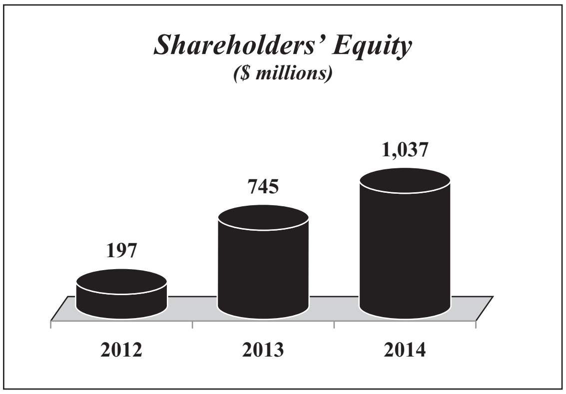
MGIC

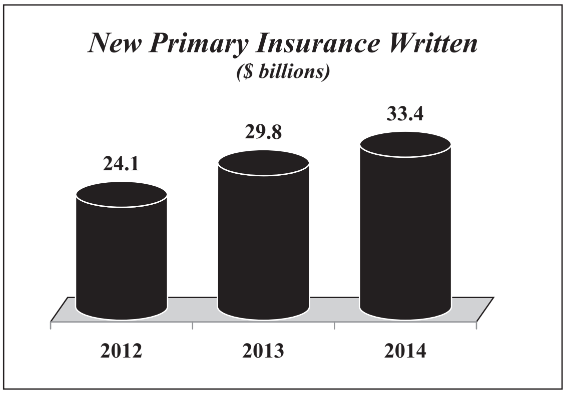
2014

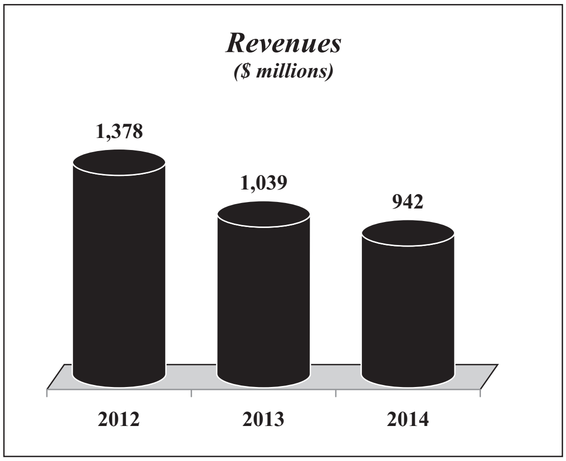
MGIC Investment Corporation
2014 Annual Report

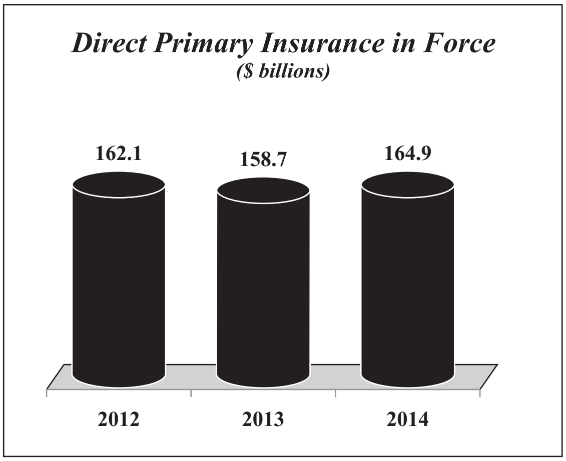
Financial Summary

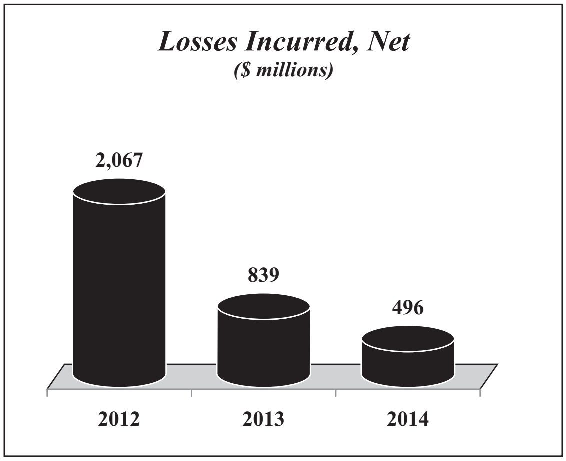
	2012	2013	2014
Net income (loss) ($ millions)	(927.1)	(49.8)	251.9
Diluted income (loss) per share ($)	(4.59)	(0.16)	0.64

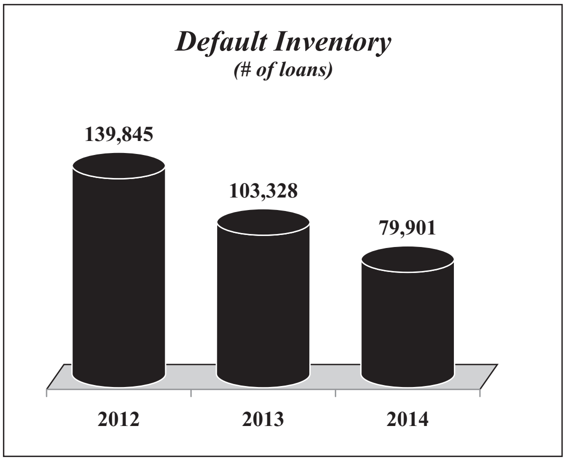












Fellow Shareholders

In 2014, our financial results continued to improve and we achieved our first year of annual profitability since 2006. This result reflects the fact that the U.S. economy expanded at a moderate pace with declining unemployment rates, and home prices continued to show appreciation on a broad basis throughout the U.S. We prudently increased our market share within the industry and generated $33.4 billion of high credit quality new insurance written, a 12.2% increase from 2013, experienced improvements in loss development, and maintained the lowest expense ratio in the industry.

Our industry continued to regain market share from the FHA reflecting the improved landscape of the private mortgage insurance industry and the value proposition we offer to both lenders and consumers. We estimate that the private MI industry's market share increased to 13.5% for 2014 versus 11% in 2013 and, approximately 9% in 2012. Within our industry, MGIC's reported market share for the full year, excluding HARP, bulk and pool, was 19.9%, although for the fourth quarter it was 20.8%. (Both market share figures are from *Inside Mortgage Finance*.)

The new business written beginning in 2009 now accounts for approximately 53% of our primary risk in force and business from the most troubled years (2005 through 2008) is now just 40% of our primary risk in force and nearly one third of that has benefited from the U.S. Treasury Home Affordable Refinance Program (HARP) which allowed loans with good credit histories to take advantage of the low interest rates of the last several years. The quality and profitability of the of the new business is best captured by these two facts: 1) delinquencies from the 2009 and forward books of business comprise less than 3% of the delinquent loan inventory, and 2) as of December 31, 2014, the 2009 book of business has an ever-to-date incurred loss ratio of 14.4%; while the 2010 book of business is at 7.1%; the 2011 book is at 4.7%; and the 2012-2014 books are performing to achieve similar results after additional seasoning.

Mortgage rates remain very affordable from a historical perspective and as a result, the purchase market remains relatively strong. I am optimistic that the demand for home purchases will continue to recover as household formations increase and as the economy continues to improve, which should lead consumers to have more confidence in their future employment and increase their desire to purchase a home. And since the majority of purchasers that need a mortgage do not have a 20% down payment, we should have a wonderful opportunity in front of us.

On the credit front, the number of new notices of delinquencies in 2014 decreased 17% from 2013, while the cure rate on new delinquencies continued to improve. Foreclosure activity continues to fade, which has resulted in 33% reduction in claims received and claims paid in 2014 versus 2013. These positive trends resulted in a 23% decline of the primary delinquent inventory in 2014. During 2014, we approved mortgage modifications under the HARP program, enabling nearly 16,000 borrowers (representing $2.5 billion of insurance in force) to lower their monthly payment obligations and improve their ability to continue making their mortgage payments. Approximately 15% of our primary insurance in force at December 31, 2014 has benefited from HARP or similar refinance programs and more than 98% of the related loans are current. Additionally, approximately 11% of the insurance in force has been modified through HAMP or other loan modification programs, thus helping the majority of those borrowers avoid a foreclosure, and MGIC avoid a claim payment.

Turning to the regulatory front, the FHFA and the GSEs issued a draft version of their private mortgage insurer eligibility requirements (PMIERs), including new capital standards, in July and asked for public comments. MGIC embraces robust risk adjusted capital requirements and supports the goal of modernizing the GSEs' mortgage insurance eligibility requirements. The main theme of our comment letter was balance. By that, I mean it's important that the capital rules provide the GSEs with strong counterparties and apply a risk based methodology, but they should also be established in a manner that will help achieve the public policy goals of:

- expanding access to credit for creditworthy borrowers,
- decreasing the government's footprint in housing, and
- reducing taxpayer exposure by encouraging private capital to take a first loss position on residential mortgage credit.

In addition to the comment letters from MGIC and the other MIs, the FHFA also received comment letters from many groups that participate in housing finance including the MBA, Builders, Realtors, community groups, lenders, mortgage research firms and investors. To varying degrees of detail and reference, all of the comments were supportive of the important role that private mortgage insurance plays and effectively reiterated that balance is important. We are still waiting for the final decision regarding PMIERs and we don't know what, if any, changes the FHFA and the GSEs will make regarding the various recommendations that we and others made, but the comments we have heard are all positive to our industry. In July 2014, we estimated that if PMIERs were implemented as drafted MGIC would have a shortfall in required assets by the end of 2016 before any actions we could take to mitigate the shortfall. Depending on the final form of the PMIERs, reinsurance and internal resources are options to overcome any PMIER shortfall, which I am confident we can do. Importantly, even if there is no modification to the proposed PMIERs after considering reinsurance benefits along the lines we have been discussing with our reinsurers, we still would be able to maintain mid-teen returns on PMIERs capital based on the mix of business we expect to write in 2015, given the underwriting quality and overall pricing we are getting today.

In early 2015 the FHA decreased their premiums despite their poor financial condition. It is disappointing that private capital was not given more of a chance to demonstrate that it can help improve access to credit for all creditworthy borrowers, even those whose FICO score is below 700. However, even after considering the FHA premium reduction, we estimate that for a substantial majority of the business we wrote in 2014, the borrowers would still have had a lower monthly payment using private MI then FHA insurance. Plus, for borrowers concerned with the total cost of mortgage insurance or a faster buildup of equity, private mortgage insurance is a much better execution to the borrower, regardless of the monthly cost differential at virtually all FICO levels. And if any of the GSEs' fees are lowered, it makes our premium plans more appealing for all FICO scores.

The debate over housing policy and market structure was brought front and center once again with the recent FHA premium price cut, the GSEs' announcements that they will again begin to offer 97% LTV loans, and the awaited results of policy direction from the FHFA regarding the level of guarantee fees and loan level price adjustments that the GSEs charge. At the same time, the President announced the FHA premium reduction he also renewed his call for GSE reform. In the past, we have said that Congress would not act on any legislation for a number of years. It is possible, with the change of parties in control of Congress that there is more legislative activity than we initially thought. But I continue to believe that the current market framework is what we will be operating in for a period of time.

Lastly financial regulators finalized the definition of a QRM loan for risk retention purposes which aligned the QRM definition with the existing definition for QM loan and eliminated any minimum down payment requirement. The review and updating of state capital standards by the National Association of Insurance Commissioners, which the Wisconsin insurance regulator is leading, continues to move forward, although we are not aware of a timeframe for implementation. We do not expect the revised state capital standards to be more restrictive than the financial requirements of the draft PMIERs.

In closing, during 2014 we continued to make great progress on the path towards sustained profitability, with annual earnings of $252 million. During the year, we wrote $33 billion of high quality business. The in-force portfolio grew by 4%. The level of delinquencies and claim payments continued to fall. MGIC's risk to capital ratio improved to 14.6 to 1. Our industry's market share improved nicely, and MGIC's share within our industry is strong, and we maintained our traditional low expense ratio. As a result, I feel our Company is in an excellent position to take advantage of the opportunities created today. But, more importantly, we're positioned nicely for growth and success in 2015 and beyond.

To our shareholders and customers, thank you for your support; to my fellow co-workers, thank you for your hard work and dedication which enabled our company to accomplish all it did in 2014.

Thank you for your support.

Respectfully,

Patrick Sinks
President and Chief Executive Officer

The factors discussed under "Risk Factors" following the "Management's Discussion and Analysis" in this Annual Report may cause actual results to differ materially from the results contemplated by forward looking statements made in the foregoing letter. Forward looking statements consist of statements which relate to matters other than historical fact, including matters that inherently refer to future events. Statements in the letter that include words such as "may," "could," "should," "expect," "believe" or "will" or words of similar import, are forward looking statements.

Five-Year Summary of Financial Information

MGIC INVESTMENT CORPORATION & SUBSIDIARIES

Years Ended December 31, 2014, 2013, 2012, 2011 and 2010

	Year Ended December 31,				
	2014	2013	2012	2011	2010
	(in thousands, except per share data)				
Summary of Operations					
Revenues:					
Net premiums written	$ 881,962	$ 923,481	$1,017,832	$1,064,380	$1,101,795
Net premiums earned	$ 844,371	$ 943,051	$1,033,170	$1,123,835	$1,168,747
Investment income, net	87,647	80,739	121,640	201,270	247,253
Realized investment gains, net including net impairment losses	1,357	5,731	195,409	142,715	92,937
Other revenue	8,422	9,914	28,145	36,459	11,588
Total revenues	941,797	1,039,435	1,378,364	1,504,279	1,520,525
Losses and expenses:					
Losses incurred, net	496,077	838,726	2,067,253	1,714,707	1,607,541
Change in premium deficiency reserve	(24,710)	(25,320)	(61,036)	(44,150)	(51,347)
Underwriting and other expenses	146,059	192,518	201,447	214,750	225,142
Interest expense	69,648	79,663	99,344	103,271	98,589
Total losses and expenses	687,074	1,085,587	2,307,008	1,988,578	1,879,925
Income (loss) before tax	254,723	(46,152)	(928,644)	(484,299)	(359,400)
Provision for (benefit from) income taxes	2,774	3,696	(1,565)	1,593	4,335
Net income (loss)	$ 251,949	$ (49,848)	$ (927,079)	$ (485,892)	$ (363,735)
Weighted average common shares outstanding (in thousands)	413,547	311,754	201,892	201,019	176,406
Diluted income (loss) per share	$ 0.64	$ (0.16)	$ (4.59)	$ (2.42)	$ (2.06)
Dividends per share	$ –	$ –	$ –	$ –	$ –
Balance sheet data					
Total investments	$4,612,669	$4,866,819	$4,230,275	$5,823,647	$7,458,282
Cash and cash equivalents	197,882	332,692	1,027,625	995,799	1,304,154
Total assets	5,266,434	5,601,390	5,574,324	7,216,230	9,333,642
Loss reserves	2,396,807	3,061,401	4,056,843	4,557,512	5,884,171
Premium deficiency reserve	23,751	48,461	73,781	134,817	178,967
Short- and long-term debt	61,918	82,773	99,910	170,515	376,329
Convertible senior notes	845,000	845,000	345,000	345,000	345,000
Convertible junior debentures	389,522	389,522	379,609	344,422	315,626
Shareholders' equity	1,036,903	744,538	196,940	1,196,815	1,669,055
Book value per share	3.06	2.20	0.97	5.95	8.33
New primary insurance written ($ millions)	33,439	29,796	24,125	14,234	12,257
New primary risk written ($ millions)	8,530	7,541	5,949	3,525	2,944

Five-Year Summary of Financial Information *(continued)*

	Year Ended December 31,				
	2014	2013	2012	2011	2010
	(in thousands, except per share data)				
Insurance in force (at year-end) ($ millions)					
Direct primary insurance	164,919	158,723	162,082	178,873	191,250
Risk in force (at year-end) ($ millions)					
Direct primary risk in force	42,946	41,060	41,735	44,462	48,979
Direct pool risk in force					
With aggregate loss limits	303	376	439	674	1,154
Without aggregate loss limits	505	636	879	1,177	1,532
Primary loans in default ratios					
Policies in force	968,748	960,163	1,006,346	1,090,086	1,228,315
Loans in default	79,901	103,328	139,845	175,639	214,724
Percentage of loans in default	8.25%	10.76%	13.90%	16.11%	17.48%
Insurance operating ratios (GAAP)[1]					
Loss ratio	58.8%	88.9%	200.1%	152.6%	137.5%
Expense ratio	14.7%	18.6%	15.2%	16.0%	16.3%
Combined ratio	73.5%	107.5%	215.3%	168.6%	153.8%
Risk-to-capital ratio (statutory)					
Mortgage Guaranty Insurance Corporation	14.6:1	15.8:1	44.7:1	20.3:1	19.8:1
MGIC Indemnity Corporation	1.1:1	1.3:1	1.2:1	–	–
Combined insurance companies	16.4:1	18.4:1	47.8:1	22.2:1	23.2:1

(1) 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 expense ratio is the ratio, expressed as a percentage, of the combined insurance operations underwriting expenses to net premium written.

Management's Discussion and Analysis of Financial Condition and Results of Operations

We have reproduced below the "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Risk Factors" that appeared in our Annual Report on Form 10-K for the year ended December 31, 2014, which was filed with the SEC on February 27, 2015. Except for various cross-references, we have not changed what appears below from what was in our Form 10-K. As a result, the Management's Discussion and Analysis and Risk Factors are not updated to reflect any events or changes in circumstances that have occurred since our Annual Report on Form 10-K was filed with the SEC. Our Risk Factors are an integral part of Management's Discussion and Analysis and appear immediately after it.

Overview

Through our subsidiaries Mortgage Guaranty Insurance Corporation ("MGIC") and MGIC Indemnity Corporation ("MIC"), we are a leading provider of private mortgage insurance in the United States, as measured by $164.9 billion of primary insurance in force at December 31, 2014.

As used below, "we" and "our" refer to MGIC Investment Corporation's consolidated operations. In the discussion below, we refer to Fannie Mae and Freddie Mac collectively as the "GSEs." Also 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" below and "Overview – Australia" below.

Forward Looking and Other Statements

As discussed under "Forward Looking Statements and Risk Factors" in this Annual Report, 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 our Annual Report on Form 10-K for 2014 was filed with the Securities and Exchange Commission.

General Business Environment

As a seller of mortgage insurance, our results are subject to macroeconomic conditions and specific events that impact the origination environment and the credit performance of the underlying insured assets. In 2014, the U.S. economy expanded at a moderate pace with declining unemployment rates, improving home price trends showing appreciation on a broad basis throughout the U.S., declining foreclosure activity, and good credit quality on new mortgage originations. We were also the beneficiary of the additional market share recaptured by the private mortgage industry from the Federal Housing Administration ("FHA"), which has been a trend since 2011. Our share within the private mortgage industry also increased during 2014. As a consequence of these and other factors, in 2014 we experienced improved financial results and achieved our first year of annual profitability since 2006. These results were primarily driven by a significant reduction in incurred losses as a result of a 17% decline in new primary mortgage insurance defaults compared to 2013.

In addition to an improvement in our financial results, we also grew our primary insurance in force and risk in force by 3.9% and 4.6%, respectively, in 2014. We consider the current environment favorable for the U.S. housing market as housing remains affordable and interest rates remain historically low. The mortgage origination outlook for 2015 remains stable relative to 2014, however an increasing percentage of purchase originations relative to refinancing originations would be beneficial to our business. While we believe the conditions that impact our business are positive, we remain subject to significant regulatory oversight, the capital requirements of the GSEs, and competition from other private mortgage insurers and the FHA, all of which have implications on our ability to operate in the mortgage insurance industry.

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; 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." 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

<u>*GSEs*</u>

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

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

The public input period for the draft PMIERs ended September 8, 2014. We currently expect the PMIERs to be published in final form no earlier than late in the first quarter of 2015 and the "effective date" to occur 180 days thereafter. Under the draft PMIERs, mortgage insurers would have up to two years after the final PMIERs are published to meet the GSE Financial Requirements (the "transition period"). A mortgage insurer that fails to certify by the effective date that it meets the GSE Financial Requirements would be subject to a transition plan having milestones for actions to achieve compliance. The transition plan would be submitted for the approval of each GSE within 90 days after the effective date, and if approved, the GSEs would monitor the insurer's progress. During the transition period for an insurer with an approved transition plan, an insurer would be in remediation (a status similar to the one under which MGIC has been operating with the GSEs for over five years) and eligible to provide mortgage insurance on loans owned or guaranteed by the GSEs.

