries preserve our corporate existence, rights and franchises unless we or any such subsidiary determines that such preservation is no longer necessary in the conduct of its business and that the loss thereof is not disadvantageous to the Senior Notes. A designated subsidiary is any of our consolidated subsidiaries which has shareholders' equity of at least 15% of our consolidated shareholders' equity. We were in compliance with all covenants at September 30, 2013.

If we fail to meet any of the covenants of the Senior Notes; there is a failure to pay when due at maturity, or a default results in the acceleration of maturity of, any of our other debt in an aggregate amount of $40 million or more; or we fail to make a payment of principal on the Senior Notes when due or a payment of interest on the Senior Notes within thirty days after due and we are not successful in obtaining an agreement from holders of a majority of the Senior Notes to change (or waive) the applicable requirement or payment default, then the holders of 25% or more of our Senior Notes would have the right to accelerate the maturity of those notes. In addition, the trustee of the Senior Notes could, independent of any action by holders of Senior Notes, accelerate the maturity of the Senior Notes. The amounts we owe under the Senior Notes would also be accelerated upon certain bankruptcy or insolvency-related events involving our holding company, including certain events involving the appointment of a custodian, receiver, liquidator, assignee, trustee or other similar official (collectively, an "Insolvency Official") of our holding company or any substantial part of its property or the consent of our holding company to such an appointment. The description above is not intended to be complete in all respects. Moreover, the 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.

Interest payments on the Senior Notes were $2.8 million and $4.8 million for the nine months ended September 30, 2013 and 2012, respectively.

5% Convertible Senior Notes – due May 2017

At September 30, 2013 and December 31, 2012 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 will mature on May 1, 2017. Covenants in the 5% Notes include a requirement to notify holders in advance of certain events and that we and the designated subsidiaries (defined above) preserve our corporate existence, rights and franchises unless we or any such subsidiary determines that such preservation is no longer necessary in the conduct of its business and that the loss thereof is not disadvantageous to the 5% Notes.

If an "event of default" under the 5% Notes occurs, including if: we fail to meet any of the covenants of the 5% Notes and such failure continues for 60 days after we receive notice from holders of 25% or more of the 5% Notes; there is a failure to pay when due at maturity or otherwise, or a default under any of our other debt results in the acceleration of maturity of, any of our other debt in an aggregate amount of $40 million or more; a final judgment for the payment of $40 million or more (excluding any amounts covered by insurance) is rendered against us or any of our subsidiaries which judgment is not discharged or stayed within certain time limits; or we fail to make a payment of principal on the 5% Notes when due or a payment of interest on the 5% Notes within thirty days after due and we are not successful in obtaining an agreement from holders of a majority of the 5% Notes to change (or waive) the applicable requirement or payment default, then the holders of 25% or more of the 5% Notes would have the right to accelerate the maturity of those notes. In addition, the trustee of the 5% Notes could, independent of any action by holders, accelerate the maturity of the 5% Notes if an "event of default" occurs. The amounts we owe under the 5% Notes would also be accelerated upon certain bankruptcy or insolvency-related events involving our holding company or a Significant Subsidiary, including the failure to have dismissed or stayed a petition seeking relief under bankruptcy or insolvency laws or the consent of our holding company or a Significant Subsidiary to the appointment of an Insolvency Official for all or substantially all of their respective property. "Significant Subsidiary" is defined in Regulation S-X under the Securities Act of 1933 and is measured as of the most recently completed fiscal year. As of December 31, 2012, MGIC and MGIC Reinsurance Corporation of Wisconsin were our Significant Subsidiaries.

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, discussed above, and will be senior in right of payment to our existing Convertible Junior Debentures, discussed below. Debt issuance costs are being amortized to interest expense over the contractual life of the 5% Notes. The provisions of the 5% Notes are complex. The description above is not intended to be complete in all respects. Moreover, that description is qualified in its entirety by the terms of the notes, which are contained in the Supplemental Indenture, dated as of April 26, 2010, between us and U.S. Bank National Association, as trustee, and the Indenture dated as of October 15, 2000, between us and the trustee.

Interest payments on the 5% Notes were $8.6 million in each of the nine months ended September 30, 2013 and 2012.

2% Convertible Senior Notes – due April 2020

At September 30, 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. See Note 14 – "Shareholders' Equity" for information regarding the use of such proceeds. Interest on the 2% Notes will be payable semi-annually in arrears on April 1 and October 1 of each year, beginning on October 1, 2013. The 2% Notes will mature on April 1, 2020, unless earlier repurchased by us or converted. Subject to certain limitations the 2% Notes are convertible at the holder's option 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. Before January 1, 2020, conversions may only occur under certain circumstances, including upon redemption of the 2% Notes. On or after January 1, 2020, holders may convert their notes at any time. 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 will be 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.

Covenants in the 2% Notes include a requirement to notify holders in advance of certain events and that we and the designated subsidiaries (defined above) preserve our corporate existence, rights and franchises unless we or any such subsidiary determines that such preservation is no longer necessary in the conduct of its business and that the loss thereof is not disadvantageous to the 2% Notes.

If an "event of default" under the 2% Notes occurs, including if: we fail to meet any of the covenants of the 2% Notes and such failure continues for 60 days after we receive notice from holders of 25% or more of the 2% Notes; there is a failure to pay when due at maturity or otherwise, or a default under any of our other debt results in the acceleration of maturity of, any of our other debt in an aggregate amount of $40 million or more; a final judgment for the payment of $40 million or more (excluding any amounts covered by insurance) is rendered against us or any of our subsidiaries which judgment is not discharged or stayed within certain time limits; or we fail to make a payment of principal on the 2% Notes when due or a payment of interest on the 2% Notes within thirty days after due and we are not successful in obtaining an agreement from holders of a majority of the 2% Notes to change (or waive) the applicable requirement or payment default, then the holders of 25% or more of the 2% Notes would have the right to accelerate the maturity of those notes. In addition, the trustee of the 2% Notes could, independent of any action by holders, accelerate the maturity of the 2% Notes if an "event of default" occurs. The amounts we owe under the 2% Notes would also be accelerated upon certain bankruptcy or insolvency-related events involving our holding company or a Significant Subsidiary, including the failure to have dismissed or stayed a petition seeking relief under bankruptcy or insolvency laws or the consent of our holding company or a Significant Subsidiary to the appointment of an Insolvency Official for all or substantially all of their respective property.

The provisions of the 2% Notes are complex. The description above is not intended to be complete in all respects. Moreover, that description is qualified in its entirety by the terms of the notes, which are contained in the 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.

9% Convertible Junior Subordinated Debentures – due April 2063

At September 30, 2013 and December 31, 2012 we had outstanding $389.5 million principal amount of 9% Convertible Junior Subordinated Debentures due in 2063 (the "debentures"). At December 31, 2012 the amortized value of the principal amount of the debentures is reflected as a liability on our consolidated balance sheet of $379.6 million, with the unamortized discount reflected in equity. Beginning March 31, 2013, including at September 30, 2013, the full principal amount of the debentures was reflected as a liability on our consolidated balance sheet. The debentures rank junior to all of our existing and future senior indebtedness.

Violations of the covenants under the Indenture governing the debentures, including covenants to provide certain documents to the trustee, are not events of default under the Indenture and would not allow the acceleration of amounts that we owe under the debentures. Similarly, events of default under, or acceleration of, any of our other obligations, including those described above, would not allow the acceleration of amounts that we owe under the debentures. However, if we fail to pay principal or interest when due under the debentures, then the holders of 25% or more of the debentures would have the right to accelerate the maturity of them. In addition, the trustee of the debentures could, independent of any action by holders, accelerate the maturity of the debentures. The amounts we owe under the Convertible Junior Subordinated Debentures would also be accelerated upon certain bankruptcy or insolvency-related events involving our holding company, including the appointment of a custodian of it or any substantial part of its properties.

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. 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.

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

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

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

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

The provisions of the debentures are complex. The description above is not intended to be complete in all respects. Moreover, that description is qualified in its entirety by the terms of the debentures, which are contained in the Indenture, dated as of March 28, 2008, between us and U.S. Bank National Association, as trustee.

We may redeem the debentures 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 $35.8 million and $17.5 for the nine months ended September 30, 2013 and 2012, respectively.

All debt

The par value and fair value of our debt at September 30, 2013 and December 31, 2012 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)		
September 30, 2013					
Liabilities:					
Senior Notes	$ 82,883	$ 85,369	$ 85,369	$ -	$ -
Convertible Senior Notes due 2017	345,000	370,754	370,754	-	-
Convertible Senior Notes due 2020	500,000	620,000	620,000	-	-
Convertible Junior Subordinated Debentures	389,522	428,233	-	428,233	-
Total Debt	$ 1,317,405	$ 1,504,356	$ 1,076,123	$ 428,233	$ -
December 31, 2012					
Liabilities:					
Senior Notes	$ 100,118	$ 79,594	$ 79,594	$ -	$ -
Convertible Senior Notes due 2017	345,000	242,880	242,880	-	-
Convertible Junior Subordinated Debentures	389,522	173,096	-	173,096	-
Total Debt	$ 834,640	$ 495,570	$ 322,474	$ 173,096	$ -

The fair value of our Senior Notes and Convertible Senior Notes was determined using publicly available trade information and 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 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 September 30, 2013, we had approximately $594 million in cash and investments at our holding company. The net unrealized losses on our holding company investment portfolio were approximately $6.9 million at September 30, 2013. The modified duration of the holding company investment portfolio, excluding cash and cash equivalents, was 2.6 years at September 30, 2013.

Note 4 – Reinsurance

MGIC has obtained both captive and non-captive reinsurance in the past. In a captive reinsurance arrangement, the reinsurer is affiliated with the lender for whom MGIC provides mortgage insurance.

Since June 2005, various state and federal regulators have conducted investigations or requested information regarding captive mortgage reinsurance arrangements in which we participated. In April 2013, the U.S. District Court approved a settlement between MGIC and the Consumer Financial Protection Bureau ("CFPB") that resolved federal investigation of MGIC's participation in captive reinsurance arrangements in the mortgage insurance industry. The settlement concludes the investigation with respect to MGIC without the CFPB or the court making any findings of wrongdoing. Three other mortgage insurers agreed to similar settlements. As part of the settlements, MGIC and the 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 approximately $71 million at September 30, 2013 which was supported by $234 million of trust assets, while at December 31, 2012 the reinsurance recoverable on loss reserves related to captives was $104 million which was supported by $303 million of trust assets. At each of September 30, 2013 and December 31, 2012 there was an additional $25 million of trust assets in captive agreements where there was no related reinsurance recoverable on loss reserves. Trust fund assets of $3.3 million and $0.4 million were transferred to us as a result of captive terminations during the first nine months of 2013 and 2012, respectively.

The CFPB's investigation involved captive reinsurance. In April 2013, we entered into a quota share reinsurance agreement with a group of unaffiliated reinsurers. These reinsurers are not captive reinsurers. 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. Early termination 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. The impact of the reinsurance agreement was not significant to our results for the third quarter or first nine months of 2013.

Note 5 – Litigation and Contingencies

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 defendants violated RESPA by paying excessive premiums to the lenders' captive reinsurer in relation to the risk assumed by that captive. 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 April 2013, the U.S. District Court 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 provision of RESPA.

We remain subject to various state investigations or information requests regarding captive mortgage reinsurance arrangements, including (1) a request received by MGIC 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; and (2) requests received 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. On August 28, 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 do not believe a resolution of this Minnesota matter would be material to our financial statements or position. 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-pay 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.

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.

Since December 2009, we have been involved in legal proceedings with 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. From January 1, 2008 through September 30, 2013, rescissions of coverage on Countrywide-related loans mitigated our paid losses on the order of $445 million. This amount is the amount we estimate we would have paid had the coverage not been rescinded. In addition, in connection with mediation we were holding with Countrywide, we voluntarily suspended rescissions related to loans that we believed could be covered by a settlement.

In April 2013, MGIC entered into separate settlement agreements with CHL and BANA (which agreements have been amended by amendments that were technical in nature), pursuant to which the parties will settle the Countrywide litigation as it relates to MGIC's rescission practices. The agreement with BANA covers loans which had been sold to the GSEs by CHL, including loans subsequently repurchased by BANA, as well as other CHL-originated loans owned by BANA or one of its affiliates. Both GSEs have consented to the agreement with BANA and implementation began November 1, 2013. As of September 30, 2013, rescissions of coverage on approximately 2,100 loans under the agreement with BANA, representing total potential claim payments of approximately $150 million, had been suspended. We expect to process the suspended rescissions beginning in November 2013 and expect most of the associated claims will be paid in accordance with our practice. The agreement with CHL covers loans that were purchased by non-GSE investors, including securitization trusts (the "other investors"). The agreement with CHL 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 no earlier than the first quarter of 2014. As of September 30, 2013, rescissions of coverage on approximately 800 loans under the agreement with CHL, representing total potential claim payments of approximately $70 million, had been suspended. While there can be no assurance that the agreement with CHL will be implemented, we have determined that its implementation is probable.

The pending arbitration proceedings concerning the loans covered by the BANA Agreement have been dismissed, the mutual releases between parties regarding such loans have become effective and the litigation between the parties regarding such loans is to be dismissed. The pending arbitration proceeding between the parties regarding the loans subject to the CHL proceeding is stayed. Upon obtaining a specified number of consents by or on behalf of the other investors and also upon the conclusion of the period in the CHL Agreement for obtaining consents by or on behalf of the other investors, all legal proceedings will be dismissed and the parties will provide mutual releases, in each case limited as to the loans held by the other investors that consent to the CHL Agreement.

We recorded the estimated impact of the agreements with BANA and CHL, including the payments of claims associated with the suspended rescissions being made beginning in November 2013 (and another probable settlement) in our financial statements for the quarter ending December 31, 2012. If we are not able to implement the agreement with CHL, we intend to defend MGIC against any related legal proceedings, vigorously.

In addition to the suspended Countrywide rescissions, as of September 30, 2013, coverage on approximately 540 loans, representing total potential claim payments of approximately $38 million, was affected by our decision to suspend rescissions for customers for which we consider settlement agreements probable.

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. The settlement with Countrywide may encourage other customers to pursue remedies against us. From January 1, 2008 through September 30, 2013, we estimate that total rescissions mitigated our incurred losses by approximately $2.9 billion, which included approximately $3.0 billion of mitigation on paid losses, excluding $0.6 billion that would have been applied to a deductible. At September 30, 2013, we estimate that our total loss reserves were benefited from anticipated rescissions by approximately $0.1 billion.

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 2012 and the first nine months of 2013, curtailments reduced our average claim paid by approximately 4.1% and 5.5%, respectively. In addition, the claims submitted to us sometimes include costs and expenses not covered by our insurance policies, such as mortgage insurance premiums, 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. Historically, we have not had material disputes regarding our curtailments or other adjustments.

The Agreements referred to above do not resolve assertions by Countrywide that MGIC has improperly curtailed numerous insurance coverage claims. As of the fourth quarter of 2012, Countrywide asserted that the amount of disputed curtailments approximated $40 million. MGIC and Countrywide have agreed to mediate this matter and to enter into arbitration if the mediation does not resolve the matter. We do not believe a loss is probable regarding this curtailment dispute and have not accrued any reserves that would reflect an adverse outcome to this dispute. We intend to defend vigorously our position regarding the correctness of these curtailments under our insurance policy. Although we have not had other material objections to our curtailment and adjustment practices, there can be no assurances that we will not face additional challenges to such practices.

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. One of those lawsuits remains pending and the other seven lawsuits have been dismissed without any further opportunity to appeal. The damages sought in the remaining case are substantial. We deny any wrongdoing and intend to defend ourselves vigorously against the allegations in the lawsuits.

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. These obligations have been primarily funded by contributions from our holding company and, in part, from the operations of the subsidiary. A generally positive economic environment for residential real estate that continued until approximately 2007 may have mitigated the effect of some of these costs in previous years. Historically, a material portion of our new insurance written through the flow channel has involved loans for which that subsidiary provided contract underwriting services, including new insurance written between 2006 and 2008. Claims for remedies may be made a number of years after the underwriting work was performed. We believe the rescission of mortgage insurance coverage on loans for which the subsidiary provided contract underwriting services may make a claim for a contract underwriting remedy more likely to occur. 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 the first nine months of 2013 was approximately $4.4 million, 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 0.1 million for the nine months ended September 30, 2013 and 1.1 million for each of the three and nine months ended September 30, 2012 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 months ended September 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, stock options and the dilutive effect of our convertible debt. In accordance with accounting guidance, if we report a net loss from continuing operations then our diluted EPS is computed in the same manner as the basic EPS. In addition if any common stock equivalents are anti-dilutive they are excluded from the calculation. The following includes a reconciliation of the weighted average number of shares; however for the three months ended September 30, 2013 and 2012 common stock equivalents of 126.5 million and 55.4 million, respectively, and for the nine months ended September 30, 2013 and 2012 common stock equivalents of 109.6 million and 55.6 million, respectively, were not included because they were anti-dilutive.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In thousands, except per share data)			
Basic earnings per share:				
Weighted average common shares outstanding	337,868	202,014	302,996	201,851
Net income (loss)	$ 12,114	$ (246,942)	$ (48,441)	$ (540,388)
Basic income (loss) per share	$ 0.04	$ (1.22)	$ (0.16)	$ (2.68)
Diluted earnings per share:				
Weighted-average shares - Basic	337,868	202,014	302,996	201,851
Common stock equivalents	1,558	-	-	-
Weighted-average shares - Diluted	339,426	202,014	302,996	201,851
Net income (loss)	$ 12,114	$ (246,942)	$ (48,441)	$ (540,388)
Diluted income (loss) per share	$ 0.04	$ (1.22)	$ (0.16)	$ (2.68)

Note 7 – Investments

The amortized cost, gross unrealized gains and losses and fair value of the investment portfolio at September 30, 2013 and December 31, 2012 are shown below.

September 30, 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	$ 803,637	$ 1,853	$ (18,723)	$ 786,767
Obligations of U.S. states and political subdivisions	920,006	7,294	(14,467)	912,833
Corporate debt securities	2,180,842	8,884	(25,268)	2,164,458
Asset-backed securities	340,273	1,049	(508)	340,814
Residential mortgage-backed securities	395,664	162	(18,261)	377,565
Commercial mortgage-backed securities	260,130	90	(6,413)	253,807
Collateralized loan obligations	61,336	-	(831)	60,505
Debt securities issued by foreign sovereign governments	116,344	5,162	(967)	120,539
Total debt securities	5,078,232	24,494	(85,438)	5,017,288
Equity securities	2,867	29	(12)	2,884
Total investment portfolio	$ 5,081,099	$ 24,523	$ (85,450)	$ 5,020,172

December 31, 2012	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	$ 863,282	$ 3,040	$ (71)	$ 866,251
Obligations of U.S. states and political subdivisions	795,935	16,965	(506)	812,394
Corporate debt securities	1,469,844	13,813	(2,716)	1,480,941
Asset-backed securities	322,802	1,657	(23)	324,436
Residential mortgage-backed securities	451,352	871	(1,314)	450,909
Commercial mortgage-backed securities	150,232	524	(414)	150,342
Debt securities issued by foreign sovereign governments	132,490	9,784	(208)	142,066
Total debt securities	4,185,937	46,654	(5,252)	4,227,339
Equity securities	2,797	139	-	2,936
Total investment portfolio	$ 4,188,734	$ 46,793	$ (5,252)	$ 4,230,275

(1) At September 30, 2013 and December 31, 2012, 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 12% invested in corporate securities and 4% in cash equivalents. Ninety-three percent of the Australian portfolio is rated AAA, by one or more of Moody's, Standard & Poor's and Fitch Ratings, and the remaining 7% is rated AA.

The amortized cost and fair values of debt securities at September 30, 2013, 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.

September 30, 2013	Amortized Cost	Fair Value
	(In thousands)	
Due in one year or less	$ 793,035	$ 794,081
Due after one year through five years	1,876,491	1,881,820
Due after five years through ten years	870,872	846,993
Due after ten years	480,431	461,703
	$ 4,020,829	$ 3,984,597
Asset-backed securities	340,273	340,814
Residential mortgage-backed securities	395,664	377,565
Commercial mortgage-backed securities	260,130	253,807
Collateralized loan obligations	61,336	60,505
Total at September 30, 2013	$ 5,078,232	$ 5,017,288

At September 30, 2013 and December 31, 2012, the investment portfolio had gross unrealized losses of $85.5 million and $5.3 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:

September 30, 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	$ 466,889	$ 18,723	$ -	$ -	$ 466,889	$ 18,723
Obligations of U.S. states and political subdivisions	450,898	14,426	1,726	41	452,624	14,467
Corporate debt securities	1,265,779	24,940	14,089	328	1,279,868	25,268
Asset-backed securities	84,000	508	-	-	84,000	508
Residential mortgage-backed securities	348,693	17,796	24,744	465	373,437	18,261
Commercial mortgage-backed securities	221,265	6,413	177	-	221,442	6,413
Collateralized loan obligations	60,505	831	-	-	60,505	831
Debt securities issued by foreign sovereign governments	25,461	777	7,037	190	32,498	967
Equity securities	977	12	-	-	977	12
Total investment portfolio	$ 2,924,467	$ 84,426	$ 47,773	$ 1,024	$ 2,972,240	$ 85,450

December 31, 2012	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	$ 24,094	$ 71	$ -	$ -	$ 24,094	$ 71
Obligations of U.S. states and political subdivisions	156,111	505	1,006	1	157,117	506
Corporate debt securities	280,765	2,714	3,353	2	284,118	2,716
Asset-backed securities	29,675	23	-	-	29,675	23
Residential mortgage-backed securities	315,000	982	19,939	332	334,939	1,314
Commercial mortgage-backed securities	72,689	414	-	-	72,689	414
Debt securities issued by foreign sovereign governments	14,695	208	-	-	14,695	208
Total investment portfolio	$ 893,029	$ 4,917	$ 24,298	$ 335	$ 917,327	$ 5,252

The unrealized losses in all categories of our investments at September 30, 2013 and December 31, 2012 were primarily caused by the difference in interest rates at September 30, 2013 and December 31, 2012, respectively, 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 first nine months of 2013 and 2012 there were other-than-temporary impairments (“OTTI”) recognized of $0.3 million.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In thousands)			
Net realized investment gains (losses) and OTTI on investments:				
Fixed maturities	$ (393)	$ 8,901	$ 2,755	$ 110,335
Equity securities	254	30	850	424
Other	-	(2,747)	-	(742)
	$ (139)	$ 6,184	$ 3,605	$ 110,017

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In thousands)			
Net realized investment gains (losses) and OTTI on investments:				
Gains on sales	$ 391	$ 10,559	$ 5,352	$ 118,599
Losses on sales	(202)	(4,375)	(1,419)	(8,243)
Impairment losses	(328)	-	(328)	(339)
	$ (139)	$ 6,184	$ 3,605	$ 110,017

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

To determine the fair value of securities available-for-sale in Level 1 and Level 2 of the fair value hierarchy, independent pricing sources have been utilized. One price is provided per security based on observable market data. To ensure securities are appropriately classified in the fair value hierarchy, we review the pricing techniques and methodologies of the independent pricing sources and believe that their policies adequately consider market activity, either based on specific transactions for the issue valued or based on modeling of securities with similar credit quality, duration, yield and structure that were recently traded. A variety of inputs are utilized 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.

Assets classified as Level 3 are as follows:

- Securities available-for-sale classified in Level 3 are not readily marketable and are valued using internally developed models based on the present value of expected cash flows. Our Level 3 securities, at December 31, 2012, primarily consisted of auction rate securities for which observable inputs or value drivers were unavailable. Due to limited market information, we utilized a discounted cash flow ("DCF") model to derive an estimate of fair value of these assets at December 31, 2012. The DCF model for estimating the fair value of the auction rate securities as of December 31, 2012 was based on the following key assumptions:

  - Nominal credit risk as substantially all of the underlying collateral of these securities is ultimately guaranteed by the United States Department of Education;
  - Time to liquidity through December 31, 2013;
  - Continued receipt of contractual interest; and
  - Discount rates ranging from 16.87% to 18.35%, which include a spread for liquidity risk.

During the first three months of 2013 we sold our remaining auction rate securities. At September 30, 2013, the majority of the $3 million balance of Level 3 securities is state premium tax credit investments. The state premium tax credit investments have an average maturity of under 5 years, credit ratings of AA+ or higher, and their balance reflects their remaining scheduled payments discounted at an average annual rate of 7.3%.

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

Fair value measurements for assets measured at fair value included the following as of September 30, 2013 and December 31, 2012:

	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)		
September 30, 2013				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 786,767	$ 786,767	$ -	$ -
Obligations of U.S. states and political subdivisions	912,833	-	910,263	2,570
Corporate debt securities	2,164,458	-	2,164,458	-
Asset-backed securities	340,814	-	340,814	-
Residential mortgage-backed securities	377,565	-	377,565	-
Commercial mortgage-backed securities	253,807	-	253,807	-
Collateralized loan obligations	60,505	-	60,505	-
Debt securities issued by foreign sovereign governments	120,539	120,539	-	-
Total debt securities	5,017,288	907,306	4,107,412	2,570
Equity securities	2,884	2,563	-	321
Total investments	$ 5,020,172	$ 909,869	$ 4,107,412	$ 2,891
Real estate acquired (1)	$ 12,376	$ -	$ -	$ 12,376

	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, 2012				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 866,251	$ 866,251	$ -	$ -
Obligations of U.S. states and political subdivisions	812,394	-	809,264	3,130
Corporate debt securities	1,480,941	-	1,463,827	17,114
Asset-backed securities	324,436	-	324,436	-
Residential mortgage-backed securities	450,909	-	450,909	-
Commercial mortgage-backed securities	150,342	-	150,342	-
Debt securities issued by foreign sovereign governments	142,066	142,066	-	-
Total debt securities	4,227,339	1,008,317	3,198,778	20,244
Equity securities	2,936	2,615	-	321
Total investments	$ 4,230,275	$ 1,010,932	$ 3,198,778	$ 20,565
Real estate acquired (1)	$ 3,463	$ -	$ -	$ 3,463

(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 nine months of 2013 or 2012.