Shortly after the draft PMIERs were released, we estimated that we would have a shortfall in Available Assets of approximately $600 million on December 31, 2014, which was when the final PMIERs were expected to be published. We also estimated that the shortfall would be reduced to approximately $300 million through operations over a two year period. Those shortfall projections assumed the risk in force and capital of MGIC's MIC subsidiary would be repatriated to MGIC, and full credit would be given in the calculation of Minimum Required Assets for our reinsurance agreement executed in 2013 (approximately $500 million of credit at December 31, 2014, increasing to $600 million of credit over two years). However, we do not expect our existing reinsurance agreement would be given full credit under the PMIERs. Applying the same assumptions, but considering the delay in publication of the final PMIERs, our shortfall projections have improved modestly. Also, we have been in discussions with the participating reinsurers regarding modifications to the agreement so that we would receive additional PMIERs credit.

In addition to modifying our reinsurance agreement, we believe we will be able to use a combination of the alternatives outlined below so that MGIC will meet the GSE Financial Requirements of the draft PMIERs even if they are implemented as released. As of December 31, 2014, we had approximately $491 million of cash and investments at our holding company, a portion of which we believe may be available for future contribution to MGIC. Furthermore, there are regulated insurance affiliates of MGIC that have approximately $100 million of assets as of December 31, 2014. We expect that, subject to regulatory approval, we would be able to use a material portion of these assets to increase the Available Assets of MGIC. Additionally, if the draft PMIERs are implemented as released, we would consider seeking non-dilutive debt capital to mitigate the shortfall. Factors that may negatively impact MGIC's ability to comply with the GSE Financial Requirements within the transition period include the following:

- Changes in the actual PMIERs adopted from the draft PMIERs may increase the amount of MGIC's Minimum Required Assets or reduce its Available Assets, with the result that the shortfall in Available Assets could increase;

- We may not obtain regulatory approval to transfer assets from MGIC's regulated insurance affiliates to the extent we are assuming because regulators project higher losses than we project or require a level of capital be maintained in these companies higher than we are assuming;

- We may not be able to access the non-dilutive debt markets due to market conditions, concern about our creditworthiness, or other factors, in a manner sufficient to provide the funds we are assuming;

- We may not be able to achieve modifications in our existing reinsurance agreements necessary to minimize the reduction in the credit for reinsurance under the draft PMIERs;

- We may not be able to obtain additional reinsurance necessary to further reduce the Minimum Required Assets due to market capacity, pricing or other reasons (including disapproval of the proposed agreement by a GSE); and

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

There also can be no assurance that the GSEs would not make the GSE Financial Requirements more onerous in the future; in this regard, the draft PMIERs provide that the tables of factors that determine

Minimum Required Assets may be updated to reflect changes in risk characteristics and the macroeconomic environment. If MGIC ceases to be eligible to insure loans purchased by one or both of the GSEs, it would significantly reduce the volume of our new business writings.

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

State Regulations

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

At December 31, 2014, MGIC's risk-to-capital ratio was 14.6 to 1, below the maximum allowed by the jurisdictions with State Capital Requirements, and its policyholder position was $673 million above the required MPP of $1.0 billion. In 2013, we entered into a quota share reinsurance agreement with a group of unaffiliated reinsurers that reduced our risk-to-capital ratio. It is possible that under the revised State Capital Requirements discussed below, MGIC will not be allowed full credit for the risk ceded to the reinsurers. If MGIC is disallowed full credit under either the State Capital Requirements or the GSE Financial Requirements, MGIC may terminate the reinsurance agreement, without penalty. At this time, we expect MGIC to continue to comply with the current State Capital Requirements, although we cannot assure you of such compliance.

At December 31, 2014, the risk-to-capital ratio of our combined insurance operations (which includes reinsurance affiliates) was 16.4 to 1. Reinsurance agreements with affiliates permit MGIC to write insurance with a higher coverage percentage than it could on its own under certain state-specific requirements. A higher risk-to-capital ratio on a combined basis may indicate that, in order for MGIC to continue to utilize reinsurance arrangements with its affiliates, unless a waiver of the State Capital Requirements of Wisconsin continues to be effective, additional capital contributions to the reinsurance affiliates could be needed.

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

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 financial reform legislation that was passed in July 2010 (the "Dodd-Frank Act" or "Dodd-Frank") required the U.S. Department of the Treasury to report its recommendations regarding options for ending the conservatorship of the GSEs. This report did not provide any definitive timeline for GSE reform; however, it did recommend using a combination of federal housing policy changes to wind down the GSEs, shrink the government's footprint in housing finance (including FHA insurance), and help bring private capital back to the mortgage market. Since then, Members of Congress introduced several bills intended to change the business practices of the GSEs and the FHA; however, no legislation has been enacted. As a result of the matters referred to above, it is uncertain what role the GSEs, FHA and private capital, including private mortgage insurance, will play in the 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.

Dodd-Frank requires lenders to consider a borrower's ability to repay a home loan before extending credit. The Consumer Financial Protection Bureau ("CFPB") rule defining "Qualified Mortgage" ("QM") for purposes of implementing the "ability to repay" law became effective in January 2014 and included 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, on January 21, 2021.

Dodd-Frank 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. In October 2014, a final rule implementing that requirement was released, which will become effective for asset-backed securities collateralized by residential mortgages on December 24, 2015. The final rule exempts securitizations of qualified residential mortgages ("QRMs") from the risk retention requirement and generally aligns the QRM definition with that of QM. As noted above, there is a temporary category of QMs for mortgages that satisfy the general product feature requirements of QMs and meet the GSEs' underwriting requirements. As a result, 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 final rule requires the agencies to review the QRM definition no later than four years after its effective date and every five years thereafter, and allows each agency to request a review of the definition at any time.

We estimate that approximately 87% of our new risk written in 2013 and 83% of our new risk written in 2014 was for loans that would have met the CFPB's general QM definition and, therefore, the QRM definition. We estimate that approximately 99% of our new risk written in each of 2013 and 2014 was for loans that would have met the temporary category in CFPB's QM definition. Changes in the treatment of GSE-guaranteed mortgage loans in the regulations defining QM and QRM, 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.

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

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 ("FDIC") and the GSEs, and several lenders implemented programs to modify loans to make them more affordable to borrowers with the goal of reducing the number of foreclosures. During 2012, 2013 and 2014, we were notified of modifications that cured delinquencies that had they become paid claims would have resulted in approximately \$1.2 billion, \$1.0 billion and \$0.8 billion, respectively, of estimated claim payments. Based on information that is provided to us, most of the modifications resulted in reduced payments from interest rate and/or amortization period adjustments; from 2012 through 2014, approximately 9% resulted in principal forgiveness.

One loan modification program is the Home Affordable Modification Program ("HAMP"). We do not receive all of the information from servicers and the GSEs that is required to determine with certainty the number of loans that are participating in, have successfully completed, or are eligible to participate in, HAMP. We are aware of approximately 6,180 loans in our primary delinquent inventory at December 31, 2014 for which the HAMP trial period has begun and which trial periods have not been reported to us as completed or cancelled. Through December 31, 2014, approximately 54,290 delinquent primary loans have cured their delinquency after entering HAMP and are not in default. Although the majority of loans modified through HAMP are current, we cannot predict with a high degree of confidence what the ultimate re-default rate on these modifications will be. Our loss reserves do not account for potential re-defaults unless at the time the reserve is established, the re-default has already occurred.

In each of 2013 and 2014, approximately 16% of our primary cures were the result of modifications, with HAMP accounting for approximately 68% and 67%, respectively, of those modifications in 2013 and 2014. Although the HAMP program has been extended through December 2016, we believe that we have realized the majority of the benefits from HAMP because the number of loans insured by us that we are aware are entering HAMP trial modification periods has decreased significantly since 2010. The interest rates on certain loans modified under HAMP are subject to adjustment five years after the modification was entered into. Such adjustments are limited to an increase of one percentage point per year.

The GSEs' Home Affordable Refinance Program ("HARP"), currently scheduled to expire December 31, 2015, allows borrowers who are not delinquent but who may not otherwise be able to refinance their loans under the current GSE underwriting standards, to refinance their loans. We allow HARP refinances on loans that we insure, regardless of whether the loan meets our current underwriting standards, and we account for the refinance as a loan modification (even where there is a new lender) rather than new insurance written. As of December 31, 2014, approximately 15% of our primary insurance in force had benefitted from HARP and was still in force.

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

As shown in the following table, as of December 31, 2014 approximately 28% of our primary risk in force has been modified:

Policy Year	HARP(1) Modifications	HAMP Modifications	Other Modifications
2003 and Prior	10.1%	13.2%	12.4%
2004	15.7%	12.9%	10.7%
2005	20.6%	14.4%	11.2%
2006	23.9%	16.6%	11.8%
2007	33.7%	17.3%	7.4%
2008	47.8%	10.3%	3.5%
2009	19.9%	0.8%	0.6%
2010 - 2014	–	–	–
Total	14.7%	9.5%	4.0%

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

As of December 31, 2014 based on loan count, the loans associated with 98.1% of all HARP modifications, 76.8% of HAMP modifications and 69.2% of other modifications were current.

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

Factors Affecting Our Results

Our results of operations are affected by:

- Premiums written and earned

Premiums written and earned in a year are influenced by:

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

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

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

- Premiums ceded under reinsurance agreements. See Note 11 – "Reinsurance" to our consolidated financial statements for a discussion of our quota share agreement executed in 2013, under which premiums are ceded net of a profit commission.

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

- Investment income

Our investment portfolio is comprised almost entirely of investment grade fixed income securities. The principal factors that influence investment income are the size of the portfolio and its yield. As measured by amortized cost (which excludes changes in fair market value, such as from changes in interest rates), the size of the investment portfolio is mainly a function of cash generated from (or used in) operations, such as net premiums received, investment earnings, net claim payments and expenses, and cash provided by (or used for) non-operating activities, such as debt or stock issuances or repurchases. From time to time we may elect to realize gains on securities that are trading above our cost basis. Realized gains and losses are a function of the difference between the amount received on the sale of a security and the security's 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" below, except in the case of a premium deficiency reserve, we recognize an estimate of this expense only for delinquent loans. Losses incurred are generally affected by:

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

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

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

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

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

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

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

- Losses ceded under reinsurance agreements. See Note 11 – "Reinsurance" to our consolidated financial statements for a discussion of our reinsurance agreements.

- Changes in premium deficiency reserve

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

- Underwriting and other expenses

The majority of our operating expenses are fixed, with some variability due to contract underwriting volume. Contract underwriting generates fee income included in "Other revenue." Underwriting and other expenses are net of any ceding commission associated with our reinsurance agreements. See Note 11 – "Reinsurance" to our consolidated financial statements for a discussion of our reinsurance agreements.

- Interest expense

Interest expense reflects the interest associated with our outstanding debt obligations. The principal amount of our long-term debt obligations at December 31, 2014 is comprised of $61.9 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 continues to accrue and compounds if we defer the payment of interest), as discussed in Note 8 – "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.

Australia

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 and we have reduced our headcount. In December 2013, our Australian subsidiary liquidated a portion of its investment portfolio and repatriated, with regulatory approval, $89.5 million to its parent MGIC. At December 31, 2014 the equity value in our Australian operations was approximately $46 million and our risk in force in Australia was approximately $346 million. In Australia, mortgage insurance is a single premium product that covers the entire loan balance. As a result, our Australian risk in force represents the entire amount of the loans that we have insured. However, the mortgage insurance we provide only covers the unpaid loan balance after the sale of the underlying property.

Summary of 2014 Results

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

- Net premiums written and earned

Net premiums written and earned during 2014 decreased when compared to 2013. The decrease was due to an increase in premiums ceded under reinsurance agreements, offset, in part, by an increase in profit commissions. The increase in premiums ceded and profit commissions in 2014 was due to an addendum entered into in December 2013 for our 2013 quota share agreement that expanded the applicable coverage to insurance written prior to April 1, 2013 that had never been delinquent. The profit commission is subject to the performance of the policies under the 2013 quota share reinsurance agreement and addendum.

- Investment income

Investment income in 2014 increased compared to 2013. The increase was due to higher investment yields driven by a larger allocation of the investment portfolio to corporate debt securities, which are producing yields above U.S. government debt, and also reinvestment of proceeds into securities with longer durations to maturity on average.

- Realized gains and other-than-temporary impairments

Net realized gains for 2014 included $1.5 million in net realized gains on the sale of fixed income investments, slightly offset by $0.1 million in other-than-temporary ("OTTI") losses. Net realized gains for 2013 included $6.1 million in net realized gains on the sale of fixed income investments, slightly offset by $0.3 million in OTTI losses. At December 31, 2014, the net unrealized gains in our investment portfolio were $7.1 million, which included $37.6 million of gross unrealized gains, partially offset by $30.5 million of gross unrealized losses.

- Other revenue

Other revenue for 2014 decreased compared to 2013 primarily due to losses of $0.8 million realized on debt repurchases. In the first quarter of 2014 we repurchased $20.9 million in par value of our 5.375% Senior Notes due in November 2015 at a cost slightly above par.

- Losses incurred

Losses incurred for 2014 decreased compared to 2013 primarily due to a decrease in new delinquency notices received, a lower claim rate on new notices, and an increase in favorable development on prior year loss reserves compared to 2013.

- Change in premium deficiency reserve

During 2014 the premium deficiency reserve on Wall Street bulk transactions declined by $24 million to $24 million as of December 31, 2014. The decrease in the premium deficiency reserve represents the net result of actual premiums, losses and expenses as well as a change in net assumptions for the period. The change in net assumptions for 2014 is primarily related to higher estimated ultimate premiums. The premium deficiency reserve as of December 31, 2014 reflects the present value of expected future losses and expenses that exceeds the present value of expected future premiums and already established loss reserves.

- Underwriting and other expenses

Underwriting and other expenses for 2014 decreased when compared to 2013. The decrease primarily reflects an increase in ceding commissions from the 2013 quota share reinsurance agreement, a reduction in employee costs, and a decrease in legal expenses.

- Interest expense

Interest expense for 2014 decreased when compared to 2013. The decrease is primarily related to a $10.5 million decrease in amortization of the discount on our junior debentures, which became fully amortized in the first quarter of 2013, and a decrease in interest expense on our Senior Notes due in 2015 resulting from repayments of principal in 2013 and 2014. These decreases were offset in part by an increase in interest expense from our Convertible Notes due in 2020 that were issued in the March of 2013.

- Income taxes

The effective tax rate provision on our pre-tax income was 1.1% in 2014, compared to the effective tax rate provision on our pre-tax loss of 8.0% in 2013. During those periods, the provision for (benefit from) income taxes was reduced by the change in the valuation allowance.

Results of Consolidated Operations

New insurance written

The amount of our primary new insurance written during the years ended December 31, 2014, 2013 and 2012 was as follows:

	2014	2013	2012
Total Primary NIW (In billions)	$33.4	$29.8	$24.1
Refinance volume as a % of primary NIW	13%	26%	36%

The increase in new insurance written in each of 2014 and 2013, compared to the respective prior year, was primarily due to increases in the penetration rate of private mortgage insurance in the overall insured mortgage market, which was driven by a combination of factors including changes to the prices and fees of the FHA, the GSEs and the private mortgage insurers. The FHA also reversed a past FHA policy pursuant to which insurance premiums for borrowers were canceled once the borrower paid down their mortgage below a certain percentage. The combined effect of these pricing and policy changes increased the percentage of market share of private mortgage insurers versus the FHA. In conjunction with the increased penetration rate of private mortgage insurance, our company has recaptured market share from our competitors throughout 2014. As of December 31, 2014, our share has grown to 19.8% of the private insured market from 16.4% in 2013.

The level of competition within the private mortgage industry remains intense, and is not expected to diminish given the presence of new entrants. Further, changes in the FHA's policies and procedures will continue to impact the amount of new insurance written by us. In January 2015, the FHA significantly reduced its annual mortgage insurance premiums by 50 basis points. This reduction more than offsets the most recently enacted price change by the FHA, which increased the prevailing annual insurance premiums by 10 basis points in early 2013; however rates will remain above those in 2007. Absent any other changes, the reduction in FHA premiums will make private mortgage insurance less competitive with the FHA for borrowers with certain credit characteristics. However, we believe our pricing continues to be more attractive than the FHA's pricing for a substantial majority of borrowers with credit and loan characteristics similar to those whose loans we insured in 2014. The GSEs also recently lowered their minimum downpayment requirements for certain loans from 5% to 3%, however we may not insure a significant number of those loans in the near future because the new FHA pricing on those loans may be more favorable for borrowers. Our underwriting requirements are available on our website at http://mgic.com/underwriting/index.html. We cannot predict how these factors will change in the future and we cannot predict whether the GSEs will reduce their fees, therefore, we cannot predict the FHA's share of new insurance written in the future.

As market conditions change, we change the types of loans that we insure as well as the underwriting requirements and terms under which we insure them. Price competition has been present in the market for some time: in the third quarter of 2014, we reduced many of our standard lender-paid single premium rates to match competition; and in the fourth quarter of 2013, we reduced all of our standard borrower-paid monthly premium rates and most of our standard single premium rates to match competition. Currently, we are seeing price competition in the form of lender-paid single premium programs customized for individual lenders with rates materially lower than those on the standard rate card. During most of 2013, when almost all of our single premium rates were above those most commonly used in the market, single premium policies were approximately 10% of our total new insurance written; they were approximately 15% in 2014 and we expect a higher percentage in 2015, primarily as a result of our selectively matching reduced customized rates. The premium from a single premium policy is collected upfront and generally earned over the estimated life of the policy. In contrast, premiums from a monthly premium policy are received and earned each month over the life of the policy. Depending on the actual life of a single premium policy and its premium rate relative to that of a monthly premium policy, a single premium policy may generate more or less premium than a monthly premium policy over its life. Currently, we expect to receive less lifetime premium from a new lender-paid single premium policy than we would from a new borrower-paid monthly premium policy. As a result of the recent increase in the percentage of our new insurance written from lender-paid single premium policies, our weighted average premium rate on new insurance written has decreased from 2013 to 2014. As the percentage of our new business represented by lender-paid single premium policies continues to grow, all other things equal, our weighted average premium rates on new insurance written in the future will decrease. If we reduce or discount prices on any premium plan in response to future price competition, it may further decrease our weighted average premium rates. We monitor the competitive landscape and will make adjustments to our pricing and underwriting guidelines as warranted. We also make exceptions to our underwriting requirements on a loan-by-loan basis and for certain customer programs. Together, the number of loans for which exceptions were made accounted for fewer than 2% of the loans we insured in 2013 and 2014.

Cancellations, insurance in force and risk in force

New insurance written and cancellations of primary insurance in force during the years ended December 31, 2014, 2013 and 2012 were as follows:

	2014	2013	2012
		(In billions)	
NIW	$ 33.4	$ 29.8	$ 24.1
Cancellations	(27.2)	(33.2)	(34.9)
Change in primary insurance in force	$ 6.2	$ (3.4)	$ (10.8)
Direct primary insurance in force as of December 31,	$164.9	$158.7	$162.1
Direct primary risk in force as of December 31,	$ 42.9	$ 41.1	$ 41.7

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

Our persistency rate was 82.8% at December 31, 2014 compared to 79.5% at December 31, 2013 and 79.8% at December 31, 2012. Our persistency rate is affected by the level of current mortgage interest rates compared to the mortgage interest rates on our insurance in force, which affects the vulnerability of the insurance in force to refinancing. Due to refinancing activity in 2013 and 2012, we experienced lower persistency on our 2009 through 2012 books of business; however, the decline in refinancing activity in 2014 has resulted in increasing persistency on a majority of these 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.

Wall Street Bulk transactions

We ceased writing Wall Street bulk business in the fourth quarter of 2007. Wall Street bulk transactions, as of December 31, 2014, included approximately 58,000 loans with insurance in force of approximately $8.6 billion and risk in force of approximately $2.6 billion, which is approximately 77% of our bulk risk in force.

Pool insurance

We have written no new pool insurance since 2009, however, for a variety of reasons, including responding to capital market alternatives to private mortgage insurance and customer demands, we may write pool risk in the future. Our direct pool risk in force was $0.8 billion ($0.3 billion on pool policies with aggregate loss limits and $0.5 billion on pool policies without aggregate loss limits) at December 31, 2014 compared to $1.0 billion ($0.4 billion on pool policies with aggregate loss limits and $0.6 billion on pool policies without aggregate loss limits) at December 31, 2013. If claim payments associated with a specific pool reach the aggregate loss limit the remaining insurance in force within the pool would be cancelled and any remaining defaults under the pool are removed from our default inventory.

Net premiums written and earned

Net premiums written and earned during 2014 decreased when compared to 2013. The decrease was primarily due to an increase in premiums ceded under reinsurance agreements, offset, in part, by an increase in profit commissions. The increase in premiums ceded and profit commissions in 2014 was due to an addendum entered into in December 2013 for our 2013 quota share agreement that expanded the applicable coverage to insurance written prior to April 1, 2013 that had never been delinquent. The profit commission is subject to the performance of the policies under the 2013 quota share reinsurance agreement and addendum. See *"Reinsurance agreements*" below.

Net premiums written and earned during 2013 decreased when compared to 2012. The decrease was due to our lower average insurance in force as well as an increase in premiums ceded under reinsurance agreements. See *"Reinsurance agreements*" below.

We expect our average insurance in force to continue to increase throughout 2015. As our insurance in force grows we expect an increase in our direct premiums written and earned, when compared to 2014. Written and earned premiums are also influenced by the LTV, level of coverage, credit score, premium plan, and premium rates on new insurance written. We expect that our lender-paid single premium business as a percentage of our overall new insurance written will increase in 2015 when compared to 2014, as discussed under "New insurance written" above.

The amount of premiums ceded in 2015 would be impacted by potential modifications to or expansion of our existing quota share reinsurance agreement executed in 2013. See our Risk Factor titled "We may not continue to meet the GSEs' mortgage insurer eligibility requirements and our returns may decrease if we are required to maintain significantly more capital in order to maintain our eligibility."

Reinsurance agreements

As discussed in Note 11 – "Reinsurance" to our consolidated financial statements, in April 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 agreements have been placed into run-off. See Note 11 – "Reinsurance" to our consolidated financial statements for a description of these reinsurance agreements and the related reinsurance recoverable, as well as a description of our quota share reinsurance agreement effective April 1, 2013 and the Addendum to that quota share agreement in December 2013.

At December 31, 2014, approximately 61% of our insurance in force is subject to reinsurance agreements, compared to 55% at December 31, 2013. For the fourth quarter of 2014 approximately 87% of our new insurance written was subject to reinsurance agreements, compared to 92% in the fourth quarter of 2013.

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

Investment income

Net investment income in 2014 was higher when compared to 2013. The increase in investment income was due to higher investment yields driven by a larger allocation of the investment portfolio to corporate debt securities, which produce yields above U.S. government debt, and also reinvestment of proceeds into securities with longer durations to maturity on average. The portfolio's average pre-tax investment yield was 2.2% with duration of 3.9 years as of December 31, 2014 compared to an average pre-tax investment yield of 1.7% and duration of 3.2 years as of December 31, 2013.

Net investment income in 2013 was lower when compared to 2012. The decrease was driven by a reduction in the average invested assets resulting from the payment of claims and also due in part to realized gains taken in 2012 and 2011. These realized gains captured income in those prior years that would have otherwise been earned over several years. The realized gains in 2012 and 2011 also drove the investment yield lower. The portfolio's average pre-tax investment yield was 1.7% at December 31, 2013 and 2012.

Our current investment policy emphasizes preservation of capital. Therefore, our investment portfolio consists almost entirely of high-quality, investment grade, fixed income securities. The investment policy also places an emphasis on maximizing investment income. In order to maximize net investment income, the concentration of tax-exempt municipals will increase with sustained profitability of the company.

Realized gains and other-than-temporary impairments

Net realized gains for 2014 included $1.5 million in net realized gains on the sale of fixed income investments, slightly offset by $0.1 million in other-than-temporary ("OTTI") losses. Net realized gains for 2013 included $6.1 million in net realized gains on the sale of fixed income investments, slightly offset by $0.3 million in OTTI losses. At December 31, 2014, the net unrealized gains in our investment portfolio were $7.1 million, which included $37.6 million of gross unrealized gains, partially offset by $30.5 million of gross unrealized losses.

Net realized gains for 2012 included $197.7 million in net realized gains on the sale of fixed income investments, slightly offset by $2.3 million in OTTI losses. We elected to realize gains during 2012, by selling certain securities, given the favorable market conditions experienced in 2012.

Other revenue

Other revenue for 2014 decreased compared to 2013 primarily due to losses of $0.8 million realized on debt repurchases. In the first quarter of 2014 we repurchased $20.9 million in par value of our 5.375% Senior Notes due in November 2015 at a cost slightly above par.

Other revenue for 2013 decreased compared to 2012 primarily due to a decrease in gains on debt repurchases. During 2013 we repurchased $17.2 million of our 5.375% Senior Notes due in November 2015 at par value. In 2012, we recognized $17.8 million of gains 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" below and consistent with industry practices, we establish loss reserves for future claims only for loans that are currently delinquent. The terms "delinquent" and "default" are used interchangeably by us. We consider a loan in default when it is two or more payments past due. Loss reserves are established based on estimating the number of loans in our default inventory that will result in a claim payment, which is referred to as the claim rate, and further estimating the amount of the claim payment, which is referred to as claim severity. 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 our claims paying practices, such as the settlement agreements discussed in Note 20 – "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 2014 decreased by $343 million as compared to 2013. The decrease was primarily due to a decrease in the number of new default notices received, net of cures, and favorable development on prior year losses. Losses incurred in 2012 included a one-time charge of $267.5 million which was recorded to reflect the settlement of the Freddie Mac pool dispute and an increase to loss reserve estimates of approximately $100 million to reflect the estimated cost of rescission settlement agreements. The primary default inventory decreased by 23,427 delinquencies in 2014 compared to a decrease of 36,517 in 2013. The claim rate and estimated severity on our default inventory as of December 31, 2014 has increased slightly compared to the rates and amounts as of December 31, 2013 and 2012.

In 2014, net losses incurred were $496 million, comprised of $596 million of current year loss development partially offset by $100 million of favorable prior years' loss development. In 2013, net losses incurred were $839 million, comprised of $899 million of current year loss development offset by $60 million of favorable prior years' loss development. In 2012, net losses incurred were $2,067 million, comprised of $1,494 million of current year loss development and $573 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 9 – "Loss Reserves" to our consolidated financial statements and "Critical Accounting Policies" below for a discussion of our losses incurred and claims paying practices.

Information about the composition of the primary insurance default inventory at December 31, 2014, 2013 and 2012 appears in the table below.

	December 31,		
	2014	2013	2012
Total loans delinquent	79,901	103,328	139,845
Percentage of loans delinquent (default rate)	8.25%	10.76%	13.90%
Prime loans delinquent(1)	50,307	65,724	90,270
Percentage of prime loans delinquent (default rate)	5.82%	7.82%	10.44%
A-minus loans delinquent(1)	13,021	16,496	20,884
Percentage of A-minus loans delinquent (default rate)	27.61%	30.41%	32.92%
Subprime credit loans delinquent(1)	5,228	6,391	7,668
Percentage of subprime credit loans (default rate)	35.20%	38.70%	40.78%
Reduced documentation loans delinquent(2)	11,345	14,717	21,023
Percentage of reduced documentation loans delinquent (default rate)	27.08%	30.41%	35.23%

General Notes:

(a) The FICO credit score for a loan with multiple borrowers is the lowest of the borrowers' "decision FICO scores." A borrower's "decision FICO score" is determined as follows: if there are three FICO scores available, the middle FICO score is used; if two FICO scores are available, the lower of the two is used; if only one FICO score is available, it is used.

(b) Servicers continue to pay our premiums for nearly all of the loans in our default inventory, but in some cases, servicers stop paying our premiums. In those cases, even though the loans continue to be included in our default inventory, the applicable loans are removed from our insurance in force and risk in force. Loans where servicers have stopped paying premiums include 4,074 defaults with risk in force of $205 million as of December 31, 2014.

(1) 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. 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.

(2) 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 December 31, 2014, 2013 and 2012 appear in the table below.

Gross Reserves

	December 31,		
	2014	2013	2012
Primary:			
Direct loss reserves (in millions)	$ 2,246	$ 2,834	$ 3,744
Ending default inventory	79,901	103,328	139,845
Average direct reserve per default	$28,107	$ 27,425	$ 26,771
Primary claims received inventory included in ending default inventory	4,746	6,948	11,731
Pool[(1)]:			
Direct loss reserves (in millions):			
With aggregate loss limits	$ 53	$ 82	$ 120
Without aggregate loss limits	12	17	20
Reserves related to Freddie Mac settlement[(2)]	84	126	167
Total pool direct loss reserves	$ 149	$ 225	$ 307
Ending default inventory:			
With aggregate loss limits	3,020	5,496	7,243
Without aggregate loss limits	777	1,067	1,351
Total pool ending default inventory	3,797	6,563	8,594
Pool claims received inventory included in ending default inventory	99	173	304
Other gross reserves (in millions)	$ 2	$ 2	$ 6

(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 December 31, 2014, 2013 and 2012 appear in the table below.

Losses by Region

Primary Default Inventory

Region	2014	2013	2012
Great Lakes	9,329	12,049	16,538
Mid-Atlantic	4,416	5,469	6,948
New England	4,117	5,056	6,160
North Central	8,499	11,225	16,367
Northeast	13,152	15,223	17,553
Pacific	6,242	8,313	13,235
Plains	2,427	3,156	4,126
South Central	9,045	11,606	15,418
Southeast	22,674	31,231	43,500
Total	79,901	103,328	139,845

Primary Loss Reserve

(In millions)

Region	2014	2013	2012
Great Lakes	$ 139	$ 206	$ 295
Mid-Atlantic	123	123	178
New England	125	139	144
North Central	222	313	445
Northeast	446	417	371
Pacific	250	360	599
Plains	35	53	69
South Central	133	192	301
Southeast	641	849	1,089
Total before IBNR and LAE	$2,114	$2,652	$3,491
IBNR and LAE	132	182	253
Total	$2,246	$2,834	$3,744

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 average claim paid, as shown in the table below, can vary materially from period to period based upon a variety of factors, including the local market conditions, average loan amount, average coverage percentage, and loss mitigation efforts of loans for which claims are paid.

The primary average claim paid for the top 5 states (based on 2014 paid claims) for the years ended December 31, 2014, 2013 and 2012 appears in the table below.

Primary average claim paid

	2014	2013*	2012
Florida	$53,511	$53,647	$57,181
Illinois	48,176	47,872	47,615
California	82,630	84,862	87,305
Maryland	66,140	71,754	75,227
Pennsylvania	38,618	39,899	40,506
All other states	40,477	40,997	42,833
All states	$45,596	$46,375	$48,722

* Excludes claim payments associated with the implementation of the settlement agreement with Countrywide as discussed in Note 20 – "Litigation and Contingencies" to our consolidated financial statements.

The primary average loan size of our insurance in force at December 31, 2014, 2013 and 2012 appears in the table below.

Primary average loan size

	2014	2013	2012
Total insurance in force	$170,240	$165,310	$161,060
Prime (FICO 620 & >)	172,990	167,660	162,450
A-Minus (FICO 575-619)	126,420	127,280	128,850
Subprime (FICO < 575)	117,310	118,510	119,630
Reduced doc (All FICOs)(1)	181,480	183,050	188,210

(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 December 31, 2014, 2013 and 2012 for the top 5 states (based on 2014 paid claims) appears in the table below.

Primary average loan size

	2014	2013	2012
Florida	$177,981	$172,869	$171,884
Illinois	155,335	154,694	154,158
California	283,228	282,660	281,288
Maryland	239,875	236,840	235,219
Pennsylvania	156,028	149,712	143,685
All other states	162,950	157,976	153,358

Information about net paid claims during the years ended December 31, 2014, 2013 and 2012 appears in the table below.

Net paid claims (In millions)

	2014	2013	2012
Prime (FICO 620 & >)	$ 755	$1,163	$1,558
A-Minus (FICO 575-619)	124	179	235
Subprime (FICO < 575)	38	50	65
Reduced doc (All FICOs)(1)	157	219	372
Pool(2)	84	104	334
Other(3)	1	107	5
Direct losses paid	1,159	1,822	2,569
Reinsurance	(34)	(61)	(90)
Net losses paid	1,125	1,761	2,479
LAE	29	36	45
Net losses and LAE paid before terminations	1,154	1,797	2,524
Reinsurance terminations	–	(3)	(6)
Net losses and LAE paid	$1,154	$1,794	$2,518

(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) 2014, 2013 and 2012 include $42 million, $42 million and $100 million, respectively, paid under the terms of our settlement with Freddie Mac as discussed in Note 9 – "Loss Reserves" to our consolidated financial statements.

(3) 2013 includes $105 million associated with the implementation of the Countrywide settlement as discussed in Note 20 – "Litigation and Contingencies" to our consolidated financial statements.

Primary claims paid for the top 15 states (based on 2014 paid claims) and all other states for the years ended December 31, 2014, 2013 and 2012 appears in the table below.

Paid Claims by state (In millions)

	2014	2013*	2012
Florida	$ 247	$ 297	$ 317
Illinois	91	139	144
California	57	147	309
Maryland	49	51	47
Pennsylvania	42	46	38
Ohio	41	60	70
New Jersey	38	33	27
Washington	38	69	64
Georgia	29	58	99
Michigan	29	57	110
New York	27	20	14
North Carolina	24	38	48
Arizona	22	54	122
Nevada	21	47	88
Wisconsin	21	41	50
All other states	298	454	683
	$1,074	$1,611	$2,230
Other (Pool, LAE, Reinsurance and Other)	80	183	288
Net losses and LAE paid	$1,154	$1,794	$2,518

* In 2013 the claims paid associated with our settlement agreement with Countrywide is included in "Other" above and not in the specific state disclosure.

We believe paid claims will continue to decline in 2015.

The primary default inventory for the top 15 states (based on 2014 paid claims) at December 31, 2014, 2013 and 2012 appears in the table below.

	2014	2013	2012
Florida	9,442	14,685	22,024
Illinois	4,481	6,167	9,313
California	2,777	3,656	6,201
Maryland	2,119	2,791	3,486
Pennsylvania	4,480	5,449	6,627
Ohio	3,908	5,055	6,647
New Jersey	4,077	4,646	5,303
Washington	1,415	1,986	3,053
Georgia	2,726	3,515	5,100
Michigan	2,447	3,284	4,808
New York	4,595	5,128	5,623
North Carolina	2,147	2,886	3,956
Arizona	850	1,195	2,161
Nevada	853	1,189	2,053
Wisconsin	1,797	2,176	3,086
All other states	31,787	39,520	50,404
	79,901	103,328	139,845

The primary default inventory by policy year at December 31, 2014, 2013 and 2012 appears in the table below.

Default inventory by policy year

Policy year:	2014	2013	2012
2003 and prior	13,383	17,892	23,197
2004	6,414	8,298	10,707
2005	10,630	13,728	18,168
2006	15,529	20,055	27,831
2007	25,232	33,085	46,568
2008	6,721	8,714	12,017
2009	648	749	901
2010	300	327	264
2011	260	243	148
2012	316	189	44
2013	335	48	–
2014	133	–	–
	79,901	103,328	139,845

Our results of operations continue to be negatively impacted by the mortgage insurance we wrote during 2005 through 2008. Although uncertainty remains with respect to the ultimate losses we may experience on these books of business, as we continue to write new insurance on high-quality mortgages, those books have become a smaller percentage of our total portfolio, and we expect this trend to continue. Our 2005 through 2008 books of business represented approximately 40% of our total primary risk in force at December 31, 2014 compared to approximately 49% at December 31, 2013.

On our primary business, the highest claim frequency years have typically been the third and fourth year after the year of loan origination. However, the pattern of 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. As of December 31, 2014, 44% of our primary risk in force was written subsequent to December 31, 2011, 48% of our primary risk in force was written subsequent to December 31, 2010, and 51% of our primary risk in force was written subsequent to December 31, 2009.

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 December 31, 2014, 2013 and 2012 was $24 million, $48 million and $74 million, respectively. The discount rate used in the calculation of the premium deficiency reserve at December 31, 2014, 2013 and 2012 was 2.1%, 1.6% and 1.3%, respectively.

See Note 10 – "Premium Deficiency Reserve" to our consolidated financial statements for a discussion of our premium deficiency reserve, as well as under "Critical Accounting Policies" below.

Underwriting and other expenses

Underwriting and other expenses for 2014 decreased when compared to 2013. The decrease primarily reflects an increase in ceding commission related to our reinsurance agreements, a reduction in employee costs, and a decrease in legal expenses.

Underwriting and other expenses for 2013 decreased when compared to 2012. The decrease primarily reflects our reduction in headcount, a decrease in contract underwriting remedy costs and an increase in ceding commission related to our reinsurance agreements.

Ratios

The table below presents our GAAP loss, expense and combined ratios for our combined insurance operations for the years ended December 31, 2014, 2013 and 2012.

	2014	2013	2012
Loss ratio	58.8%	88.9%	200.1%
Underwriting expense ratio	14.7%	18.6%	15.2%
Combined ratio	73.5%	107.5%	215.3%

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 2014 compared to 2013, was due to a decrease in losses incurred, somewhat offset by a decrease in net premiums earned. The underwriting expense ratio is the ratio, expressed as a percentage, of the underwriting expenses of our combined insurance operations (which excludes the cost of non-insurance operations) to net premiums written. The decrease in the underwriting expense ratio in 2014 compared to 2013, was due to an increase in ceding commissions under our 2013 reinsurance agreement and a decrease in other expenses of our combined insurance operations. The combined ratio is the sum of the loss ratio and the underwriting expense ratio.

The decrease in the loss ratio in 2013 compared to 2012, was due to a decrease in losses incurred, somewhat offset by a decrease in premiums earned. The increase in the underwriting expense ratio in 2013 compared to 2012 was due to a decrease in net premiums written as well as an increase in underwriting and other expenses of our combined insurance operations.

Interest expense

Interest expense for 2014 decreased when compared to 2013. The decrease is primarily related to a $10.5 million decrease in amortization of the discount on our junior debentures, which became fully amortized in the first quarter of 2013, and a decrease in interest expense on our Senior Notes due in 2015 resulting from repayments of principal in 2013 and 2014. These decreases were offset in part by an increase in interest expense from our Convertible Notes due in 2020 that were issued in the March of 2013.

Interest expense for 2013 decreased when compared to 2012. The decrease was 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 in interest expense was somewhat offset by the interest expense associated with the Convertible Notes we issued in March 2013.

Income taxes

The effective tax rate provision on our pre-tax income was 1.1% in 2014 compared to the effective tax rate provision (benefit) on our pre-tax loss of 8.0% and (0.2%), in 2013, and 2012, respectively. During those periods, the provision for (benefit from) income taxes was reduced by the change in the valuation allowance.

See Note 14 – "Income Taxes" to our consolidated financial statements for a discussion of our tax position.

Financial Condition

At December 31, 2014 the total fair value of our investment portfolio was $4.6 billion. In addition, at December 31, 2014 our total assets included approximately $215 million of cash and cash equivalents as shown on our consolidated balance sheet. At December 31, 2014, based on fair value, virtually all of our fixed income securities were investment grade securities. More than 99% of our fixed income securities are readily marketable. The composition of ratings at December 31, 2014, 2013 and 2012 are shown in the table below.

Investment Portfolio Ratings

	December 31,		
	2014	2013	2012
AAA	31%	42%	52%
AA	17%	17%	15%
A	35%	27%	22%
BBB	17%	14%	11%
Investment grade	100%	100%	100%
Below investment grade	–	–	–
Total	100%	100%	100%

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

Approximately 2% of our investment portfolio 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 December 31, 2014, less than 1% of our fixed income securities were relying on financial guaranty insurance to elevate their rating.

We primarily place our investments in investment grade securities pursuant to our investment policy guidelines. The policy guidelines also limit the amount of our credit exposure to any one issue, issuer and type of instrument. At December 31, 2014, the modified duration of our fixed income investment portfolio was 3.9 years, which means that an instantaneous parallel shift in the yield curve of 100 basis points would result in a change of 3.9% in the fair value of our fixed income portfolio. For an upward shift in the yield curve, the fair value of our portfolio would decrease and for a downward shift in the yield curve, the fair value would increase. See Note 6 – "Investments" to our consolidated financial statements for additional disclosure surrounding our investment portfolio.