For assets measured at fair value using significant unobservable inputs (Level 3), a reconciliation of the beginning and ending balances for the three and nine months ended September 30, 2013 and 2012 is as follows:

	Obligations of U.S. States and Political Subdivisions	Corporate Debt Securities	Equity Securities	Total Investments	Real Estate Acquired
			(In thousands)		
Balance at June 30, 2013	$ 2,811	$ -	$ 321	$ 3,132	$ 8,741
Total realized/unrealized gains (losses):					
Included in earnings and reported as losses incurred, net	-	-	-	-	(1,378)
Purchases	-	-	-	-	10,857
Sales	(241)	-	-	(241)	(5,844)
Transfers into Level 3	-	-	-	-	-
Transfers out of Level 3	-	-	-	-	-
Balance at September 30, 2013	$ 2,570	$ -	$ 321	$ 2,891	$ 12,376
Amount of total losses included in earnings for the three months ended September 30, 2013 attributable to the change in unrealized losses on assets still held at September 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	-	-	-	-	(3,680)
Purchases	30	-	-	30	28,401
Sales	(590)	(16,889)	-	(17,479)	(15,808)
Transfers into Level 3	-	-	-	-	-
Transfers out of Level 3	-	-	-	-	-
Balance at September 30, 2013	$ 2,570	$ -	$ 321	$ 2,891	$ 12,376
Amount of total losses included in earnings for the nine months ended September 30, 2013 attributable to the change in unrealized losses on assets still held at September 30, 2013	$ -	$ -	$ -	$ -	$ -

	Obligations of U.S. States and Political Subdivisions	Corporate Debt Securities	Equity Securities	Total Investments	Real Estate Acquired
			(In thousands)		
Balance at June 30, 2012	$ 83,981	$ 40,857	$ 321	$ 125,159	$ 3,074
Total realized/unrealized gains (losses):					
Included in earnings and reported as realized investment gains (losses), net	(467)	-	-	(467)	-
Included in earnings and reported as impairment losses, net	-	-	-	-	-
Included in earnings and reported as losses incurred, net	-	-	-	-	(309)
Included in other comprehensive income	971	68	-	1,039	-
Purchases	-	-	-	-	2,718
Sales	(10,690)	-	-	(10,690)	(2,386)
Transfers into Level 3	-	-	-	-	-
Transfers out of Level 3	-	-	-	-	-
Balance at September 30, 2012	$ 73,795	$ 40,925	$ 321	$ 115,041	$ 3,097
Amount of total losses included in earnings for the three months ended September 30, 2012 attributable to the change in unrealized losses on assets still held at September 30, 2012	$ -	$ -	$ -	$ -	$ -

	Obligations of U.S. States and Political Subdivisions	Corporate Debt Securities	Equity Securities	Total Investments	Real Estate Acquired
			(In thousands)		
Balance at December 31, 2011	$ 114,226	$ 60,228	$ 321	$ 174,775	$ 1,621
Total realized/unrealized gains (losses):					
Included in earnings and reported as realized investment gains (losses), net	(2,992)	(1,081)	-	(4,073)	-
Included in earnings and reported as impairment losses, net	-	(339)	-	(339)	-
Included in earnings and reported as losses incurred, net	-	-	-	-	(774)
Included in other comprehensive income	1,727	423	-	2,150	-
Purchases	27	-	-	27	8,688
Sales	(39,193)	(18,306)	-	(57,499)	(6,438)
Transfers into Level 3	-	-	-	-	-
Transfers out of Level 3	-	-	-	-	-
Balance at September 30, 2012	$ 73,795	$ 40,925	$ 321	$ 115,041	$ 3,097
Amount of total losses included in earnings for the nine months ended September 30, 2012 attributable to the change in unrealized losses on assets still held at September 30, 2012	$ -	$ -	$ -	$ -	$ -

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 nine months ended September 30, 2013 and 2012 was as follows:

	Three Months Ended September 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	$ 7,163	$ (2,526)	$ 2,640	$ 7,277
Unrealized foreign currency translation adjustment	2,901	(1,016)	-	1,885
Other comprehensive income (loss)	$ 10,064	$ (3,542)	$ 2,640	$ 9,162

	Nine Months Ended September 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	$ (102,468)	$ 35,586	$ (33,914)	$ (100,796)
Unrealized foreign currency translation adjustment	(15,868)	5,557	-	(10,311)
Other comprehensive income (loss)	$ (118,336)	$ 41,143	$ (33,914)	$ (111,107)

	Three Months Ended September 30, 2012			
	Before tax	Tax effect	Valuation allowance	Net of tax
	(In thousands)			
Other comprehensive income (loss):				
Change in unrealized gains and losses on investments	$ 47,368	$ (16,552)	$ 13,671	$ 44,487
Unrealized foreign currency translation adjustment	1,709	(600)	-	1,109
Other comprehensive income (loss)	$ 49,077	$ (17,152)	$ 13,671	$ 45,596

	Nine Months Ended September 30, 2012			
	Before tax	Tax effect	Valuation allowance	Net of tax
	(In thousands)			
Other comprehensive income (loss):				
Change in unrealized gains and losses on investments	$ 10,243	$ (3,462)	$ -	$ 6,781
Unrealized foreign currency translation adjustment	2,260	(792)	-	1,468
Other comprehensive income (loss)	$ 12,503	$ (4,254)	$ -	$ 8,249

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 September 30, 2013			
	Unrealized gains and losses on available-for-sale securities	Defined benefit plans	Foreign currency translation	Total
	(In thousands)			
Balance at June 30, 2013, before tax	$ (68,090)	$ (71,804)	$ 13,978	$ (125,916)
Other comprehensive income (loss) before reclassifications	4,396	-	2,901	7,297
Amounts reclassified from accumulated other comprehensive income (loss)	(2,767) (1)	-	-	(2,767)
Net current period other comprehensive income (loss)	7,163	-	2,901	10,064
Balance at September 30, 2013, before tax	$ (60,927)	$ (71,804)	$ 16,879	$ (115,852)

	Nine Months Ended September 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	(95,588)	-	(15,868)	(111,456)
Amounts reclassified from accumulated other comprehensive income (loss)	6,880 (1)	-	-	6,880
Net current period other comprehensive income (loss)	(102,468)	-	(15,868)	(118,336)
Balance at September 30, 2013, before tax	(60,927)	(71,804)	16,879	(115,852)
Tax effect (2)	(64,968)	26,940	(5,390)	(43,418)
Balance at September 30, 2013, net of tax	$ (125,895)	$ (44,864)	$ 11,489	$ (159,270)

(1) During the three and nine months ended September 30, 2013, net unrealized (losses) gains of ($2.8) million and $6.9 million, respectively, were reclassified to the Consolidated Statement of Operations and included in Realized investment gains.
(2) 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 September 30,			
	Pension and Supplemental Executive Retirement Plans		Other Postretirement Benefits	
	2013	2012	2013	2012
	(In thousands)			
Service cost	$ 2,835	$ 2,416	$ 202	$ 307
Interest cost	3,823	4,120	155	286
Expected return on plan assets	(5,035)	(4,553)	(919)	(791)
Recognized net actuarial loss	1,536	1,457	-	199
Amortization of prior service cost	125	166	(1,663)	(1,554)
Net periodic benefit cost	$ 3,284	$ 3,606	$ (2,225)	$ (1,553)

	Nine Months Ended September 30,			
	Pension and Supplemental Executive Retirement Plans		Other Postretirement Benefits	
	2013	2012	2013	2012
	(In thousands)			
Service cost	$ 8,504	$ 7,247	$ 609	$ 920
Interest cost	11,467	12,361	464	857
Expected return on plan assets	(15,108)	(13,659)	(2,759)	(2,372)
Recognized net actuarial loss	4,609	4,372	-	599
Amortization of prior service cost	377	499	(4,987)	(4,663)
Net periodic benefit cost	$ 9,849	$ 10,820	$ (6,673)	$ (4,659)

In the second quarter of 2013 we made a $10 million contribution to the pension plan. We currently do not intend to make any further contributions in 2013.

Under Statement of Statutory Accounting Principles (“SSAP”) No. 92 and No. 102, which became effective January 1, 2013, the measurement of pension and other postretirement benefit liabilities now includes non-vested employees. This measurement, referred to as the projected benefit obligation, is the measurement currently used under GAAP. The new SSAPs did not have a material impact on our statutory surplus.

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 September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In thousands)			
Tax benefit before valuation allowance	$ (674)	$ (89,106)	$ (17,792)	$ (196,535)
Change in valuation allowance	1,010	86,134	20,257	192,035
Provision for (benefit from) income taxes	$ 336	$ (2,972)	$ 2,465	$ (4,500)

The change in the valuation allowance that was included in other comprehensive income for the three months ended September 30, 2013 and 2012 was a decrease of $2.6 million and $13.7 million, respectively. The change in the valuation allowance that was included in other comprehensive income for the nine months ended September 30, 2013 and 2012 was an increase of $33.9 million and $0.0 million, respectively. The total valuation allowance as of September 30, 2013 and December 31, 2012 was $1,020.2 million and $966.0 million, respectively.

We have approximately $2.6 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 September 30, 2013. 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 is $197.5 million and at September 30, 2013 there would also be interest of approximately $151.0 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 September 30, 2013, those state taxes and interest would approximate $45.4 million. In addition, there could also be state tax penalties.

Our total amount of unrecognized tax benefits as of September 30, 2013 is $105.2 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 Note 1 – "Nature of Business - Capital."

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 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.

In March 2012, we received a Revenue Agent's Report from the IRS related to the examination of our federal income tax returns for the years 2008 and 2009. In January 2013, we received a Revenue Agent's Report from the IRS related to the examination of our federal income tax return for the year 2010. The adjustments that are proposed by the IRS are temporary in nature and will have no material effect on the financial statements.

The total amount of the unrecognized tax benefits, related to our aforementioned REMIC issue, that would affect our effective tax rate is $92.6 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 September 30, 2013 and December 31, 2012, we had accrued $25.9 million and $25.3 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 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 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 nine months ended September 30, 2013 and 2012:

	Nine Months Ended September 30,	
	2013	2012
	(In thousands)	
Reserve at beginning of period	$ 4,056,843	$ 4,557,512
Less reinsurance recoverable	104,848	154,607
Net reserve at beginning of period (1)	3,951,995	4,402,905
Losses incurred:		
Losses and LAE incurred in respect of default notices related to:		
Current year	686,454	1,091,326
Prior years (2)	(43,783)	287,291
Subtotal (3)	642,671	1,378,617
Losses paid:		
Losses and LAE paid in respect of default notices related to:		
Current year	28,792	54,813
Prior years	1,286,833	1,840,992
Reinsurance terminations (4)	(3,332)	(425)
Subtotal (5)	1,312,293	1,895,380
Net reserve at end of period (6)	3,282,373	3,886,142
Plus reinsurance recoverables	70,621	117,859
Reserve at end of period	$ 3,352,994	$ 4,004,001

(1) At December 31, 2012 and 2011, the estimated reduction in loss reserves related to rescissions approximated $0.2 billion and $0.7 billion, respectively.

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

(3) Rescissions did not have a significant impact on incurred losses in the nine months ended September 30, 2013 or 2012.

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

(5) Rescissions mitigated our paid losses by an estimated $0.1 billion and $0.2 billion in the nine months ended September 30, 2013 and 2012, respectively, which excludes amounts that may have been applied to a deductible.

(6) At September 30, 2013 and 2012, the estimated reduction in loss reserves related to rescissions approximated $0.1 billion and $0.5 billion, respectively.

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 nine months of 2013 compared to the same period in 2012, 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 recently reported delinquencies.

The prior year development of the reserves in the first nine months of 2013 and 2012 is reflected in the table below.

	Nine months ended September 30,	
	2013	2012
	(In millions)	
Prior year loss development (1):		
Increase in estimated claim rate on primary defaults	$ 10	$ 300
Decrease in estimated severity on primary defaults	(40)	-
Change in estimates related to pool reserves, LAE reserves and reinsurance	(14)	(13)
Total prior year loss development	$ (44)	$ 287

(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 48% and 46% for the nine months ended September 30, 2013 and 2012, 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 nine months of 2013, we recognized favorable development on our estimated severity. In the first nine months of 2012, our estimated claim rates increased on defaults that were more than 12 months delinquent.

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 (4) of that table. It has historically taken, prior to the last few years, on average, approximately twelve months for a default which is not cured to develop into a paid claim, therefore, most losses paid relate to default notices received in prior years. 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. Due to a combination of these reasons, 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 September 30, 2013 and December 31, 2012 and approximated $145 million and $134 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 nine months ended September 30, 2013 and 2012 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 by transfers of servicing between loan servicers.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Default inventory at beginning of period	117,105	153,990	139,845	175,639
New Notices	27,755	34,432	81,044	101,454
Cures	(24,105)	(27,384)	(80,677)	(90,896)
Paids (including those charged to a deductible or captive)	(8,659)	(11,344)	(27,155)	(34,991)
Rescissions and denials	(509)	(809)	(1,470)	(2,321)
Default inventory at end of period	111,587	148,885	111,587	148,885

Pool insurance notice inventory decreased from 8,594 at December 31, 2012 to 6,821 at September 30, 2013. The pool insurance notice inventory was 9,337 at September 30, 2012.

The decrease in the primary default inventory experienced during 2013 and 2012 was generally across all markets and all book years. However, the percentage of loans in the inventory that have been in default for 12 or more consecutive months has increased, as shown in the table below. 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 has been affected by our suspended rescissions discussed below.

Aging of the Primary Default Inventory

	September 30, 2013		December 31, 2012		September 30, 2012	
Consecutive months in default						
3 months or less	20,144	18%	23,282	17%	25,593	17%
4 - 11 months	24,138	22%	34,688	25%	35,029	24%
12 months or more	67,305	60%	81,875	58%	88,263	59%
Total primary default inventory	111,587	100%	139,845	100%	148,885	100%
Primary claims received inventory included in ending default inventory (1)	9,858	9%	11,731	8%	12,508	8%

(1) Our claims received inventory includes suspended rescission as discussed in Note 5 – "Litigation and Contingencies." In connection with the Countrywide proceedings, we have voluntarily suspended rescissions of coverage related to loans that we believed would be included in a potential resolution. As of September 30, 2013, coverage on approximately 2,100 loans under the agreement with BANA, representing total potential claim payments of approximately $150 million and 800 loans under the agreement with CHL, representing total potential claims payments of approximately $70 million, that we had determined was rescindable was affected by our decision to suspend such rescissions. Substantially all of these potential rescissions relate to claims received beginning in the first quarter of 2011 or later. As of September 30, 2013, coverage on approximately 540 loans, representing total potential claim payments of approximately $38 million, was affected by our decision to suspend rescissions for other customers for which we also consider settlement probable. In addition, as of September 30, 2013, coverage on approximately 85 loans, representing total potential claim payments of approximately $5 million, was affected by our decision to suspend rescissions for customers other than those for which we consider settlement probable, as defined in ASC 450-20.

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

	September 30, 2013		December 31, 2012		September 30, 2012	
3 payments or less	28,777	26%	34,245	24%	35,130	24%
4 - 11 payments	25,089	22%	34,458	25%	36,359	24%
12 payments or more	57,721	52%	71,142	51%	77,396	52%
Total primary default inventory	111,587	100%	139,845	100%	148,885	100%

Rescissions

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

In addition, subject to rescission caps in certain of our Wall Street bulk transactions, all of our insurance policies allow us to rescind coverage under certain circumstances. 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 and the first nine months of 2013, rescissions mitigated our paid losses by approximately $0.3 billion and $100 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, less than 5% of claims received in a quarter have been resolved by rescissions, down from the peak of approximately 28% in the first half of 2009.

Our loss reserving methodology incorporates our estimates of future rescissions 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 claims investigations, litigation, settlements or other factors, could materially affect our losses. We estimate rescissions mitigated our incurred losses by approximately $2.5 billion in 2009 and $0.2 billion in 2010. In 2011, we estimate that rescissions had no significant impact on our losses incurred. All of these figures include the benefit of claims not paid in the period as well as the impact of changes in our estimated expected rescission activity on our loss reserves in the period. In 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 2012 or in the first nine months of 2013. At September 30, 2013 and December 31, 2012, we estimate that our loss reserves were benefited from anticipated rescissions by approximately $0.1 billion and $0.2 billion, respectively. We expect that the reduction of our loss reserves due to rescissions will decline. For information about settlements that we believe are probable, as defined in ASC 450-20, see Note 5 – "Litigation and Contingencies."

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.

If the insured disputes our right to rescind coverage, the outcome of the 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. As of September 30, 2013, the period in which a dispute may be brought has not ended for approximately 32% of our post-2008 rescissions that are not subject to a settlement agreement. Until a liability associated with a settlement agreement or litigation becomes probable and can be reasonably estimated, we consider a rescission resolved for financial reporting purposes even though legal proceedings have been initiated and are ongoing. Although it is reasonably possible that, when the proceedings are completed, there will be a determination that we were not entitled to rescind in all cases, we are sometimes unable to make a reasonable estimate or range of estimates of the potential liability. Under ASC 450-20, an estimated loss from such proceedings is accrued for only if we determine that the loss is probable and can be reasonably estimated. Therefore, when establishing our loss reserves, we do not generally include additional loss reserves that would reflect an adverse outcome from ongoing legal proceedings. For more information about these legal proceedings regarding rescissions, see Note 5 – “Litigation and Contingencies.”

The liability associated with our estimate of premiums to be refunded on expected future rescissions is accrued for separately. At September 30, 2013 and December 31, 2012 the estimate of this liability totaled $15 million and $18 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.

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.

As discussed in Note 5 – “Litigation and Contingencies,” in April 2013, we entered into two agreements to resolve our dispute with Countrywide regarding rescissions. Implementation of the agreement with BANA began on November 1, 2013. Implementation of the agreement with CHL remains subject to approval by the non-GSE investors in the loans covered by that agreement and any such implementation is not expected to begin prior to the first quarter of 2014. The resolutions of the Countrywide and other disputes may encourage other customers to seek remedies against us. We continue to be involved in legal proceedings with other customers with respect to rescissions that we do not consider to be collectively material in amount. We also continue to discuss with customers their objections to rescissions that are material when all such discussions are considered in the aggregate. In connection with some of these settlement discussions, we have suspended rescissions related to loans that we believe could be included in potential settlements. Although it is reasonably possible that, when the discussions or legal proceedings with customers regarding rescissions are completed, there will be a conclusion or determination that we were not entitled to rescind in all cases, we are unable to make a reasonable estimate or range of estimates of the potential liability.

Note 13 – Premium Deficiency Reserve

The components of the premium deficiency reserve at September 30, 2013, December 31, 2012 and September 30, 2012 appear in the table below.

	September 30, 2013	December 31, 2012	September 30, 2012
		(In millions)	
Present value of expected future paid losses and expenses, net of expected future premium	$ (709)	$ (840)	$ (865)
Established loss reserves	652	766	781
Net deficiency	$ (57)	$ (74)	$ (84)

The decrease in the premium deficiency reserve for the three months and nine months ended September 30, 2013 was $4 million and $17 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 nine months ended September 30, 2013 is primarily related to higher estimated ultimate premiums.

	Three Months Ended		Nine Months Ended	
	September 30, 2013			
	(In millions)			
Premium Deficiency Reserve at beginning of period		$ (61)		$ (74)
Paid claims and loss adjustment expenses	$ 51		$ 172	
Decrease in loss reserves	(37)		(114)	
Premium earned	(24)		(72)	
Effects of present valuing on future premiums, losses and expenses	-		(2)	
Change in premium deficiency reserve to reflect actual premium, losses and expenses recognized		(10)		(16)
Change in premium deficiency reserve to reflect change in assumptions relating to future premiums, losses, expenses and discount rate (1)		14		33
Premium Deficiency Reserve at end of period		$ (57)		$ (57)

(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 nine months ended September 30, 2012 was $9 million and $51 million, respectively, as shown in the table below. The net change in assumptions for both the three and nine months ended September 30, 2012 was primarily related to higher estimated ultimate losses.

	Three Months Ended		Nine Months Ended	
	September 30, 2012			
	(In millions)			
Premium Deficiency Reserve at beginning of period		$ (93)		$ (135)
Paid claims and loss adjustment expenses	$ 67		$ 219	
Decrease in loss reserves	(25)		(45)	
Premium earned	(25)		(77)	
Effects of present valuing on future premiums,losses and expenses	(4)		(8)	
Change in premium deficiency reserve to reflect actual premium, losses and expenses recognized		13		89
Change in premium deficiency reserve to reflect change in assumptions relating to future premiums, losses, expenses and discount rate (1)		(4)		(38)
Premium Deficiency Reserve at end of period		$ (84)		$ (84)

(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."

In March 2013 we contributed $800 million to MGIC to increase its capital as discussed in Note 1 – "Basis of Presentation - Capital." We intend to use the remaining net proceeds from the offerings for general corporate purposes, which may include further increasing the capital of MGIC and other subsidiaries and improving liquidity by providing funds for debt service.

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.

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

Overview

Through our subsidiaries MGIC and MIC, we are the 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, 2012. 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

For a number of years, 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 FHA’s large market presence may also change in connection with the determination of the future of the GSEs. 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.”* Furthermore, capital standards for private mortgage insurers are being revised; see *“Capital”* below. 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

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 "Capital Requirements." While they vary among jurisdictions, the most common Capital Requirements allow for a maximum risk-to-capital ratio of 25 to 1.

During part of 2012 and 2013, MGIC's risk-to-capital ratio exceeded 25 to 1. In March 2013, our holding company issued additional equity and convertible debt securities and transferred $800 million to increase MGIC's capital. At September 30, 2013, MGIC's risk-to-capital ratio was 20.0 to 1, below the maximum allowed by the jurisdictions with Capital Requirements, and its policyholder position was $190 million above the required minimum policyholder position of $1.2 billion. At September 30, 2013, the risk-to-capital ratio of our combined insurance operations (which includes reinsurance affiliates) was 22.7 to 1.

At this time, we expect MGIC to continue to comply with the current Capital Requirements, although we cannot assure you of such compliance. You should read our financial statement footnotes and our risk factors for information about matters that could negatively affect such compliance.

The NAIC is reviewing the minimum capital and surplus requirements for mortgage insurers, although it has not established a date by which it must make proposals to change such requirements. Depending on the scope of proposals made by the NAIC, MGIC may be prevented from writing new business in the jurisdictions adopting such proposals. The GSEs, in conjunction with the FHFA, are also developing mortgage insurer capital standards that would replace the use of external credit ratings. Revised capital standards are expected to be released in 2013. We have not been informed of the revised capital requirements or their timeframes for effectiveness. We have various alternatives available to improve our existing risk-to-capital position, including contributing additional funds that are on hand today from our holding company to MGIC, entering into additional external reinsurance transactions, seeking approval to write business in MIC and raising additional capital. While there can be no assurance that MGIC would meet the GSE's revised capital requirements by their effective date, we believe we could implement one or more of these alternatives so that we would continue to be an eligible mortgage insurer after the revised capital requirements are fully effective.

A possible future failure by MGIC to meet the Capital 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, we cannot assure you that events that may lead MGIC to fail to meet Capital Requirements would not also result in it not having sufficient claims paying resources. Furthermore, our estimates of MGIC's claims paying resources and claim obligations are based on various assumptions. These assumptions include the timing of the receipt of claims on loans in our delinquency inventory and future claims that we anticipate will ultimately be received, our anticipated rescission activity, premiums, housing values and unemployment rates. These assumptions are subject to inherent uncertainty and require judgment by management. Current conditions in the domestic economy make the assumptions about when anticipated claims will be received, housing values, and unemployment rates highly volatile in the sense that there is a wide range of reasonably possible outcomes. Our anticipated rescission activity is also subject to inherent uncertainty due to the difficulty of predicting the amount of claims whose policies will be rescinded and the outcome of any legal proceedings or settlement discussions related to rescissions. You should read our financial statement footnotes and our risk factors for additional 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 Capital Requirements of a jurisdiction or obtain a waiver of them. MIC is licensed to write business in all jurisdictions and, subject to certain conditions and restrictions, has received the necessary approvals from the OCI and the GSEs to write business. During 2012, MIC began writing new business in the jurisdictions where MGIC did not have a waiver of the Capital Requirements. Because MGIC again meets the Capital Requirements, MGIC is again writing new business in all jurisdictions and MIC has suspended writing new business. As of September 30, 2013, MIC had statutory capital of $455 million and risk in force of approximately $950 million.

The GSEs have approved MGIC as an eligible mortgage insurer, under remediation plans, even though our insurer financial strength (IFS) rating is below the published GSE minimum. The GSEs may change the requirements under our remediation plans. This possibility could result from changes imposed on the GSEs by their regulator or due to an actual or GSE-projected deterioration in our capital position. For additional information about this challenge see our risk factors titled *"We may not continue to meet the GSEs' mortgage insurer eligibility requirements," "Capital requirements may prevent us from continuing to write new insurance on an uninterrupted basis"* and *"We have reported losses for the last six years and cannot assure you when we will return to annual profitability."*

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. In 2013, the Consumer Financial Protection Bureau ("CFPB") issued and amended a final rule defining "Qualified Mortgage" ("QM"), in order to implement the "ability to repay" law. 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, 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 whether lenders will make non-QM loans because they will not be entitled to the presumptions about compliance with the "ability to repay" requirements, or if lenders would purchase private mortgage insurance for loans that cannot be sold to the GSEs.

In September 2013, the U.S. Department of Housing and Urban Development ("HUD") proposed a definition of QM that will apply to loans the Federal Housing Administration ("FHA") insures. 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 has a higher pricing threshold for loans to fall into the "safe harbor" category of QM loans, instead of the "rebuttable presumption" category of QM 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 87.5% of our new risk written in the first nine months of 2013 was for mortgages that would have met the CFPB's general QM definition. We estimate that 98.9% of our new risk written in the first nine months of 2013 was for mortgages 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 QM rule is scheduled to become effective in January 2014.

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. While substantially all of our new risk written in the first nine months of 2013 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, (b) the extent to which the presence of private mortgage insurance with certain premium plans may adversely affect the ability of a loan to qualify as a QM and therefore as a QRM, and (c) 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, and help bring private capital back to the mortgage market. Since then, Members of Congress introduced several bills intended to scale back the GSEs, however, no legislation was 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 have adopted programs to modify loans to make them more affordable to borrowers with the goal of reducing the number of foreclosures. During 2010, 2011, 2012, and the first nine months of 2013, we were notified of modifications that cured delinquencies that had they become paid claims would have resulted in approximately $3.2 billion, $1.8 billion, $1.2 billion and $760 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; less than 5% resulted in principal forgiveness.

One loan modification program is the Home Affordable Modification Program ("HAMP"). Some of HAMP's eligibility criteria relate to the borrower's current income and non-mortgage debt payments. Because the GSEs and servicers do not share such information with us, we cannot determine with certainty the number of loans in our delinquent inventory that are eligible to participate in HAMP. We believe that it could take several months from the time a borrower has made all of the payments during HAMP's three month "trial modification" period for the loan to be reported to us as a cured delinquency.

We rely on information provided to us by the GSEs and servicers. We do not receive all of the information from such sources that is required to determine with certainty the number of loans that are participating in, or have successfully completed, HAMP. We are aware of approximately 8,000 loans in our primary delinquent inventory at September 30, 2013 for which the HAMP trial period has begun and which trial periods have not been reported to us as completed or cancelled. Through September 30, 2013 approximately 49,500 delinquent primary loans have cured their delinquency after entering HAMP and are not in default. In 2012 and the first nine months of 2013, approximately 17% and 16%, respectively, of our primary cures were the result of a modification, with HAMP accounting for approximately 70% of those modifications in each of those periods. By comparison, in 2010, approximately 27% of our primary cures were the result of a modification, with HAMP accounting for approximately 60% of those modifications. Although the HAMP program has been extended through 2015, 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.