At December 31, 2014, we had outstanding $61.9 million, 5.375% Senior Notes due in November 2015, with an approximate fair value of $64 million, $345 million principal amount of 5% Convertible Senior Notes outstanding due in 2017, with an approximate fair value of $388 million, $500 million principal amount of 2% Convertible Senior Notes outstanding due in 2020, with an approximate fair value of $735 million and $389.5 million principal amount of 9% Convertible Junior Subordinated Debentures due in 2063 outstanding, with an approximate fair value of $500 million. See Note 8 – "Debt" to our consolidated financial statements for additional disclosure on our debt.

See Note 14 – "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 December 31, 2014, MGIC's direct (before any reinsurance) primary and pool risk in force, which is the unpaid principal balance of insured loans as reflected in our records multiplied by the coverage percentage, and taking account of any loss limit, was approximately $43.7 billion. In addition, as part of our contract underwriting activities provided through a non-insurance subsidiary, that subsidiary is responsible for the quality of the underwriting decisions in accordance with the terms of the contract underwriting agreements with customers. That subsidiary may be required to provide certain remedies to our customers if certain standards relating to the quality of our underwriting work are not met, and we have an established reserve for such future obligations. Claims for remedies may be made a number of years after the underwriting work was performed. Beginning in the second half of 2009, our subsidiary has experienced an increase in claims for contract underwriting remedies, which continued throughout 2012. The related contract underwriting remedy expense was approximately $5 million and $27 million for the years ended December 31, 2013 and 2012, respectively. The underwriting remedy expense for the year ended December 31, 2014 was approximately $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,
- premiums, net of reinsurance agreements, that we will receive from our existing insurance in force as well as policies that we write in the future and
- amounts that we expect to recover from reinsurance agreements which is discussed in "Results of Consolidated Operations – Reinsurance agreements" above.

Our obligations consist primarily of:

- claim payments under MGIC's mortgage guaranty insurance policies,
- $62 million of 5.375% Senior Notes due in November 2015,
- $345 million of 5% Convertible Senior Notes due in 2017,

- $500 million of 2% Convertible Senior Notes due in 2020,
- $390 million of 9% Convertible Junior Debentures due in 2063,
- interest on the foregoing debt instruments, and
- the other costs and operating expenses of our business.

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

Since 2009, our claim payments have exceeded our premiums received. Due to the uncertainty regarding how factors such as new loss mitigation protocols established by servicers and changes in some state foreclosure laws that may include, for example, a requirement for additional review and/or mediation process, will affect our future paid claims it remains difficult to estimate the amount and timing of future claim payments. We expect further net cash outflow in 2015. 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.

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

	For the years ended December 31,		
	2014	2013	2012
		(In thousands)	
Total cash (used in) provided by:			
Operating activities	$(409,984)	$ (971,531)	$(1,568,600)
Investing activities	296,941	(854,127)	1,653,533
Financing activities	(21,767)	1,130,725	(53,107)
(Decrease) increase in cash and cash equivalents	$(134,810)	$ (694,933)	$ 31,826

Cash used in operating activities for 2014 and 2013 was lower, when compared to the most recent prior year, due to a decrease in losses paid and a decrease in premiums returned, partially offset by a decrease in premiums collected.

The change in cash related to investing activities in 2014 compared to 2013 was primarily due to a decrease in purchases of fixed maturity securities. In 2013, cash used in investment activities included the purchase of additional fixed maturity securities using proceeds from our concurrent common stock and convertible senior note offerings in March 2013 discussed in Note 9 – "Debt" and Note 15 – "Shareholders' Equity" to our consolidated financial statements.

Cash provided by investing activities in 2012 was due to sales and maturities of fixed maturity securities, in part to capture realized gains that exceeded reinvestment activity during 2012.

The change in cash related to financing activities was driven by proceeds from our concurrent common stock and convertible senior note offerings in March 2013 discussed in Note 9 – "Debt" and Note 15 – "Shareholders' Equity" to our consolidated financial statements, offset in part by an increase in debt repurchases of our 5.375% Senior Notes due in 2015.

Cash used in financing activities in 2012 was due to repurchasing $70.9 million in par value of our 5.375% Senior Notes due in 2015 at a cost of $53.1 million.

Debt at Our Holding Company and Holding Company Capital Resources

See Note 8 – "Debt" and Note 15 – "Shareholders' Equity" to our consolidated financial statements 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 2015, MGIC cannot pay any dividends to our holding company without approval from the OCI.

At December 31, 2014, we had approximately $491 million in cash and investments at our holding company.

As of December 31, 2014, our holding company's debt obligations were $1,297 million in par value consisting of:

- $61.9 million in par value of 5.375% Senior Notes due in November 2015, with an annual interest cost of $3.3 million;

- $345 million in par value of 5% Convertible Senior Notes due in 2017, with an annual interest cost of $17 million;

- $500 million in par value of 2% Convertible Senior Notes due in 2020, with an annual interest cost of $10 million; and

- $390 million in par value of 9% Convertible Junior Debentures due in 2063, with an annual interest cost of $35 million

See Note 8 – "Debt" to our consolidated financial statements for additional information about this indebtedness, including restrictive covenants in our Senior Notes and our option to defer interest on our Convertible Junior Debentures. Any deferred interest compounds at the stated rate of 9%. The description in Note 8 – "Debt" to our consolidated financial statements is qualified in its entirety by the terms of the notes and debentures. The terms of our Senior Notes are contained in the Officer's Certificate, dated as of October 4, 2005, which specifies the interest rate, maturity date and other terms, and in the Indenture dated as of October 15, 2000, between us and the trustee, included as an exhibit to our Form 8-K filed with the SEC on October 19, 2000 (the "2000 Indenture"). The terms of our 5% Convertible Senior Notes are contained in a Supplemental Indenture, dated as of April 26, 2010, between us and U.S. Bank National Association, as trustee, which is included as an exhibit to our 8-K filed with the SEC on April 30, 2010, and in the 2000 Indenture. The terms of our 2% Convertible Senior Notes are contained in a Second Supplemental Indenture, dated as of March 12, 2013, between us and U.S. Bank National Association, as trustee, 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 20 – "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 or NAIC. See "Overview – Capital" above for a discussion of these capital standards.

During 2014 and 2013, we repurchased $20.9 million and $17.2 million in par value, respectively, of the 5.375% Senior Notes due in November 2015. The repurchases in 2014 were at a cost slightly above par, for which we recognized a loss of $0.8 million, and the 2013 repurchases were executed at par value. In 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 and recognized $17.8 million in gains on the 2012 repurchases, which is included in other revenue on the Consolidated Statements of Operations for the year ended December 31, 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 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 10 – "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 risk-to-capital calculation appears in the table below.

	December 31, 2014	December 31, 2013
	(In millions, except ratio)	
Risk in force – net[1]	$25,735	$24,054
Statutory policyholders' surplus	$ 1,518	$ 1,521
Statutory contingency reserve	247	–
Statutory policyholders' position	$ 1,765	$ 1,521
Risk-to-capital	14.6:1	15.8:1

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

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

	December 31, 2014	December 31, 2013
	(In millions, except ratio)	
Risk in force – net[1]	$31,272	$29,468
Statutory policyholders' surplus	$ 1,585	$ 1,584
Statutory contingency reserve	318	19
Statutory policyholders' position	$ 1,903	$ 1,603
Risk-to-capital	16.4:1	18.4:1

(1) Risk in force – net, as shown in the table above, is net of reinsurance and exposure on policies currently in default ($3.8 billion at December 31, 2014 and $4.8 billion at December 31, 2013) and for which loss reserves have been established.

Statutory policyholders' position increased in 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. Our risk in force, net of reinsurance, decreased in 2014, due to the Addendum to our quota share reinsurance agreement discussed in Note 1 – "Nature of Business – Capital" and Note 11 – "Reinsurance" to our consolidated financial statements. 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 – "Nature of Business – Capital" to our consolidated financial statements as well as our risk factor titled "State capital requirements may prevent us from continuing to write new insurance on an uninterrupted basis."

Financial Strength Ratings

The financial strength of MGIC, our principal mortgage insurance subsidiary, is rated Ba3 by Moody's Investors Service with a stable outlook. Standard & Poor's Rating Services' insurer financial strength rating of MGIC is BB+ with a stable 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 our returns may decrease if we are required to maintain significantly more capital in order to maintain our eligibility" and "Competition or changes in our relationships with our customers could reduce our revenues, reduce our premium yields and/or increase our losses."

Contractual Obligations

At December 31, 2014, the approximate future payments under our contractual obligations of the type described in the table below are as follows:

	Payments due by period				
Contractual Obligations (In millions):	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
Long-term debt obligations	$3,098	$ 128	$ 461	$ 90	$2,419
Operating lease obligations	3	1	2	–	–
Tax obligations	19	–	19	–	–
Purchase obligations	3	2	1	–	–
Pension, SERP and other post-retirement benefit plans	272	24	49	55	144
Other long-term liabilities	2,397	1,222	1,031	144	–
Total	$5,792	$1,377	$1,563	$289	$2,563

Our long-term debt obligations at December 31, 2014 include, $61.9 million of 5.375% Senior Notes due in November 2015, $345 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 8 – "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. Tax obligations consist primarily of amounts related to our current dispute with the IRS, as discussed in Note 14 – "Income Taxes" to our consolidated financial statements. 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 for discussion of expected benefit payments under our benefit plans.

Our other long-term liabilities represent the loss reserves established to recognize the liability for losses and loss adjustment expenses related to defaults on insured mortgage loans. The timing of the future claim payments associated with the established loss reserves was determined primarily based on two key assumptions: the length of time it takes for a notice of default to develop into a received claim and the length of time it takes for a received claim to be ultimately paid. The future claim payment periods are estimated based on historical experience, and could emerge significantly different than this estimate. Due to the uncertainty regarding how certain factors, such as new loss mitigation protocols established by servicers and changes in some state foreclosure laws that may include, for example, a requirement for additional review and/or mediation process, will affect our future paid claims it has become even more difficult to estimate the amount and timing of future claim payments. See Note 9 – "Loss Reserves" to our consolidated financial statements and " – Critical Accounting Policies" below. 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.

Critical Accounting Policies

We believe that the accounting policies described below involved significant judgments and estimates used in the preparation of our consolidated financial statements.

Loss reserves and premium deficiency reserves

Loss reserves

Reserves are established for reported insurance losses and loss adjustment expenses based on when notices of default on insured mortgage loans are received. For reporting purposes, we consider a loan in default when it is two or more payments past due. Reserves are also established for estimated losses incurred on notices of default not yet reported. Even though the accounting standard, Accounting Standards Codification ("ASC") 944, regarding accounting and reporting by insurance entities specifically excluded mortgage insurance from its guidance relating to loss reserves, we establish loss reserves using the general principles contained in the insurance standard. However, consistent with industry standards for mortgage insurers, we do not establish loss reserves for future claims on insured loans which are not currently in default.

We establish reserves using estimated claim rates and claim amounts in estimating the ultimate loss. The liability for reinsurance assumed is based on information provided by the ceding companies.

The incurred but not reported, or IBNR, reserves referred to above result from defaults occurring prior to the close of an accounting period, but which have not been reported to us. Consistent with reserves for reported defaults, IBNR reserves are established using estimated claim rates and claim severities for the estimated number of defaults not reported. As of December 31, 2014 and 2013, we had IBNR reserves of approximately $99 million and $128 million, respectively.

Reserves also provide for the estimated costs of settling claims, including legal and other expenses and general expenses of administering the claims settlement process.

The estimated claim rates and claim severities represent what we believe reflect the best estimate of what will actually be paid on the loans in default as of the reserve date. If a policy is rescinded we do not expect that it will result in a claim payment and thus the rescission generally reduces the historical claim rate used in establishing reserves. In addition, if a loan cures its delinquency, including successful loan modifications that result in a cure being reported to us, the cure reduces the historical claim rate used in establishing reserves. Our methodology to determine the estimate of claim rates and claim amounts are based on our review of recent trends in the default inventory. To establish reserves we utilize a reserving model that continually incorporates historical data on the rate at which defaults resulted in a claim, or the claim rate. This historical data includes the effects of rescissions, which are included as cures within the model. The model also incorporates an estimate for the amount of the claim we will pay, or severity. The severity is estimated using the historical percentage of our claim paid compared to our loan exposure, as well as the risk in force of the loans currently in default. 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. We review recent trends in the claim rate, severity, the change in the level of defaults by geography and the change in average loan exposure. As a result, the process to determine reserves does not include quantitative ranges of outcomes that are reasonably likely to occur.

The claim rates and claim severities are likely to be affected by external events, including actual economic conditions such as changes in unemployment rate, interest rate or housing value. Our estimation process does not include a correlation between claim rates and claim amounts to projected economic conditions such as changes in unemployment rate, interest rate or housing value. Our experience is that analysis of that nature would not produce reliable results. The results would not be reliable as the change in one economic 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. Additionally, the changes and interaction of these economic conditions are not likely homogeneous throughout the regions in which we conduct business. Each economic environment influences our ultimate paid losses differently, even if apparently similar in nature. Furthermore, changes in economic conditions may not necessarily be reflected in our loss development in the quarter or year in which the changes occur. Typically, actual claim results often lag changes in economic conditions by at least nine to twelve months.

In considering the potential sensitivity of the factors underlying our best estimate of loss reserves, it is possible that even a relatively small change in estimated claim rate or a relatively small percentage change in estimated claim amount could have a significant impact on reserves and, correspondingly, on results of operations. For example, a $1,000 change in the average severity reserve factor combined with a 1% change in the average claim rate reserve factor would change the reserve amount by approximately $87 million as of December 31, 2014. Historically, it has not been uncommon for us to experience variability in the development of the loss reserves through the end of the following year at this level or higher, as shown by the historical development of our loss reserves in the table below:

	Losses incurred related to prior years[(1)]	Reserve at end of prior year
	(In thousands)	
2014	(100,359)	3,061,401
2013	(59,687)	4,056,843
2012	573,120	4,557,512
2011	(99,328)	5,884,171
2010	(266,908)	6,704,990

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

See Note 9 – "Loss Reserves" to our consolidated financial statements for a discussion of recent loss development.

Estimation of losses is inherently judgmental. The conditions that affect the claim rate and claim severity include the current and future state of the domestic economy, including unemployment and the current and future strength of local housing markets. Current conditions in the housing and mortgage industries make these assumptions more volatile than they would otherwise be. The actual amount of the claim payments may be substantially different than our loss reserve estimates. Our estimates could be adversely affected by several factors, including a deterioration of regional or national economic conditions, including unemployment, leading to a reduction in borrowers' income and thus their ability to make mortgage payments, and a drop in housing values that could result in, among other things, greater losses on loans that have pool insurance, and may affect borrower willingness to continue to make mortgage payments when the value of the home is below the mortgage balance. Our estimates are also affected by any agreements we enter into regarding our claims paying practices, such as the settlement agreements discussed in Note 20 – "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. Loss reserves in the most recent years contain a greater degree of uncertainty, even though the estimates are based on the best available data.

For more information regarding our claims paying practices and related legal proceedings, see Note 9 – "Loss Reserves" and Note 20 – "Litigation and Contingencies" to our consolidated financial statements.

Premium deficiency reserve

After our reserves are established, we perform premium deficiency calculations using best estimate assumptions as of the testing date. The calculation of premium deficiency reserves requires the use of significant judgments and estimates to determine the present value of future premium and present value of expected losses and expenses on our business. The present value of future premium relies on, among other things, assumptions about persistency and repayment patterns on underlying loans. The present value of expected losses and expenses depends on assumptions relating to severity of claims and claim rates on current defaults, and expected defaults in future periods. These assumptions also include an estimate of expected rescission activity. Assumptions used in calculating the deficiency reserves can be affected by volatility in the current housing and mortgage lending industries. To the extent premium patterns and actual loss experience differ from the assumptions used in calculating the premium deficiency reserves, the differences between the actual results and our estimate will affect future period earnings.

The establishment of premium deficiency reserves is subject to inherent uncertainty and requires judgment by management. The actual amount of claim payments and premium collections may vary significantly from the premium deficiency reserve estimates. Similar to our loss reserve estimates, our estimates for premium deficiency reserves could be adversely affected by several factors, including a deterioration of regional or economic conditions leading to a reduction in borrowers' income and thus their ability to make mortgage payments, and a drop in housing values that could expose us to greater losses. Changes to our estimates could result in material changes in our operations, even in a stable economic environment. Adjustments to premium deficiency reserves estimates are reflected in the financial statements in the years in which the adjustments are made.

Revenue recognition

When a policy term ends, the primary mortgage insurance written by us is renewable at the insured's option through continued payment of the premium in accordance with the schedule established at the inception of the policy life. We have no ability to reunderwrite or reprice these policies after issuance. Premiums written under policies having single and annual premium payments are initially deferred as unearned premium reserve and earned over the policy life. Premiums written on policies covering more than one year are amortized over the policy life in relationship to the anticipated incurred loss pattern based on historical experience. Premiums written on annual policies are earned on a monthly pro rata basis. Premiums written on monthly policies are earned as the monthly coverage is provided. When a policy is cancelled, all premium that is non-refundable is immediately earned. Any refundable premium is returned to the lender. Cancellations also include rescissions and policies cancelled due to claim payment. When a policy is rescinded, all previously collected premium is returned to the lender and when a claim is paid we return any premium received since the date of default. The liability associated with our estimate of premium to be returned is accrued for separately and separate components of this liability are included in "Other liabilities" and "Premium deficiency reserves" on our consolidated balance sheet. Changes in these liabilities affect premiums written and earned and change in premium deficiency reserve, respectively. The actual return of premium affects premium written and earned. Policy cancellations also lower the persistency rate which is a variable used in calculating the rate of amortization of deferred policy acquisition costs discussed below.

Fee income of our non-insurance subsidiaries is earned and recognized as the services are provided and the customer is obligated to pay.

Deferred insurance policy acquisition costs

Costs directly associated with the successful acquisition of mortgage insurance policies, consisting of employee compensation and other policy issuance and underwriting expenses, are initially deferred and reported as deferred insurance policy acquisition costs. The deferred costs are net of any reinsurance recoveries from ceding commissions associated with our reinsurance agreements. Deferred insurance policy acquisition costs arising from each book of business are charged against revenue in the same proportion that the underwriting profit for the period of the charge bears to the total underwriting profit over the life of the policies. The underwriting profit and the life of the policies are estimated and are reviewed quarterly and updated when necessary to reflect actual experience and any changes to key variables such as persistency or loss development. Interest is accrued on the unamortized balance of deferred insurance policy acquisition costs.

Because our insurance premiums are earned over time, changes in persistency result in deferred insurance policy acquisition costs being amortized against revenue over a comparable period of time. At December 31, 2014, the persistency rate of our primary mortgage insurance was 82.8%, compared to 79.5% at December 31, 2013. This change did not significantly affect the amortization of deferred insurance policy acquisition costs for the period ended December 31, 2014. A 10% change in persistency would not have a material effect on the amortization of deferred insurance policy acquisition costs in the subsequent year.

If a premium deficiency exists, we reduce the related deferred insurance policy acquisition costs by the amount of the deficiency or to zero through a charge to current period earnings. If the deficiency is more than the deferred insurance policy acquisition costs balance, we then establish a premium deficiency reserve equal to the excess, by means of a charge to current period earnings.

Fair Value Measurements

For the years ended December 31, 2014, 2013 and 2012, we did not elect the fair value option for any financial instruments acquired for which the primary basis of accounting is not fair value.

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

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

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

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

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

Investment Portfolio

Our entire investment portfolio is classified as available-for-sale and is reported at fair value. The related unrealized gains or losses are, after considering the related tax expense or benefit, recognized as a component of accumulated other comprehensive income in shareholders' equity. Realized investment gains and losses on investments are recognized in income based upon specific identification of securities sold.

Each quarter we perform reviews of our investments in order to determine whether declines in fair value below amortized cost were considered other-than-temporary in accordance with applicable guidance. In evaluating whether a decline in fair value is other-than-temporary, we consider several factors including, but not limited to:

- our intent to sell the security or whether it is more likely than not that we will be required to sell the security before recovery;

- extent and duration of the decline;
- failure of the issuer to make scheduled interest or principal payments;
- change in rating below investment grade; and
- adverse conditions specifically related to the security, an industry, or a geographic area.

Based on our evaluation, we will record an other-than-temporary impairment adjustment on a security if we intend to sell the impaired security, if it is more likely than not that we will be required to sell the impaired security prior to recovery of its amortized cost basis, or if the present value of the cash flows we expect to collect is less than the amortized costs basis of the security. If the fair value of a security is below its amortized cost at the time of our intent to sell, the security is classified as other-than-temporarily impaired and the full amount of the impairment is recognized as a loss in the statement of operations. Otherwise, when a security is considered to be other-than-temporarily impaired, the losses are separated into the portion of the loss that represents the credit loss; and the portion that is due to other factors. The credit loss portion is recognized as a loss in the statement of operations, while the loss due to other factors is recognized in accumulated other comprehensive income (loss), net of taxes. A credit loss is determined to exist if the present value of the discounted cash flows, using the security's original yield, expected to be collected from the security are less than the cost basis of the security.

During 2014, 2013 and 2012 we recognized OTTI losses in earnings of $0.1 million, $0.3 million and $2.3 million, respectively. There were no OTTI losses recognized in shareholders' equity for the years ending December 31, 2014, 2013, and 2012.

Quantitative and Qualitative Disclosures About Market Risk

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 December 31, 2014, the modified duration of our fixed income investment portfolio (which excludes cash and cash equivalents), was 3.9 years, which means that an instantaneous parallel shift in the yield curve of 100 basis points would result in a change of 3.9% 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.

Risk Factors

Forward Looking Statement and Risk Factors

As used below, "we," "our" and "us" refer to MGIC Investment Corporation's consolidated operations or to MGIC Investment Corporation, as the context requires; "MGIC" refers to Mortgage Guaranty Insurance Corporation; and "MIC" refers to MGIC Indemnity Corporation.

Our actual results could be affected by the risk factors below. These risk factors are an integral part of this annual report. These risk 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, including matters that inherently refer to future events. Among others, statements that include words such as "believe," "anticipate," "will" or "expect," or words of similar import, are forward looking statements. We are not undertaking any obligation to update any forward looking statements or other statements we may make even though these statements may be affected by events or circumstances occurring after the forward looking statements or other statements were made. No reader of this annual report should rely on these statements being current at any time other than the time at which our Form 10-K for the year ended December 31, 2014 was filed with the Securities and Exchange Commission.

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

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

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

The public input period for the draft PMIERs ended September 8, 2014. We currently expect the PMIERs to be published in final form no earlier than late in the first quarter of 2015 and the "effective date" to occur 180 days thereafter. Under the draft PMIERs, mortgage insurers would have up to two years after the final PMIERs are published to meet the GSE Financial Requirements (the "transition period"). A mortgage insurer that fails to certify by the effective date that it meets the GSE Financial Requirements would be subject to a transition plan having milestones for actions to achieve compliance. The transition plan would be submitted for the approval of each GSE within 90 days after the effective date, and if approved, the GSEs would monitor the insurer's progress. During the transition period for an insurer with an approved transition plan, an insurer would be in remediation (a status similar to the one under which MGIC has been operating with the GSEs for over five years) and eligible to provide mortgage insurance on loans owned or guaranteed by the GSEs.

Shortly after the draft PMIERs were released, we estimated that we would have a shortfall in Available Assets of approximately $600 million on December 31, 2014, which was when the final PMIERs were expected to be published. We also estimated that the shortfall would be reduced to approximately $300 million through operations over a two year period. Those shortfall projections assumed the risk in force and capital of MGIC's MIC subsidiary would be repatriated to MGIC, and full credit would be given in the calculation of Minimum Required Assets for our reinsurance agreement executed in 2013 (approximately $500 million of credit at December 31, 2014, increasing to $600 million of credit over two years). However, as we said at the time, we do not expect our existing reinsurance agreement would be given full credit under the PMIERs. Applying the same assumptions, but considering the delay in publication of the final PMIERs, our shortfall projections have improved modestly. Also, we have been in discussions with the participating reinsurers regarding modifications to the agreement so that we would receive additional PMIERs credit.

In addition to modifying our reinsurance agreement, we believe we will be able to use a combination of the alternatives outlined below so that MGIC will meet the GSE Financial Requirements of the draft PMIERs even if they are implemented as released. As of December 31, 2014, we had approximately $491 million of cash and investments at our holding company, a portion of which we believe may be available for future contribution to MGIC. Furthermore, there are regulated insurance affiliates of MGIC that have approximately $100 million of assets as of December 31, 2014. We expect that, subject to regulatory approval, we would be able to use a material portion of these assets to increase the Available Assets of MGIC. Additionally, if the draft PMIERs are implemented as released, we would consider seeking non-dilutive debt capital to mitigate the shortfall. Factors that may negatively impact MGIC's ability to comply with the GSE Financial Requirements within the transition period include the following:

- Changes in the actual PMIERs adopted from the draft PMIERs may increase the amount of MGIC's Minimum Required Assets or reduce its Available Assets, with the result that the shortfall in Available Assets could increase;

- We may not obtain regulatory approval to transfer assets from MGIC's regulated insurance affiliates to the extent we are assuming because regulators project higher losses than we project or require a level of capital be maintained in these companies higher than we are assuming;

- We may not be able to access the non-dilutive debt markets due to market conditions, concern about our creditworthiness, or other factors, in a manner sufficient to provide the funds we are assuming;

- We may not be able to achieve modifications in our existing reinsurance agreement necessary to minimize the reduction in the credit for reinsurance under the draft PMIERs;

- We may not be able to obtain additional reinsurance necessary to further reduce the Minimum Required Assets due to market capacity, pricing or other reasons (including disapproval of the proposed agreement by a GSE); and

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

There also can be no assurance that the GSEs would not make the GSE Financial Requirements more onerous in the future; in this regard, the draft PMIERs provide that the tables of factors that determine

Minimum Required Assets may be updated to reflect changes in risk characteristics and the macroeconomic environment. If MGIC ceases to be eligible to insure loans purchased by one or both of the GSEs, it would significantly reduce the volume of our new business writings.

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

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

Alternatives to private mortgage insurance include:

- lenders using government mortgage insurance programs, including those of the FHA and VA,
- lenders and other investors holding mortgages in portfolio and self-insuring,
- investors (including the GSEs) using risk mitigation techniques other than private mortgage insurance, such as obtaining insurance from non-mortgage insurers and engaging in credit-linked note transactions executed in the capital markets; using other risk mitigation techniques in conjunction with reduced levels of private mortgage insurance coverage; or accepting credit risk without credit enhancement, and
- lenders originating mortgages using piggyback structures to avoid private mortgage insurance, such as a first mortgage with an 80% loan-to-value ratio and a second mortgage with a 10%, 15% or 20% loan-to-value ratio (referred to as 80-10-10, 80-15-5 or 80-20 loans, respectively) rather than a first mortgage with a 90%, 95% or 100% loan-to-value ratio that has private mortgage insurance.

The FHA's market share substantially increased from 2008 to 2011, which we believe was due to a combination of factors including tightened underwriting guidelines of private mortgage insurers, increased loan level price adjustments of the GSEs, increased flexibility for the FHA to establish new products as a result of federal legislation and programs, and higher returns obtained by lenders for Ginnie Mae securitization of FHA-insured loans than for selling loans to Fannie Mae or Freddie Mac for securitization. The FHA's market share declined from 2011 to 2014, due to a combination of factors including changes to the prices and fees of the FHA, the GSEs and the private mortgage insurers. In January 2015, it was announced that the FHA would significantly reduce its annual mortgage insurance premiums. Absent any other changes, the reduction in FHA premiums will make private mortgage insurance less competitive with the FHA for borrowers with certain credit characteristics. However, we believe our pricing continues to be more attractive than the FHA's pricing for a substantial majority of borrowers with credit and loan characteristics similar to those whose loans we insured in 2014. We cannot predict how these factors will change in the future and we cannot predict whether the GSEs will reduce their fees, therefore, we cannot predict the FHA's share of new insurance written in the future.

From 2009 through 2012 the VA's market share increased and it has remained stable since 2012. We believe that the VA's market share increased as a result of offering 100% LTV loans, requiring a one-time funding fee that can be included in the loan amount but no additional monthly expense, and an increase in the number of borrowers that are eligible for the program. We do not expect any material changes in the VA market share in the future.

It is difficult to predict the FHA's and VA's future market share due to the factors discussed in our risk factor titled *"The amount of insurance we write could be adversely affected if lenders and investors select alternatives to private mortgage insurance."*

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

Until 2010 the mortgage insurance industry had not had new entrants in many years. Since 2010, two new public companies were formed and began writing business and a worldwide insurer and reinsurer with mortgage insurance operations in Europe completed the purchase of a competitor and is currently writing business. Our private mortgage insurance competitors include:

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

Historically, the level of competition within the private mortgage insurance industry has been intense and it is not expected to diminish given the presence of new entrants. Price competition has been present for some time: in the third quarter of 2014, we reduced many of our standard lender-paid single premium rates to match competition; and in the fourth quarter of 2013, we reduced all of our standard borrower-paid monthly premium rates and most of our standard single premium rates to match competition. Currently, we are seeing price competition in the form of lender-paid single premium programs customized for individual lenders with rates materially lower than those on the standard rate card. During most of 2013, when almost all of our single premium rates were above those most commonly used in the market, single premium policies were approximately 10% of our total new insurance written; they were approximately 15% in 2014 and we expect a higher percentage in 2015 primarily as a result of us selectively matching reduced rates. The premium from a single premium policy is collected upfront and generally earned over the estimated life of the policy. In contrast, premiums from a monthly premium policy are received and earned each month over the life of the policy. Depending on the actual life of a single premium policy and its premium rate relative to that of a monthly premium policy, a single premium policy may generate more or less premium than a monthly premium policy over its life. Currently, we expect to receive less lifetime premium from a new lender-paid single premium policy than we would from a new borrower-paid monthly premium policy. As a result of the recent increase in the percentage of our new insurance written from lender-paid single premium policies, our weighted average premium rate on new insurance written has decreased from 2013 to 2014. As the percentage of our new business represented by lender-paid single premium policies continues to grow, all other things equal, our weighted average premium rates on new insurance written in the future will decrease. If we reduce or discount prices on any premium plan in response to future price competition, it may further decrease our weighted average premium rates.

During 2013 and 2014, approximately 7% and 4%, respectively, of our new insurance written was for loans for which one lender was the original insured. Our relationships with our customers could be adversely affected by a variety of factors, including premium rates higher than can be obtained from competitors, tightening of and adherence to our underwriting requirements, which have resulted in our declining to insure some of the loans originated by our customers, and insurance rescissions that affect the customer. We have ongoing discussions with lenders who are significant customers regarding their objections to our rescissions.

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

We believe that financial strength ratings may be a significant consideration for participants seeking to secure credit enhancement in the non-GSE mortgage market, which includes most loans that are not "Qualified Mortgages" (for more information about "Qualified Mortgages," see our risk factor titled *"Changes in the business practices of the GSEs, federal legislation that changes their charters or a restructuring of the GSEs could reduce our revenues or increase our losses"*). While this market has been limited since the financial crisis, it may grow in the future. The financial strength ratings of our insurance subsidiaries are lower than those of some competitors and below investment grade levels, therefore, we may be competitively disadvantaged with some market participants. For each of MGIC and MIC, the financial strength rating from Moody's is Ba3 (with a stable outlook) and from Standard & Poor's is BB+ (with a stable outlook). It is possible that MGIC's and MIC's financial strength ratings could decline from these levels. Our ability to participate in the non-GSE market could depend on our ability to secure investment grade ratings for our mortgage insurance subsidiaries.

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

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

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

- the level of private mortgage insurance coverage, subject to the limitations of the GSEs' charters (which may be changed by federal legislation), when private mortgage insurance is used as the required credit enhancement on low down payment mortgages,
- the amount of loan level price adjustments and guaranty fees (which result in higher costs to borrowers) that the GSEs assess on loans that require mortgage insurance,
- whether the GSEs influence the mortgage lender's selection of the mortgage insurer providing coverage and, if so, any transactions that are related to that selection,
- the underwriting standards that determine what loans are eligible for purchase by the GSEs, which can affect the quality of the risk insured by the mortgage insurer and the availability of mortgage loans,
- the terms on which mortgage insurance coverage can be canceled before reaching the cancellation thresholds established by law,
- the programs established by the GSEs intended to avoid or mitigate loss on insured mortgages and the circumstances in which mortgage servicers must implement such programs,
- the terms that the GSEs require to be included in mortgage insurance policies for loans that they purchase,
- the extent to which the GSEs intervene in mortgage insurers' rescission practices or rescission settlement practices with lenders. For additional information, see our risk factor titled *"We are involved in legal proceedings and are subject to the risk of additional legal proceedings in the future,"* and
- the maximum loan limits of the GSEs in comparison to those of the FHA and other investors.

The FHFA is the conservator of the GSEs and has the authority to control and direct their operations. The increased role that the federal government has assumed in the residential mortgage market through the GSE conservatorship may increase the likelihood that the business practices of the GSEs change in ways that have a material adverse effect on us. In addition, these factors may increase the likelihood that the charters of the GSEs are changed by new federal legislation. The financial reform legislation that was passed in July 2010 (the "Dodd-Frank Act" or "Dodd-Frank") required the U.S. Department of the Treasury to report its recommendations regarding options for ending the conservatorship of the GSEs. This report did not provide any definitive timeline for GSE reform; however, it did recommend using a combination of federal housing policy changes to wind down the GSEs, shrink the government's footprint in housing finance (including FHA insurance), and help bring private capital back to the mortgage market. Since then, Members of Congress introduced several bills intended to change the business practices of the GSEs and the FHA;

however, no legislation has been enacted. As a result of the matters referred to above, it is uncertain what role the GSEs, FHA and private capital, including private mortgage insurance, will play in the 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.

Dodd-Frank requires lenders to consider a borrower's ability to repay a home loan before extending credit. The Consumer Financial Protection Bureau ("CFPB") rule defining "Qualified Mortgage" ("QM") for purposes of implementing the "ability to repay" law became effective in January 2014 and included 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, on January 21, 2021.

Dodd-Frank 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. In October 2014, a final rule implementing that requirement was released, which will become effective for asset-backed securities collateralized by residential mortgages on December 24, 2015. The final rule exempts securitizations of qualified residential mortgages ("QRMs") from the risk retention requirement and generally aligns the QRM definition with that of QM. As noted above, there is a temporary category of QMs for mortgages that satisfy the general product feature requirements of QMs and meet the GSEs' underwriting requirements. As a result, 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 final rule requires the agencies to review the QRM definition no later than four years after its effective date and every five years thereafter, and allows each agency to request a review of the definition at any time.

We estimate that approximately 87% of our new risk written in 2013 and 83% of our new risk written in 2014 was for loans that would have met the CFPB's general QM definition and, therefore, the QRM definition. We estimate that approximately 99% of our new risk written in each of 2013 and 2014 was for loans that would have met the temporary category in CFPB's QM definition. Changes in the treatment of GSE-guaranteed mortgage loans in the regulations defining QM and QRM, 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.

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

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

As of December 31, 2014, we had approximately $2.4 billion of net operating losses for tax purposes that we can use in certain circumstances to offset future taxable income and thus reduce our federal income tax liability. Our ability to utilize these net operating losses to offset future taxable income may be significantly limited if we experience an "ownership change" as defined in Section 382 of the Internal Revenue Code of 1986, as amended (the "Code"). In general, an ownership change will occur if there is a cumulative change in our ownership by "5-percent shareholders" (as defined in the Code) that exceeds 50 percentage points over a rolling three-year period. A corporation that experiences an ownership change will generally be subject to an annual limitation on the corporation's subsequent use of net operating loss carryovers that arose from pre-ownership change periods and use of losses that are subsequently recognized with respect to assets that had a built-in-loss on the date of the ownership change. The amount of the annual limitation generally equals the fair value of the corporation immediately before the ownership change multiplied by the long-term tax-exempt interest rate (subject to certain adjustments). To the extent that the limitation in a post-ownership-change year is not fully utilized, the amount of the limitation for the succeeding year will be increased.

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

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

Before paying a claim, we review the loan and servicing files to determine the appropriateness of the claim amount. All of our insurance policies provide that we can reduce or deny a claim if the servicer did not comply with its obligations under our insurance policy, including the requirement to mitigate our loss by performing reasonable loss mitigation efforts or, for example, diligently pursuing a foreclosure or bankruptcy relief in a timely manner. We call such reduction of claims submitted to us "curtailments." In 2013 and 2014, curtailments reduced our average claim paid by approximately 5.8% and 6.7%, respectively. In addition, the claims submitted to us sometimes include costs and expenses not covered by our insurance policies, such as hazard insurance premiums for periods after the claim date and losses resulting from property damage that has not been repaired. These other adjustments reduced claim amounts by less than the amount of curtailments. After we pay a claim, servicers and insureds sometimes object to our curtailments and other adjustments. We review these objections if they are sent to us within 90 days after the claim was paid.

When reviewing the loan file associated with a claim, we may determine that we have the right to rescind coverage on the loan. Prior to 2008, rescissions of coverage on loans were not a material portion of our claims resolved during a year. However, beginning in 2008, our rescissions of coverage on loans have materially mitigated our paid losses. In 2009 through 2011, rescissions mitigated our paid losses in the aggregate by approximately $3.0 billion; and in 2012, 2013 and 2014, rescissions mitigated our paid losses by approximately $0.3 billion, $135 million and $97 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 policy, and may have been charged to a captive reinsurer). In recent quarters, approximately 5% of claims received in a quarter have been resolved by rescissions, down from the peak of approximately 28% in the first half of 2009.

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

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

If we are unable to reach a settlement, the outcome of a dispute ultimately would be determined by legal proceedings. Under our policies in effect prior to October 1, 2014, 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, and under our master policy effective October 1, 2014, such proceedings may be brought up to two years from the date of the notice of rescission. In a few jurisdictions there is a longer time to bring such proceedings.

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

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

In April 2013, MGIC entered into separate settlement agreements with CHL and BANA, pursuant to which the parties will settle the Countrywide litigation as it relates to MGIC’s rescission practices (as amended, the “Agreements”). The original Agreements are described in our Form 8-K filed with the SEC on April 25, 2013. The original Agreements are filed as exhibits to that Form 8-K and amendments were filed with our Forms 10-Q for the quarters ended September 30, 2013, March 31, 2014, June 30, 2014, and

September 30, 2014, our Forms 10-K for 2013 and 2014. Certain portions of the Agreements are redacted and covered by confidential treatment requests that have been granted.

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

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

The estimated impact of the Agreements and other probable settlements have been recorded in our financial statements. The estimated impact that we recorded for probable settlements is our best estimate of our loss from these matters. We estimate that the maximum exposure above the best estimate provision we recorded is $626 million, of which about 60% is related to claims paying practices subject to the Agreement with CHL and the previously disclosed curtailment matters with Countrywide. If we are not able to implement the Agreement with CHL or the other settlements we consider probable, we intend to defend MGIC vigorously against any related legal proceedings.

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

We are involved in discussions and legal and consensual proceedings with customers with respect to our claims paying practices. Although it is reasonably possible that when these discussions or proceedings are completed we will not prevail in all cases, we are unable to make a reasonable estimate or range of estimates of the potential liability. We estimate the maximum exposure associated with these discussions and proceedings to be approximately $16 million, although we believe we will ultimately resolve these matters for significantly less than this amount.

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

Consumers continue to bring lawsuits against home mortgage lenders and settlement service providers. Mortgage insurers, including MGIC, have been involved in litigation alleging violations of the anti-referral fee provisions of the Real Estate Settlement Procedures Act, which is commonly known as RESPA, and the notice provisions of the Fair Credit Reporting Act, which is commonly known as FCRA. MGIC's settlement of class action litigation against it under RESPA became final in October 2003. MGIC settled the named plaintiffs' claims in litigation against it under FCRA in December 2004, following denial of class certification in June 2004. Since December 2006, class action litigation has been brought against a number of large lenders alleging that their captive mortgage reinsurance arrangements violated RESPA. Beginning in December 2011, MGIC, together with various mortgage lenders and other mortgage insurers, has been named as a defendant in twelve lawsuits, alleged to be class actions, filed in various U.S. District Courts. The complaints in all of the cases allege various causes of action related to the captive mortgage reinsurance arrangements of the mortgage lenders, including that the lenders' captive reinsurers received excessive premiums in relation to the risk assumed by those captives, thereby violating RESPA. Seven of those cases had been dismissed prior to February 2015 without any further opportunity to appeal. Of the remaining five cases, three were dismissed with prejudice in February 2015 pursuant to stipulations of dismissal from the plaintiffs, and the remaining two cases are expected to be dismissed with prejudice in connection with plaintiffs' stipulations in such cases. There can be no assurance that we will not be subject to further litigation under RESPA (or FCRA) or that the outcome of any such litigation, including the lawsuits mentioned above, would not have a material adverse effect on us.