In 2009, the GSEs began offering the Home Affordable Refinance Program (“HARP”). HARP, which has been extended through 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 the 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. To incent lenders to allow more current borrowers to refinance their loans, in October 2011, the GSEs and their regulator, FHFA, announced an expansion of HARP. The expansion includes, among other changes, releasing certain representations in certain circumstances benefitting the GSEs. We have agreed to allow these additional HARP refinances, including releasing the insured in certain circumstances from certain rescission rights we would have under our policy. While an expansion of HARP may result in fewer delinquent loans and claims in the future, our ability to rescind coverage will be limited in certain circumstances. We are unable to predict what net impact these changes may have on our incurred or paid losses. Approximately 15% 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. In addition, because we do not have information in our database for all of the parameters used to determine which loans are eligible for modification programs, our estimates of the number of loans qualifying for modification programs are inherently uncertain. If legislation is enacted to permit a portion of a borrower’s mortgage loan balance to be reduced in bankruptcy and if the borrower re-defaults after such reduction, then the amount we would be responsible to cover would be calculated after adding back the reduction. Unless a lender has obtained our prior approval, if a borrower’s mortgage loan balance is reduced outside the bankruptcy context, including in association with a loan modification, and if the borrower re-defaults after such reduction, then under the terms of our policy the amount we would be responsible to cover would be calculated net of the reduction.

Eligibility under 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.

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. In addition, new insurance written can be influenced by a lender's assessment of the financial strength of our insurance operations. 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 the risk characteristics of the loans insured and the percentage of coverage on the loans.

  - Premiums ceded under risk sharing arrangements. See Note 4 – "Reinsurance" to our consolidated financial statements for a discussion of our new quota share agreement, under which premiums will be 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 risk sharing arrangements. 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 two years after loans are originated are a period of relatively low claims, with claims increasing substantially for several years subsequent and then declining, although persistency (percentage of insurance remaining in force from one year prior), the condition of the economy, including unemployment and housing prices, and other factors can affect this pattern. For example, a weak economy or housing price declines can lead to claims from older books increasing, continuing at stable levels or experiencing a lower rate of decline. See further information under "Mortgage Insurance Earnings and Cash Flow Cycle" below.

- Changes in premium deficiency reserve

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

- Underwriting and other expenses

The majority of our operating expenses are fixed, with some variability due to contract underwriting volume. Contract underwriting generates fee income included in "Other revenue."

- Interest expense

Interest expense reflects the interest associated with our outstanding debt obligations. The principal amount of our long-term debt obligations at September 30, 2013 is comprised of $82.9 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 2013 Third Quarter Results

Our results of operations for the third quarter of 2013 were principally affected by the factors referred to below.

- Net premiums written and earned

Net premiums written and earned during the third quarter of 2013 decreased when compared to the same period in 2012. The decrease was due to our lower average insurance in force, as well as an increase in return premiums on claims paid and rescissions.

- Investment income

Investment income in the third quarter of 2013 was lower when compared to the same period in 2012 due to a decrease in our average investment yield.

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

Net realized gains for the third quarter of 2013 were $0.2 million compared to $6.2 million for the third quarter of 2012. There were OTTI losses of $0.3 million in the third quarter of 2013. There were no OTTI losses in the third quarter of 2012. At September 30, 2013, the net unrealized losses in our investment portfolio were $60.9 million, which included $85.4 million of gross unrealized losses, partially offset by $24.5 million of gross unrealized gains.

- Other revenue

Other revenue for the third quarter of 2013 decreased slightly compared to the third quarter of 2012 primarily due to a decrease in contract underwriting fees.

- Losses incurred

Losses incurred for the third quarter of 2013 decreased compared to the same period in 2012. Losses incurred in the third quarter of 2013 reflect fewer new delinquencies received during the quarter, a lower estimated claim rate on recently reported delinquencies and favorable development on estimated severity. The primary default inventory decreased by 5,518 delinquencies in the third quarter of 2013 compared to a decrease of 5,105 in the third quarter of 2012. There was a slight decrease in the estimated claim rate in the third quarter of 2013, compared to a slight increase in the estimated claim rate in the third quarter of 2012. There was a larger decrease in the estimated severity in the third quarter of 2013, compared to the third quarter of 2012.

- Change in premium deficiency reserve

During the third quarter of 2013 the premium deficiency reserve on Wall Street bulk transactions declined from $61 million as of June 30, 2013, to $57 million as of September 30, 2013 and reflects the present value of expected future losses and expenses that exceeds the present value of expected future premiums and already established loss reserves. 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 assumptions for the third quarter of 2013 is primarily related to higher estimated ultimate premiums.

· Underwriting and other expenses

Underwriting and other expenses for the third quarter of 2013 decreased slightly compared to the third quarter of 2012.

· Interest expense

Interest expense for the third quarter of 2013 decreased when compared to the same period in 2012. The decrease is primarily related to a $9.6 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 Convertible Senior Notes in March 2013.

· Provision for income taxes

We had a provision for (benefit from) income taxes of $0.3 million and $(3.0) million in the third quarter of 2013 and 2012, respectively. The benefit from income taxes was reduced by $1.0 million and $86.1 million due to the recognition of a valuation allowance for the three months ended September 30, 2013 and 2012, respectively.

Results of Consolidated Operations

New insurance written

The amount of our primary new insurance written during the three and nine months ended September 30, 2013 and 2012 was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Total Primary NIW (In billions)	$ 8.6	$ 7.0	$ 23.1	$ 17.1
Refinance volume as a % of primary NIW	18%	32%	30%	34%

The increase in new insurance written in the third quarter and first nine months of 2013, compared to the same periods in 2012, was partially due to larger origination volume as well as an increase in the private mortgage insurance industry's market share. 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 delivery fees that the GSEs assess on loans (which result in higher costs to borrowers). In addition, federal legislation and programs provided the FHA with greater flexibility in establishing new products and increased the FHA's competitive position against private mortgage insurers. 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 increases in guaranty fees 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. Our level of new insurance written could also be affected by other items, including those noted in our risk factors.

From time to time, in response to market conditions, we change the types of loans that we insure and the requirements under which we insure them. Beginning in August 2013, we adjusted our underwriting requirements to allow loans that receive certain approvals from a GSE automated underwriting system to be automatically eligible for our mortgage insurance, provided such loans comply with certain credit overlays, as described in our underwriting requirements. Effective December 2, 2013, we are reducing almost all of our borrower-paid monthly premium policy rates, reducing most of our single premium policy rates and making underwriting changes for loans greater than $625,500, subject to regulatory approval of the rate changes. In the first nine months of 2013, single premium policies were approximately 9% of our total NIW. During this period almost all of our single premium rates were above those of a number of our competitors. The percentage of our single premium policies may increase in the future as a result of the reduction in our single premium rates. Our underwriting requirements and proposed premium rates are available on our website at http://www.mgic.com/underwriting/index.html. We 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 2012 and the first nine months of 2013.

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"). If a borrower makes payments for three years, our Gold Cert Endorsement limits our ability to rescind coverage except under certain circumstances, which circumstances include where we demonstrate the lender had knowledge of inaccurate information in the loan file. In addition, our Gold Cert Endorsement limits our ability to rescind on loans for which the borrower makes payments on time for one year with his own funds, if we are provided with certain documents shortly after we insure the loan and we fail to discover that the loan was ineligible for our insurance. We believe the limitations on our rights to rescind coverage under the Gold Cert Endorsement will materially reduce rescissions on such loans. As of September 30, 2013, less than 12% of our insurance in force was written under our Gold Cert Endorsement. However, we estimate that approximately 63% of our flow, primary new insurance written in the first nine months of 2013, 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 are completing the process of drafting a new master policy that will comply with various requirements the GSEs have communicated to the industry. These requirements contain limitations on rescission rights that differ from the limitations in our Gold Cert Endorsement including (i) that we must satisfy certain requirements if we want to provide rescission relief after the borrower has made one year of timely payments, and (ii) in certain cases, rescission relief is more restrictive than provided by our Gold Cert Endorsement. This new policy could be effective for loans insured as early as mid-2014.

Cancellations, insurance in force and risk in force

New insurance written and cancellations of primary insurance in force during the three and nine months ended September 30, 2013 and 2012 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In billions)			
NIW	$ 8.6	$ 7.0	$ 23.1	$ 17.1
Cancellations	(8.0)	(8.8)	(26.0)	(25.1)
Change in primary insurance in force	$ 0.6	$ (1.8)	$ (2.9)	$ (8.0)
Direct primary insurance in force as of September 30,	$ 159.2	$ 164.9		
Direct primary risk in force as of September 30,	$ 41.1	$ 42.5		

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. During 2012 and the first nine months of 2013, cancellations due to claim payments have comprised a significant amount of our cancellations.

Our persistency rate was 78.3% at September 30, 2013 compared to 79.8% at December 31, 2012 and 80.2% at September 30, 2012. 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 are currently experiencing lower persistency on our 2009 through 2011 books of business. This has been partially offset by higher persistency rates 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. 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. We expect the volume of any future business written through the bulk channel will be insignificant. Wall Street bulk transactions, as of September 30, 2013, included approximately 64,850 loans with insurance in force of approximately $9.8 billion and risk in force of approximately $3.0 billion, which is approximately 75% of our bulk risk in force.

In bulk transactions, the individual loans in the insured portfolio are generally insured to specified levels of coverage. Some of our bulk transactions (less than 5% of our bulk risk in force) contain aggregate loss limits on the insured portfolio. If claim payments associated with a specific bulk portfolio reach the aggregate loss limit, the remaining insurance in force within the deal may be cancelled and any remaining defaults under the deal are removed from our default inventory.

Pool insurance

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

Our direct pool risk in force was $1.1 billion ($0.4 billion on pool policies with aggregate loss limits and $0.7 billion on pool policies without aggregate loss limits) at September 30, 2013 compared to $1.3 billion ($0.4 billion on pool policies with aggregate loss limits and $0.9 billion on pool policies without aggregate loss limits) at December 31, 2012. 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 third quarter of 2013 decreased when compared to the same period in 2012. The decrease was due to our lower average insurance in force, as well as an increase in return premiums on claims paid and rescissions.

Net premiums written and earned during the first nine months of 2013 decreased when compared to the same period in 2012. The decrease was due to our lower average insurance in force, partially offset by a decrease in return premium on claims paid and rescissions.

We expect our average insurance in force to continue to decline in 2013 because our expected new insurance written levels are not expected to exceed our cancellation activity. We expect our premium yields (net premiums earned, expressed on an annual basis, divided by the average insurance in force) for the remainder of 2013 to decline slightly from the level experienced during the first nine months of 2013 primarily due to the new quota share reinsurance agreement discussed in Note 4 – “Reinsurance” to our consolidated financial statements. Additional external reinsurance transactions are an option to improve our risk-to-capital ratio in light of the capital standards the GSEs are developing; see our Risk Factor titled “*We may not continue to meet the GSEs’ mortgage insurer eligibility requirements.*” Future external reinsurance or reductions in our premium rates (including the reductions to take effect in December 2013) will reduce our future premium yields.

Risk sharing arrangements

As discussed in Note 4 – “Reinsurance” to our consolidated financial statements, in March 2013, MGIC and several of our competitors reached a settlement with the CFPB to resolve its investigation. 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 arrangements have been placed into run-off. See Note 4 – “Reinsurance” to our consolidated financial statements for a description of these risk sharing arrangements and the related reinsurance recoverable, as well as a description of our new quota share reinsurance agreement effective April 1, 2013.

Investment income

Investment income in the third quarter and first nine months of 2013 was lower when compared to the same periods in 2012 due to a decrease in our average invested assets as we continue to meet our claim obligations as well as a decrease in the average investment yield. Our average investment yield has declined as we have elected to realize gains in our investment portfolio as discussed under “Realized gains and other-than-temporary impairments” below, and have reinvested funds in an overall lower rate environment. The portfolio’s average pre-tax investment yield was 1.7% at September 30, 2013 and 2.4% at September 30, 2012.

We continue to expect a decline in investment income in 2013, compared to 2012, as the average amortized cost of invested assets decreases due to claim payments exceeding premiums received in future periods. See further discussion under “Liquidity and Capital Resources” below.

Realized gains and other-than-temporary impairments

Net realized gains for the third quarter and first nine months of 2013 were $0.2 million and $3.9 million, respectively, compared to $6.2 million and $110.4 million, respectively, for the third quarter and first nine months of 2012. There were OTTI losses of $0.3 million in each of the first nine months of 2013 and 2012. We elected to realize gains during 2012, by selling certain securities, given the favorable market conditions experienced in 2012. We then reinvested the funds taking into account our anticipated future claim payment obligations. At September 30, 2013, the net unrealized losses in our investment portfolio were $60.9 million, which included $85.4 million of gross unrealized losses, partially offset by $24.5 million of gross unrealized gains.

Other revenue

Other revenue for the third quarter of 2013 declined slightly compared to the third quarter of 2012. Other revenue for the first nine months of 2013 decreased when compared to the same period in 2012 primarily due to $17.8 million of gains recognized in the second quarter of 2012 on the repurchase of $70.9 million in par value of our 5.375% Senior Notes due in November 2015.

Losses

As discussed in “Critical Accounting Policies” in our 10-K MD&A and consistent with industry practices, we establish loss reserves for future claims only for loans that are currently delinquent. The terms “delinquent” and “default” are used interchangeably by us and are defined as an insured loan with a mortgage payment that is 45 days or more past due. Loss reserves are established based on estimating the number of loans in our default inventory that will result in a claim payment, which is referred to as the claim rate, and further estimating the amount of the claim payment, which is referred to as claim severity. Historically, a substantial majority of borrowers have eventually cured their delinquent loans by making their overdue payments, but this percentage has decreased significantly in recent years.

Estimation of losses 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 claim payments, 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 third quarter of 2013 decreased compared to the same period in 2012. Losses incurred in the third quarter of 2013 reflect fewer new delinquencies received during the quarter, a lower estimated claim rate on recently reported delinquencies and favorable development on estimated severity. The primary default inventory decreased by 5,518 delinquencies in the third quarter of 2013 compared to a decrease of 5,105 in the third quarter of 2012. There was a slight decrease in the estimated claim rate in the third quarter of 2013, compared to a slight increase in the estimated claim rate in the third quarter of 2012. There was a larger decrease in the estimated severity in the third quarter of 2013, compared to the third quarter of 2012.

In the first nine months of 2013, net losses incurred were $643 million, comprised of $687 million of current year loss development partially offset by $44 million of favorable prior years’ loss development. In the first nine months of 2012, net losses incurred were $1,379 million, comprised of $1,091 million of current year loss development and $287 million of unfavorable 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 rescissions.

Information about the composition of the primary default inventory at September 30, 2013, December 31, 2012 and September 30, 2012 appears in the table below.

	September 30, 2013	December 31, 2012	September 30, 2012
Total loans delinquent (1)	111,587	139,845	148,885
Percentage of loans delinquent (default rate)	11.51%	13.90%	14.51%
Prime loans delinquent (2)	71,376	90,270	95,517
Percentage of prime loans delinquent (default rate)	8.44%	10.44%	10.90%
A-minus loans delinquent (2)	17,311	20,884	21,865
Percentage of A-minus loans delinquent (default rate)	30.62%	32.92%	33.19%
Subprime credit loans delinquent (2)	6,519	7,668	7,999
Percentage of subprime credit loans delinquent (default rate)	38.10%	40.78%	41.29%
Reduced documentation loans delinquent (3)	16,381	21,023	23,504
Percentage of reduced documentation loans delinquent (default rate)	32.41%	35.23%	36.16%

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 7,785 defaults with a risk of $403.0 million as of September 30, 2013.

(1) At September 30, 2013, December 31, 2012 and September 30, 2012, 21,515, 25,282 and 26,581 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 September 30, 2013, December 31, 2012 and September 30, 2012 appear in the table below.

Gross Reserves	September 30, 2013	December 31, 2012	September 30, 2012
Primary:			
Direct loss reserves (in millions)	$ 3,109	$ 3,744	$ 3,855
Ending default inventory	111,587	139,845	148,885
Average direct reserve per default	$ 27,858	$ 26,771	$ 25,890
Primary claims received inventory included in ending default inventory	9,858	11,731	12,508
Pool (1):			
Direct loss reserves (in millions):			
With aggregate loss limits (2)	$ 88	$ 120	$ 123
Without aggregate loss limits	16	20	21
Reserves related to Freddie Mac Settlement (2)	136	167	-
Total pool direct loss reserves	$ 240	$ 307	$ 144
Ending default inventory:			
With aggregate loss limits (2)	5,743	7,243	7,987
Without aggregate loss limits	1,078	1,351	1,350
Total pool ending default inventory	6,821	8,594	9,337
Pool claims received inventory included in ending default inventory	185	304	255
Other gross reserves (in millions)	$ 4	$ 6	$ 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 September 30, 2013, December 31, 2012 and September 30, 2012 appears in the table below.

Primary Default Inventory

Region	September 30, 2013	December 31, 2012	September 30, 2012
Great Lakes	12,930	16,538	17,675
Mid-Atlantic	5,821	6,948	7,167
New England	5,341	6,160	6,396
North Central	12,615	16,367	17,582
Northeast	15,741	17,553	17,659
Pacific	9,612	13,235	14,856
Plains	3,298	4,126	4,395
South Central	12,169	15,418	16,602
Southeast	34,060	43,500	46,553
Total	111,587	139,845	148,885

Primary Loss Reserves
(In millions)

Region	September 30, 2013	December 31, 2012	September 30, 2012
Great Lakes	$ 235	$ 295	$ 302
Mid-Atlantic	134	178	187
New England	151	144	152
North Central	372	445	449
Northeast	374	371	347
Pacific	461	599	635
Plains	56	69	72
South Central	223	301	324
Southeast	951	1,089	1,147
Total before IBNR and LAE	$ 2,957	$ 3,491	$ 3,615
IBNR and LAE	152	253	240
Total	$ 3,109	$ 3,744	$ 3,855

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 September 30, 2013, December 31, 2012 and September 30, 2012 separated between our flow and bulk business appears in the table below.

Primary loss reserves (In millions)	September 30, 2013	December 31, 2012	September 30, 2012
Flow	$ 2,187	$ 2,586	$ 2,664
Bulk	770	905	951
Total primary reserves	$ 2,957	$ 3,491	$ 3,615

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

The primary average claim paid for the top 5 states (based on 2013 paid claims) for the three and nine months ended September 30, 2013 and 2012 appears in the table below.

Primary average claim paid	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Florida	$ 52,505	$ 57,696	$ 53,108	$ 57,411
California	83,027	86,196	84,855	87,464
Illinois	46,904	47,146	48,001	47,713
Washington	64,249	66,308	63,968	69,005
Georgia	36,651	39,373	37,830	40,005
All other states	40,803	42,085	40,678	42,862
All states	$ 45,706	$ 48,029	$ 46,180	$ 48,747

The primary average loan size of our insurance in force at September 30, 2013, December 31, 2012 and September 30, 2012 appears in the table below.

Primary average loan size	September 30, 2013	December 31, 2012	September 30, 2012
Total insurance in force	$ 164,210	$ 161,060	$ 160,700
Prime (FICO 620 & >)	166,400	162,450	161,690
A-Minus (FICO 575-619)	127,780	128,850	129,430
Subprime (FICO < 575)	118,980	119,630	120,010
Reduced doc (All FICOs)(1)	183,500	188,210	191,180

(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 September 30, 2013, December 31, 2012 and September 30, 2012 for the top 5 states (based on 2013 paid claims) appears in the table below.

Primary average loan size	September 30, 2013	December 31, 2012	September 30, 2012
Florida	$ 172,000	$ 171,884	$ 173,126
California	283,085	281,288	282,276
Illinois	154,740	154,158	154,532
Washington	224,799	223,840	223,619
Georgia	153,299	150,611	150,171
All other states	155,976	152,499	151,879

Information about net paid claims during the three and nine months ended September 30, 2013 and 2012 appears in the table below.

Net paid claims (In millions)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Prime (FICO 620 & >)	$ 288	$ 378	$ 909	$ 1,188
A-Minus (FICO 575-619)	44	57	140	184
Subprime (FICO < 575)	13	16	41	52
Reduced doc (All FICOs)(1)	51	94	164	283
Pool (2)	25	49	82	218
Other	-	2	2	5
Direct losses paid	421	596	1,338	1,930
Reinsurance	(17)	(21)	(50)	(70)
Net losses paid	404	575	1,288	1,860
Net LAE paid	10	12	28	36
Net losses and LAE paid before terminations	414	587	1,316	1,896
Reinsurance terminations	-	-	(3)	-
Net losses and LAE paid	$ 414	$ 587	$ 1,313	$ 1,896

(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 nine months ended September 30, 2013, includes $11 million and $31 million, respectively, paid under the terms of the settlement with Freddie Mac.

Primary claims paid for the top 15 states (based on 2013 paid claims) and all other states for the three and nine months ended September 30, 2013 and 2012 appears in the table below.

Paid Claims by state (In millions)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Florida	$ 77	$ 83	$ 220	$ 235
California	30	73	124	241
Illinois	34	36	108	104
Washington	20	16	57	49
Georgia	12	24	47	79
Michigan	13	27	47	88
Ohio	15	18	47	53
Arizona	12	29	46	95
Nevada	11	20	37	70
Maryland	14	12	37	34
Pennsylvania	12	9	33	27
Wisconsin	9	12	32	36
North Carolina	10	13	29	38
Minnesota	6	13	26	47
Texas	7	17	26	54
All other states	114	143	338	457
	$ 396	$ 545	$ 1,254	$ 1,707
Other (Pool, LAE, Reinsurance)	18	42	59	189
Net losses and LAE paid	$ 414	$ 587	$ 1,313	$ 1,896

We believe paid claims will continue to decline, excluding the expected impact of the Countrywide settlement as discussed in Note 5 – “Litigation and Contingencies” 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 2013 paid claims) at September 30, 2013, December 31, 2012 and September 30, 2012 appears in the table below.

Primary default inventory by state

	September 30, 2013	December 31, 2012	September 30, 2012
Florida	16,652	22,024	24,067
California	4,400	6,201	7,210
Illinois	6,992	9,313	10,010
Washington	2,210	3,053	3,253
Georgia	3,761	5,100	5,373
Arizona	3,593	4,808	5,238
Michigan	5,339	6,647	7,037
Ohio	1,392	2,161	2,590
Nevada	1,433	2,053	2,327
Maryland	2,948	3,486	3,583
Wisconsin	5,688	6,627	6,637
Pennsylvania	2,439	3,086	3,338
Minnesota	3,084	3,956	4,116
Texas	1,520	1,937	2,151
North Carolina	5,714	6,924	7,138
All other states	44,422	52,469	54,817
	111,587	139,845	148,885

The primary default inventory at September 30, 2013, December 31, 2012 and September 30, 2012 separated between our flow and bulk business appears in the table below.

Primary default inventory

	September 30, 2013	December 31, 2012	September 30, 2012
Flow	85,232	107,497	113,339
Bulk	26,355	32,348	35,546
	111,587	139,845	148,885

The flow default inventory by policy year at September 30, 2013, December 31, 2012 and September 30, 2012 appears in the table below.

Flow default inventory by policy year

Policy year:	September 30, 2013	December 31, 2012	September 30, 2012
2003 and prior	11,250	14,888	15,822
2004	6,480	8,142	8,532
2005	10,024	12,582	13,222
2006	14,630	18,257	19,167
2007	31,826	40,357	42,765
2008	9,557	11,914	12,568
2009	782	901	904
2010	320	264	241
2011	216	148	98
2012	129	44	20
2013	18	-	-
	85,232	107,497	113,339

As of September 30, 2013, 36% of our primary insurance in force was written subsequent to December 31, 2009, 41% of our primary insurance in force was written subsequent to December 31, 2008, and 53% of our primary insurance 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 September 30, 2013 was $57 million. The discount rate used in the calculation of the premium deficiency reserve at September 30, 2013 was 1.5%.

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 third quarter and first nine months of 2013 decreased slightly compared to the same periods in 2012.

Ratios

The table below presents our GAAP loss, expense and combined ratios for our combined insurance operations for the three and nine months ended September 30, 2013 and 2012.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Loss ratio	77.7%	184.0%	89.7%	178.7%
Underwriting expense ratio	18.1%	13.6%	17.9%	15.6%
Combined ratio	95.8%	197.6%	107.6%	194.3%

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 third quarter and first nine months of 2013, compared to the same periods in 2012, 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 underwriting expenses to net premiums written. The increase in the expense ratio in the third quarter and first nine months of 2013, compared to the same periods in 2012, was due to a decrease in net premiums written as well as an increase in underwriting expenses for our combined insurance operations. The combined ratio is the sum of the loss ratio and the expense ratio.

Interest expense

Interest expense for the third quarter and first nine months of 2013 decreased when compared to the same periods in 2012. The decrease is primarily related to a 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 the interest expense associated with the Convertible Senior Notes we issued in March 2013.

Income taxes

The effective tax rate provision (benefit) on our pre-tax loss was 5.4% and (0.8%) in the first nine months of 2013 and 2012, respectively. During those periods, the benefit from income taxes was reduced by the recognition of a valuation allowance.

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

Financial Condition

At September 30, 2013 the total fair value of our investment portfolio was $5.0 billion. In addition, at September 30, 2013 our total assets included approximately $0.5 billion of cash and cash equivalents as shown on our consolidated balance sheet. At September 30, 2013, 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 September 30, 2013, December 31, 2012 and September 30, 2012 are shown in the table below.

Investment Portfolio Ratings

	September 30, 2013	December 31, 2012	September 30, 2012
AAA	44%	52%	33%
AA	18%	15%	21%
A	27%	22%	31%
BBB	11%	11%	15%
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 3% 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 September 30, 2013, 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 September 30, 2013, the modified duration of our fixed income investment portfolio was 3.3 years, which means that an instantaneous parallel shift in the yield curve of 100 basis points would result in a change of 3.3% 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 September 30, 2013, we had outstanding $82.9 million, 5.375% Senior Notes due in November 2015, with an approximate fair value of $85 million, $345 million principal amount of 5% Convertible Senior Notes outstanding due in 2017, with an approximate fair value of $371 million, $500 million principal amount of 2% Convertible Senior Notes outstanding due in 2020, with an approximate fair value of $620 million and $389.5 million principal amount of 9% Convertible Junior Subordinated Debentures due in 2063 outstanding, with an approximate fair value of $428 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 September 30, 2013, 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 $42.2 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. These obligations have been primarily funded by contributions from our holding company and, in part, from the operations of the subsidiary. A generally positive economic environment for residential real estate that continued until approximately 2007 may have mitigated the effect of some of these costs in previous years. Historically, a material portion of our new insurance written through the flow channel has involved loans for which that subsidiary provided contract underwriting services, including new insurance written between 2006 and 2008. Claims for remedies may be made a number of years after the underwriting work was performed. We believe the rescission of mortgage insurance coverage on loans for which the subsidiary provided contract underwriting services may make a claim for a contract underwriting remedy more likely to occur. Beginning in the second half of 2009, our subsidiary has 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 the nine months ended September 30, 2013 was approximately $4.4 million, 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,
- net premiums that we will receive from our existing insurance in force as well as policies that we write in the future and
- amounts that we expect to recover from risk sharing arrangements (which is discussed in “Results of Consolidated Operations – Risk sharing arrangements” above).