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

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

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

We are subject to comprehensive, detailed regulation by state insurance departments. These regulations are principally designed for the protection of our insured policyholders, rather than for the benefit of investors. Although their scope varies, state insurance laws generally grant broad supervisory powers to agencies or officials to examine insurance companies and enforce rules or exercise discretion affecting almost every significant aspect of the insurance business. State insurance regulatory authorities could take actions, including changes in capital requirements, that could have a material adverse effect on us. In addition, the CFPB may issue additional rules or regulations, which may materially affect our business.

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

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

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

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

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

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

On September 10, 2014, we received Notices of Deficiency (commonly referred to as "90 day letters") covering the 2000-2007 tax years. The Notices of Deficiency reflect taxes and penalties related to the REMIC matters of $197.5 million and at December 31, 2014, there would also be interest related to these matters of approximately $168.4 million. In 2007, we made a payment of $65.2 million to the United States Department of the Treasury which will reduce any amounts we would ultimately owe. The Notices of Deficiency also reflect additional amounts due of $261.4 million, which are primarily associated with the disallowance of the carryback of the 2009 net operating loss to the 2004-2007 tax years. We believe the IRS included the carryback adjustments as a precaution to keep open the statute of limitations on collection of the tax that was refunded when this loss was carried back, and not because the IRS actually intends to disallow the carryback permanently.

We filed a petition with the U.S. Tax Court contesting most of the IRS' proposed adjustments reflected in the Notices of Deficiency and the IRS has filed an answer to our petition which continues to assert their claim. Litigation to resolve our dispute with the IRS could be lengthy and costly in terms of legal fees and related expenses. We can provide no assurance regarding the outcome of any such litigation or whether a compromised settlement with the IRS will ultimately be reached and finalized. Depending on the outcome of this matter, additional state income taxes and state interest may become due when a final resolution is reached. As of December 31, 2014, those state taxes and interest would approximate $47.4 million. In addition, there could also be state tax penalties. Our total amount of unrecognized tax benefits as of December 31, 2014 is $106.2 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, available assets and statutory capital. In this regard, see our risk factors titled *"We may not continue to meet the GSEs' mortgage insurer eligibility requirements and our returns may decrease if we are required to maintain significantly more capital in order to maintain our eligibility"* and *"State capital requirements may prevent us from continuing to write new insurance on an uninterrupted basis."*

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, 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. The actual amount of the claim payments may be substantially different than our loss reserve estimates. Our estimates could be adversely affected by several factors, including a deterioration of regional or national economic conditions, including unemployment, leading to a reduction in borrowers' income and thus their ability to make mortgage payments and a drop in housing values, which may affect borrower willingness to continue to make mortgage payments when the value of the home is below the mortgage balance. Changes to our estimates could have a material impact on our future results, even in a stable economic environment. In addition, historically, losses incurred have followed a seasonal trend in which the second half of the year has weaker credit performance than the first half, with higher new default notice activity and a lower cure rate.

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

Our industry is undergoing a fundamental shift following the mortgage crisis: long-standing competitors have gone out of business and two newly capitalized start-ups that are not encumbered with a portfolio of pre-crisis mortgages have been formed. Former executives from other mortgage insurers have joined these two new competitors. In addition, in 2014, a worldwide insurer and reinsurer with mortgage insurance operations in Europe completed the purchase of a competitor and is now operating as Arch 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 unexpected departure of key personnel could adversely affect the conduct of our business. In such event, we would be required to obtain other personnel to manage and operate our business. In addition, we will be required to replace the knowledge and expertise of our aging workforce as our workers retire. In either case, there can be no assurance that we would be able to develop or recruit suitable replacements for the departing individuals, that replacements could be hired, if necessary, on terms that are favorable to us or that we can successfully transition such replacements in a timely manner. We currently have not entered into any employment agreements with our officers or key personnel. Volatility or lack of performance in our stock price may affect our ability to retain our key personnel or attract replacements should key personnel depart. Without a properly skilled and experienced workforce, our costs, including productivity costs and costs to replace employees may increase, and this could negatively impact our earnings.

Our reinsurance agreement with unaffiliated reinsurers allow each reinsurer to terminate such reinsurer's portion of the transactions on a run-off basis if during any six month period prior to July 1, 2015, two or more of our top five executives depart, the departures result in a material adverse impact on our underwriting and risk management practices or policies, and such reinsurer timely objects to the replacements of such executives. We view such a termination as unlikely.

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

Beginning in the fourth quarter of 2008, the federal government, including through the Federal Deposit Insurance Corporation and the GSEs, and several lenders implemented programs to modify loans to make them more affordable to borrowers with the goal of reducing the number of foreclosures. During 2012, 2013 and 2014, we were notified of modifications that cured delinquencies that had they become paid claims would have resulted in approximately \$1.2 billion, \$1.0 billion and \$0.8 billion, respectively, of estimated claim payments. Based on information that is provided to us, most of the modifications resulted in reduced payments from interest rate and/or amortization period adjustments; from 2012 through 2014, approximately 9% resulted in principal forgiveness.

One loan modification program is the Home Affordable Modification Program ("HAMP"). We do not receive all of the information from servicers and the GSEs that is required to determine with certainty the number of loans that are participating in, have successfully completed, or are eligible to participate in, HAMP. We are aware of approximately 6,180 loans in our primary delinquent inventory at December 31, 2014 for which the HAMP trial period has begun and which trial periods have not been reported to us as completed or cancelled. Through December 31, 2014, approximately 54,290 delinquent primary loans have cured their delinquency after entering HAMP and are not in default. Although the majority of loans modified through HAMP are current, we cannot predict with a high degree of confidence what the ultimate re-default rate on these modifications will be. Our loss reserves do not account for potential re-defaults unless at the time the reserve is established, the re-default has already occurred.

In each of 2013 and 2014, approximately 16% of our primary cures were the result of modifications, with HAMP accounting for approximately 68% and 67%, respectively, of those modifications in 2013 and 2014. Although the HAMP program has been extended through December 2016, we believe that we have realized the majority of the benefits from HAMP because the number of loans insured by us that we are aware are entering HAMP trial modification periods has decreased significantly since 2010. The interest rates on certain loans modified under HAMP are subject to adjustment five years after the modification was entered into. Such adjustments are limited to an increase of one percentage point per year.

The GSEs' Home Affordable Refinance Program ("HARP"), currently scheduled to expire December 31, 2015, allows borrowers who are not delinquent but who may not otherwise be able to refinance their loans under the current GSE underwriting standards, to refinance their loans. We allow HARP refinances on loans that we insure, regardless of whether the loan meets our current underwriting standards, and we account for the refinance as a loan modification (even where there is a new lender) rather than new insurance written. As of December 31, 2014, approximately 15% of our primary insurance in force had benefitted from HARP and was still in force. We believe that we have realized the majority of the benefits from HARP because the number of loans insured by us that we are aware are entering HARP has decreased significantly.

We cannot determine the total benefit we may derive from loan modification programs, particularly given the uncertainty around the re-default rates for defaulted loans that have been modified through these programs. Re-defaults can result in losses for us that could be greater than we would have paid had the loan not been modified. Eligibility under certain loan modification programs can also adversely affect us by creating an incentive for borrowers who are able to make their mortgage payments to become delinquent in an attempt to obtain the benefits of a modification. New notices of delinquency increase our incurred losses. If legislation is enacted to permit a portion of a borrower's mortgage loan balance to be reduced in bankruptcy and if the borrower re-defaults after such reduction, then the amount we would be responsible to cover would be calculated after adding back the reduction. Unless a lender has obtained our prior approval, if a borrower's mortgage loan balance is reduced outside the bankruptcy context, including in association with a loan modification, and if the borrower re-defaults after such reduction, then under the terms of our policy the amount we would be responsible to cover would be calculated net of the reduction.

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

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

- restrictions on mortgage credit due to more stringent underwriting standards, liquidity issues and risk-retention requirements associated with non-QRM loans affecting lenders,
- the level of home mortgage interest rates and the deductibility of mortgage interest for income tax purposes,
- the health of the domestic economy as well as conditions in regional and local economies and the level of consumer confidence,

- housing affordability,
- population trends, including the rate of household formation,
- the rate of home price appreciation, which in times of heavy refinancing can affect whether refinanced loans have loan-to-value ratios that require private mortgage insurance, and
- government housing policy encouraging loans to first-time homebuyers.

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

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

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

At December 31, 2014, MGIC's risk-to-capital ratio was 14.6 to 1, below the maximum allowed by the jurisdictions with State Capital Requirements, and its policyholder position was $673 million above the required MPP of $1.0 billion. In 2013, we entered into a quota share reinsurance agreement with a group of unaffiliated reinsurers that reduced our risk-to-capital ratio. It is possible that under the revised State Capital Requirements discussed below, MGIC will not be allowed full credit for the risk ceded to the reinsurers. If MGIC is disallowed full credit under either the State Capital Requirements or the GSE Financial Requirements, MGIC may terminate the reinsurance agreement, without penalty. At this time, we expect MGIC to continue to comply with the current State Capital Requirements; however, you should read the rest of these risk factors for information about matters that could negatively affect such compliance.

At December 31, 2014, the risk-to-capital ratio of our combined insurance operations (which includes reinsurance affiliates) was 16.4 to 1. Reinsurance transactions with affiliates permit MGIC to write insurance with a higher coverage percentage than it could on its own under certain state-specific requirements. A higher risk-to-capital ratio on a combined basis may indicate that, in order for MGIC to continue to utilize reinsurance arrangements with its affiliates, unless a waiver of the State Capital Requirements of Wisconsin continues to be effective, additional capital contributions to the reinsurance affiliates could be needed.

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

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

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 or willingness 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, higher interest rates generally or changes to the deductibility of mortgage interest for income tax purposes, or other factors. The residential mortgage market in the United States had for some time experienced a variety of poor or worsening economic conditions, including a material nationwide decline in housing values, with declines continuing into early 2012 in a number of geographic areas. Although housing values in most markets have recently been increasing, in some markets they remain significantly below their peak levels. Changes in housing values and unemployment levels are inherently difficult to forecast given the uncertainty in the current market environment, including uncertainty about the effect of actions the federal government has taken and may take with respect to tax policies, mortgage finance programs and policies, and housing finance reform.

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

Even when housing values are stable or rising, mortgages with certain characteristics have higher probabilities of claims. These characteristics include loans with loan-to-value ratios over 95% (or in certain markets that have experienced declining housing values, over 90%), FICO credit scores below 620, limited underwriting, including limited borrower documentation, or higher total debt-to-income ratios, as well as loans having combinations of higher risk factors. As of December 31, 2014, approximately 18.7% of our primary risk in force consisted of loans with loan-to-value ratios greater than 95%, 5.6% had FICO credit scores below 620, and 5.7% had limited underwriting, including limited borrower documentation, each attribute as determined at the time of loan origination. A material portion of these loans were written in 2005 - 2007 or the first quarter of 2008. In accordance with industry practice, loans approved by GSEs and other automated underwriting systems under "doc waiver" programs that do not require verification of borrower income are classified by us as "full documentation." For additional information about such loans, see footnote (3) to the composition of primary default inventory table under "Results of Consolidated Operations – Losses – Losses incurred" in Management's Discussion and Analysis of Financial Condition and Results of Operations.

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

From time to time, in response to market conditions, we change the types of loans that we insure and the requirements under which we insure them. In 2013, we liberalized our underwriting guidelines somewhat, in part through aligning most of our underwriting requirements with Fannie Mae and Freddie Mac for loans that receive and are processed in accordance with certain approval recommendations from a GSE automated underwriting system. As a result of the liberalization of our underwriting requirements, the migration of marginally lower FICO business from the FHA to us and other private mortgage insurers and other factors, our business written in the last several quarters is expected to have a somewhat higher claim incidence than business written in recent years. However, we believe this business presents an acceptable level of risk. Although the GSEs recently lowered their minimum downpayment requirements for certain loans from 5% to 3%, we may not insure a significant number of those loans in the near future because the FHA pricing on those loans may be more favorable for borrowers. Our underwriting requirements are available on our website at http://www.mgic.com/underwriting/index.html. We monitor the competitive landscape and will make adjustments to our pricing and underwriting guidelines as warranted. We also make exceptions to our underwriting requirements on a loan-by-loan basis and for certain customer programs. Together, the number of loans for which exceptions were made accounted for fewer than 2% of the loans we insured in 2013 and 2014.

As noted above in our risk factor titled *"State capital requirements may prevent us from continuing to write new insurance on an uninterrupted basis,"* in 2013, we entered into a quota share reinsurance agreement with a group of unaffiliated reinsurers. Although that transaction, as currently structured, reduces our premiums, the transaction will have a lesser impact on our overall results, as losses ceded under this transaction reduce our losses incurred and the ceding commission we receive reduces our underwriting expenses. As of December 31, 2014, we have accrued a profit commission receivable of $92 million. This receivable is expected to grow materially through the term of the agreement, absent any modifications to the agreement, but the ultimate amount of the commission will depend on the premiums earned and losses incurred under the agreement. Any profit commission would be paid to us upon termination of the reinsurance agreement. The reinsurers are required to maintain trust funds or letters of credit to support recoverable balances for reinsurance, such as loss reserves, paid losses, prepaid reinsurance premiums and profit commissions. As such forms of collateral are in place, we have not established an allowance against these balances. We are in discussions with the participating reinsurers to modify the transaction in order to approximate full credit for the transaction under the draft GSE Financial Requirements.

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

To comply with requirements of the GSEs, in 2014 we introduced a new master policy. Our rescission rights under our new master policy are comparable to those under our previous master policy, as modified by the Gold Cert Endorsement, but may be further narrowed if the GSEs permit modifications to them. Our new master policy is filed as Exhibit 99.19 to our quarterly report on Form 10-Q for the quarter ended September 30, 2014 (filed with the SEC on November 7, 2014). All of our primary new insurance on loans with mortgage insurance application dates on or after October 1, 2014, will be written under our new master policy. As of December 31, 2014, approximately 29% of our flow, primary insurance in force was written under our Gold Cert Endorsement or our new master policy.

As of December 31, 2014, approximately 2.9% of our primary risk in force consisted of adjustable rate mortgages in which the initial interest rate may be adjusted during the five years after the mortgage closing (“ARMs”). We classify as fixed rate loans adjustable rate mortgages in which the initial interest rate is fixed during the five years after the mortgage closing. If interest rates should rise between the time of origination of such loans and when their interest rates may be reset, claims on ARMs and adjustable rate mortgages whose interest rates may only be adjusted after five years would be substantially higher than for fixed rate loans. In addition, we have insured “interest-only” loans, which may also be ARMs, and loans with negative amortization features, such as pay option ARMs. We believe claim rates on these loans will be substantially higher than on loans without scheduled payment increases that are made to borrowers of comparable credit quality.

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

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

We set premiums at the time a policy is issued based on our expectations regarding likely performance 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.

We continue to experience significant losses on our 2005-2008 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 2005-2008 books. Our current expectation is that the incurred and paid losses from these books, although declining, will continue to generate a material portion of our total incurred and paid losses for a number of years.

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, the increases in the number of delinquent mortgage loans requiring servicing since the financial crisis began 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. Future premiums on our insurance in force represent a material portion of our claims paying resources.

Our persistency rate was 82.8% at December 31, 2014, compared to 79.5% at December 31, 2013, and 79.8% at December 31, 2012. During the 1990s, our year-end persistency ranged from a high of 87.4% at December 31, 1990 to a low of 68.1% at December 31, 1998. Since 2000, our year-end persistency ranged from a high of 84.7% at December 31, 2009 to a low of 47.1% at December 31, 2003.

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

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

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

We have $389.5 million principal amount of 9% Convertible Junior Subordinated Debentures outstanding. The principal amount of the debentures is currently convertible, at the holder's option, at an initial conversion rate, which is subject to adjustment, of 74.0741 common shares per $1,000 principal amount of debentures. This represents an initial conversion price of approximately $13.50 per share. We have the right, and may elect, to defer interest payable under the debentures in the future. If a holder elects to convert its debentures, the interest that has been deferred on the debentures being converted is also convertible into shares of our common stock. The conversion rate for such deferred interest is based on the average price that our shares traded at during a 5-day period immediately prior to the election to convert the associated debentures. We may elect to pay cash for some or all of the shares issuable upon a conversion of the debentures. We also have $345 million principal amount of 5% Convertible Senior Notes and $500 million principal amount of 2% Convertible Senior Notes outstanding. The 5% Convertible Senior Notes are convertible, at the holder's option, at an initial conversion rate, which is subject to adjustment, of 74.4186 shares per $1,000 principal amount at any time prior to the maturity date. This represents an initial conversion price of approximately $13.44 per share. Prior to January 1, 2020, the 2% Convertible Senior Notes are convertible only upon satisfaction of one or more conditions. One such condition is that during any calendar quarter commencing after March 31, 2014, the last reported sale price of our common stock for each of at least 20 trading days during the 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter be greater than or equal to 130% of the applicable conversion price on each applicable trading day. The notes are convertible at an initial conversion rate, which is subject to adjustment, of 143.8332 shares per $1,000 principal amount. This represents an initial conversion price of approximately $6.95 per share. 130% of such conversion price is $9.03. On or after January 1, 2020, holders may convert their notes irrespective of satisfaction of the conditions. We do not have the right to defer interest on our Convertible Senior Notes. For a discussion of the dilutive effects of our convertible securities on our earnings per share, see Note 3 – "Summary of Significant Accounting Policies Earnings per Share" to our consolidated financial statements in Item 8.

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

At December 31, 2014, we had approximately $491 million in cash and investments at our holding company and our holding company's debt obligations were $1,297 million in aggregate principal amount, consisting of $62 million of Senior Notes due in November 2015, $345 million of Convertible Senior Notes due in 2017, $500 million of Convertible Senior Notes due in 2020 and $390 million of Convertible Junior Debentures due in 2063. Annual debt service on the debt outstanding as of December 31, 2014, is approximately $66 million.

The Senior Notes, Convertible Senior Notes and Convertible Junior Debentures are obligations of our holding company, MGIC Investment Corporation, and not of its subsidiaries. Our holding company has no material sources of cash inflows other than investment income. The payment of dividends from our insurance subsidiaries, which other than raising capital in the public markets is the principal source of our holding company cash inflow, is restricted by insurance regulation. MGIC is the principal source of dividend-paying capacity. Since 2008, MGIC has not paid any dividends to our holding company. At this time, MGIC cannot pay any dividends to our holding company without approval from the OCI and the GSEs. 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 and our information technology systems may become outdated and we may not be able to make timely modifications to support our products and services.

We rely on the efficient and uninterrupted operation of complex information technology systems. All information technology systems are potentially vulnerable to damage or interruption from a variety of sources. As part of our business, we maintain large amounts of personal information on consumers. While we believe we have appropriate information security policies and systems to prevent unauthorized disclosure, there can be no assurance that unauthorized disclosure, either through the actions of third parties or employees, will not occur. Unauthorized disclosure could adversely affect our reputation and expose us to material claims for damages.

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

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.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)). Our internal control over financial reporting is designed 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. Because of its inherent limitations, however, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our internal control over financial reporting using the framework in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on such evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2014.

PricewaterhouseCoopers LLP, an independent registered public accounting firm, has audited the consolidated financial statements and effectiveness of internal control over financial reporting as of December 31, 2014, as stated in their report which appears herein.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of
MGIC Investment Corporation

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, comprehensive income, shareholders' equity and of cash flows present fairly, in all material respects, the financial position of MGIC Investment Corporation and its subsidiaries (the "Company") at December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Milwaukee, Wisconsin
February 27, 2015

Consolidated Balance Sheets

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
December 31, 2014 and 2013

	2014	2013
	(In thousands)	
ASSETS		
Investment portfolio (notes 6 and 7):		
Securities, available-for-sale, at fair value:		
Fixed maturities (amortized cost, 2014 – $4,602,514; 2013 – $4,948,543)	$ 4,609,614	$ 4,863,925
Equity securities	3,055	2,894
Total investment portfolio	4,612,669	4,866,819
Cash and cash equivalents	197,882	332,692
Restricted cash and cash equivalents (note 2)	17,212	17,440
Accrued investment income	30,518	31,660
Prepaid reinsurance premiums (note 11)	47,623	36,243
Reinsurance recoverable on loss reserves (note 11)	57,841	64,085
Reinsurance recoverable on paid losses (note 11)	6,424	10,425
Premiums receivable	57,442	62,301
Home office and equipment, net	28,693	26,185
Deferred insurance policy acquisition costs	12,240	9,721
Profit commission receivable (note 11)	91,500	2,368
Other assets	106,390	141,451
Total assets	$ 5,266,434	$ 5,601,390
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Loss reserves (notes 9 and 11)	$ 2,396,807	$ 3,061,401
Premium deficiency reserve (note 10)	23,751	48,461
Unearned premiums	203,414	154,479
Senior notes (note 8)	61,918	82,773
Convertible senior notes (note 8)	845,000	845,000
Convertible junior debentures (note 8)	389,522	389,522
Other liabilities	309,119	275,216
Total liabilities	4,229,531	4,856,852
Contingencies (note 20)		
Shareholders' equity (note 15):		
Common stock (one dollar par value, shares authorized 1,000,000; shares issued 2014 and 2013 – 340,047; outstanding 2014 – 338,560; 2013 – 337,758)	340,047	340,047
Paid-in capital	1,663,592	1,661,269
Treasury stock (shares at cost 2014 – 1,487; 2013 – 2,289)	(32,937)	(64,435)
Accumulated other comprehensive loss, net of tax (note 12)	(81,341)	(117,726)
Retained deficit	(852,458)	(1,074,617)
Total shareholders' equity	1,036,903	744,538
Total liabilities and shareholders' equity	$ 5,266,434	$ 5,601,390

See accompanying notes to consolidated financial statements.

Consolidated Statements of Operations

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
Years Ended December 31, 2014, 2013 and 2012

	2014	2013	2012
	(In thousands, except per share data)		
Revenues:			
Premiums written:			
Direct	$ 999,943	$ 994,910	$1,049,549
Assumed	1,653	2,074	2,425
Ceded (note 11)	(119,634)	(73,503)	(34,142)
Net premiums written	881,962	923,481	1,017,832
(Increase) decrease in unearned premiums	(37,591)	19,570	15,338
Net premiums earned (note 11)	844,371	943,051	1,033,170
Investment income, net of expenses (note 6)	87,647	80,739	121,640
Net realized investment gains (losses) (note 6):			
Total other-than-temporary impairment losses	(144)	(328)	(2,310)
Portion of losses recognized in other comprehensive income (loss), before taxes (note 12)	–	–	–
Net impairment losses recognized in earnings	(144)	(328)	(2,310)
Other realized investment gains	1,501	6,059	197,719
Net realized investment gains	1,357	5,731	195,409
Other revenue	8,422	9,914	28,145
Total revenues	941,797	1,039,435	1,378,364
Losses and expenses:			
Losses incurred, net (notes 9 and 11)	496,077	838,726	2,067,253
Change in premium deficiency reserve (note 10)	(24,710)	(25,320)	(61,036)
Amortization of deferred policy acquisition costs	7,618	10,641	7,452
Other underwriting and operating expenses, net (note 11)	138,441	181,877	193,995
Interest expense (note 8)	69,648	79,663	99,344
Total losses and expenses	687,074	1,085,587	2,307,008
Income (loss) before tax	254,723	(46,152)	(928,644)
Provision for (benefit from) income taxes (note 14)	2,774	3,696	(1,565)
Net income (loss)	$ 251,949	$ (49,848)	$ (927,079)
Income (loss) per share (note 3):			
Basic	$ 0.74	$ (0.16)	$ (4.59)
Diluted	$ 0.64	$ (0.16)	$ (4.59)
Weighted average common shares outstanding – basic (note 3)	338,523	311,754	201,892
Weighted average common shares outstanding – diluted (note 3)	413,547	311,754	201,892
Dividends per share	$ –	$ –	$ –

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
Years Ended December 31, 2014, 2013 and 2012

	2014	2013	2012
		(In thousands)	
Net income (loss)	$ 251,949	$ (49,848)	$ (927,079)
Other comprehensive income (loss), net of tax (note 12):			
Change in unrealized investment gains and losses (note 6)	91,139	(123,591)	(78,659)
Benefit plans adjustment (note 13)	(52,112)	68,038	(1,221)
Foreign currency translation adjustment	(2,642)	(14,010)	1,593
Other comprehensive income (loss), net of tax	36,385	(69,563)	(78,287)
Comprehensive income (loss)	$ 288,334	$ (119,411)	$ (1,005,366)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
Years Ended December 31, 2014, 2013 and 2012

	Common stock	Paid-in capital	Treasury stock	Accumulated other comprehensive income (loss) (note 12)	Retained earnings (deficit)	Total shareholders' equity
	(In thousands)					
Balance, December 31, 2011	$ 205,047	$ 1,135,821	$ (162,542)	$ 30,124	$ (11,635)	$ 1,196,815
Net loss	—	—	—	—	(927,079)	(927,079)
Change in unrealized investment gains and losses, net	—	—	—	(78,659)	—	(78,659)
Reissuance of treasury stock, net	—	(8,749)	57,583	—	(51,567)	(2,733)
Equity compensation (note 18)	—	8,224	—	—	—	8,224
Benefit plans adjustments, net	—	—	—	(1,221)	—	(1,221)
Unrealized foreign currency translation adjustment, net	—	—	—	1,593	—	1,593
Balance, December 31, 2012	$ 205,047	$ 1,135,296	$ (104,959)	$ (48,163)	$ (990,281)	$ 196,940
Net loss	—	—	—	—	(49,848)	(49,848)
Change in unrealized investment gains and losses, net (note 6)	—	—	—	(123,591)	—	(123,591)
Common stock issuance (note 15)	135,000	528,335	—	—	—	663,335
Reissuance of treasury stock, net (note 15)	—	(7,892)	40,524	—	(34,488)	(1,856)
Equity compensation (note 18)	—	5,530	—	—	—	5,530
Benefit plans adjustments, net (note 13)	—	—	—	68,038	—	68,038
Unrealized foreign currency translation adjustment, net	—	—	—	(14,010)	—	(14,010)
Balance, December 31, 2013	$ 340,047	$ 1,661,269	$ (64,435)	$ (117,726)	$ (1,074,617)	$ 744,538
Net income	—	—	—	—	251,949	251,949
Change in unrealized investment gains and losses, net (note 6)	—	—	—	91,139	—	91,139
Reissuance of treasury stock, net (note 15)	—	(6,680)	31,498	—	(29,790)	(4,972)
Equity compensation (note 18)	—	9,003	—	—	—	9,003
Benefit plans adjustments, net (note 13)	—	—	—	(52,112)	—	(52,112)
Unrealized foreign currency translation adjustment, net	—	—	—	(2,642)	—	(2,642)
Balance, December 31, 2014	$ 340,047	$ 1,663,592	$ (32,937)	$ (81,341)	$ (852,458)	$ 1,036,903

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
Years Ended December 31, 2014, 2013 and 2012

	2014	2013	2012
		(In thousands)	
Cash flows from operating activities:			
Net income (loss)	$ 251,949	$ (49,848)	$ (927,079)
Adjustments to reconcile net income (loss) to net cash used in operating activities:			
Depreciation and other amortization	48,365	68,716	100,135
Deferred tax provision (benefit)	312	590	(34)
Realized investment gains, net	(1,501)	(6,059)	(197,719)
Net investment impairment losses	144	328	2,310
Loss (gain) on repurchase on senior notes	837	—	(17,775)
Other	(5,084)	30,077	(21,802)
Change in certain assets and liabilities:			
Accrued investment income	1,142	(4,417)	28,423
Prepaid reinsurance premium	(11,380)	(35,402)	776
Reinsurance recoverable on loss reserves	6,244	40,763	49,759
Reinsurance recoverable on paid losses	4,001	5,180	4,286
Premiums receivable	4,859	5,527	3,245
Deferred insurance policy acquisition costs	(2,519)	1,524	(3,740)
Profit commission receivable	(89,132)	(2,368)	—
Real estate	622	(9,817)	(1,842)
Loss reserves	(664,594)	(995,442)	(500,669)
Premium deficiency reserve	(24,710)	(25,320)	(61,036)
Unearned premiums	48,935	15,639	(16,026)
Return premium accrual	22,200	(11,800)	(11,700)
Income taxes payable (current)	(674)	598	1,888
Net cash used in operating activities	(409,984)	(971,531)	(1,568,600)
Cash flows from investing activities:			
Purchases of investments:			
Fixed maturities	(1,979,917)	(3,248,602)	(5,025,204)
Equity securities	(94)	(111)	(132)
Proceeds from sales of fixed maturities	1,147,624	1,054,985	5,216,934
Proceeds from maturity of fixed maturities	1,129,087	1,357,028	1,461,955
Net increase (decrease) in payable for securities	13	13	(20)
Net decrease (increase) in restricted cash	228	(17,440)	—
Net cash provided by (used in) investing activities	296,941	(854,127)	1,653,533
Cash flows from financing activities:			
Net proceeds from convertible senior notes	—	484,625	—
Common stock shares issued	—	663,335	—
Repayment of long-term debt	(21,767)	(17,235)	(53,107)
Net cash (used in) provided by financing activities	(21,767)	1,130,725	(53,107)
Net (decrease) increase in cash and cash equivalents	(134,810)	(694,933)	31,826
Cash and cash equivalents at beginning of year	332,692	1,027,625	995,799
Cash and cash equivalents at end of year	$ 197,882	$ 332,692	$ 1,027,625

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1. Nature of Business

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 to protect against loss from defaults on low down payment residential mortgage loans. Our principal product is primary mortgage insurance. Primary insurance provides mortgage default protection on individual loans and covers unpaid loan principal, delinquent interest and certain expenses associated with the default and subsequent foreclosure or sale approved by us. Prior to 2009, we also wrote pool mortgage insurance. Pool insurance generally covers the excess of the loss on a defaulted mortgage loan which exceeds the claim payment under the primary coverage, if primary insurance is required on that mortgage loan, as well as the total loss on a defaulted mortgage loan which did not require primary insurance. Through certain other non-insurance subsidiaries, we also provide various services for the mortgage finance industry, such as contract underwriting and portfolio analysis and retention. We began our 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 Australian operations are included in our consolidated financial statements; however they are not material to our consolidated results.

At December 31, 2014, our direct domestic primary insurance in force was $164.9 billion, which represents the principal balance in our records of all mortgage loans that we insure, and our direct domestic primary risk in force was $42.9 billion, which represents the insurance in force multiplied by the insurance coverage percentage. Our direct pool risk in force at December 31, 2014 was approximately $0.8 billion ($0.3 billion on pool policies with aggregate loss limits and $0.5 billion on pool policies without aggregate loss limits). Our risk in force in Australia at December 31, 2014 was approximately $346 million which represents the risk associated with 100% coverage on the insurance in force. The mortgage insurance we provided in Australia only covers the unpaid loan balance after the sale of the underlying property.

Capital – GSEs

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

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

The public input period for the draft PMIERs ended September 8, 2014. We currently expect the PMIERs to be published in final form no earlier than late in the first quarter of 2015 and the "effective date" to occur 180 days thereafter. Under the draft PMIERs mortgage insurers would have up to two years after the final PMIERs are published to meet the GSE Financial Requirements (the "transition period"). A mortgage insurer that fails to certify by the effective date that it meets the GSE Financial Requirements would be subject to a transition plan having milestones for actions to achieve compliance. The transition plan would be submitted for the approval of each GSE within 90 days after the effective date, and if approved, the GSEs would monitor the insurer's progress. During the transition period for an insurer with an approved transition plan, an insurer would be in remediation (a status similar to the one under which MGIC has been operating with the GSEs for over five years) and eligible to provide mortgage insurance on loans owned or guaranteed by the GSEs.

Shortly after the draft PMIERs were released, we estimated that we would have a shortfall in Available Assets of approximately $600 million on December 31, 2014, which was when the final PMIERs were expected to be published. We also estimated that the shortfall would be reduced to approximately $300 million through operations over a two year period. Those shortfall projections assumed the risk in force and capital of MGIC's MIC subsidiary would be repatriated to MGIC, and full credit would be given in the calculation of Minimum Required Assets for our existing reinsurance agreement (approximately $500 million of credit at December 31, 2014, increasing to $600 million of credit over two years). However, we do not expect our existing reinsurance agreement would be given full credit under the PMIERs. Applying the same assumptions, but considering the delay in publication of the final PMIERs, our shortfall projections have improved modestly. Also, we have been in discussions with the participating reinsurers regarding modifications to the agreement so that we would receive additional PMIERs credit.

In addition to modifying our reinsurance agreement, we believe we will be able to use a combination of the alternatives outlined below so that MGIC will meet the GSE Financial Requirements of the draft PMIERs even if they are implemented as released. As of December 31, 2014, we had approximately $491 million of cash and investments at our holding company, a portion of which we believe may be available for future contribution to MGIC. Furthermore, there are regulated insurance affiliates of MGIC that have approximately $100 million of assets as of December 31, 2014. We expect that, subject to regulatory approval, we would be able to use a material portion of these assets to increase the Available Assets of MGIC. Additionally, if the draft PMIERs are implemented as released, we would consider seeking non-dilutive debt capital to mitigate the shortfall. Factors that may negatively impact MGIC's ability to comply with the GSE Financial Requirements within the transition period include the following:

- Changes in the actual PMIERs adopted from the draft PMIERs may increase the amount of MGIC's Minimum Required Assets or reduce its Available Assets, with the result that the shortfall in Available Assets could increase;
- We may not obtain regulatory approval to transfer assets from MGIC's regulated insurance affiliates to the extent we are assuming because regulators project higher losses than we project or require a level of capital be maintained in these companies higher than we are assuming;
- We may not be able to access the non-dilutive debt markets due to market conditions, concern about our creditworthiness, or other factors, in a manner sufficient to provide the funds we are assuming;
- We may not be able to achieve modifications in our existing reinsurance agreements necessary to minimize the reduction in the credit for reinsurance under the draft PMIERs;
- We may not be able to obtain additional reinsurance necessary to further reduce the Minimum Required Assets due to market capacity, pricing or other reasons (including disapproval of the proposed transaction by a GSE); and
- Our future operating results may be negatively impacted by the matters discussed throughout the financial statement footnotes. Such matters could decrease our revenues, increase our losses or require the use of assets, thereby increasing our shortfall in Available Assets.

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

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

See additional disclosure regarding statutory capital in Note 17 – "Statutory Capital."

2. Basis of Presentation

The accompanying consolidated financial statements have been prepared on the basis of accounting principles generally accepted in the United States of America ("GAAP"), as codified in the Accounting Standards Codification. In accordance with GAAP, we are required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Principles of Consolidation

The consolidated financial statements include the accounts of MGIC Investment Corporation and its majority-owned subsidiaries. All intercompany transactions have been eliminated.

Cash and Cash Equivalents

We consider money market funds and investments with original maturities of three months or less to be cash equivalents.

Restricted cash and cash equivalents

During the second quarter of 2013, approximately $60.3 million was placed in escrow in connection with the two agreements we entered into to resolve our dispute with Countrywide Home Loans ("CHL") and its affiliate, Bank of America, N.A., as successor to Countrywide Home Loans Servicing LP ("BANA" and collectively with CHL, "Countrywide") regarding rescissions. In the fourth quarter of 2013, approximately $42.9 million was released from escrow in connection with the BANA agreement. At December 31, 2014, approximately $17.2 million remains in escrow in connection with the CHL agreement. See additional discussion of these settlement agreements in Note 20 – "Litigation and contingencies."

Reclassifications

Certain reclassifications have been made in the accompanying consolidated financial statements to 2013 and 2012 amounts to conform to the 2014 presentation.

Subsequent Events

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

3. Summary of Significant Accounting Policies

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 U.S. Treasury securities, equity securities, and Australian government and semi government securities.

Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and inputs, other than quoted prices, that are observable in the marketplace for the financial instrument. The observable inputs are used in valuation models to calculate the fair value of the financial instruments. Financial assets utilizing Level 2 inputs primarily include obligations of U.S. government corporations and agencies and 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 primarily include certain state premium tax credit investments. Our non-financial assets that are classified as Level 3 securities consist of real estate acquired through claim settlement. The fair value of real estate acquired is the lower of our acquisition cost or a percentage of the appraised value. The percentage applied to the appraised value is based upon our historical sales experience adjusted for current trends.

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.

Investments

Our entire investment portfolio is classified as available-for-sale and is reported at fair value. The related unrealized gains or losses are, after considering the related tax expense or benefit, recognized as a component of accumulated other comprehensive income (loss) in shareholders' equity. Realized investment gains and losses are reported in income based upon specific identification of securities sold. (See Note 6 – "Investments.")

Each quarter we perform reviews of our investments in order to determine whether declines in fair value below amortized cost were considered other-than-temporary in accordance with applicable guidance. In evaluating whether a decline in fair value is other-than-temporary, we consider several factors including, but not limited to:

- our intent to sell the security or whether it is more likely than not that we will be required to sell the security before recovery;
- extent and duration of the decline;
- failure of the issuer to make scheduled interest or principal payments;
- change in rating below investment grade; and
- adverse conditions specifically related to the security, an industry, or a geographic area.

Based on our evaluation, we will record an other-than-temporary impairment adjustment on a security if we intend to sell the impaired security, if it is more likely than not that we will be required to sell the impaired security prior to recovery of its amortized cost basis, or if the present value of the cash flows we expect to collect is less than the amortized cost basis of the security. If the fair value of a security is below its amortized cost at the time of our intent to sell, the security is classified as other-than-temporarily impaired and the full amount of the impairment is recognized as a loss in the statement of operations. Otherwise, when a security is considered to be other-than-temporarily impaired, the losses are separated into the portion of the loss that represents the credit loss; and the portion that is due to other factors. The credit loss portion is recognized as a loss in the statement of operations, while the loss due to other factors is recognized in accumulated other comprehensive income (loss), net of taxes. A credit loss is determined to exist if the present value of the discounted cash flows, using the security's original yield, expected to be collected from the security are less than the cost basis of the security.

Home office and equipment

Home office and equipment is carried at cost net of depreciation. For financial statement reporting purposes, depreciation is determined on a straight-line basis for the home office, equipment and data processing hardware over estimated lives of 45, 5 and 3 years, respectively. For income tax purposes, we use accelerated depreciation methods.

Home office and equipment is shown net of accumulated depreciation of $54.9 million, $53.0 million and $51.3 million at December 31, 2014, 2013 and 2012, respectively. Depreciation expense for the years ended December 31, 2014, 2013 and 2012 was $2.2 million, $1.8 million and $1.9 million, respectively.

Deferred Insurance Policy Acquisition Costs

Costs directly associated with the successful acquisition of mortgage insurance business, consisting of employee compensation and other policy issuance and underwriting expenses, are initially deferred and reported as deferred insurance policy acquisition costs (“DAC”). The deferred costs are net of any ceding commissions received associated with our reinsurance agreements. For each underwriting year of business, these costs are amortized to income in proportion to estimated gross profits over the estimated life of the policies. We utilize anticipated investment income in our calculation. This includes accruing interest on the unamortized balance of DAC. The estimates for each underwriting year are reviewed quarterly and updated when necessary to reflect actual experience and any changes to key variables such as persistency or loss development. If a premium deficiency exists (in other words, no gross profit is expected), we reduce the related DAC by the amount of the deficiency or to zero through a charge to current period earnings. If the deficiency is more than the related DAC balance, we then establish a premium deficiency reserve equal to the excess, by means of a charge to current period earnings.

Loss Reserves

Reserves are established for reported insurance losses and loss adjustment expenses based on when we receive notices of default on insured mortgage loans. We consider a loan in default when it is two or more payments past due. Even though the accounting standard, Accounting Standards Codification (“ASC”) 944, regarding accounting and reporting by insurance entities specifically excludes mortgage insurance from its guidance relating to loss reserves, we establish loss reserves using the general principles contained in the insurance standard. However, consistent with industry standards for mortgage insurers, we do not establish loss reserves for future claims on insured loans which are not currently in default. 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. Our loss estimates are established based upon historical experience, including rescission and loan modification activity. Adjustments to reserve estimates are reflected in the financial statements in the years in which the adjustments are made. The liability for reinsurance assumed is based on information provided by the ceding companies.