Our obligations consist primarily of:

- claim payments under MGIC’s mortgage guaranty insurance policies,
- $83 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 foreclosure moratoriums, servicing and court delays, failures by servicers to follow proper procedures in foreclosure proceedings, loan modifications and claims investigations and rescissions, will affect our future paid claims it has become even more difficult to estimate the amount and timing of future claim payments. When we experience cash shortfalls, we can fund them through sales of short-term investments and other investment portfolio securities, subject to insurance regulatory requirements regarding the payment of dividends to the extent funds were required by an entity other than the seller. In addition, we align the maturities of our investment portfolio with our estimate of future obligations. A significant portion of our investment portfolio securities are held by our insurance subsidiaries. As long as the trends discussed above continue, we expect to experience significant declines in our investment portfolio.

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

	For the Nine Months Ended September 30,	
	2013	2012
	(In thousands)	
Total cash (used in) provided by:		
Operating activities	$ (692,616)	$ (1,172,522)
Investing activities	(1,007,664)	960,234
Financing activities	1,130,725	(53,107)
Decrease in cash and cash equivalents	$ (569,555)	$ (265,395)

Cash used in operating activities for the first nine months of 2013 was lower compared to the same period in 2012 primarily due to a decrease in losses paid, partially offset by a decrease in premiums collected.

Cash used in investing activities for the first nine months of 2013 was higher compared to the same period in 2012 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 as well as our election in the first nine months of 2012 to realize gains by selling certain securities. The increase in cash provided from financing activities in the first nine months of 2013, compared to the same period in 2012, was also related to these offerings.

Debt at Our Holding Company and Holding Company Capital Resources

See Note 3 – "Debt" and Note 14 – "Shareholders' Equity" for information related to our sale of common stock and issuance of convertible senior notes in March 2013.

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 2013, MGIC cannot pay any dividends to our holding company without approval from the OCI. In connection with the approval of MIC as an eligible mortgage insurer, Freddie Mac and Fannie Mae have imposed dividend restrictions on MGIC and MIC through December 31, 2013.

At September 30, 2013, we had approximately $594 million in cash and investments at our holding company.

As of September 30, 2013, our holding company's debt obligations were $1,317 million in par value consisting of:

- $83 million in par value of 5.375% Senior Notes due in November 2015, with an annual interest cost of $5 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 3 – "Debt" to our consolidated financial statements 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 3 - "Debt" to our consolidated financial statements 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 Certficate, 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, 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 revised mortgage insurer capital standards by the GSEs. See "Overview – Capital" above for a discussion of these capital standards.

During the second quarter of 2013 we repurchased $17.2 million of our 5.375% Senior Notes due in November 2015 at par value. In the second quarter of 2012, we repurchased approximately $70.9 million in par value of our 5.375% Senior Notes due in November 2015, at a cost of $53.1 million. We recognized $17.8 million in gains on the 2012 repurchases, which is included in other revenue on the Consolidated Statements of Operations for the nine months ended September 30, 2012. 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. 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.

	September 30, 2013	December 31, 2012
	(In millions, except ratio)	
Risk in force - net (1)	$ 29,931	$ 30,802
Statutory policyholders' surplus	$ 1,451	$ 689
Statutory contingency reserve	46	-
Statutory policyholders' position	$ 1,497	$ 689
Risk-to-capital	20.0:1	44.7:1

(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.

	September 30, 2013	December 31, 2012
	(In millions, except ratio)	
Risk in force - net (1)	$ 35,717	$ 36,113
Statutory policyholders' surplus	$ 1,512	$ 749
Statutory contingency reserve	64	6
Statutory policyholders' position	$ 1,576	$ 755
Risk-to-capital	22.7:1	47.8:1

(1) Risk in force – net, as shown in the table above, is net of reinsurance and exposure on policies currently in default ($5.1 billion at September 30, 2013 and $6.5 billion at December 31, 2012) and for which loss reserves have been established.

Statutory policyholders' position increased in the first nine months of 2013, due to an $800 million capital contribution to MGIC from part of the proceeds from our March 2013 sale of common stock and issuance of convertible senior notes, partially offset by operating losses. Our risk-to-capital ratio will increase if the percentage decrease in capital exceeds the percentage decrease in insured risk. Therefore, as capital decreases, the same dollar decrease in capital will cause a greater percentage decrease in capital and a greater increase in the risk-to-capital ratio.

For additional information regarding regulatory capital see Note 1 – "Basis of Presentation – Capital" to our consolidated financial statements as well as our risk factor titled *"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 B with a positive outlook. For further information about the importance of MGIC's ratings, see our risk factor titled *"We may not continue to meet the GSEs' mortgage insurer eligibility requirements" and "Competition or changes in our relationships with our customers could reduce our revenues or increase our losses."*

Contractual Obligations

At September 30, 2013, 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	$ 3,220	$ 67	$ 214	$ 452	$ 2,487
Operating lease obligations	7	4	2	1	-
Tax obligations	18	-	-	18	-
Purchase obligations	2	1	1	-	-
Pension, SERP and other post-retirement benefit plans	174	11	27	31	105
Other long-term liabilities	3,353	1,710	1,375	268	-
Total	$ 6,774	$ 1,793	$ 1,619	$ 770	$ 2,592

Our long-term debt obligations at September 30, 2013 include, $82.9 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, 2012. 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, 2012 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 servicing and court delays, failures by servicers to follow proper procedures in foreclosure proceedings, loan modifications, claims investigations and claim rescissions, will affect our future paid claims it has become even more difficult to estimate the amount and timing of future claim payments. Current conditions in the housing and mortgage industries make all of the assumptions discussed in this paragraph more volatile than they would otherwise be. See Note 12 – "Loss Reserves" to our consolidated financial statements and "-Critical Accounting Policies" in our 10-K MD&A. In accordance with GAAP for the mortgage insurance industry, we establish loss reserves only for loans in default. Because our reserving method does not take account of the impact of future losses that could occur from loans that are not delinquent, our obligation for ultimate losses that we expect to occur under our policies in force at any period end is not reflected in our financial statements or in the table above.

Forward Looking Statements and Risk Factors

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

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

Location of Risk Factors: The risk factors are in Item 1 A of our Annual Report on Form 10-K for the year ended December 31, 2012, as supplemented by Part II, Item 1 A of our Quarterly Reports on Form 10-Q for the Quarters ended March 31 and June 30, 2013 and by Part II, Item 1 A of this Quarterly Report on Form 10-Q. The risk factors in the 10-K, as supplemented by these 10-Qs and through updating of various statistical and other information, are reproduced in Exhibit 99 to this Quarterly Report on Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

At September 30, 2013, 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 September 30, 2013, the modified duration of our fixed income investment portfolio was 3.3 years, which means that an instantaneous parallel shift in the yield curve of 100 basis points would result in a change of 3.3% 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 third quarter of 2013 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

In our Form 10-K for the year ended December 31, 2012, we reported that we are named as a defendant in various purported class action cases naming various mortgage lenders and mortgage insurers as defendants. The complaints in those cases allege various causes of action related to the captive mortgage reinsurance arrangements of the mortgage lenders, including that the mortgage insurer defendants violated RESPA by paying excessive premiums to the lenders' captive reinsurer in relation to the risk assumed by that captive. A complaint originally filed May 18, 2012 in the U.S. District Court for the Eastern District of Pennsylvania, was dismissed with respect to MGIC by that District Court on August 21, 2013. A complaint originally filed October 3, 2012 in the U.S. District Court for the Central District of California, was dismissed by that District Court on June 19, 2013. The Plaintiffs in that case filed a notice of appeal with the United States Court of Appeals for the Ninth Circuit on July 2, 2013 seeking to overturn the District Court's dismissal. That appeal was dismissed at the request of the Plaintiff on October 18, 2013. A complaint, which was originally filed December 9, 2011 in the U.S. District Court for the Central District of California, was dismissed by that District Court on May 7, 2013. The Plaintiffs in that case filed a notice of appeal with the United States Court of Appeals for the Ninth Circuit on June 5, 2013 seeking to overturn the District Court's dismissal. On November 5, 2013, the Plaintiffs filed a motion for voluntary dismissal of their appeal.

In our Form 10-K for the year ended December 31, 2012, we reported that MGIC had been involved in legal proceedings since 2009 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 refused to pay valid mortgage insurance claims. We also reported that in the fourth quarter of 2012, the Company recorded an increase in its loss reserves of an aggregate of $100 million in connection with its determination that a settlement of this litigation with Countrywide and another settlement with another customer were probable under ASC 450-20.

On April 19, 2013, MGIC entered into separate settlement agreements with BANA and CHL, pursuant to which the parties will settle the Countrywide litigation as it relates to MGIC's rescission and denial practices (as amended on September 24, 2013 by amendments that were technical in nature, (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 to the Agreement are filed as Exhibits to this Form 10-Q, although in each case certain portions of the Agreements are redacted and covered by a confidential treatment request that has been granted or is pending. Both GSEs have consented to the agreement with BANA and implementation began in November 2013. As of September 30, 2013, rescissions of coverage on approximately 2,100 loans under the agreement with BANA, representing total potential claim payments of approximately $150 million, had been suspended. We began processing the suspended rescissions in November 2013 and expect most of the associated claims will be paid in accordance with our practice. The agreement with CHL covers loans that were purchased by non-GSE investors, including securitization trusts (the "other investors"). The agreement with CHL 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 no earlier than the first quarter of 2014. As of September 30, 2013, rescissions of coverage on approximately 800 loans under the agreement with CHL, representing total potential claim payments of approximately $70 million, had been suspended. While there can be no assurance that the agreement with CHL will be implemented, we have determined that its implementation is probable.

The pending arbitration proceedings concerning the loans covered by the BANA 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 pending arbitration proceeding between the parties regarding the loans subject to the CHL proceeding is stayed. Upon obtaining a specified number of consents by or on behalf of the investors in loans covered by the Agreement with CHL ("investors") and also upon the conclusion of the period in the Agreement with CHL for obtaining consents by or on behalf of the investors, all legal proceedings will be dismissed and the parties will provide mutual releases, in each case limited as to the loans held by the investors that consent to that Agreement.

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, 2012 as supplemented by Part II, Item I A of our Quarterly Reports on Form 10-Q for the Quarters ended March 31 and June 30, 2013. The risk factors in the 10-K, as supplemented by those 10-Qs 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.

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 "Capital Requirements." While they vary among jurisdictions, the most common Capital Requirements allow for a maximum risk-to-capital ratio of 25 to 1. A risk-to-capital ratio will increase if the percentage decrease in capital exceeds the percentage decrease in insured risk. Therefore, as capital decreases, the same dollar decrease in capital will cause a greater percentage decrease in capital and a greater increase in the risk-to-capital ratio. 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.

During part of 2012 and 2013, MGIC's risk-to-capital ratio exceeded 25 to 1. In March 2013, our holding company issued additional equity and convertible debt securities and transferred $800 million to increase MGIC's capital. At September 30, 2013, MGIC's risk-to-capital ratio was 20.0 to 1, below the maximum allowed by the jurisdictions with Capital Requirements, and its policyholder position was $190 million above the required MPP of $1.2 billion. At September 30, 2013, the risk-to-capital ratio of our combined insurance operations (which includes reinsurance affiliates) was 22.7 to 1. A higher risk-to-capital ratio on a combined basis may indicate that, in order for MGIC to continue to utilize reinsurance arrangements with its subsidiaries or subsidiaries of our holding company, additional capital contributions to the reinsurance affiliates could be needed. These reinsurance arrangements permit MGIC to write insurance with a higher coverage percentage than it could on its own under certain state-specific requirements.

At this time, we expect MGIC to continue to comply with the current 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.

If MGIC fails to meet the Capital Requirements 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 were prevented from writing new business in all jurisdictions, our insurance operations in MGIC would be in run-off (meaning no new loans would be insured but loans previously insured would continue to be covered, with premiums continuing to be received and losses continuing to be paid on those loans) until MGIC either met the Capital Requirements or obtained a waiver to allow it to once again write new business.

If MGIC fails to meet the Capital Requirements and is unable to obtain a waiver of them from a jurisdiction other than Wisconsin, MGIC could be prevented from writing new business in that particular jurisdiction. New insurance written in the jurisdictions that have Capital Requirements represented approximately 50% of our new insurance written in the first nine months of 2013. Depending on the level of losses that MGIC experiences in the future, it is possible that regulatory action by one or more jurisdictions, including those that do not have specific Capital Requirements, may prevent MGIC from continuing to write new insurance in such jurisdictions.

The National Association of Insurance Commissioners ("NAIC") is reviewing the minimum capital and surplus requirements for mortgage insurers, although it has not established a date by which it must make proposals to change such requirements. Depending on the scope of proposals made by the NAIC, MGIC may be prevented from writing new business in the jurisdictions adopting such proposals. Fannie Mae and Freddie Mac (the "GSEs"), in conjunction with the Federal Housing Finance Agency ("FHFA"), are also developing new capital standards for mortgage insurers. See our risk factor titled *"We may not continue to meet the GSEs' mortgage insurer eligibility requirements."*

A possible future failure by MGIC to meet the Capital 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, we cannot assure you that events that may lead MGIC to fail to meet Capital Requirements would not also result in it not having sufficient claims paying resources. Furthermore, our estimates of MGIC's claims paying resources and claim obligations are based on various assumptions. These assumptions include the timing of the receipt of claims on loans in our delinquency inventory and future claims that we anticipate will ultimately be received, our anticipated rescission activity, premiums, housing values and unemployment rates. These assumptions are subject to inherent uncertainty and require judgment by management. Current conditions in the domestic economy make the assumptions about when anticipated claims will be received, housing values, and unemployment rates highly volatile in the sense that there is a wide range of reasonably possible outcomes. Our anticipated rescission activity is also subject to inherent uncertainty due to the difficulty of predicting the amount of claims whose policies will be rescinded and the outcome of any legal proceedings or settlement discussions related to rescissions. You should read the rest of these risk factors for additional 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 Capital Requirements of a jurisdiction or obtain a waiver of them. MIC is licensed to write business in all jurisdictions and, subject to certain conditions and restrictions, has received the necessary approvals from the OCI and the GSEs to write business. During 2012, MIC began writing new business in the jurisdictions where MGIC did not have a waiver of the Capital Requirements. Because MGIC again meets the Capital Requirements, MGIC is again writing new business in all jurisdictions and MIC has suspended writing new business. As of September 30, 2013, MIC had statutory capital of $455 million and risk in force of approximately $950 million.

The OCI and GSE approvals of MIC expire at the end of 2013 and we do not expect to need an extension of such approvals. Fannie Mae's approval of MIC, including certain conditions and restrictions to its continued effectiveness, is summarized more fully in, and included as an exhibit to, our Form 8-K filed with the Securities and Exchange Commission (the "SEC") on November 30, 2012. Freddie Mac's approval of MIC, including certain conditions and restrictions to its continued effectiveness, is summarized more fully in, and included as an exhibit to, our Form 8-K filed with the SEC on November 30, 2012. Freddie Mac's approval of MIC provides that an adverse action by Freddie Mac against MIC may also subject MGIC to an adverse action.

We cannot assure you that the OCI or GSEs will approve or continue to approve MIC to write new business in all jurisdictions in which MGIC may become unable to do so. If one GSE does not approve MIC in all jurisdictions in which MGIC becomes unable to write new business, MIC may be able to write insurance on loans that will be sold to the other GSE or retained by private investors. However, because lenders may not know which GSE will purchase their loans until mortgage insurance has been procured, lenders may be unwilling to procure mortgage insurance from MIC. Furthermore, 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 financial strength of our insurance operations 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. In 2013, the Consumer Financial Protection Bureau (“CFPB”) issued and amended a final rule defining “Qualified Mortgage” (“QM”), in order to implement the “ability to repay” law. 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, 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 whether lenders will make non-QM loans because they will not be entitled to the presumptions about compliance with the “ability to repay” requirements, or if lenders would purchase private mortgage insurance for loans that cannot be sold to the GSEs.

In September 2013, the U.S. Department of Housing and Urban Development (“HUD”) proposed a definition of QM that will apply to loans the Federal Housing Administration (“FHA”) insures. 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 has a higher pricing threshold for loans to fall into the “safe harbor” category of QM loans, instead of the “rebuttable presumption” category of QM 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 87.5% of our new risk written in the first nine months of 2013 was for mortgages that would have met the CFPB’s general QM definition. We estimate that 98.9% of our new risk written in the first nine months of 2013 was for mortgages 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 QM rule is scheduled to become effective in January 2014.

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. While substantially all of our new risk written in the first nine months of 2013 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, (b) the extent to which the presence of private mortgage insurance with certain premium plans may adversely affect the ability of a loan to qualify as a QM and therefore as a QRM, and (c) 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 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 delivery fees that the GSEs assess on loans (which result in higher costs to borrowers). In addition, federal legislation and programs provided the FHA with greater flexibility in establishing new products and increased the FHA's competitive position against private mortgage insurers. 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 increases in guaranty fees 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.

We have reported net losses for the last six years and cannot assure you when we will return to annual profitability.

We have reported a net loss in each of the last six fiscal years, with an aggregate net loss for 2007-2012 of $5.3 billion. For the first nine months of 2013, we reported a net loss of $48.4 million. The size of any future losses will depend primarily on the amount of our losses incurred from our business written prior to 2009, which will depend on new notices of defaulted loans, cures of defaulted loans in our delinquency inventory and the average severity on claims paid. Therefore, such losses are dependent on factors that make prediction of their amounts difficult and any forecasts are subject to significant volatility. Although we currently expect to return to profitability on an annual basis, we cannot assure you when, or if, this will occur. Conditions that could delay our return to annual profitability include high unemployment rates, low cure rates, low housing values and unfavorable resolution of legal disputes. You should read the rest of these risk factors for additional information about factors that could increase our net losses in the future.

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

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 defendants violated RESPA by paying excessive premiums to the lenders' captive reinsurer in relation to the risk assumed by that captive. 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 April 2013, the U.S. District Court 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 remain subject to various state investigations or information requests regarding captive mortgage reinsurance arrangements, including (1) a request received by MGIC 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; and (2) requests received 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. On August 28, 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. 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-pay 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.

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.

Since December 2009, we have been involved in legal proceedings with 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. From January 1, 2008 through September 30, 2013, rescissions of coverage on Countrywide-related loans mitigated our paid losses on the order of $445 million. This amount is the amount we estimate we would have paid had the coverage not been rescinded. In addition, in connection with mediation we were holding with Countrywide, we voluntarily suspended rescissions related to loans that we believed could be covered by a settlement.

On April 19, 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 on September 24, 2013 by amendments that were technical in nature, 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 to the Agreements were filed with our Form 10-Q for the quarter ended September 30, 2013, although in each case, certain portions of the Agreements are redacted and covered by a confidential treatment request that has been granted (or is pending). Both GSEs have consented to the agreement with BANA and implementation began in November 2013. As of September 30, 2013, rescissions of coverage on approximately 2,100 loans under the agreement with BANA, representing total potential claim payments of approximately $150 million, had been suspended. We began processing the suspended rescissions in November 2013 and expect most of the associated claims will be paid in accordance with our practice. The agreement with CHL covers loans that were purchased by non-GSE investors, including securitization trusts (the “other investors”). The agreement with CHL 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 no earlier than the first quarter of 2014. As of September 30, 2013, rescissions of coverage on approximately 800 loans under the agreement with CHL, representing total potential claim payments of approximately $70 million, had been suspended. 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, including the payments of claims associated with the suspended rescissions being made beginning in November 2013 (and another probable settlement) in our financial statements for the quarter ending December 31, 2012. If we are not able to implement the agreement with CHL, we intend to defend MGIC against any related legal proceedings, vigorously.

In addition to the suspended Countrywide rescissions, as of September 30, 2013, coverage on approximately 540 loans, representing total potential claim payments of approximately $38 million, was affected by our decision to suspend rescissions for customers for which we consider settlement agreements probable.

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. The settlement with Countrywide may encourage other customers to pursue remedies against us. From January 1, 2008 through September 30, 2013, we estimate that total rescissions mitigated our incurred losses by approximately $2.9 billion, which included approximately $3.0 billion of mitigation on paid losses, excluding $0.6 billion that would have been applied to a deductible. At September 30, 2013, we estimate that our total loss reserves were benefited from anticipated rescissions by approximately $0.1 billion.

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 2012 and the first nine months of 2013, curtailments reduced our average claim paid by approximately 4.1% and 5.5%, respectively. In addition, the claims submitted to us sometimes include costs and expenses not covered by our insurance policies, such as mortgage insurance premiums, 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. Historically, we have not had material disputes regarding our curtailments or other adjustments.

The Agreements referred to above do not resolve assertions by Countrywide that MGIC has improperly curtailed numerous insurance coverage claims. As of the fourth quarter of 2012, Countrywide asserted that the amount of disputed curtailments approximated $40 million. MGIC and Countrywide have agreed to mediate this matter and to enter into arbitration if the mediation does not resolve the matter. We do not believe a loss is probable regarding this curtailment dispute and have not accrued any reserves that would reflect an adverse outcome to this dispute. We intend to defend vigorously our position regarding the correctness of these curtailments under our insurance policy. Although we have not had other material objections to our curtailment and adjustment practices, there can be no assurances that we will not face additional challenges to such practices.

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. One of those lawsuits remains pending and the other seven lawsuits have been dismissed without any further opportunity to appeal. The damages sought in the remaining case are substantial. We deny any wrongdoing and intend to defend ourselves vigorously against the allegations in the lawsuits.

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 assessments for taxes and penalties related to these matters is $197.5 million and at September 30, 2013 there would also be interest of approximately $151.0 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 September 30, 2013, those state taxes and interest would approximate $45.4 million. In addition, there could also be state tax penalties.

Our total amount of unrecognized tax benefits as of September 30, 2013 is $105.2 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 factor titled *"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 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.

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, future increases in guaranty fees 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 2012 and the first nine months of 2013, approximately 10% and 8%, respectively, of our new insurance written was for loans for which one lender was the original insured, although revenue from such loans was significantly less than 10% of our revenues during each of those periods. Our private mortgage insurance competitors include:

- Genworth Mortgage Insurance Corporation,
- United Guaranty Residential Insurance Company,
- Radian Guaranty Inc.,
- CMG Mortgage Insurance Company (whose owners have agreed to sell it to a worldwide insurer and reinsurer),
- Essent Guaranty, Inc., and
- NMI Holdings, Inc.

Until 2010 the mortgage insurance industry had not had new entrants in many years. In 2010, Essent Guaranty, Inc. began writing mortgage insurance and in October 2013, it raised additional capital in an initial public offering. Essent has publicly reported that one of our customers, JPMorgan Chase, is one of its investors. Another new company, NMI Holdings Inc., began writing mortgage insurance in the second quarter of 2013. In addition, in February 2013, a worldwide insurer and reinsurer with mortgage insurance operations in Europe announced that it was purchasing CMG Mortgage Insurance Company. In October 2013, the parent company of Republic Mortgage Insurance Company (“RMIC”), which had ceased writing new mortgage insurance commitments in mid-2011 and was placed under the supervision of the insurance department of its domiciliary state, announced a plan of recapitalization for RMIC that is intended to allow RMIC to resume writing new business early in 2014. The perceived increase in credit quality of loans that are being insured today, the deterioration of the financial strength ratings of the existing mortgage insurance companies and the possibility of a decrease in the FHA’s share of the mortgage insurance market may encourage 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.

We believe many lenders consider a mortgage insurer’s financial strength rating and risk-to-capital ratio as important factors when they select mortgage insurers. As a result of MGIC’s less than investment grade financial strength ratings and its risk-to-capital ratio level being higher than that of other mortgage insurers, MGIC may be competitively disadvantaged with these lenders. MGIC’s financial strength rating from Moody’s is Ba3 (with a stable outlook) and from Standard & Poor’s is B (with a positive outlook). It is possible that MGIC’s financial strength ratings could decline from these levels. While we expect MGIC’s risk-to-capital ratio to continue to comply with the current Capital Requirements, its level will depend primarily on the level of incurred losses, any settlement with the IRS, and the volume of new risk written. Our incurred losses are dependent upon factors that make prediction of their amounts difficult and any forecasts are subject to significant volatility. Conditions that could negatively affect the risk-to-capital ratio include high unemployment rates, low cure rates, low housing values and unfavorable resolution of ongoing legal proceedings. In addition, the NAIC and the GSEs are each expected to propose revised capital standards for mortgage insurers. While there can be no assurance that MGIC would meet such revised capital requirements, we believe we could implement one or more alternative strategies to continue to write new business. For more information, see our risk factor titled *“Capital requirements may prevent us from continuing to write new insurance on an uninterrupted basis”* and *“We may not continue to meet the GSEs’ mortgage insurer eligibility requirements.”*

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

Even when housing values are stable or rising, mortgages with certain characteristics have higher probabilities of claims. These characteristics include loans with loan-to-value ratios over 95% (or in certain markets that have experienced declining housing values, over 90%), FICO credit scores below 620, limited underwriting, including limited borrower documentation, or higher total debt-to-income ratios, as well as loans having combinations of higher risk factors. As of September 30, 2013, approximately 22.6% of our primary risk in force consisted of loans with loan-to-value ratios greater than 95%, 7.0% had FICO credit scores below 620, and 7.2% had limited underwriting, including limited borrower documentation, each attribute as determined at the time of loan origination. A material portion of these loans were written in 2005 — 2007 or the first quarter of 2008. In accordance with industry practice, loans approved by GSEs and other automated underwriting systems under "doc waiver" programs that do not require verification of borrower income are classified by us as "full documentation." For additional information about such loans, see footnote (3) to the composition of primary default inventory table under "Results of Consolidated Operations-Losses-Losses incurred" in Management's Discussion and Analysis of Financial Condition and Results of Operations.

From time to time, in response to market conditions, we change the types of loans that we insure and the requirements under which we insure them. Beginning in August 2013, we adjusted our underwriting requirements to allow loans that receive certain approvals from a GSE automated underwriting system to be automatically eligible for our mortgage insurance, provided such loans comply with certain credit overlays, as described in our underwriting requirements. Effective December 2, 2013, we are reducing almost all of our borrower-paid monthly premium policy rates, reducing most of our single premium policy rates and making underwriting changes for loans greater than $625,500, subject to regulatory approval of the rate changes. In the first nine months of 2013, single premium policies were approximately 9% of our total NIW. During this period almost all of our single premium rates were above those of a number of our competitors. The percentage of our single premium policies may increase in the future as a result of the reduction in our single premium rates. Our reduced single premium rates may result in an increase over the 9% in the future. These changes will reduce our future premium yields, as would additional external reinsurance transactions. Our underwriting requirements are available on our website at http://www.mgic.com/underwriting/index.html. We 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 2012 and the first nine months of 2013.

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"). If a borrower makes payments for three years, our Gold Cert Endorsement limits our ability to rescind coverage except under certain circumstances, which circumstances include where we demonstrate the lender had knowledge of inaccurate information in the loan file. In addition, our Gold Cert Endorsement limits our ability to rescind on loans for which the borrower makes payments on time for one year with his own funds, if we are provided with certain documents shortly after we insure the loan and we fail to discover that the loan was ineligible for our insurance. We believe the limitations on our rights to rescind coverage under the Gold Cert Endorsement will materially reduce rescissions on such loans. As of September 30, 2013, less than 12% of our insurance in force was written under our Gold Cert Endorsement. However, we estimate that approximately 63% of our flow, primary new insurance written in the first nine months of 2013, 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 are completing the process of drafting a new master policy that will comply with various requirements the GSEs have communicated to the industry. These requirements contain limitations on rescission rights that differ from the limitations in our Gold Cert Endorsement including (i) that we must satisfy certain requirements if we want to provide rescission relief after the borrower has made one year of timely payments, and (ii) in certain cases, rescission relief is more restrictive than provided by our Gold Cert Endorsement. This new policy could be effective for loans insured as early as mid-2014.

As of September 30, 2013, approximately 1.9% of our primary risk in force written through the flow channel, and 22.1% 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. In the current interest rate environment, interest rates resetting in the near future are unlikely to exceed the interest rates at origination. 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.

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 November 8, 2013.

MGIC INVESTMENT CORPORATION

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

/s/ Timothy J. Mattke
Timothy J. Mattke
Senior Vice President, Controller and Chief Accounting Officer

INDEX TO EXHIBITS
(Part II, Item 6)

Exhibit Number	Description of Exhibit
10.14.1	Amendment to Confidential Settlement Agreement and Release made as of September 24, 2013 by and between Mortgage Guaranty Insurance Corporation and Bank of America, N.A. (as a 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, formerly Treasury Bank. Countrywide Home Loans, Inc. is also a party to the settlement agreement only to the extent specified in the settlement agreement. †††
10.15.1	Amendment to Confidential Settlement Agreement and Release made as of September 24, 2013 by and between Mortgage Guaranty Insurance Corporation, Countrywide Home Loans, Inc. and Bank of America, N.A., in its capacity as master servicer or servicer of Subject Loans (as defined in the settlement agreement). †††
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, 2012, as supplemented by Part II, Item 1A of our Quarterly Reports on Form 10-Q for the quarters ended March 31, June 30 and September 30, 2013, and through updating of various statistical and other information
101	The following financial information from MGIC Investment Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 2013, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets as of September 30, 2013 and December 31, 2012, (ii) Consolidated Statements of Operations for the three and nine months ended September 30, 2013 and 2012, (iii) Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2013 and 2012, (iv) Consolidated Statements of Shareholders' Equity for the year ended December 31, 2012 and the nine months ended September 30, 2013, (v) Consolidated Statements of Cash Flows for the nine months ended September 30, 2013 and 2012, 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 confidentiality request. Omitted portions have been filed separately with the Securities and Exchange Commission.

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.

Exhibit 10.14.1

EXECUTION COPY

AMENDMENT TO
CONFIDENTIAL SETTLEMENT AGREEMENT AND RELEASE

This AMENDMENT TO CONFIDENTIAL SETTLEMENT AGREEMENT AND RELEASE ("Amendment") is made and is effective as of this 24th day of September, 2013, 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 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 (the "Settlement Agreement"), and CHL is a party to the Settlement Agreement to the extent specified in the Settlement Agreement; and

WHEREAS, the Parties and CHL desire 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 and CHL agree, pursuant to Section 19(g) of the Settlement Agreement, that the Settlement Agreement is hereby amended as follows:

1. Compensation for Recently Paid Loans. Subclause (x) of Section 7(b)(i)(B) is amended and restated as follows: "(x) the Settlement Percentage applicable to the Class 2 GSE Loans, and".

2. <u>Designation of Category</u>. Bank of America's reconciliation of data after the Signing Date revealed that 948 loans referred to in clauses (i) - (iv) below should be classified as Class 1 GSE Loans rather than Class 2 GSE Loans as of the Signing Date, and Bank of America, CHL and MGIC agree that (i) the designation of the Category of each of the 887 Subject Loans listed on Appendix I, attached hereto, each of which was listed on Schedule 1 as of the Signing Date as a Class 2 GSE Loan, is changed to a Class 1 GSE Loan, and such Covered Loan shall be deemed to have been included on Schedule 1 as a Class 1 GSE Loan as of the Signing Date; (ii) the designation of the 16 Subject Loans listed on Appendix II, attached hereto, each of which was listed on Schedule 2 as of the Signing Date as a Class 2 GSE Loan, is changed to a Class 1 GSE Loan, and each such Past Coverage Determination Loan shall be deemed to have been included on Schedule 2 as a Class 1 GSE Loan as of the Signing Date; (iii) the designation of the 44 Subject Loans listed on Appendix III, attached hereto, each of which was listed on Schedule 3 as of the Signing Date as a Class 2 GSE Loan, is changed to a Class 1 GSE Loan, and each such Recently Paid Loan shall be deemed to have been included on Schedule 3 as a Class 1 GSE Loan as of the Signing Date; and (iv) the designation of the 1 Subject Loan listed on Appendix IV, attached hereto, which was listed on Schedule 9 as of the Signing Date as a Class 2 GSE Loan, is changed to a Class 1 GSE Loan, and each such Recently Denied Loan shall be deemed to have been included on Schedule 9 as a Class 1 GSE Loan as of the Signing Date.

3. <u>Settlement Payment and Denial Settlement Payment for Class 1 GSE Loans and Class 2 GSE Loans and Reimbursement Payment</u>.

a. Sections 2(a)(i), (ii) and (iii) are amended and restated as follows:

"(i) As to Class 1 GSE Loans:

(A) [***] (applicable Settlement Payment after deductions) (calculated by: [***] (applicable Settlement Payment before deductions) *less* [***] (the sum of premium refund checks and premium refunds that have escheated to the states pursuant to applicable law)); and
(B) [***] (applicable Denial Settlement Payment);"

"(ii) As to HFI Loans:

(A) [***] (applicable Settlement Payment after deductions) (calculated by: [***] (applicable Settlement Payment before deductions) *less* [***] (the sum of premium refund checks and premium refunds that have escheated to the states pursuant to applicable law); and
(B) [***] (applicable Denial Settlement Payment; and:

"(iii) As to Class 2 GSE Loans:

(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)."

b. The Parties shall promptly notify the Escrow Agent of the amended and restated amounts of the Settlement Payment and the Denial Settlement Payment with respect to the Class 1 GSE Loans and the Class 2 GSE Loans and shall jointly direct the Escrow Agent to revise its records regarding the Categories of Loans with respect to MGIC's deposits into the Escrow Account accordingly. The amended and restated amounts with respect to the Settlement Payment and the Denial Settlement Payment allocated to the Class 1 GSE Loans and the Class 2 GSE Loans in the Escrow Accounts shall be deemed to have been allocated to the Class 1 GSE Loans and Class 2 GSE Loans, respectively, as of the Signing Date.

c. Section 1(kkk) is amended and restated as follows: "'**Reimbursement Payment**' means, for Class 1 GSE Loans and HFI Loans that are Recently Paid Loans, the amount of [***], to be deposited to the Escrow Accounts by Bank of America as set forth in Section 2(b), and disbursed as set forth in Section 8."

d. The Parties shall promptly notify the Escrow Agent of the amended and restated amount of the Reimbursement Payment, and concurrently therewith Bank of America shall deposit the difference between (x) the amount of the Reimbursement Payment as of the Signing Date and (y) the amended and restated amount of the Reimbursement Payment set forth in this Amendment in immediately available funds into the second of the Escrow Accounts.

4. Compensation for Recently Paid Loans. Subclause (y) of Section 7(a) is amended by adding the following words at the end of subclause (y): "that were included in the calculation of the Reimbursement Payment."

5. Effect of DPO. The following is added at the end of Section 10(c)(v): "further provided that (x) in the event that MGIC becomes subject to a DPO, and for the duration of the DPO, MGIC shall pay only the Settlement Percentage Claim Payment with respect to each Class 1 GSE Loan and Bank of America shall pay the Bank of America Share directly to the applicable GSE, (y) the funds shall be disbursed from the MGIC Account in the manner contemplated by subclauses (i) and (ii) of Section 10(d)(iii)(G) in no event more than five (5) business days after delivery by MGIC to Bank of America of a Bank of America Share Report, and (z) upon the termination of any such DPO, (i) Bank of America shall re-establish the MGIC Account pursuant to Section 10(d)(ii) and make any adjustments pursuant to Section 10(d)(iii)(C), taking into account the average aggregate Bank of America Share paid by Bank of America or MGIC, shown on the Bank of America Share Reports delivered by MGIC to Bank of America during the preceding calendar year, and (ii) MGIC shall resume (A) payment of the Bank of America Share pursuant to this Section 10(c)(v) and (B) withdrawals from the MGIC Account pursuant to Section 10(d)(iii). The Parties intend, and no Party will dispute, that (1) the funds contained within the MGIC Account are not assets (whether general assets or otherwise) of MGIC and (2) to the extent that any funds contained within the MGIC Account are deemed or determined to be assets of MGIC by any court, governmental agency or regulatory body, Bank of America shall have a secured claim, as such term is defined in Wisconsin Statute section 645.03(1)(j), in such funds."

6. Supplemental Claims.

a. Section 1(o) is amended and restated as follows: "'**Claim**' (A) has, with respect to any Subject Loan, the meaning set forth in the applicable Master Policy and (B) when used in reference to a Covered Loan or a Recently Paid Loan, also means a Supplemental Claim."

b. The following Section 1(aaaa) is added: "'**Default Servicing Guide**' means MGIC's Default Servicing Guide in effect at June 2013, a copy of which is attached as Exhibit O hereto."

c. The following Section 1(bbbb) is added: "'**Supplemental Claim**' means a supplemental claim for items the Insured must advance under Section 5.7 of the applicable Master Policy, which supplemental claim is made after the date on which the Claim to which such supplemental claim relates is initially paid."

d. The following Section 10(g) is added: "Supplemental Claims for Certain Loans: MGIC shall make payment pursuant to the provisions of the Default Servicing Guide relevant to the filing and paying of Supplemental Claims on valid and allowable Supplemental Claims on Covered Loans and Recently Paid Loans received by MGIC within 90 days of the initial Claim payment date at the Settlement Percentage in the same manner as claims for Covered Loans. If, however, MGIC's customary practice as to any particular type of Supplemental Claim is to waive the fact that the Supplemental Claim has not been received within 90 days of the initial Claim payment date, it shall follow that customary practice for purposes of Supplemental Claims of that type received pursuant to this Section 10(g). Any disputes regarding payment on Supplemental Claims, other than a dispute regarding the application of the preceding sentence, shall be resolved as described in the final sentence of Section 11(a), and any disputes regarding the application of the preceding sentence shall be resolved pursuant to Section 11(c)."

7. Alternative Dispute Resolution.

a. The following shall be added at the end of Section 11(a): "All disputes regarding any disallowance of a Supplemental Claim by MGIC in respect of any Covered Loan or Recently Paid Loan shall be resolved in the same manner and subject to the same conditions and limitations as disputes regarding an Exclusion, including without limitation, including such dispute in a Claim Group; provided, however, that for purposes of resolving disputes about disallowance of Supplemental Claims, (i) any reference to an 'Exclusion' shall instead be to a 'disallowance of a Supplemental Claim', (ii) the bases for the disallowance of a Supplemental Claim shall be those contained in the terms of the applicable Master Policy, the provisions of the Default Servicing Guide relevant to the filing and paying of Supplemental Claims and this Settlement Agreement, and (iii) the arbitrator shall be bound by the terms of this Settlement Agreement, the provisions of the Default Servicing Guide relevant to the filing and paying of Supplemental Claims, and the applicable Master Policy."

b. Section 13(d)(i) is amended and restated as follows: "(i) Any disputes or claims within the scope of Sections 11(a) and (b), any Dispute within the scope of Section 11(c), and any Payment Dispute within the scope of Section 11(d);".

c. Section 14(d)(i) is amended and restated as follows: "(i) Any disputes or claims within the scope of Sections 11(a) and (b), any Dispute within the scope of Section 11(c), and any Payment Dispute within the scope of Section 11(d);".

8. Indemnification.

a. The following words are deleted from Section 15(b)(i): "[***]".

b. The lead-in paragraph of Section 15(b) is amended and restated as follows: "On and after the Initial Implementation Date, Bank of America shall indemnify all MGIC Released Parties from and against all Causes of Action asserted by [***] directly or indirectly, by reason of, arising out of or resulting from the actual or claimed obligation to pay any amount of money in respect of:".

c. The word "or" following clause (E) of the proviso following Section 15(b)(iii) is deleted.

d. Clause (F) of the proviso following Section 15(b)(iii) is amended and restated as follows: "(F)any action or inaction by CHL, except that this clause (F) shall not apply to a Cause of Action asserted involving any matter referred to in Section 15(b)(i) or (iii); or".

e. The following new clause shall be added to the end of the proviso following section 15(b)(iii): "(G) Any obligation of MGIC to pay a Supplemental Claim pursuant to Section 10(g)."

9. 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 this Amendment.

10. 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.

11. 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.

12. 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.

13. Representations and Warranties. Each of the Parties (and for purposes of this Section 13, CHL is included as a Party) 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 (i) any authorization, consent, approval, registration, declaration, filing, or notice that has been obtained or given prior to the date hereof and (ii) the Required 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 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.

14. 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 and CHL have executed this 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/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/ David A. Cassell

Name: David Cassell
Title: Senior Vice President

EXHIBIT O

Default Servicing Guide

MGIC's Default Servicing Guide in effect at June 2013 (Incorporated by reference to Exhibit M to the Confidential Settlement Agreement and Release dated as of April 19, 2013 (the "CHL Agreement"), by and between Mortgage Guaranty Insurance Corporation, Countrywide Home Loans, Inc. and Bank of America, N.A., in its capacity as master servicer or servicer of Subject Loans (as defined in the CHL Agreement). Such Exhibit M was filed with the Securities and Exchange Commission on November 8, 2013 as part of Exhibit 10.15.1 to MGIC Investment Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 2013.)

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.

Exhibit 10.15.1

AMENDMENT TO
CONFIDENTIAL SETTLEMENT AGREEMENT AND RELEASE

This AMENDMENT TO CONFIDENTIAL SETTLEMENT AGREEMENT AND RELEASE ("Amendment") is made and is effective as of this 24th day of September, 2013, by and between 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 (the "Settlement Agreement"); and

WHEREAS, the Parties desire 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. Compensation for Recently Paid Loans. Subclause (x) of Section 7(a)(ii) is amended and restated as follows: "(x) the Settlement Percentage applicable to the Category of the True-Up Loan, and".

2. Supplemental Claims.

    a. Section 1(l) is amended and restated as follows: "'**Claim**' (A) has, with respect to any Subject Loan, the meaning set forth in the applicable Master Policy and (B) when used in reference to a Covered Loan or a Recently Paid Loan, also means a Supplemental Claim."

    b. The following Section 1(yyy) is added: "'**Default Servicing Guide**' means MGIC's Default Servicing Guide in effect at June 2013, a copy of which is attached as Exhibit M hereto."

    c. The following Section 1(zzz) is added: "'**Supplemental Claim**' means a supplemental claim for items the Insured must advance under Section 5.7 of the applicable Master Policy, which supplemental claim is made after the date on which the Claim to which such supplemental claim relates is initially paid."

d. The following Section 10(f) is added: "Supplemental Claims for Certain Loans: MGIC shall make payment pursuant to the provisions of the Default Servicing Guide relevant to the filing and paying of Supplemental Claims on valid and allowable Supplemental Claims on Covered Loans and Recently Paid Loans received by MGIC within 90 days of the initial Claim payment date at the Settlement Percentage in the same manner as claims for Covered Loans. If, however, MGIC's customary practice as to any particular type of Supplemental Claim is to waive the fact that the Supplemental Claim has not been received within 90 days of the initial Claim payment date, it shall follow that customary practice for purposes of Supplemental Claims of that type received pursuant to this Section 10(f). Any disputes regarding payment on Supplemental Claims, other than a dispute regarding the application of the preceding sentence, shall be resolved as described in the final sentence of Section 11(a), and any disputes regarding the application of the preceding sentence shall be resolved pursuant to Section 11(c)."

3. Alternative Dispute Resolution.

a. The following shall be added at the end of Section 11(a): "All disputes regarding any disallowance of a Supplemental Claim by MGIC in respect of any Covered Loan or Recently Paid Loan shall be resolved in the same manner and subject to the same conditions and limitations as disputes regarding an Exclusion, including without limitation, including such dispute in a Claim Group; provided, however, that for purposes of resolving disputes about disallowance of Supplemental Claims, (i) any reference to an 'Exclusion' shall instead be to a 'disallowance of a Supplemental Claim', (ii) the bases for the disallowance of a Supplemental Claim shall be those contained in the terms of the applicable Master Policy, the provisions of the Default Servicing Guide relevant to the filing and paying of Supplemental Claims and this Settlement Agreement, and (iii) the arbitrator shall be bound by the terms of this Settlement Agreement, the provisions of the Default Servicing Guide relevant to the filing and paying of Supplemental Claims, and the applicable Master Policy."

b. Section 13(d)(i) is amended and restated as follows: "(i) Any disputes or claims within the scope of Sections 11(a) and (b), and any Dispute within the scope of Section 11(c);".

c. Section 14(d)(i) is amended and restated as follows: “(i) Any disputes or claims within the scope of Sections 11(a) and (b), and any Dispute within the scope of Section 11(c);”.

4. Indemnification.

a. The following words are deleted from Section 15(b)(i): “[***]”.

b. The word “or” following clause (F) of the proviso following Section 15(b)(iii) is deleted.

c. Clause (F) of the proviso following Section 15(b)(iii) is amended to delete the period and to add “or;” at the end of the Clause.

d. The following new clause shall be added to the end of the proviso following section 15(b)(iii): “(G) Any obligation of MGIC to pay a Supplemental Claim pursuant to Section 10(g).”

5. 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 this Amendment.

6. 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.

7. 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.

8. 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.

9. 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 (i) any authorization, consent, approval, registration, declaration, filing, or notice that has been obtained or given prior to the date hereof and (ii) the Required 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 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.

10. 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 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/Chief Operating Officer

COUNTRYWIDE HOME LOANS, INC.

/s/ David A. Cassell

Name: David A. Cassell
Title: Senior Vice President

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

/s/ John S. Cousins

Name: John S. Cousins
Title: Senior Vice President

EXHIBIT M

Default Servicing Guide

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Introduction

MGIC Reservation of Rights	MGIC retains a full and complete reservation of rights. Neither this document nor any action taken by MGIC that may appear inconsistent with this document should be construed as a waiver by MGIC of any rights or defenses it may have.
MGIC Master Policy	MGIC’s Master Policy is referred to on several occasions within this guide. To view a copy of the Master Policy, see Master Policyholder resources at www.mgic.com/ lender-services/index.html.
MGIC Delegated Servicing Authority	As a servicer, you are bound by the requirements under MGIC’s Master Policy to mitigate MGIC’s loss and report certain loss mitigation measures to MGIC. To facilitate your loss mitigation efforts, MGIC offers Delegated Servicing Authority to help streamline your default servicing processes. You can use this authority to approve or complete — without our prior approval — loss mitigation workouts (Section 2) that meet our Guidelines for Delegated Authority (referred to throughout this guide as “Delegated Guidelines”). These guidelines may supersede any special delegation authority previously offered. We reserve the right to revoke any delegation. Delegated Guidelines apply to loans with primary coverage and/or supplemental coverage (pool or second-layer coverage).
Use of the Term “Borrowers”	Throughout this guide, “borrowers” refers to multiple borrowers or a single borrower.
References	Throughout the guide, you will be referred to supporting information in other sections within the document. For example, (2.06) means you will find related information in Section 2, subsection 6. These references are hyperlinked to the appropriate page in the guide. The guide also includes external references, linked to pages on our website, www.mgic.com.
Special Notes	Information to note will be pointed out to you with this symbol, Note. All changes made to content are indicated in green type.
MGIC/Link Servicing	In cases where you need to report or submit information to MGIC, our secure, online servicing tool, MGIC/Link (7.01), is usually the best option. You can complete most of your default servicing tasks on MGIC/Link, including reporting, requesting approvals and uploading documentation. If you’re not already an MGIC/Link user, go to www.mgic.com/signup to register for a password.
Support	If you have any questions about information presented in this guide, contact MGIC Customer Service, customer_service@mgic.com or 1-800-424-6442.

Communication Shortcuts

Secure, automated support for servicing defaults, reporting loss mitigation efforts and filing claims.

- Login ID and password registration for MGIC/Link Servicing and Secure File Transfer at www.mgic.com/signup
- Questions? Contact customer_service@mgic.com or 1-800-424-6442

Communication	Submission Options	Time Frame
Default Reporting		
Notice of Default	▪ Automated Default Reporting ▪ MGIC/Link Servicing – Select *File/Update a Default*	Upon 2nd consecutive past-due payment, by the 20th day of the month
Default Status Updates	▪ Automated Default Reporting ▪ MGIC/Link Servicing – Select *File/Update a Default* ▪ Secure File Transfer – Select *MEA Updates* ▪ Fax to 1-800-353-8781	Monthly updates by the 20th day of the month
Loss Mitigation/Loan Workouts		
Loan Modification Reporting	▪ MGIC/Link Servicing – Select *Loan Modification* – Individual modifications – Submit single loan mod – Multiple modifications – Submit Loan Mod Submission Spreadsheet ▪ Secure File Transfer – Select *Loan Modifications*	Within 30 days of completed modification effective date
Nondelegated Short Sale Approval	▪ MGIC/Link Servicing – Select *Short Sale*	Prior to agreement of terms
Other Nondelegated Loan Workout Approval	▪ MGIC/Link Servicing – Select *Other Workout Types*	Prior to agreement of terms
Processing Promissory Notes Payable to MGIC	▪ Send to: Resurgent Mortgage Servicing 55 Beattie Place, Ste. 110, MS #003 Greenville, SC 29601	Upon execution, following short sale/deed in lieu execution
Real Estate Owned (REO)		
Request for Approval of Offer	▪ Send documents to reo_marketing@mgic.com	Upon MGIC receipt of the offer, through the time of claim resolution
Claim Filing		
Initial Claim Filing	▪ MGIC/Link Servicing – Select *File a Claim* – Submit required documentation, DSG 5.04	Within 60 days of title transfer/ foreclosure completion
Submission of Claim Documents	▪ MGIC/Link Servicing – Select *Upload Claim Documents*	Submit documents before, during or after claim filing or upon request
Submitting Additional Expenses on a Paid Claim (Supplemental)	▪ MGIC/Link Servicing – Select *File a Claim;* then *Supplemental Confirmation Required* ▪ Send documents to claimsquery@mgic.com – Identify as "additional expenses" and list MGIC C/C	Within 90 days of initial claim payment
Request for Reconsideration of a Paid Claim	▪ Send documents to claimsquery@mgic.com – Identify as a "request to reconsider" and list MGIC C/C	Within 90 days of initial claim payment
Claim Status/ Explanation of Benefits	▪ MGIC/Link Servicing – Select *Policy Inquiries*	

Section 1: Reporting

1.01 Reporting Requirements
1.02 Reporting Defaults
1.03 Updating Default Status

1.01 Reporting Requirements

Below is a summary of MGIC reporting requirements. Refer to the sections indicated for guidelines, reporting/submission options, documentation requirements and support.

1.01a Defaults

Notify MGIC when a borrower becomes 2 consecutive payments past due by filing a Notice of Delinquency (1.02).

1.01b Default Status

On a monthly basis, report to MGIC both the status of loans in default and your servicing efforts to remedy default as required by the Master Policy.

1.01c HAMP Modifications

Report on a monthly basis:

- HAMP trial status;
- all other HAMP modification status updates; AND
- all completed (official) HAMP modifications.

For details, see www.mgic.com/default-servicing/treasury-gse-programs.html.

1.01d Loan Modifications

Report completed modifications that meet MGIC Delegated Guidelines to MGIC within 30 days of the modification effective date (2.05a).

– For modifications that fall outside of MGIC Delegated Guidelines (2.05b), submit requests to MGIC for approval before completing the modification as required by the Master Policy.

Questions? Contact MGIC Customer Service, customer_service@mgic.com *or 1-800-424-6442.*

1.02 Reporting Defaults

1.02a Guidelines for Reporting Defaults

Notify MGIC when a borrower becomes 2 consecutive payments past due by filing a Notice of Delinquency.

Reporting

File a Notice of Delinquency via:

- MGIC/Link Servicing – *Select File/Update a Default* in the main menu; OR
- Automated Default Reporting (ADR) – Produce your ADR file no earlier than the 20th day and report to MGIC by the 3rd-to-last business day of the month.

Note Contact MGIC Customer Service with any Mortgage Insurance Premium questions when a loan becomes delinquent.

Support

For questions regarding ADR setup, contact MGIC eCommerce Services, ecommerce_services@mgic.com or 1-800-558-9900.

1.03 Updating Default Status

Following a default, report both the status of the loan and your servicing efforts to remedy the default.

1.03a Guidelines for Updating Status via Automated Default Reporting (ADR)

Update default status in ADR monthly.

When updates aren't reported, MGIC will send a Monthly Exception Audit (MEA) listing all loans that were previously reported as delinquent, but that are missing from the most recent ADR submission.

MGIC will deliver MEA reports to you through Secure File Transfer (SFT). We will notify you via e-mail that an MEA report has been posted to SFT.

Update the MEA with the most current status of the loans previously reported as delinquent, but that are missing from the most recent ADR submission.

Reporting

Report changes in status as they occur:

For individual loans, submit changes via MGIC/Link Servicing; select *File/Update a Default* in the main menu.

For multiple loans, submit changes via:
- ADR OR
- Secure File Transfer – select *MEA Updates* as the file recipient

1.03b Guidelines for Updating Status Using a Method Other Than ADR

MGIC mails a Monthly Delinquency Loan Status Report (MDLSR) on each loan previously reported in default. MGIC prints the last reported status on the MDLSR to help you determine whether the status has changed.

Use the MDLSR to update or provide additional information about any of the following items:

- loan status;
- current principal balance;
- loan due-for date;
- delinquency status – if a bankruptcy petition was filed, include chapter, filing date and date relief was granted;
- date foreclosure proceedings commenced (first legal action/date of the first document filed) and whether there is a foreclosure sale scheduled (3.01a);
- foreclosure sale date, if applicable; AND/OR
- date Borrower's Title or Good and Merchantable Title (as defined in MGIC's Master Policy) was acquired (5.01b).

You can also use the MDLSR to notify MGIC that:

- a loan in default is now current;
- a loan in default has now been paid in full;

Note "Paid in full" does not apply to servicing transfers, short sales or presales.

- a servicing transfer has occurred;
- the loan number has changed;
- the contact person for your organization has changed; AND/OR
- your physical address has changed.

Reporting

Whenever a change occurs to any of the information listed above, return the updated default status information to MGIC by the 20th of the month via:

- MGIC/Link Servicing – *Select File/Update a Default* in the main menu OR
- Fax 1-800-353-8781

Questions? Contact MGIC Customer Service, customer_service@mgic.com *or 1-800-424-6442.*

Section 2: Loss Mitigation Workouts

2.01 Foreclosure Sale Postponement
2.02 Forbearance
2.03 Repayment
2.04 Special US Treasury, GSE Programs
2.05 Loan Modification
2.06 Short Sale and Deed in Lieu of Foreclosure

Loan workouts can preserve homeownership for the borrowers and prevent losses as well. The MGIC Master Policy requires you to assist and cooperate with MGIC in preventing and mitigating MGIC's loss. This means that a loan workout, such as a repayment plan, forbearance plan or loan modification, must be offered to any borrowers who have the ability to cure the delinquency.

It is important to work closely with borrowers as soon as they begin to experience problems making their mortgage payment. It may even be appropriate to extend assistance to borrowers who are current on their mortgage loan if you learn they are experiencing a problem. MGIC recognizes the benefits of home retention to all involved and offers a variety of loss mitigation workout options designed to keep borrowers in their home. MGIC relies on you to contact troubled borrowers as part of your loss mitigation duties.

The following loss mitigation workout options can be performed as long as the terms of the workout comply with the respective MGIC Guidelines for Delegated Authority (Delegated Guidelines). These guidelines apply to primary coverage and/or supplemental coverage (pool or second-layer coverage). MGIC offers delegated authority to increase efficiency, but reserves the right to revoke this delegation on notice.

While MGIC prefers that you use Delegated Guidelines, we are happy to work with you on any workout type.

MGIC Reservation of Rights — MGIC retains a full and complete reservation of rights. Neither this document nor any action taken by MGIC that may appear inconsistent with this document should be construed as a waiver by MGIC of any rights or defenses it may have.

2.01 Foreclosure Sale Postponement

2.01a Delegated Guidelines for Foreclosure Sale Postponement

You have delegated authority to postpone a scheduled foreclosure sale in order to pursue a forbearance, repayment plan, loan modification or short sale. This delegation pertains only to the postponement of the foreclosure sale.

MGIC's liability (interest and expenses) may be limited to state time frames (3.02).

Note Loss mitigation workouts that do not meet MGIC's delegated guidelines for forbearance (2.02), repayment plans (2.03), loan modifications (2.04, 2.05) or short sales (2.06) must be submitted to MGIC for prior approval.

2.01b Nondelegated Requirements for Foreclosure Sale Postponement

Submit a foreclosure sale postponement request and documentation as described below.

Documentation

Submit the following:
- date of foreclosure initiation,
- the timeline needed for postponement AND
- information detailing the reason for postponing the foreclosure sale.

Submission

Request approval and submit documentation via MGIC/Link Servicing. Select *Other Workout Types in the main menu.*

2.02 Forbearance

2.02a Delegated Guidelines for Forbearance Plans

You have delegated authority to complete a forbearance plan on MGIC-insured loans that meet the following criteria:

- The forbearance term may not exceed 6 months from the loan due date.
- The borrower is unable to make full monthly payments.
- The forbearance plan should be part of a broader workout strategy for home retention or sale.
- At the conclusion of the forbearance agreement, one of the following actions must occur:
  - The loan is reinstated.
  - The loan is paid in full.
  - A repayment plan (2.03) that results in full reinstatement of the loan is executed.
  - A loan modification (2.04, 2.05) that results in full reinstatement of the loan is executed.
  - The property is sold.

2.02b Nondelegated Requirements for Forbearance Plans

Forbearance plans falling outside of MGIC Delegated Guidelines (2.02a) must be approved before the plan is implemented.

Submit a request and required documentation.

Documentation

Submit the following:
- the terms of the forbearance plan;
- a complete financial package disclosing all income, assets and expenses from the last 2 months;
- letter of hardship written by the borrowers or a personal representative; AND
- indication of the borrowers' ability to resolve the delinquency.

Note: While we ask that you make every effort to obtain required documentation, we realize that is not always possible. If despite your efforts you are unable to produce all of the required documents, submit all available documentation for MGIC to review the workout request.

Submission

Submit requests for approval and required documentation via MGIC/Link Servicing.
Select *Other Workout Types* in the main menu.

2.02c Borrower Adherence

If borrowers do not adhere to the forbearance plan payment schedule:
- pursue additional available workout considerations AND
- proceed with foreclosure (3.01), as applicable.

2.03 Repayment

2.03a Delegated Guidelines for Repayment Plans

You have delegated authority to complete repayment plans on MGIC-insured loans that meet MGIC Delegated Guidelines. The repayment term may not exceed 6 months from the loan due date.

2.03b Nondelegated Requirements for Repayment Plans

Repayment plans falling outside of MGIC Delegated Guidelines (2.03a) must be approved before the plan is implemented.

Submit a request and required documentation as described below.

Documentation

Submit the following documentation and information:
- the terms of the repayment plan;
- a complete financial package disclosing all income, assets and expenses from the last 2 months;
- a letter of hardship written by the borrowers or a personal representative; AND
- proof of the borrowers' ability to resolve the delinquency.

Note: While we ask that you make every effort to obtain required documentation, we realize that is not always possible. If despite your efforts you are unable to produce all of the required documents, submit all available documentation for MGIC to review the workout request.

Submission

Submit requests for approval and required documentation via MGIC/Link Servicing.
Select *Other Workout Types* in the main menu.

2.03c Borrower Adherence

If borrowers do not adhere to a repayment plan schedule:

- pursue additional available workout considerations AND
- proceed with foreclosure (3.01), as applicable.

2.04 Special US Treasury, GSE Programs

MGIC offers Delegated Guidelines for a variety of workout options on loans with primary mortgage insurance coverage under several US Treasury- and GSE- sponsored programs.

For details, see www.mgic.com/default-servicing/treasury-gse-programs.html.

2.05 Loan Modification

MGIC expects you to offer a loan modification on every MGIC-insured loan in default when the borrowers have the desire and financial ability to continue making their mortgage payment after the loan is modified.

When you report a loan modification, we will notify you whether the approval is with or without limitations.

2.05a Delegated Guidelines for Loan Modifications

- Interest rate – same or lower than the premodification rate; AND
- Term – fully amortizing, up to 50 years from loan origination date; AND
- Loan meets the following capitalization guidelines

Capitalization Guidelines

Policy Type & Modified Unpaid Principal Balance (UPB)	Approval Without Limitations	Approval With Limitations to UPB (pre-mod or original UPB, whichever is less)
Primary ▪ Less than or equal to 110% of original UPB	**YES**	N/A
▪ Greater than 110% of original UPB	▪ Number of PITI payments capitalized 0-12 months AND ▪ Payment (P&I) reduced or stays the same Then, **YES**	▪ Number of PITI payments capitalized > 12 months AND/OR ▪ Payment (P&I) increased Then, **YES, with limitations**
Pool Only or Primary with Pool ▪ Less than or equal to 105% of original UPB	**YES**	N/A
▪ Greater than 105% of original UPB	▪ Number of PITI payments capitalized 0-6 months AND ▪ Payment (P&I) reduced by 25% or more Then, **YES**	▪ Number of PITI payments >6 months AND/OR ▪ Payment (P&I) not reduced by at least 25% Then, **YES, with limitations**

Note If a modification exceeds the guidelines above, submit to MGIC for review.

Reporting

Report completed loan modifications within 30 days of the modification effective date.
- For individual modifications, use MGIC/Link Servicing. Select *Loan Modification* in the main menu.
- For multiple modifications, complete and submit the Loan Modification Submission Spreadsheet via:
  – MGIC/Link Servicing – Select *Loan Modification* in the main menu; OR
  – Secure File Transfer – Select *Loan Modifications* as the File Recipient.

We will respond with a letter for individually submitted modifications and a spreadsheet for multiple modification submissions containing:
- Information pertaining to any premium adjustments based on changes to the reported UPB, AND
- Approval status:
  – Approval of the loan modification terms as reported to MGIC
  – Approval with a limitation of the claimable principal balance in the event a loan re defaults and results in a claim

Note Refer to 6.02 for the application of arrearage and principal reduction with respect to loan modifications.

- If you submit a claim on a modified loan not previously reported, we reserve the right to adjust the claim.

2.05b Borrower Adherence

If borrowers do not adhere to modification payment terms:
- pursue additional available workout considerations AND
- proceed with foreclosure (3.01), as applicable.

2.06 Short Sale and Deed in Lieu of Foreclosure

A short sale or deed in lieu may be an appropriate workout option when all home retention options have been exhausted, and the borrowers are unable or unwilling to continue making their full mortgage payment. Under these circumstances, we prefer a short sale; however, we understand that there are situations where a deed in lieu of foreclosure may be the only appropriate workout option.

Note On Fannie Mae or Freddie Mac loans, follow investor guidelines. MGIC has delegated approval authority to Fannie Mae and Freddie Mac for short sale and deed in lieu workouts (5.04b).

2.06a Delegated Guidelines for Short Sales and Deeds In Lieu

You have delegated authority from MGIC to complete a borrower-titled short sale or deed in lieu on every MGIC-insured, non-GSE loan where:

- The borrowers do not qualify for a loan modification and do not have the long- term financial ability to continue paying their full mortgage payment.
- The following delegation criteria are met:

Short sale
– Unless foreclosure has been initiated, the borrowers must meet one of the allowable hardship scenarios
– The sale price is based on an interior property valuation completed within the past 90 days, or at the servicer's discretion, 120 days
– The variance between the "as is" and "repaired" values is ≤ 15%,
– The net sale proceeds must equal 82% or higher of the "as is" value
– The borrowers must not receive any funds from the sale of the property or retain or regain ownership of the property

Deed in lieu
– Unless foreclosure has been initiated, the borrowers meet one of the allowable hardship scenarios OR have filed bankruptcy
– Scheduled foreclosure sale date must be more than 60 days from the date of approval of the deed in lieu and may not be postponed to allow for deed in lieu consideration
– The title to the property must be free and clear of all subordinate liens or encumbrances

Questions? Contact MGIC Customer Service, customer_service@mgic.com *or 1-800-424-6442.*

Allowable Hardship Scenarios

Delinquency	Stated Hardship Reason	Credit Score
Current or ≤60 days	▪ Death ▪ Long-term/permanent disability ▪ Distant employment transfer, including Permanent Change of Station order, greater than 50 miles	Not Applicable
>60-120 days	▪ Death ▪ Long-term/permanent disability ▪ Distant employment transfer, including Permanent Change of Station order, greater than 50 miles ▪ Unemployment outside of borrower control ▪ Divorce	Not Applicable
≥120 days	▪ Any	< 620

Note MGIC allows delegation for short sales and deeds in lieu, regardless of occupancy type.

2.06b Borrower Contribution Requirements

MGIC Delegated (Non-GSE)

- We do not require that you obtain a contribution from the borrower; doing so is at your discretion
- If you do obtain a contribution, the following requirements apply:
  - Cash contributions must be paid to the servicer at sale closing or upon execution of the deed in lieu
  - Promissory notes must be executed according to MGIC's Promissory Note Guidelines

Promissory Note Guidelines

When you obtain a promissory note, whether at our direction or at your discretion, the following requirements apply:

- Monthly payment should be affordable for the borrowers but no lower than $50 per month
- Borrowers must sign and date the promissory note at the closing of the short sale or upon execution of the deed in lieu
- Note must be payable to Mortgage Guaranty Insurance Corporation (MGIC, a Wisconsin insurance corporation)
- Upon execution, send the original, signed promissory note referencing the MGIC certificate number to:

Resurgent Mortgage Servicing
55 Beattie Place, Ste 110, MS #003
Greenville, SC 29601
1-800-365-7107

Note Resurgent will send the borrower a welcome letter and perform all servicing activities on behalf of MGIC.

2.06c Closing Provisions (Short Sales Only)

Second lien payoff provisions apply to second mortgages owned by a third party (a legal entity unaffiliated with the servicer).

If a second mortgage exists, and the short sale has influence on MGIC's claim settlement (i.e., a second mortgage exists and the second lien holder demands funds to release the lien), use the following to determine the allowable payoff:

- MGIC will agree to pay a maximum of $6,000 or an amount not to exceed 50% of the current outstanding second lien amount to the second lien holder. This requirement only applies if the net proceeds from the short sale plus MGIC's claim payment will make the servicer whole.

If the short sale has no influence on the claim settlement (i.e., MGIC's percentage option settlement amount is less than the loss on sale), MGIC has no requirements or limitations on the second lien payoff provision.

Note: Third-party vendor loss mitigation fees are not claimable and should not be deducted from the sales proceeds or included as an expense on the claim.

2.06d Nondelegated Requirements for Short Sales and Deeds in Lieu

Short sales and deeds in lieu that fall outside of MGIC Delegated Guidelines (2.06a)require MGIC approval before the sale or deed in lieu is completed.

Submit your request for approval to MGIC along with the following documentation.

Documentation

MGIC requires the following documents:

- a completed MGIC Financial Analysis (6.01) or comparable analysis;
- documentation for *all sources of income from the last two months*, including but not limited to, paystubs and any asset account that provides 1099 income from interest or dividends, such as checking, savings and investment accounts; money market, CDs, stocks, bonds, trusts and annuities;
- federal tax returns for the last year OR IRS Form 4506-T, Request for Transcript of Tax Return, completed and signed by the borrowers;
- a letter of hardship written by the borrowers or a personal representative indicating the reason for default;
- financials, income and expense breakdown, current within the last 90 days;
- a recent credit report dated within the last 90 days;
- an estimated HUD-1 Settlement Statement or Net Sheet (short sale only);
- an executed Offer to Purchase agreement (short sale only);
- a payoff statement including all fees and costs within the last 30 days; AND
- a Broker's Price Opinion (BPO) or an appraisal no more than 90 days old – or up to 120 days old, at your discretion – including interior photographs.

MGIC may request additional documentation prior to approval of the sale. While we ask that you make every effort to obtain required documentation, we realize that is not always possible. If despite your efforts you are unable to produce all of the required documents, submit all available documentation for MGIC to review the workout request.

Submission

Submit your request for approval and required documentation using MGIC/Link Servicing. Select *Short Sale* or *Deed in Lieu*, as appropriate in the main menu.

Section 3: Foreclosure

3.01 Foreclosure Commencement
3.02 State Time Frame Guidelines for Loans with **Primary Coverage**
3.03 Bankruptcy
3.04 Foreclosure Bidding Instructions
3.05 Deficiency Judgments

3.01 Foreclosure Commencement

3.01a Guidelines for Foreclosure Commencement

When a default cannot be resolved through a loan workout, foreclosure must be initiated by filing a complaint in the appropriate court; publishing a notice of sale or by such other process as required by Applicable Law by the end of the 4th month (120th day) of default.

Note In instances where you receive returned keys from homeowners and/or are made aware of a property's abandonment, immediately begin the foreclosure process.

Questions? Contact MGIC Customer Service, customer_service@mgic.com *or 1-800-424-6442.*

3.02 State Time Frame Guidelines for Loans with **Primary Coverage**

3.02a Guidelines for State Time Frames

MGIC has state time frames (6.03) that list the number of days MGIC allows to complete a foreclosure, subject to additional time required for diligent servicing and loss mitigation activities. If the number of days submitted on a claim exceeds the applicable State Time Frame, please provide to MGIC a chronology of events (5.04a). MGIC will review the information to determine if additional days claimed will be allowed.

State time frame intervals

- Foreclosure commencement – 150 days (5 months) from the due date of the last paid installment to initiate the legal foreclosure action (typically notice of default or complaint)
- Foreclosure duration – Time from foreclosure commencement to foreclosure completion; varies based on state-by-state foreclosure statutes
- Claim filing – 60 days from foreclosure completion

Foreclosure Duration

Last Paid Installment	Foreclosure Commencement	Foreclosure Completion	Claim Filing
5 months (150 days) if last paid installment is 5/1/08 or after	Variable days based on State & Foreclosure Method from Foreclosure Commencement to Foreclosure Completion		60 days

Note: Short sale/deed in lieu: State time frame guidelines also apply to short sale and deed in lieu claims. Claim filing is required within 60 days of the short sale closing or execution of the deed in the case of a deed in lieu.

Questions? Contact MGIC Customer Service, customer_service@mgic.com *or 1-800-424-6442.*

3.03 Bankruptcy

Different rules and procedures may apply to each bankruptcy proceeding. Once you are notified that borrowers have filed a bankruptcy petition, it is good practice to seek the advice of an attorney familiar with bankruptcy law to determine the best, most cost-effective course of action for each bankruptcy case.

Prompt, diligent follow-up on bankruptcy cases can lead to substantial net savings.

3.03a Guidelines for Borrowers Filing Bankruptcy

Initiating relief from bankruptcy under a Chapter 13 filing must be completed within 60 days from the date of the last payment under the bankruptcy plan.
Initiate foreclosure within 60 days after:
- the automatic stay is lifted,
- the bankruptcy case is dismissed OR
- the borrowers are discharged.

Reporting

If borrowers are involved in any bankruptcy proceeding, notify MGIC via MGIC/Link Servicing. Provide the following information:
- the type of bankruptcy filed,
- the filing date AND
- the date the relief from automatic stay was granted.

3.04 Foreclosure Bidding Instructions

MGIC requires servicers to utilize the following foreclosure bidding instructions to determine the proper bid amount for properties with MGIC-insured loans.

Note that the MGIC claim payment will never exceed our percentage guaranty option unless we elect to acquire the property.

3.04a Foreclosure Bid Calculation Reference Table

Note If the bid calculation exceeds the total mortgage indebtedness, bid the total debt.

Property State	Bidding Instructions
AK(1)	Greater of 85% FMV or investor guidelines
AL	Greater of 85% FMV or Make Whole Amount if required by investor
AR	Greater of 85% FMV or Make Whole Amount if required by investor
AZ(1)	Greater of 85% FMV or investor guidelines
CA(1)	Greater of 85% FMV or investor guidelines
CO	Greater of 85% FMV or Make Whole Amount if required by investor
CT(2)	Greater of 85% FMV or Make Whole Amount if required by investor
DC	Greater of 85% FMV or Make Whole Amount if required by investor
DE	Greater of 85% FMV or Make Whole Amount if required by investor
FL	Start at $100, up to greater of 85% FMV or Make Whole Amount if required by investor
GA(1)	Greater of 85% FMV or investor guidelines
HI	Greater of 85% FMV or Make Whole Amount if required by investor
IA(1)	Greater of 85% FMV or investor guidelines
ID	Greater of 85% FMV or Make Whole Amount if required by investor
IL	Greater of 85% FMV or Make Whole Amount if required by investor
IN	Greater of 85% FMV or Make Whole Amount if required by investor
KS	100% of total debt
KY	Start at 2/3 Sheriff Appraisal up to 85% of FMV or Make Whole Amount if required by investor guidelines
LA	Start at 2/3 Sheriff Appraisal up to 85% of FMV or Make Whole Amount if required by investor guidelines
MA	Greater of 85% FMV or Make Whole Amount if required by investor
MD	Greater of 85% FMV or Make Whole Amount if required by investor
ME	Greater of 85% FMV or Make Whole Amount if required by investor
MI	Greater of 85% FMV or Make Whole Amount if required by investor
MN(1)	Greater of 85% FMV or investor guidelines
MO	Greater of 85% FMV or Make Whole Amount if required by investor
MS	Greater of 85% FMV or Make Whole Amount if required by investor
MT(1)	Greater of 85% FMV or investor guidelines

Property State	Bidding Instructions
NC	Greater of 85% FMV or Make Whole Amount if required by investor
ND(1)	Greater of 85% FMV or investor guidelines
NE(1)	Greater of 85% FMV or investor guidelines
NH	Greater of 85% FMV or Make Whole Amount if required by investor
NJ(1)	Start at $100, up to greater of 85% FMV or investor guidelines
NM	Greater of 85% FMV or Make Whole Amount if required by investor
NV	Greater of 85% FMV or Make Whole Amount if required by investor
NY(1)	Greater of 85% FMV or investor guidelines
OH	Start at 2/3 Sheriff Appraisal, up to greater of 85% FMV or Make Whole Amount if required by investor
OK	Start at 2/3 Sheriff Appraisal, up to greater of 85% FMV or Make Whole Amount if required by investor
OR(1)	Greater of 85% FMV or investor guidelines
PA(1)	Start at Sheriff cost, up to greater of 85% FMV or Make Whole Amount if required by investor guidelines
RI	Greater of 85% FMV or Make Whole Amount if required by investor
SC(3)	Greater of 85% FMV or Make Whole Amount if required by investor
SD(1)	100% of total debt
TN	Greater of 85% FMV or Make Whole Amount if required by investor
TX	Greater of 85% FMV or Make Whole Amount if required by investor
UT	Greater of 85% FMV or Make Whole Amount if required by investor
VA	Greater of 85% FMV or Make Whole Amount if required by investor
VT(1)	Greater of 85% FMV or investor guidelines
WA(1)	Greater of 85% FMV or investor guidelines
WI(1)	Greater of 85% FMV or investor guidelines
WV	Greater of 85% FMV or Make Whole Amount if required by investor
WY(1)	Greater of 85% FMV or investor guidelines
Guam(1)	Greater of 85% FMV or investor guidelines
Puerto Rico(1)	Greater of 85% FMV or investor guidelines

FOOTNOTES

(1) MGIC does not pursue deficiencies in these states.

(2) In a strict foreclosure action, MGIC requires that you file a motion within 30 days after the title vests, in order to preserve MGIC's deficiency rights. Please instruct your attorney accordingly

(3) The deficiency should be set forth in the initial pleadings.

Questions? Contact MGIC Customer Service, customer_service@mgic.com *or 1-800-424-6442.*

3.04b Bid Calculation Components

Fair Market Value (FMV)

MGIC requires servicers to obtain and use one of the following documents to determine the appropriate FMV:
- A BPO less than 120 days old as of the foreclosure sale date OR
- An appraisal, where required by state statute, that is less than 120 days old as of the foreclosure sale date.

MGIC does not accept values determined by Automated Valuation Models (AVMs); however, we will accept a bidding value derived through Fannie Mae's or Freddie Mac's valuation model.

For variances between "as is" and "repaired" values:
- If 10% or less, use the "as is" value for FMV.
- If greater than 10%, use the "repaired" value for FMV.

Total Debt or Total Mortgage Indebtedness

The total amount of debt associated with the mortgage includes principal, interest and any additional costs (attorney fees, property preservation costs, etc.) incurred.

Make Whole Amount

Fannie Mae and Freddie Mac define the "make whole amount" as total mortgage indebtedness less the amount of the anticipated mortgage insurance claim payment. For questions regarding the make whole bid amount, contact your investor.

3.05 Deficiency Judgments

3.05a Guidelines for Deficiency Judgments

MGIC will notify you in writing if we determine that you should preserve our subrogated deficiency rights.

MGIC requires you to preserve its right to a deficiency judgment if the deficiency is estimated to exceed $30,000.

MGIC will reimburse additional accrued interest and certain expenses resulting from this extended redemption period or delay if:

- the deficiency is preserved or established at MGIC's direction AND
- there is an extended redemption period or a delay directly related to preserving or establishing the deficiency (beyond the usual custom and practice).

These additional amounts must be identified clearly on the claim form.

Section 4:
Real Estate
Owned (REO)

4.01 REO Property Disposition for **Primary Coverage**
4.02 REO Property Disposition for **Supplemental Coverage** (Pool or Second-Layer Coverage)

4.01 REO Property Disposition for Primary Coverage

4.01a Guidelines for Property Disposition for Primary Coverage

MGIC encourages servicers to pursue marketing of REO properties prior to claim filing or resolution.

List price approval is not required.

Offers deemed acceptable by the insured must be submitted for approval until the claim is resolved.

Documentation

MGIC requires the following documentation for offer approval:
- interior valuation with photos;
- cost of any repairs made; AND
- sale terms including:
  - offer amount,
  - closing date,
  - estimated closing costs for buyer and seller AND
  - any other miscellaneous terms of sale.

For Sales With Influence on the MGIC Claim for Loss

Include the following with your claim submission:
- a copy of the HUD-1 Settlement Statement (required in order to receive a claim payment).

Note: The MGIC Sale Approval Letter will indicate whether the offer is with or without influence to the claim for loss. If the sale has influence to the claim for loss and there are changes to the terms of the sale, MGIC's approval is required.

For Sales With No Influence on the MGIC Claim for Loss

You are not required to provide a copy of the HUD-1 Settlement Statement. MGIC approval is not required for any change to the terms of sale.

Submission

Send e-mail to reo_marketing@mgic.com, including your submission request and supporting documents.

Questions? Contact MGIC Customer Service, customer_service@mgic.com *or 1-800-424-6442.*

4.02 REO Property Disposition for Supplemental Coverage (Pool or Second-Layer Coverage)

4.02a Guidelines for REO Property Disposition for Supplemental Coverage (Pool or Second-Layer Coverage)

MGIC will oversee the insured's marketing activity for all REO properties with supplemental pool or second-layer coverage.

Listing Approval

Submit marketing packages for listing approval within 30 days of property possession.

Upon receipt, MGIC will review the package. Within 3 business days, you will receive our response, including listing instructions and an approved minimum net sale proceeds figure. The list price approval is valid for 60 days.

Upon listing, all of the following apply:

- All list price reductions that may result in less than the approved minimum net sale proceeds must be approved by MGIC.
- An updated BPO is required every 90 days.
- Monthly status reports of the marketing activity of each property must be provided to MGIC.

Offer Processing Approval

You may negotiate any offer that will result in a net sale proceeds amount greater than or equal to the minimum net sale proceeds amount approved by MGIC. Submit to MGIC for approval any offers deemed acceptable by the insured that do not meet the minimum net sales proceeds.

Documentation

Listing Approval

Submit marketing packages including:

- a copy of the appraisal from loan origination
- contact name and phone number for individual with access to property
- 2 interior valuations with photos:
  - 1 BPO obtained from an agent selected by the servicer/insured AND
  - 1 BPO obtained through MGIC Real Estate Operations (order BPOs at REVSalesSupport@mgic.com)
- an indication of the recommended marketing strategy, "as is" or "repaired," and
- the suggested list price;
- eviction information, as applicable, including start and end dates, and whether the occupant is a tenant or borrower (as available); AND
- bids for repair — prior MGIC approval is required for any nonemergency repairs to be completed on properties with supplemental coverage.

Offer Processing

If you have an offer requiring MGIC approval, submit the following:

- a copy of the sales terms, including:
  - the offer amount, closing date and estimated closing costs for the buyer and the seller; AND
  - any other miscellaneous terms of the offer agreement.

Note Provide the HUD-1 Settlement Statement as soon as it's available, regardless of when the supplemental (pool or second-layer coverage) claim is filed.

Submission

Send e-mail to reo_marketing@mgic.com, including your submission request and supporting documents.

Questions? Contact MGIC Customer Service, customer_service@mgic.com *or 1-800-424-6442.*

Section 5: Claim for Loss

5.01 Conditions Prior to Claim
5.02 Exclusions from Coverage
5.03 Nonclaimable Items
5.04 Claim Documentation Requirements
5.05 Filing Claims
5.06 Check Claim Status
5.07 Explanation of Benefits

MGIC Reservation of Rights

MGIC retains a full and complete reservation of rights. Neither this document nor any action taken by MGIC that may appear inconsistent with this document should be construed as a waiver by MGIC of any rights or defenses it may have.

5.01 Conditions Prior to Claim

5.01a Guidelines for Compliance

In order to be entitled to a claim payment, you must comply with all conditions under the MGIC Master Policy, including but not limited to the following:

- File the Notice of Default and ongoing monthly reporting in a timely manner (1.02, 1.03).
- Make a good faith effort to mitigate MGIC's loss (Section 2).
- Commence and complete foreclosure as required by MGIC (Section 3).
- Obtain MGIC's approval as required on borrower-titled (5.01b) or lender-titled sales of the property (Section 4).
- File the claim for loss in a timely manner (Section 5).
- Provide supporting documentation and information as requested by MGIC (5.04).

5.01b Guidelines for Title Acquisition

Acquisition of title to the property is generally a prerequisite to filing a claim for loss, subject to the following requirements:

Good and Merchantable Title

Good and Merchantable Title is title to the property that is free and clear of all liens, restrictions and encumbrances, including the borrowers' right of redemption, other than title exceptions permitted by MGIC.

Note Good and Merchantable Title is required for all loans for which MGIC elects to acquire the property and loans with supplemental coverage (pool or second-layer coverage).

Borrower's Title

Borrower's Title is title to the property as was vested in the borrower at the time of conveyance through foreclosure or deed in lieu of foreclosure.

Note If MGIC does not elect to acquire title to the property in settlement of the claim, only Borrower's Title is required to file the claim.

Other Acceptable Title Transfer Scenarios
- a borrower-titled short sale is closed; OR
- the property is acquired by a third-party bidder at the foreclosure sale; OR
- MGIC exercises its option to accelerate filing of a claim for loss.

5.02 Exclusions from Coverage

Refer to Section 4 of MGIC’s Master Policy for information regarding situations that may jeopardize or affect claim payments.

To view a copy of the MGIC Master Policy, see Master Policyholder resources at www.mgic.com/lender-services/index.html.

5.03 Nonclaimable Items

Certain fees are nonclaimable, including, but not limited to:
- Attorney fees associated with robo-signing
- Automated Valuation Model (AVM) fees
- Borrower outreach/field service/door knock fees
- Expenses associated with environmental hazards
- Incentive fees
- Late charges
- Mortgage insurance premiums
- Sheriff’s deposits
- Tax penalties and interest
- Technology fees, including connectivity, invoicing and processing fees
- Transaction fees
- Vendor fees

5.04 Claim Documentation Requirements

Providing all required documentation will expedite processing your claim.
Submit supporting claim documents before, during or after filing a claim.
Submitting documents does not constitute filing of a claim; you must file a claim separately. See claim filing options on www.mgic.com/default-servicing/claims.html.

Note When MGIC requests a document to support your claim, and if after multiple and reasonable efforts to locate the specific document, you have determined you will never be able to supply it, provide official notification to MGIC using the Unable to Provide selection within MGIC/Link's Claim Documents feature.

5.04a Minimum Documentation Requirements for all Claims

MGIC requires the following documentation to process your claim:

- A loan payment history from origination to claim filing with corresponding escrow and suspense balances; however, at a minimum, a loan payment history for:
  - The last 12 payments prior to claim filing OR
  - If the payment due date has advanced, payment history from the first date of default to claim filing.
- a comprehensive list, in chronological order, of your efforts and the events pertaining to:
  - collection,
  - foreclosure,
  - loss mitigation,
  - bankruptcy AND
  - other legal activities;
- a copy of your collections and loss mitigation systems' notes;
- evidence of title transfer (foreclosure deed);
- if a third-party outbid, a copy of the third-party check;
- a copy of the complete loan origination package and closing documents; AND
- any potential additional information (5.04b).

Note If the state time frame is exceeded, see 3.02a for details.

Submission

Submit supporting claim documents using MGIC/Link's *Claim Documents* feature.

Questions? Contact MGIC Customer Service, customer_service@mgic.com *or 1-800-424-6442.*

5.04b Potential Additional Documentation

MGIC may require additional documentation in order to process your claim, based on the specifics of the loan, certificate or claim type.

Pay-Option ARMs or Loans with Negative Amortization

- a copy of the Pay-Option ARM Note

Loss Mitigation Efforts

- terms of any forbearance agreements, repayment plans or modification agreements
- servicing notes, including a complete chronology of events

Short Sales

- The additional documentation below applies to both short sales where MGIC has delegated approval authority to Fannie Mae and Freddie Mac and any non-GSE short sales:
  – your borrower-titled short sale approval letter;
  – a copy of the final HUD-1 Settlement Statement;
  – a Broker's Price Opinion (BPO) or an appraisal no more than 120 days from approval, including interior photographs
- The additional documentation listed below applies to non-GSE short sales only:
  – contribution information, if applicable; AND
  – a copy of the executed sales contract.

Deed in Lieu

- The additional documentation below applies to both deed in lieus where MGIC has delegated approval authority to Fannie Mae and Freddie Mac and any non- GSE deed in lieus:
  – your deed in lieu approval letter;
  – the Deed transferring title; AND
  – contribution information, if applicable.

REO Sales

- a copy of the final HUD-1 Settlement Statement and redemption statements;
- a valuation (BPO or appraisal) with any repair addenda; AND
- the approval letter containing the sale terms.

GSE Supplemental Coverage Claims (pool or second-layer coverage)

- Primary coverage claim payment amount and date paid

Submission

Submit supporting claim documents using MGIC/Link's *Claim Documents* feature.

5.04c Acquisition Documentation

If MGIC elects to acquire title to the property, you are required to provide MGIC or its designee the following documents prior to claim payment:

- a recordable warranty deed (e.g., Grant Deed for California property, Covenant Deed for Michigan property) containing the normal and customary warranties and covenants in the usual and customary form (Quit Claim Deeds are not an acceptable form of conveyance to MGIC);
- all appropriate state and county transfer forms (executed, if required);
- evidence of Good and Merchantable Title;
- evidence that all property taxes are paid current as of the date of acquisition; AND
- if the property is subject to a homeowners association/condo assessment, a written statement from the association showing that:
  - all dues, assessments, penalties and interest are paid current; AND
  - all filed liens have been released or satisfied.

Submission

Submit supporting claim documents using MGIC/Link's *Claim Documents* feature.

<u>5.05 Filing Claims</u>

5.05a Primary Coverage Claims

If Fannie Mae is the investor, file the claim on behalf of Fannie Mae.

If Freddie Mac is the investor, do not file a claim; Freddie Mac will file directly with MGIC.

For all other investors, it's typical that you file the claim on their behalf.

Note Servicing documentation requests are sent to and typically fulfilled by the Servicer regardless of Investor.

Time Frame Requirements

A claim on a loan must be filed within 60 days after title transfer which, could be one of the following:

- a foreclosure sale has been completed OR
- the property is sold as a borrower-titled short sale (5.01b)
- For deeds in lieu of foreclosure, a claim must be filed within 90 days from the date of deed in lieu approval and within 60 days of execution of the deed in lieu.

Submission

See claim-filing options at www.mgic.com/default-servicing/claims.html.

5.05b Supplemental Coverage (Pool or Second-Layer Coverage) Claims	If a loan has GSE supplemental coverage (pool or second-layer coverage), the investor will file the claim. For non-GSE, insured loans with supplemental coverage (pool or second-layer coverage), you are responsible for filing the claim.
Time Frame Requirements	File within 60 days AFTER closing the sale of the property.
Submission	See claim-filing options at www.mgic.com/default-servicing/claims.html.
5.05c Supplemental/Review Claims	You can file a supplemental/review claim for one or a combination of the following reasons: ▪ To request additional expenses on a paid claim ▪ To request that MGIC to reconsider expenses previously disallowed on a paid claim
Note	All requests must include supporting documentation that has not already been provided.
Time Frame Requirements	File within 90 days of the initial claim payment. MGIC will not consider requests and supporting documentation submitted after 90 days from the initial claim payment.
Submission	When requesting additional expenses on a paid claim: ▪ Submit additional expense information using the supplemental/review claim form on MGIC/Link Servicing. ▪ Send all supporting documentation to claimsquery@mgic.com or via Secure File Transfer; select Claimsquery as File Recipient. When requesting review and payment of previously disallowed items: ▪ Send all supporting documentation via Secure File Transfer. Select *Claimsquery* as File Recipient.

5.06 Check Claim Status

Regardless of how you file a claim, check its status (7.01g) on MGIC/Link Servicing.

5.07 Explanation of Benefits

To help you understand how we arrived at a claim benefit amount, refer to the Explanation of Benefits (EOB) statement. The EOB statement includes a detailed explanation of the interest and expense calculations and a claim summary.

Regardless of how you file a claim, access its EOB (7.01g) on MGIC/Link Servicing.

In addition, Electronic Funds Transfer (EFT) users can view and print the EOB from the MGIC/Link Servicing Reports menu (7.01h).

Section 6:
Exhibits

6.01 MGIC Financial Analysis Form
6.02 Arrearage and Principal Reduction Defined With Respect to Loan Modifications
6.03 State Time Frames for Loans with **Primary Coverage**
6.04 Claim for Loss Form

6.01 MGIC Financial Analysis Form

Use the MGIC Financial Analysis Form — or a comparable analysis — to measure monthly cash flow, short-term savings and long-term savings. (If you use a form other than MGIC's, do not include the MI claim payment in your calculations.)

The form is available on MGIC/Link Servicing. Select Short Sale in the main menu. Enter the certificate number and select MGIC Financial Analysis Form.

Questions? Contact MGIC Customer Service, customer_service@mgic.com *or 1-800-424-6442.*

6.02 Arrearage and Principal Reduction Defined, With Respect to Loan Modifications

6.02a Arrearage
6.02b Principal Reduction
6.02c Examples

Refer to these definitions for the application of arrearage and principal reduction as part of a loan modification. The table below includes examples of use and the impact on claim payment.

6.02a Arrearage

When a loan is delinquent, a modification typically will address the arrearage (delinquent PITI payments, including claimable interest and expenses). MGIC defines the options in the following ways:

- Capitalize arrearage. The arrearage is added to the principal balance of the loan and included in the amortization calculation.

Note: Although not common, the arrearage may be identified as deferred or a forbearance, but still amortized. This is the same as capitalizing the arrearage.

- Defer/forbear arrearage. The actual principal amount due and payable at maturity of the loan (or sale of the property) is the original unmodified principal amount, less any and all periodic principal payments the borrowers make until maturity or sale. However, the contractual payment the borrowers make is no longer fully amortized, as the arrearage is excluded from the amortization calculation (defer/forbear arrearage).
- Balloon payment arrearage. The arrearage amount is due on a specific date, typically paid in a lump sum at the end of the mortgage term. The contractual payment the borrower makes is no longer fully amortized as the arrearage is excluded from the amortization calculation.

6.02b Principal Reduction

The modification includes a component to reduce the current unpaid principal balance (UPB). The amount of the principal reduction can be forgiven or handled as a forbearance.

- Principal reduction/forgiveness. The current UPB is reduced by a specific amount. Payments are based on the new, reduced UPB. The principal may be forgiven:
  – in total at the time of the modification OR
  – over a period of time if the borrower remains current.

  In some cases, a lender may require that the borrowers share any equity in the property at time of payout.
- Principal forbearance. The principal amount is not amortized (included in the monthly payments), but is due in full at the time of sale or payoff of the loan.

6.02c Examples

	Description	Claim Impact[1]
Capitalize Arrearage (may be called *deferred* or *forbearance*, but it is amortized)	UPB = $200,000 Loan is delinquent by $3,000 ▪ Arrearage = $3,000 fully amortized (capitalized) ▪ New UPB = $203,000 The borrowers are responsible for paying on a UPB of $203,000.	Claimable amount = $203,000
Forbear (defer or balloon) arrearage	UPB = $200,000 Loan is delinquent by $3,000 ▪ Arrearage = $3,000 (forbear, balloon or defer), not amortized ▪ New UPB = $200,000 The borrowers are responsible for paying on a UPB of $200,000 with a final payment of $3,000 due upon sale or payoff of the loan, in addition to any remaining amount of the modified UPB.	Claimable amount = $203,000 ▪ Calculate interest on $200,000 ▪ No interest calculated on forbearance amount of $3,000
Capitalize arrearage; forbear principal	UPB = $200,000 Loan is delinquent by $3,000 ▪ Arrearage = $3,000 fully amortized (The amount is capitalized, but the Servicer may refer to it as forbearance, ballooned or deferred.) ▪ Principal = $100,000 (forbear, balloon or defer), not amortized ▪ New UPB = $103,000 The borrowers are responsible for paying on a UPB of $103,000 with a final payment of $100,000 due upon sale or payoff of the loan, in addition to any remaining amount of the modified UPB.	Claimable amount = $203,000 ▪ Calculate interest on $103,000 ▪ No interest calculated on $100,000
Forbear (defer or balloon) arrearage; forbear principal	UPB = $200,000 Loan is delinquent by $3,000 ▪ Arrearage = $3,000 (forbear, balloon or defer), not amortized ▪ Principal = $100,000 (forbear, balloon or defer), not amortized ▪ New UPB = $100,000 The borrowers are responsible for paying on a UPB of $100,000 with a final payment of $103,000 due upon sale or payoff of the loan, in addition to any remaining amount of the modified UPB.	Claimable amount = $203,000 ▪ Calculate interest on $100,000 ▪ No interest calculated on $103,000
Forgive (reduce) principal [2]	UPB = $200,000 Loan is delinquent by $3,000 ▪ Arrearage = $3,000 capitalized, fully amortized ▪ Principal = $50,000 forgiven, not amortized ▪ New UPB = $153,000 The borrowers are responsible for paying on a UPB of $153,000. The $50,000 in principal may be completely forgiven or may be due upon sale or payoff of the loan based on the terms of the program.	Claimable amount = $203,000 ▪ Calculate interest on $153,000 calculated with interest ▪ No interest calculated on $50,000

[1] The claimable amount listed assumes the loan modification meets MGIC's guidelines for delegated authority or that it was reviewed and approved by MGIC.
[2] If the forgiveness is the result of litigation or a settlement, the forgiven amount may not be claimable.

6.03 State Time Frames for Loans with **Primary Coverage**

The table below lists the number of days MGIC allows to complete a foreclosure subject to additional time required for diligent servicing and loss mitigation activities. If the number of days submitted on a claim exceeds the applicable State Time Frame, please provide to MGIC a chronology of events. MGIC will review the information to determine if additional days claimed will be allowed.

State	Method of Foreclosure	# of Days from Due Date of 1st Unpaid Installment to Claim Filing*	Paid Through Date Prior to Claim Filing*
AL	Power of Sale	240	270
AK	Trustee Sale	300	330
	Judicial w/Redemption	690	720
AZ	Trustee Sale	300	330
	Judicial	450	480
AR	Power of Sale	300	330
CA	Trustee Sale	300	330
	Judicial w/Redemption	900	930
CO	Trustee Sale w/Redemption	345	375
CT	Strict Foreclosure	360	390
	Power of Sale	420	450
DE	Judicial	390	420
DC	Trustee Sale	240	270
FL	Judicial	390	420
GA	Power of Sale	240	270
Guam	Non-Judicial	360	390
HI	Judicial	390	420
ID	Trustee Sale	360	390
	Judicial w/Redemption	540	570
IL	Judicial w/Redemption	450	480
	Judicial w/Redemption-Deficiency	480	510
	Judicial w/Redemption- Abandonment	300	330
IN	Judicial w/Redemption	420	450
IA	Non-Judicial	300	330
	Judicial w/o Deficiency	480	510
	Judicial w/o Deficiency (Non-Owner-Occupied)	360	390
	Judicial w/Deficiency	660	690
KS	Judicial w/Redemption	450	480
KY	Judicial	360	390
LA	Judicial	360	390
ME	Judicial w/Redemption	510	540
MD	Trustee Sale w/Redemption	285	315
MA	Trustee Sale	390	420
MI	Power of Sale		
	– w/Redemption	450	480
	– Abandonment	300	330
	– w/1 Year Redemption (properties in excess of 3 acres)	630	660
MN	Power of Sale/Redemption	450	480
	Judicial w/Deficiency	660	690
MS	Trustee Sale	240	270
MO	Trustee Sale	240	270

State	Method of Foreclosure	# of Days from Due Date of 1st Unpaid Installment to Claim Filing*	Paid Through Date Prior to Claim Filing*
MT	Power of Sale Judicial w/Redemption	300 660	330 690
NE	Trustee Sale Judicial	270 390	300 420
NV	Trustee Sale Judicial w/Redemption	300 660	330 690
NH	Power of Sale	240	270
NJ	Judicial w/o Deficiency Judicial w/Deficiency	480 660	510 690
NM	Judicial w/Redemption	360	390
NY	Judicial	480	510
NC	Trustee Sale	240	270
ND	Judicial w/Redemption	360	390
OH	Judicial w/Confirmation	450	480
OK	Judicial	360	390
OR	Trustee Sale	330	360
PA	Judicial	390	420
Puerto Rico	Judicial	540	570
RI	Power of Sale	240	270
SC	Judicial w/o Deficiency Judicial w/Deficiency	330 360	360 390
SD	Judicial w/Redemption	480	510
TN	Trustee Sale	240	270
TX	Power of Sale Judicial	220 360	250 390
US Virgin Islands	Trustee Sale Judicial w/Deficiency	510	540
UT	Trustee Sale Judicial w/Redemption	330 510	360 540
VT	Judicial w/Redemption	420	450
VA	Trustee Sale	240	270
WA	Trustee Sale Judicial w/Deficiency	330 690	360 720
WV	Trustee Sale	270	300
WI	Judicial w/o Deficiency Judicial w/Deficiency	450 630	480 660
WY	Power of Sale w/Redemption	405	435

*Add up to an additional 165 days if a borrower's bankruptcy filing prevented timely initiation or completion of foreclosure.

Support — Refer to MGIC's State Time Frame Guidelines (3.02) for additional information.

Questions? Contact MGIC Customer Service, customer_service@mgic.com *or 1-800-424-6442.*

6.04 Claim for Loss Form

File a claim for loss using MGIC/Link Servicing's secure, web based form. Or if you're unable to use MGIC/Link, complete the editable version of the form, print and fax to MGIC, 1-800-353-8781. A full-size version is available at www.mgic.com/default-servicing/default-guides.html.

Uniform Mortgage Insurance - Claim for Loss

Mortgage Guaranty Insurance Corporation • P.O. Box 525, Milwaukee, WI 53201-0525

Insured Information

Insurance Type: 1. Primary / Pool

Claim Type: 2. Initial / Supplemental / Other

Mortgage Insurance Company Name: 3. Mortgage Guaranty Insurance Corporation

Date This Claim Submitted: 4. / /

Mortgage Insurance Company Address: 5. P.O. Box 525, Milwaukee, WI 53201

Mortgage Insurer Telephone Number: 6. 1- 800 - 424 - 6442

Insured's Name: 7.

Insured's Loan Number: 8.

Address: 9.

Certificate Number: 10.

City / State / Zip: 11.

Master Policy Number: 12.

Borrower Information

Borrower Name(s): 13.

% Coverage: 14. %

Type Coverage: 15.

Property Address: 16.

City / State / Zip:

Servicer Information

Servicer Name (if different than insured's name): 17.

Servicer Loan Number: 18.

Servicer Address (if different than insured's address): 19.

City / State / Zip:

Payee Information

Payee Name (if different than insured's name): 20.

Payee Loan Number: 21.

Payee Address (if different than insured's address): 22.

City / State / Zip:

Investor Information

Investor Name (if different than Payee's name): 23.

Investor Loan Number: 24.

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Section 7:
Default
Servicing Tools

7.01 MGIC/Link Servicing
7.02 Automated Default Reporting
7.03 Secure File Transfer
7.04 Electronic Funds Transfer (EFT)

7.01 MGIC/Link Servicing

MGIC/Link Servicing provides you with a secure, automated support hub for servicing defaults, reporting your loss mitigation efforts and filing claims.

Register for your MGIC/Link Servicing login ID and password at www.mgic.com/signup.

7.01a Report Defaults and Default Status
7.01b Submit Loss Mitigation Workouts
7.01c Report HAMP Modifications for GSE and Non-GSE Loans
7.01d Report Loan Modifications
7.01e File a Claim
7.01f Uploading Documentation
7.01g Check Claim Status/Explanation of Benefits
7.01h View EFT Claim Payment Details

7.01a Report Defaults and Default Status

Select *File/Update a Default* in the MGIC/Link main menu to:

- notify us that a borrower is 2 consecutive payments past due by filing a Notice of Delinquency (1.02).
- report the status of loans in default and your servicing efforts to remedy default as required by the Master Policy.

7.01b Submit Loss Mitigation Workouts

Request approval and submit documentation for loss mitigation workouts that do not meet MGIC Delegated Guidelines.

- Select Loan Modification in the MGIC/Link main menu to submit requests for approval for loan modifications that do not meet MGIC Delegated Guidelines (2.05a).
- Select Short Sale in the MGIC/Link main menu to: – submit the results of the MGIC Financial Analysis for loans that meet MGIC Delegated Guidelines (2.06a);
  – request approval and submit documentation for short sales that do not meet MGIC Delegated Guidelines (2.06d);
  – provide additional information on short sale requests pending approval; AND
  – request an extension approval.

- Select Deed in Lieu in the MGIC/Link main menu to submit requests for approval and supporting documentation for a deed in lieu that does not meet MGIC Delegated Guidelines (2.06d).
- Select Other Workout Types in the MGIC/Link main menu to submit requests for approval for the following workout types:
  – foreclosure sale postponement (2.01);
  – forbearance (2.02);
  – repayment plans (2.03); AND
  – other unlisted programs that require MGIC's review and approval.

7.01c Report HAMP Modifications for GSE and Non-GSE Loans

Submit your completed MICA HAMP Reporting Template.
- Select *HAMP Reporting* in the MGIC/Link main menu.

7.01d Report Loan Modifications

- Report individual or multiple loan modifications that meet MGIC Delegated Guidelines (2.05a)..
- Select Loan Modification in the MGIC/Link main menu to report individual modifications or upload the Loan Modification Submission Spreadsheet.

7.01e File a Claim

The most secure, expedient means to file an individual claim is via MGIC/Link Servicing.
- Select *File a Claim* in the MGIC/Link main menu and enter the MGIC Certificate Number.

The online claim form opens, prefilled with servicer, mortgage insurance, borrower and property location information. The MGIC/Link form also calculates totals for you. You have the option to save your work and finish at your convenience. Once complete, submit the claim to MGIC.

7.01f Uploading Documentation

Upload documentation through MGIC/Link Servicing:
- prior to filing a claim OR
- immediately after filing a claim OR
- upon MGIC's request for any missing or additional documentation.
- Select Claim Documents in the MGIC/Link main menu.

Also, once MGIC has notified you that we have registered your claim, use the *Claim Documents* feature to:
- access specific missing documents you need to submit on a per-claim basis; AND
- create your own reports containing all of your claims with outstanding documents requested.

View our MGIC/Link Claims Pending Doc Request training tutorial.

7.01g	Check Claim Status/ Explanation of Benefits	Regardless of how you file a claim, you can check claim status securely and easily through MGIC/Link Servicing. Once a claim has been settled, you can download an Explanation of Benefits. ▪ In the MGIC/Link main menu, select *Policy Inquiries.* ▪ Provide the certificate number, a borrower Social Security Number or Servicer Number and select Claim as your Inquiry Type.
7.01h	View EFT Claim Payment Details	View payment details online the same day funds are transferred. Select the *Reports* tab to access: ▪ EFT Reconciliation Reports with daily totals of funds transferred; ▪ individual claim payments that comprise the total transfer; AND ▪ Explanation of Benefits (EOB) statements for each claim.

7.02 Automated Default Reporting

Report defaults (1.02) and their status (1.03) to MGIC electronically via Automated Default Reporting (ADR) to reduce errors, increase efficiencies and eliminate paper.

How ADR works

Shortly after the 15th of every month, your loan data base is scanned. During the scan, information about delinquent MGIC loans is gathered from your online collection system and loaded into an electronic file. Once the information is loaded, you deliver the file to MGIC, where the information is added to our computer system.

Report all MGIC loans that are 2 or more months in default until either the loan becomes current or a claim is filed. Reported delinquencies include new defaults, updates or cures on previously reported delinquent loans and foreclosures.

How to Get Set Up on ADR

Step 1: Portfolio review

We recommend that a portfolio review be performed on all of your MGIC loans. This review ensures that your loan files – and ours – are accurate. To assist you, we'll be happy to provide a file or listing of your current MGIC loans.

Step 2: Data verification

Once the review is complete and any discrepancies are resolved, Automated Default Reporting begins. To make sure your delinquent loans are accurately and completely transmitted, we verify your data – typically for the first two file submissions. During this time, you continue to report your delinquencies manually.

To Sign Up	To get set up with ADR, contact MGIC eCommerce Services, ecommerce_services@mgic.com or 1-800-558-9900.

7.03 Secure File Transfer

Replace faxing and overnight document delivery and protect the privacy of information you send with MGIC’s Secure File Transfer.
All data transmissions are encrypted using the strongest available industry standards
— Secured Socket Layer (SSL).
Send and receive any file type (e.g., PDF, XLS, DOC, etc.).

To Sign Up

Register for your MGIC Secure File Transfer login ID and password at www.mgic.com/signup.

Support

View or print SFT Step-by-Step instructions.
View our Send and Receive Files through Secure File Transfer training tutorial.

7.04 Electronic Funds Transfer (EFT)

Expedite MGIC Claim Payments with Electronic Funds Transfer. With EFT, as soon as MGIC completes a claim, funds are transferred directly into your account in one consolidated payment. EFT eliminates waiting for a check in the mail. MGIC will provide an EFT Reconciliation Report on the MGIC/Link Servicing site listing all loans receiving payment within one business day prior to deposit.

To get started

Complete and fax an Authorization for Electronic Receipt of Payment form to MGIC’s Cash Management Department, (414) 347-6354. The form is available at www.mgic.com > Servicing > Default Servicing > Guides and Forms.
Upon receipt, MGIC will:

- test to ensure the successful transfer of future funds;
- work with you to set up EFT service for your designated branches or offices;
- notify you of the date EFT claim payments will be activated; AND
- provide you with instructions for accessing payment detail via MGIC/Link Servicing (7.01h).

Questions? Contact MGIC Customer Service, customer_service@mgic.com *or 1-800-424-6442.*

Mortgage Guaranty Insurance Corporation
MGIC Plaza, Milwaukee, Wisconsin 53202 • www.mgic.com

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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: November 8, 2013

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

Exhibit 31.2

CERTIFICATIONS

I, J. Michael Lauer, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: November 8, 2013

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

Exhibit 32

SECTION 1350 CERTIFICATIONS

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

(1) the Quarterly Report on Form 10-Q of the Company for the three months ended September 30, 2013 (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: November 8, 2013

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

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

Exhibit 99

Risk Factors included in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2012, as supplemented by Part II, Item 1A of our Quarterly Reports on Form 10-Q for the quarters ended March 31, June 30 and September 30, 2013 and through updating of various statistical and other information.

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 “Capital Requirements.” While they vary among jurisdictions, the most common Capital Requirements allow for a maximum risk-to-capital ratio of 25 to 1. A risk-to-capital ratio will increase if the percentage decrease in capital exceeds the percentage decrease in insured risk. Therefore, as capital decreases, the same dollar decrease in capital will cause a greater percentage decrease in capital and a greater increase in the risk-to-capital ratio. 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.

During part of 2012 and 2013, MGIC’s risk-to-capital ratio exceeded 25 to 1. In March 2013, our holding company issued additional equity and convertible debt securities and transferred $800 million to increase MGIC’s capital. At September 30, 2013, MGIC’s risk-to-capital ratio was 20.0 to 1, below the maximum allowed by the jurisdictions with Capital Requirements, and its policyholder position was $190 million above the required MPP of $1.2 billion. At September 30, 2013, the risk-to-capital ratio of our combined insurance operations (which includes reinsurance affiliates) was 22.7 to 1. A higher risk-to-capital ratio on a combined basis may indicate that, in order for MGIC to continue to utilize reinsurance arrangements with its subsidiaries or subsidiaries of our holding company, additional capital contributions to the reinsurance affiliates could be needed. These reinsurance arrangements permit MGIC to write insurance with a higher coverage percentage than it could on its own under certain state-specific requirements.

At this time, we expect MGIC to continue to comply with the current 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.

If MGIC fails to meet the Capital Requirements 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 were prevented from writing new business in all jurisdictions, our insurance operations in MGIC would be in run-off (meaning no new loans would be insured but loans previously insured would continue to be covered, with premiums continuing to be received and losses continuing to be paid on those loans) until MGIC either met the Capital Requirements or obtained a waiver to allow it to once again write new business.

If MGIC fails to meet the Capital Requirements and is unable to obtain a waiver of them from a jurisdiction other than Wisconsin, MGIC could be prevented from writing new business in that particular jurisdiction. New insurance written in the jurisdictions that have Capital Requirements represented approximately 50% of our new insurance written in the first nine months of 2013. Depending on the level of losses that MGIC experiences in the future, it is possible that regulatory action by one or more jurisdictions, including those that do not have specific Capital Requirements, may prevent MGIC from continuing to write new insurance in such jurisdictions.

The National Association of Insurance Commissioners ("NAIC") is reviewing the minimum capital and surplus requirements for mortgage insurers, although it has not established a date by which it must make proposals to change such requirements. Depending on the scope of proposals made by the NAIC, MGIC may be prevented from writing new business in the jurisdictions adopting such proposals. Fannie Mae and Freddie Mac (the "GSEs"), in conjunction with the Federal Housing Finance Agency ("FHFA"), are also developing new capital standards for mortgage insurers. See our risk factor titled *"We may not continue to meet the GSEs' mortgage insurer eligibility requirements."*

A possible future failure by MGIC to meet the Capital 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, we cannot assure you that events that may lead MGIC to fail to meet Capital Requirements would not also result in it not having sufficient claims paying resources. Furthermore, our estimates of MGIC's claims paying resources and claim obligations are based on various assumptions. These assumptions include the timing of the receipt of claims on loans in our delinquency inventory and future claims that we anticipate will ultimately be received, our anticipated rescission activity, premiums, housing values and unemployment rates. These assumptions are subject to inherent uncertainty and require judgment by management. Current conditions in the domestic economy make the assumptions about when anticipated claims will be received, housing values, and unemployment rates highly volatile in the sense that there is a wide range of reasonably possible outcomes. Our anticipated rescission activity is also subject to inherent uncertainty due to the difficulty of predicting the amount of claims whose policies will be rescinded and the outcome of any legal proceedings or settlement discussions related to rescissions. You should read the rest of these risk factors for additional 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 Capital Requirements of a jurisdiction or obtain a waiver of them. MIC is licensed to write business in all jurisdictions and, subject to certain conditions and restrictions, has received the necessary approvals from the OCI and the GSEs to write business. During 2012, MIC began writing new business in the jurisdictions where MGIC did not have a waiver of the Capital Requirements. Because MGIC again meets the Capital Requirements, MGIC is again writing new business in all jurisdictions and MIC has suspended writing new business. As of September 30, 2013, MIC had statutory capital of $455 million and risk in force of approximately $950 million.

The OCI and GSE approvals of MIC expire at the end of 2013 and we do not expect to need an extension of such approvals. Fannie Mae's approval of MIC, including certain conditions and restrictions to its continued effectiveness, is summarized more fully in, and included as an exhibit to, our Form 8-K filed with the Securities and Exchange Commission (the "SEC") on November 30, 2012. Freddie Mac's approval of MIC, including certain conditions and restrictions to its continued effectiveness, is summarized more fully in, and included as an exhibit to, our Form 8-K filed with the SEC on November 30, 2012. Freddie Mac's approval of MIC provides that an adverse action by Freddie Mac against MIC may also subject MGIC to an adverse action.

We cannot assure you that the OCI or GSEs will approve or continue to approve MIC to write new business in all jurisdictions in which MGIC may become unable to do so. If one GSE does not approve MIC in all jurisdictions in which MGIC becomes unable to write new business, MIC may be able to write insurance on loans that will be sold to the other GSE or retained by private investors. However, because lenders may not know which GSE will purchase their loans until mortgage insurance has been procured, lenders may be unwilling to procure mortgage insurance from MIC. Furthermore, 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 financial strength of our insurance operations 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. In 2013, the Consumer Financial Protection Bureau ("CFPB") issued and amended a final rule defining "Qualified Mortgage" ("QM"), in order to implement the "ability to repay" law. 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, 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 whether lenders will make non-QM loans because they will not be entitled to the presumptions about compliance with the "ability to repay" requirements, or if lenders would purchase private mortgage insurance for loans that cannot be sold to the GSEs.

In September 2013, the U.S. Department of Housing and Urban Development ("HUD") proposed a definition of QM that will apply to loans the Federal Housing Administration ("FHA") insures. 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 has a higher pricing threshold for loans to fall into the "safe harbor" category of QM loans, instead of the "rebuttable presumption" category of QM 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 87.5% of our new risk written in the first nine months of 2013 was for mortgages that would have met the CFPB's general QM definition. We estimate that 98.9% of our new risk written in the first nine months of 2013 was for mortgages 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 QM rule is scheduled to become effective in January 2014.

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. While substantially all of our new risk written in the first nine months of 2013 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, (b) the extent to which the presence of private mortgage insurance with certain premium plans may adversely affect the ability of a loan to qualify as a QM and therefore as a QRM, and (c) 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 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 delivery fees that the GSEs assess on loans (which result in higher costs to borrowers). In addition, federal legislation and programs provided the FHA with greater flexibility in establishing new products and increased the FHA's competitive position against private mortgage insurers. 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 increases in guaranty fees 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.

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.

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

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

- the amount of loan level delivery fees 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 *"Our losses could increase if we do not prevail in proceedings challenging whether our rescissions were proper or we enter into material resolution arrangements,"* 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, and help bring private capital back to the mortgage market. Since then, Members of Congress introduced several bills intended to scale back the GSEs, however, no legislation was 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 the first nine months of 2013, 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.

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

Substantially all of our insurance written is for loans sold to Fannie Mae and Freddie Mac, each of which has mortgage insurer eligibility requirements to maintain the highest level of eligibility, including a financial strength rating of Aa3/AA-. Because MGIC does not meet such financial strength rating requirements (its financial strength rating from Moody's is Ba3 (with a stable outlook) and from Standard & Poor's is B (with a positive outlook)), MGIC is currently operating with each GSE as an eligible insurer under a remediation plan. We believe that the GSEs view remediation plans as a continuing process of interaction with a mortgage insurer and MGIC will continue to operate under a remediation plan for the foreseeable future. The GSEs may include new eligibility requirements as part of our current remediation plan. There can be no assurance that MGIC will be able to continue to operate as an eligible mortgage insurer under a remediation plan. In particular, the GSEs are currently in discussions with mortgage insurers regarding their standard mortgage insurer eligibility requirements. The GSEs, in conjunction with the FHFA, are each developing mortgage insurer capital standards that would replace the use of external credit ratings. Revised capital standards are expected to be released in 2013. We have not been informed of the revised capital requirements or their timeframes for effectiveness. We have various alternatives available to improve our existing risk-to-capital position, including contributing additional funds that are on hand today from our holding company to MGIC, entering into additional external reinsurance transactions, seeking approval to write business in MIC and raising additional capital. While there can be no assurance that MGIC would meet the GSE's revised capital requirements by their effective date, we believe we could implement one or more of these alternatives so that we would continue to be an eligible mortgage insurer after the revised capital requirements are fully effective. MIC's financial strength rating from Moody's is Ba3 (with a stable outlook) and from Standard & Poor's is B (with a positive outlook). Therefore, MIC also does not meet the current financial strength rating requirements of the GSEs and had previously operated with each GSE as an eligible insurer under the approvals discussed above. See our risk factor titled "Capital requirements may prevent us from continuing to write new insurance on an uninterrupted basis." If MGIC (or MIC, under certain circumstances) ceases to be eligible to insure loans purchased by one or both of the GSEs, it would significantly reduce the volume of our new business writings.

We have reported net losses for the last six years and cannot assure you when we will return to annual profitability.

We have reported a net loss in each of the last six fiscal years, with an aggregate net loss for 2007-2012 of $5.3 billion. For the first nine months of 2013, we reported a net loss of $48.4 million. The size of any future losses will depend primarily on the amount of our losses incurred from our business written prior to 2009, which will depend on new notices of defaulted loans, cures of defaulted loans in our delinquency inventory and the average severity on claims paid. Therefore, such losses are dependent on factors that make prediction of their amounts difficult and any forecasts are subject to significant volatility. Although we currently expect to return to profitability on an annual basis, we cannot assure you when, or if, this will occur. Conditions that could delay our return to annual profitability include high unemployment rates, low cure rates, low housing values and unfavorable resolution of legal disputes. You should read the rest of these risk factors for additional information about factors that could increase our net losses in the future.

Our losses could increase if we do not prevail in proceedings challenging whether our rescissions were proper or we enter into material resolution arrangements.

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 and the first nine months of 2013, rescissions mitigated our paid losses by approximately $0.3 billion and $100 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, less than 5% of claims received in a quarter have been resolved by rescissions, down from the peak of approximately 28% in the first half of 2009.

Our loss reserving methodology incorporates our estimates of future rescissions 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 claims investigations, litigation, settlements or other factors, could materially affect our losses. See our risk factor titled *"Because loss reserve estimates are subject to uncertainties and are based on assumptions that are currently very volatile, paid claims may be substantially different than our loss reserves."* We estimate rescissions mitigated our incurred losses by approximately $2.5 billion in 2009 and $0.2 billion in 2010. In 2011, we estimate that rescissions had no significant impact on our losses incurred. All of these figures include the benefit of claims not paid in the period as well as the impact of changes in our estimated expected rescission activity on our loss reserves in the period. In 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 2012 or in the first nine months of 2013.

If the insured disputes our right to rescind coverage, the outcome of the 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. As of September 30, 2013, the period in which a dispute may be brought has not ended for approximately 32% of our post-2008 rescissions that are not subject to a settlement agreement. Until a liability associated with a settlement agreement or litigation becomes probable and can be reasonably estimated, we consider a rescission resolved for financial reporting purposes even though legal proceedings have been initiated and are ongoing. Although it is reasonably possible that, when the proceedings are completed, there will be a determination that we were not entitled to rescind in all cases, we are sometimes unable to make a reasonable estimate or range of estimates of the potential liability. Under ASC 450-20, an estimated loss from such proceedings is accrued for only if we determine that the loss is probable and can be reasonably estimated. Therefore, when establishing our loss reserves, we do not generally include additional loss reserves that would reflect an adverse outcome from ongoing legal proceedings.

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.

As noted in our risk factor titled *"We are involved in legal proceedings and are subject to the risk of additional legal proceedings in the future,"* in April 2013, we entered into two agreements 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. Implementation of the agreement with BANA began in November 2013. Implementation of the agreement with CHL remains subject to approval by the non-GSE investors in the loans covered by that agreement and any such implementation is not expected to begin prior to the first quarter of 2014. The resolutions of the Countrywide and other disputes may encourage other customers to seek remedies against us. We continue to be involved in legal proceedings with other customers with respect to rescissions that we do not consider to be collectively material in amount. We also continue to discuss with customers their objections to rescissions that are material when all such discussions are considered in the aggregate, and have reached settlement terms with several of our significant customers. In connection with some of these settlement discussions, we have suspended rescissions related to loans that we believe could be included in potential settlements. As of September 30, 2013, approximately 85 rescissions, representing total potential claim payments of approximately $5 million, were affected by our decision to suspend such rescissions. These amounts do not include loans covered by the two Countrywide agreements referred to above nor do they include loans for customers for which we consider settlement agreements probable, as defined in ASC 450-20. Although it is reasonably possible that, when the discussions or legal proceedings with customers regarding rescissions are completed, there will be a conclusion or determination that we were not entitled to rescind in all cases, we are unable to make a reasonable estimate or range of estimates of the potential liability.

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

As of September 30, 2013, we had approximately $2.6 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.

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 defendants violated RESPA by paying excessive premiums to the lenders’ captive reinsurer in relation to the risk assumed by that captive. 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 April 2013, the U.S. District Court 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 remain subject to various state investigations or information requests regarding captive mortgage reinsurance arrangements, including (1) a request received by MGIC 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; and (2) requests received 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. On August 28, 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. 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-pay 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.

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.

Since December 2009, we have been involved in legal proceedings with 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. From January 1, 2008 through September 30, 2013, rescissions of coverage on Countrywide-related loans mitigated our paid losses on the order of $445 million. This amount is the amount we estimate we would have paid had the coverage not been rescinded. In addition, in connection with mediation we were holding with Countrywide, we voluntarily suspended rescissions related to loans that we believed could be covered by a settlement.

On April 19, 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 on September 24, 2013 by amendments that were technical in nature, 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 to the Agreements were filed with our Form 10-Q for the quarter ended September 30, 2013, although in each case, certain portions of the Agreements are redacted and covered by a confidential treatment request that has been granted (or is pending). Both GSEs have consented to the agreement with BANA and implementation began in November 2013. As of September 30, 2013, rescissions of coverage on approximately 2,100 loans under the agreement with BANA, representing total potential claim payments of approximately $150 million, had been suspended. We began processing the suspended rescissions in November 2013 and expect most of the associated claims will be paid in accordance with our practice. The agreement with CHL covers loans that were purchased by non-GSE investors, including securitization trusts (the "other investors"). The agreement with CHL 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 no earlier than the first quarter of 2014. As of September 30, 2013, rescissions of coverage on approximately 800 loans under the agreement with CHL, representing total potential claim payments of approximately $70 million, had been suspended. 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, including the payments of claims associated with the suspended rescissions being made beginning in November 2013 (and another probable settlement) in our financial statements for the quarter ending December 31, 2012. If we are not able to implement the agreement with CHL, we intend to defend MGIC against any related legal proceedings, vigorously.

In addition to the suspended Countrywide rescissions, as of September 30, 2013, coverage on approximately 540 loans, representing total potential claim payments of approximately $38 million, was affected by our decision to suspend rescissions for customers for which we consider settlement agreements probable.

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. The settlement with Countrywide may encourage other customers to pursue remedies against us. From January 1, 2008 through September 30, 2013, we estimate that total rescissions mitigated our incurred losses by approximately $2.9 billion, which included approximately $3.0 billion of mitigation on paid losses, excluding $0.6 billion that would have been applied to a deductible. At September 30, 2013, we estimate that our total loss reserves were benefited from anticipated rescissions by approximately $0.1 billion.

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 2012 and the first nine months of 2013, curtailments reduced our average claim paid by approximately 4.1% and 5.5%, respectively. In addition, the claims submitted to us sometimes include costs and expenses not covered by our insurance policies, such as mortgage insurance premiums, 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. Historically, we have not had material disputes regarding our curtailments or other adjustments.

The Agreements referred to above do not resolve assertions by Countrywide that MGIC has improperly curtailed numerous insurance coverage claims. As of the fourth quarter of 2012, Countrywide asserted that the amount of disputed curtailments approximated $40 million. MGIC and Countrywide have agreed to mediate this matter and to enter into arbitration if the mediation does not resolve the matter. We do not believe a loss is probable regarding this curtailment dispute and have not accrued any reserves that would reflect an adverse outcome to this dispute. We intend to defend vigorously our position regarding the correctness of these curtailments under our insurance policy. Although we have not had other material objections to our curtailment and adjustment practices, there can be no assurances that we will not face additional challenges to such practices.

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. One of those lawsuits remains pending and the other seven lawsuits have been dismissed without any further opportunity to appeal. The damages sought in the remaining case are substantial. We deny any wrongdoing and intend to defend ourselves vigorously against the allegations in the lawsuits.

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 assessments for taxes and penalties related to these matters is $197.5 million and at September 30, 2013 there would also be interest of approximately $151.0 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 September 30, 2013, those state taxes and interest would approximate $45.4 million. In addition, there could also be state tax penalties.

Our total amount of unrecognized tax benefits as of September 30, 2013 is $105.2 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 factor titled *"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 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, and there can be no assurance that actual claims paid by us will not be substantially different than our loss reserves.

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, privately-held 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 February 2013, a worldwide insurer and reinsurer with mortgage insurance operations in Europe announced that it was purchasing CMG Mortgage Insurance Company. 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.

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 have adopted programs to modify loans to make them more affordable to borrowers with the goal of reducing the number of foreclosures. During 2010, 2011, 2012, and the first nine months of 2013, we were notified of modifications that cured delinquencies that had they become paid claims would have resulted in approximately $3.2 billion, $1.8 billion, $1.2 billion and $760 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; less than 5% resulted in principal forgiveness.

One loan modification program is the Home Affordable Modification Program ("HAMP"). Some of HAMP's eligibility criteria relate to the borrower's current income and non-mortgage debt payments. Because the GSEs and servicers do not share such information with us, we cannot determine with certainty the number of loans in our delinquent inventory that are eligible to participate in HAMP. We believe that it could take several months from the time a borrower has made all of the payments during HAMP's three month "trial modification" period for the loan to be reported to us as a cured delinquency.

We rely on information provided to us by the GSEs and servicers. We do not receive all of the information from such sources that is required to determine with certainty the number of loans that are participating in, or have successfully completed, HAMP. We are aware of approximately 8,000 loans in our primary delinquent inventory at September 30, 2013 for which the HAMP trial period has begun and which trial periods have not been reported to us as completed or cancelled. Through September 30, 2013 approximately 49,500 delinquent primary loans have cured their delinquency after entering HAMP and are not in default. In 2012 and the first nine months of 2013, approximately 17% and 16%, respectively, of our primary cures were the result of a modification, with HAMP accounting for approximately 70% of those modifications in each of those periods. By comparison, in 2010, approximately 27% of our primary cures were the result of a modification, with HAMP accounting for approximately 60% of those modifications. Although the HAMP program has been extended through 2015, 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.

In 2009, the GSEs began offering the Home Affordable Refinance Program ("HARP"). HARP, which has been extended through 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 the 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. To incent lenders to allow more current borrowers to refinance their loans, in October 2011, the GSEs and their regulator, FHFA, announced an expansion of HARP. The expansion includes, among other changes, releasing certain representations in certain circumstances benefitting the GSEs. We have agreed to allow these additional HARP refinances, including releasing the insured in certain circumstances from certain rescission rights we would have under our policy. While an expansion of HARP may result in fewer delinquent loans and claims in the future, our ability to rescind coverage will be limited in certain circumstances. We are unable to predict what net impact these changes may have on our incurred or paid losses. Approximately 15% 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. In addition, because we do not have information in our database for all of the parameters used to determine which loans are eligible for modification programs, our estimates of the number of loans qualifying for modification programs are inherently uncertain. If legislation is enacted to permit a portion of a borrower's mortgage loan balance to be reduced in bankruptcy and if the borrower re-defaults after such reduction, then the amount we would be responsible to cover would be calculated after adding back the reduction. Unless a lender has obtained our prior approval, if a borrower's mortgage loan balance is reduced outside the bankruptcy context, including in association with a loan modification, and if the borrower re-defaults after such reduction, then under the terms of our policy the amount we would be responsible to cover would be calculated net of the reduction.

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

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

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

As noted above, in early 2013, the CFPB issued rules to implement laws requiring mortgage lenders to make ability-to-pay determinations prior to extending credit. 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, future increases in guaranty fees 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 2012 and the first nine months of 2013, approximately 10% and 8%, respectively, of our new insurance written was for loans for which one lender was the original insured, although revenue from such loans was significantly less than 10% of our revenues during each of those periods. Our private mortgage insurance competitors include:

- Genworth Mortgage Insurance Corporation,
- United Guaranty Residential Insurance Company,
- Radian Guaranty Inc.,
- CMG Mortgage Insurance Company (whose owners have agreed to sell it to a worldwide insurer and reinsurer),
- Essent Guaranty, Inc., and
- NMI Holdings, Inc.

Until 2010 the mortgage insurance industry had not had new entrants in many years. In 2010, Essent Guaranty, Inc. began writing mortgage insurance and in October 2013, it raised additional capital in an initial public offering. Essent has publicly reported that one of our customers, JPMorgan Chase, is one of its investors. Another new company, NMI Holdings Inc., began writing mortgage insurance in the second quarter of 2013. In addition, in February 2013, a worldwide insurer and reinsurer with mortgage insurance operations in Europe announced that it was purchasing CMG Mortgage Insurance Company. In October 2013, the parent company of Republic Mortgage Insurance Company ("RMIC"), which had ceased writing new mortgage insurance commitments in mid-2011 and was placed under the supervision of the insurance department of its domiciliary state, announced a plan of recapitalization for RMIC that is intended to allow RMIC to resume writing new business early in 2014. The perceived increase in credit quality of loans that are being insured today, the deterioration of the financial strength ratings of the existing mortgage insurance companies and the possibility of a decrease in the FHA's share of the mortgage insurance market may encourage 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.

We believe many lenders consider a mortgage insurer's financial strength rating and risk-to-capital ratio as important factors when they select mortgage insurers. As a result of MGIC's less than investment grade financial strength ratings and its risk-to-capital ratio level being higher than that of other mortgage insurers, MGIC may be competitively disadvantaged with these lenders. MGIC's financial strength rating from Moody's is Ba3 (with a stable outlook) and from Standard & Poor's is B (with a positive outlook). It is possible that MGIC's financial strength ratings could decline from these levels. While we expect MGIC's risk-to-capital ratio to continue to comply with the current Capital Requirements, its level will depend primarily on the level of incurred losses, any settlement with the IRS, and the volume of new risk written. Our incurred losses are dependent upon factors that make prediction of their amounts difficult and any forecasts are subject to significant volatility. Conditions that could negatively affect the risk-to-capital ratio include high unemployment rates, low cure rates, low housing values and unfavorable resolution of ongoing legal proceedings. In addition, the NAIC and the GSEs are each expected to propose revised capital standards for mortgage insurers. While there can be no assurance that MGIC would meet such revised capital requirements, we believe we could implement one or more alternative strategies to continue to write new business. For more information, see our risk factor titled *"Capital requirements may prevent us from continuing to write new insurance on an uninterrupted basis"* and *"We may not continue to meet the GSEs' mortgage insurer eligibility requirements."*

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 have recently been increasing in most markets, they often 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 also affects the likelihood of losses occurring.

Even when housing values are stable or rising, mortgages with certain characteristics have higher probabilities of claims. These characteristics include loans with loan-to-value ratios over 95% (or in certain markets that have experienced declining housing values, over 90%), FICO credit scores below 620, limited underwriting, including limited borrower documentation, or higher total debt-to-income ratios, as well as loans having combinations of higher risk factors. As of September 30, 2013, approximately 22.6% of our primary risk in force consisted of loans with loan-to-value ratios greater than 95%, 7.0% had FICO credit scores below 620, and 7.2% had limited underwriting, including limited borrower documentation, each attribute as determined at the time of loan origination. A material portion of these loans were written in 2005 — 2007 or the first quarter of 2008. In accordance with industry practice, loans approved by GSEs and other automated underwriting systems under "doc waiver" programs that do not require verification of borrower income are classified by us as "full documentation." For additional information about such loans, see footnote (3) to the composition of primary default inventory table under "Results of Consolidated Operations-Losses-Losses incurred" in Management's Discussion and Analysis of Financial Condition and Results of Operations.

From time to time, in response to market conditions, we change the types of loans that we insure and the requirements under which we insure them. Beginning in August 2013, we adjusted our underwriting requirements to allow loans that receive certain approvals from a GSE automated underwriting system to be automatically eligible for our mortgage insurance, provided such loans comply with certain credit overlays, as described in our underwriting requirements. Effective December 2, 2013, we are reducing almost all of our borrower-paid monthly premium policy rates, reducing most of our single premium policy rates and making underwriting changes for loans greater than $625,500, subject to regulatory approval of the rate changes. In the first nine months of 2013, single premium policies were approximately 9% of our total NIW. During this period almost all of our single premium rates were above those of a number of our competitors. The percentage of our single premium policies may increase in the future as a result of the reduction in our single premium rates. These changes will reduce our future premium yields, as would additional external reinsurance transactions. Our underwriting requirements are available on our website at http://www.mgic.com/underwriting/index.html. We 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 2012 and the first nine months of 2013.

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"). If a borrower makes payments for three years, our Gold Cert Endorsement limits our ability to rescind coverage except under certain circumstances, which circumstances include where we demonstrate the lender had knowledge of inaccurate information in the loan file. In addition, our Gold Cert Endorsement limits our ability to rescind on loans for which the borrower makes payments on time for one year with his own funds, if we are provided with certain documents shortly after we insure the loan and we fail to discover that the loan was ineligible for our insurance. We believe the limitations on our rights to rescind coverage under the Gold Cert Endorsement will materially reduce rescissions on such loans. As of September 30, 2013, less than 12% of our insurance in force was written under our Gold Cert Endorsement. However, we estimate that approximately 63% of our flow, primary new insurance written in the first nine months of 2013, 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 are completing the process of drafting a new master policy that will comply with various requirements the GSEs have communicated to the industry. These requirements contain limitations on rescission rights that differ from the limitations in our Gold Cert Endorsement including (i) that we must satisfy certain requirements if we want to provide rescission relief after the borrower has made one year of timely payments, and (ii) in certain cases, rescission relief is more restrictive than provided by our Gold Cert Endorsement. This new policy could be effective for loans insured as early as mid-2014.

As of September 30, 2013, approximately 1.9% of our primary risk in force written through the flow channel, and 22.1% 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. In the current interest rate environment, interest rates resetting in the near future are unlikely to exceed the interest rates at origination. 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 September 30, 2013, the premium deficiency reserve was $57 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 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 78.3% at September 30, 2013, compared to 79.8% at December 31, 2012 and 82.9% at December 31, 2011. 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.

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. On April 1, 2013, we paid all interest that we had previously elected to defer on these debentures. We continue to have the right, and may elect, to defer interest payable under the debentures in the future. If a holder elects to convert its debentures, the interest that has been deferred on the debentures being converted is also 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. The 2% Convertible Senior Notes are convertible, at the holder's option, at an initial conversion rate, which is subject to adjustment, of 143.8332 shares per $1,000 principal amount at any time prior to the maturity date. This represents an initial conversion price of approximately $6.95 per share. We do not have the right to defer interest on our Convertible Senior Notes.

Our debt obligations materially exceed our holding company cash and investments

At September 30, 2013, we had approximately $594 million in cash and investments at our holding company and our holding company's debt obligations were $1,317 million in aggregate principal amount, consisting of $83 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 September 30, 2013, is approximately $67 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 2013, MGIC cannot pay any dividends to our holding company without approval from the OCI. In connection with the approval of MIC as an eligible mortgage insurer, Freddie Mac and Fannie Mae have imposed dividend restrictions on MGIC and MIC through December 31, 2013. 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.