Reserves are also established for estimated losses from defaults occurring prior to the close of an accounting period on notices of default not yet reported to us. These incurred but not reported (“IBNR”) reserves are also established using estimated claim rates and claim severities.

Reserves also provide for the estimated costs of settling claims, including legal and other expenses and general expenses of administering the claims settlement process. Reserves are also ceded to reinsurers under our reinsurance agreements. (See Note 9 – “Loss Reserves” and Note 11 – “Reinsurance.”)

Premium Deficiency Reserve

After our loss reserves are initially established, we perform premium deficiency tests using our best estimate assumptions as of the testing date. Premium deficiency reserves are established, if necessary, when the present value of expected future losses and expenses exceeds the present value of expected future premium and already established reserves. The discount rate used in the calculation of the premium deficiency reserve is based upon our pre-tax investment yield at year-end. Products are grouped for premium deficiency purposes based on similarities in the way the products are acquired, serviced and measured for profitability.

Calculations of premium deficiency reserves require the use of significant judgments and estimates to determine the present value of future premium and present value of expected losses and expenses on our business. The present value of future premium relies on, among other factors, assumptions about persistency and repayment patterns on underlying loans. The present value of expected losses and expenses depends on assumptions relating to severity of claims and claim rates on current defaults, and expected defaults in future periods. These assumptions also include an estimate of expected rescission activity. Assumptions used in calculating the deficiency reserves can be affected by volatility in the current housing and mortgage lending industries and these effects could be material. To the extent premium patterns and actual loss experience differ from the assumptions used in calculating the premium deficiency reserves, the differences between the actual results and our estimate will affect future period earnings. (See Note 10 – "Premium Deficiency Reserve.")

Revenue Recognition

We write policies which are guaranteed renewable contracts at the insured's option on a monthly, single, or annual premium basis. We have no ability to reunderwrite or reprice these contracts. Premiums written on monthly policies are earned as coverage is provided. Premiums written on a single premium basis and an annual premium basis are initially deferred as unearned premium reserve and earned over the policy life. Premiums written on policies covering more than one year are amortized over the policy life in relationship to the anticipated incurred loss pattern based on historical experience. Premiums written on annual policies are earned on a monthly pro rata basis. When a policy is cancelled for a reason other than rescission or claim payment, all premium that is non-refundable is immediately earned. Any refundable premium is returned to the servicer or borrower. Cancellations also include rescissions and policies cancelled due to claim payment. When a policy is rescinded, all previously collected premium is returned to the lender and when a claim is paid we return any premium received since the date of default. The liability associated with our estimate of premium to be returned is accrued for separately and separate components of this liability are included in "Other liabilities" and "Premium deficiency reserves" on our consolidated balance sheet. Changes in these liabilities affect premiums written and earned and change in premium deficiency reserve, respectively. The actual return of premium for all periods affects premiums written and earned. Policy cancellations also lower the persistency rate which is a variable used in calculating the rate of amortization of deferred insurance policy acquisition costs.

Fee income of our non-insurance subsidiaries is earned and recognized as the services are provided and the customer is obligated to pay. Fee income consists primarily of contract underwriting and related fee-based services provided to lenders and is included in "Other revenue" on the consolidated statements of operations.

Income Taxes

Deferred income taxes are provided under the liability method, which recognizes the future tax effects of temporary differences between amounts reported in the financial statements and the tax bases of these items. The expected tax effects are computed at the enacted regular federal tax rate. Using this method, we have recorded a net deferred tax asset, before valuation allowance, in large part due to net operating losses incurred in prior years. On a quarterly basis, we review the need to maintain a deferred tax asset valuation allowance as an offset to the net deferred tax asset, before valuation allowance. 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, the expiration dates of the carryforwards, the cyclical nature of our operating results, and available tax planning strategies. As discussed in Note 14 – "Income Taxes," we continue to reduce our benefit from income tax through the recognition of a valuation allowance.

We provide for uncertain tax positions and the related interest and penalties based on our assessment of whether a tax benefit is more likely than not to be sustained under any examination by taxing authorities.

Benefit Plans

We have a non-contributory defined benefit pension plan covering substantially all employees, as well as a supplemental executive retirement plan. Retirement benefits are based on compensation and years of service. We recognize these retirement benefit costs over the period during which employees render the service that qualifies them for benefits. Our policy is to fund pension cost as required under the Employee Retirement Income Security Act of 1974.

We offer both medical and dental benefits for retired domestic employees, their eligible spouses and dependents until the retiree reaches the age of 65. Under the plan retirees pay a premium for these benefits. We accrue the estimated costs of retiree medical and dental benefits over the period during which employees render the service that qualifies them for benefits. (See Note 13 – "Benefit Plans.")

Reinsurance

Loss reserves and unearned premiums are reported before taking credit for amounts ceded under reinsurance agreements. Ceded loss reserves are reflected as "Reinsurance recoverable on loss reserves." Ceded unearned premiums are reflected as "Prepaid reinsurance premiums." Amounts due from reinsurers on paid claims are reflected as "Reinsurance recoverable on paid losses." Ceded premiums payable are included in "Other liabilities." Any profit commissions are included with "Premiums written – Ceded" and any ceding commissions are included with "Other underwriting and operating expenses, net." We remain liable for all reinsurance ceded. (See Note 11 – "Reinsurance.")

Foreign Currency Translation

Assets and liabilities denominated in a foreign currency are translated at the year-end exchange rates. Operating results are translated at average rates of exchange prevailing during the year. Unrealized gains and losses, net of deferred taxes, resulting from translation are included in accumulated other comprehensive income (loss) in shareholders' equity. Gains and losses resulting from transactions in a foreign currency are recorded in current period net income (loss) at the rate on the transaction date.

Share-Based Compensation

We have certain share-based compensation plans. Under the fair value method, compensation cost is measured at the grant date based on the fair value of the award and is recognized over the service period which generally corresponds to the vesting period. The fair value of awards classified as liabilities is remeasured at each reporting period until the award is settled. Awards under our plans generally vest over periods ranging from one to three years. (See Note 18 – "Share-based Compensation Plans.")

Earnings per Share

Basic earnings per share (“EPS”) is calculated by dividing net income (loss) by the weighted average number of shares of common stock outstanding. Diluted EPS includes the components of basic EPS and also gives effect to dilutive common stock equivalents. We calculate diluted EPS using the treasury stock method and if-converted method. Under the treasury stock method, diluted EPS reflects the potential dilution that could occur if unvested restricted stock or granted stock options result in the issuance of common stock. Under the if-converted method, diluted EPS reflects the potential dilution that could occur if our convertible debt instruments result in the issuance of common stock. The determination of potentially issuable shares does not consider the satisfaction of the conversion requirements and the shares are included in the determination of diluted EPS as of the beginning of the period, if dilutive. We have several debt issuances that could potentially result in contingently issuable shares and consider each potential issuance of shares separately to reflect the maximum potential dilution. Accordingly, our dilutive common stock equivalents may not reflect all of the potential contingently issuable shares that could be required to be issued upon any debt conversion. For purposes of calculating basic and diluted EPS, vested restricted stock awards are considered outstanding.

GAAP requires unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents, whether paid or unpaid, to be treated as participating securities and included in the computation of EPS pursuant to the two-class method. Our participating securities are composed of unvested restricted stock with non-forfeitable rights to dividends. There have been no dividends declared by us since the issuance of these participating securities and there has been no reduction to net income available to common shareholders. For the year ended December 31, 2014, participating securities of 0.1 million have been included in basic EPS and 0.1 million and 1.1 million have been excluded for the years ended December 31, 2013 and 2012, respectively, as they are anti-dilutive due to our net losses.

The computation of diluted EPS for the year ended December 31, 2014 includes the weighted average unvested restricted stock units outstanding of 3.1 million. During 2013 and 2012 we reported a consolidated net loss. As a result of the net loss, unvested restricted stock awards were anti-dilutive for the year and were not included in the computation of diluted weighted average shares.

For the year ended December 31, 2014, the outstanding Convertible Senior Notes due in 2020 are reflected in diluted earnings per share using the “if-converted” method. Under this method, if dilutive, the common stock is assumed issued as of the beginning the reporting period and included in calculating diluted EPS. In addition, if dilutive, interest expense, net of tax, related to the outstanding Convertible Senior Notes due in 2020 is added back to earnings in calculating diluted EPS. For the year ended December 31, 2014, 2013, and 2012, common stock equivalents under our convertible debt instruments of 54.5 million, 126.4 million, and 60.7 million, respectively, were excluded from weighted average shares as they were anti-dilutive.

The following table reconciles basic and diluted EPS amounts:

	Years Ended December 31, 2014	2013	2012
	(In thousands, except per share data)		
Basic earnings (loss) per share:			
Net income (loss)	$ 251,949	$ (49,848)	$ (927,079)
Average common shares outstanding	338,523	311,754	201,892
Basic income (loss) per share	$ 0.74	$ (0.16)	$ (4.59)
Diluted earnings (loss) per share:			
Net income (loss)	$ 251,949	$ (49,848)	$ (927,079)
Interest expense, net of tax:			
2% Convertible Senior Notes due 2020	12,197	-	-
Diluted income available to common shareholders	$ 264,146	$ (49,848)	$ (927,079)
Weighted-average shares - Basic	338,523	311,754	201,892
Effect of dilutive securities:			
Unvested restricted stock	3,082	-	-
Convertible debt common stock equivalents	71,942	-	-
Weighted-average shares - Diluted	413,547	311,754	201,892
Diluted income (loss) per share	$ 0.64	$ (0.16)	$ (4.59)

4. New Accounting Policies

In August 2014, the FASB issued an update that requires management to evaluate whether there is substantial doubt about the entity's ability to continue as a going concern and, if so, disclose that fact. Management will also be required to evaluate and disclose whether its plans alleviate that doubt. The guidance is effective for annual periods ending after December 15, 2016 and for interim and annual periods thereafter. We do not expect the adoption of this update to have a material effect on the presentation of our consolidated financial statements and disclosures.

In June 2014, the FASB issued updated guidance to resolve diversity in practice concerning employee shared-based payments that contain performance targets that could be achieved after the requisite service period. The updated guidance requires that a performance target that affects vesting and that can be achieved after the requisite service period be treated as a performance condition. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the periods for which service has been rendered. If the performance target becomes probable of being achieved before the end of the service period, the remaining unrecognized compensation cost for which requisite service has not yet been rendered is recognized prospectively over the remaining service period. The total amount of compensation cost recognized during and after the service period should reflect the number of awards that are expected to vest and should be adjusted to reflect those awards that ultimately vest. This updated guidance is effective for annual and interim periods beginning after December 15, 2015. The adoption of this guidance is not expected to have a significant impact on our consolidated financial statements and disclosures.

In May 2014, the FASB issued updated guidance to clarify the principles for recognizing revenue. While insurance contracts are not within the scope of this updated guidance, our fee income related to contract underwriting and other fee-based services provided to lenders will be subject to this guidance. The updated guidance requires an entity to recognize revenue as performance obligations are met, in order to reflect the transfer of promised goods or services to customers in an amount that reflects the consideration the entity is entitled to receive for those goods or services. The guidance also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts. This update is effective for the quarter ending March 31, 2017. The adoption of this guidance is not expected to have a significant impact on our consolidated financial statements and disclosures.

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

5. Related Party Transactions

There were no related party transactions during 2014, 2013 or 2012.

6. Investments

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses (1)	Fair Value
	(In thousands)			
December 31, 2014				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 349,153	$ 2,752	$ (5,130)	$ 346,775
Obligations of U.S. states and political subdivisions	844,942	12,961	(2,761)	855,142
Corporate debt securities	2,418,991	16,325	(10,035)	2,425,281
Asset-backed securities	286,260	535	(140)	286,655
Residential mortgage-backed securities	329,983	254	(9,000)	321,237
Commercial mortgage-backed securities	276,215	1,221	(2,158)	275,278
Collateralized loan obligations	61,340	-	(1,264)	60,076
Debt securities issued by foreign sovereign governments	35,630	3,540	-	39,170
Total debt securities	4,602,514	37,588	(30,488)	4,609,614
Equity securities	3,003	61	(9)	3,055
Total investment portfolio	$ 4,605,517	$ 37,649	$ (30,497)	$ 4,612,669

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

(1) There were no other-than-temporary impairment losses recorded in other comprehensive income (loss) at December 31, 2014 and 2013.

Our foreign investments primarily consist of the investment portfolio supporting our Australian domiciled subsidiary. In December 2013, our Australian subsidiary liquidated a portion of its investment portfolio and repatriated, with regulatory approval, $89.5 million to its parent MGIC. The remaining portfolio is comprised of Australian government and semi government securities, representing 86% of the market value of our foreign investments with the remaining 10% invested in corporate securities and 4% in cash equivalents. Eighty-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 17% is rated AA. At December 31, 2014 the investment portfolio fair value in our Australian operations was approximately $46 million.

The amortized cost and fair values of debt securities at December 31, 2014, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Because most asset-backed and mortgage-backed securities and collateralized loan obligations provide for periodic payments throughout their lives, they are listed below in separate categories.

	Amortized Cost	Fair Value
	(In thousands)	
December 31, 2014		
Due in one year or less	$ 330,602	$ 330,982
Due after one year through five years	1,903,661	1,909,422
Due after five years through ten years	1,063,679	1,069,433
Due after ten years	350,774	356,531
	3,648,716	3,666,368
Asset-backed securities	286,260	286,655
Residential mortgage-backed securities	329,983	321,237
Commercial mortgage-backed securities	276,215	275,278
Collateralized loan obligations	61,340	60,076
Total at December 31, 2014	$ 4,602,514	$ 4,609,614

At December 31, 2014 and 2013, the investment portfolio had gross unrealized losses of $30.5 million and $101.4 million, respectively. For those securities in an unrealized loss position, the length of time the securities were in such a position, as measured by their month-end fair values, is as follows:

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
December 31, 2014						
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 58,166	$ 138	$ 232,351	$ 4,992	$ 290,517	$ 5,130
Obligations of U.S. states and political subdivisions	166,408	1,066	114,465	1,695	280,873	2,761
Corporate debt securities	816,555	5,259	243,208	4,776	1,059,763	10,035
Asset-backed securities	54,491	80	11,895	60	66,386	140
Residential mortgage-backed securities	24,168	34	263,002	8,966	287,170	9,000
Commercial mortgage-backed securities	89,301	810	110,652	1,348	199,953	2,158
Collateralized loan obligations	-	-	60,076	1,264	60,076	1,264
Debt securities issued by foreign sovereign governments	-	-	-	-	-	-
Equity securities	167	1	235	8	402	9
Total investment portfolio	$1,209,256	$ 7,388	$1,035,884	$ 23,109	$2,245,140	$ 30,497

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

The unrealized losses in all categories of our investments at December 31, 2014 were primarily caused by the difference in interest rates at December 31, 2014 compared to interest rates at the time of purchase. There were 423 and 571 securities in an unrealized loss position at December 31, 2014 and 2013, respectively. At December 31, 2014, the fair value as a percent of amortized cost of the securities in an unrealized loss position was 99% and approximately half of the securities in an unrealized loss position were backed by the U.S. Government.

We recognized other-than-temporary impairment ("OTTI") losses in earnings of $0.1 million and $0.3 million during 2014 and 2013, respectively. During 2012 we recognized OTTI losses in earnings of $2.3 million, related to impairments on certain auction rate securities.

For the years ended December 31, 2014, 2013, and 2012, there were no credit losses recognized in earnings for which a portion of an OTTI loss was recognized in accumulated other comprehensive income (loss).

Net investment income is comprised of the following:

	2014	2013	2012
		(In thousands)	
Fixed maturities	$ 89,437	$ 82,168	$ 122,886
Equity securities	227	229	200
Cash equivalents	179	353	333
Other	711	675	782
Investment income	90,554	83,425	124,201
Investment expenses	(2,907)	(2,686)	(2,561)
Net investment income	$ 87,647	$ 80,739	$ 121,640

The net realized investment gains (losses), including impairment losses, and change in net unrealized gains (losses) of investments are as follows:

	2014	2013	2012
		(In thousands)	
Net realized investment gains (losses) on investments:			
Fixed maturities	$ 1,000	$ 3,274	$ 195,652
Equity securities	356	1,068	487
Other	1	1,389	(730)
Total net realized investment gains	$ 1,357	$ 5,731	$ 195,409
Change in net unrealized gains (losses):			
Fixed maturities	$ 91,718	$ (126,020)	$ (78,604)
Equity securities	66	(153)	58
Other	-	-	-
Total increase (decrease) in net unrealized gains/losses	$ 91,784	$ (126,173)	$ (78,546)

The gross realized gains, gross realized losses and impairment losses are as follows:

	2014	2013	2012
		(In thousands)	
Gross realized gains	$ 4,966	$ 11,043	$ 213,827
Gross realized losses	(3,465)	(4,984)	(16,108)
Impairment losses	(144)	(328)	(2,310)
Net realized gains on securities	$ 1,357	$ 5,731	$ 195,409

We had $20.2 million and $20.3 million of investments at fair value on deposit with various states at December 31, 2014 and 2013, respectively, due to regulatory requirements of those state insurance departments.

7. Fair Value Measurements

Assets measured at fair value included those listed, by hierarchy level, in the following tables as of December 31, 2014 and 2013:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(In thousands)		
December 31, 2014				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 346,775	$ 188,824	$ 157,951	$ -
Obligations of U.S. states and political subdivisions	855,142	-	853,296	1,846
Corporate debt securities	2,425,281	-	2,425,281	-
Asset-backed securities	286,655	-	286,655	-
Residential mortgage-backed securities	321,237	-	321,237	-
Commercial mortgage-backed securities	275,278	-	275,278	-
Collateralized loan obligations	60,076	-	60,076	-
Debt securities issued by foreign sovereign governments	39,170	39,170	-	-
Total debt securities	4,609,614	227,994	4,379,774	1,846
Equity securities	3,055	2,734	-	321
Total investments	$ 4,612,669	$ 230,728	$ 4,379,774	$ 2,167
Real estate acquired (1)	$ 12,658	$ -	$ -	$ 12,658

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

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(In thousands)		
December 31, 2013				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 639,590	$ 347,273	$ 292,317	$ -
Obligations of U.S. states and political subdivisions	921,367	-	918,944	2,423
Corporate debt securities	2,171,415	-	2,171,415	-
Asset-backed securities	400,486	-	400,486	-
Residential mortgage-backed securities	358,537	-	358,537	-
Commercial mortgage-backed securities	271,383	-	271,383	-
Collateralized loan obligations	60,295	-	60,295	-
Debt securities issued by foreign sovereign governments	40,852	40,852	-	-
Total debt securities	4,863,925	388,125	4,473,377	2,423
Equity securities	2,894	2,573	-	321
Total investments	$ 4,866,819	$ 390,698	$ 4,473,377	$ 2,744
Real estate acquired (1)	$ 13,280	$ -	$ -	$ 13,280

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

During the third quarter of 2014, we changed the classification of our U.S. government corporations and agencies securities from Level 1 to Level 2 within the fair value hierarchy. The fair value of our U.S. government corporations and agencies securities, in current market conditions, is determined from quoted prices for similar instruments in active markets, which is in accordance with our policy for determining fair value for Level 2 securities. The classification within the fair value table as of December 31, 2013 has been revised to conform to the 2014 presentation, as we believe the most appropriate classification for these securities was Level 2 as of that date.

For assets and liabilities measured at fair value using significant unobservable inputs (Level 3), a reconciliation of the beginning and ending balances for the years ended December 31, 2014 and 2013 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 December 31, 2013	$ 2,423	$ -	$ 321	$ 2,744	$ 13,280
Total realized/unrealized gains (losses):					
Included in earnings and reported as losses incurred, net	-	-	-	-	(4,129)
Purchases	30	-	-	30	42,247
Sales	(607)	-	-	(607)	(38,740)
Transfers into Level 3	-	-	-	-	-
Transfers out of Level 3	-	-	-	-	-
Balance at December 31, 2014	$ 1,846	$ -	$ 321	$ 2,167	$ 12,658
Amount of total losses included in earnings for the year ended December 31, 2014 attributable to the change in unrealized losses on assets still held at December 31, 2014	$ -	$ -	$ -	$ -	$ -

	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	-	-	-	-	(4,959)
Purchases	30	-	-	30	39,188
Sales	(737)	(16,889)	-	(17,626)	(24,412)
Transfers into Level 3	-	-	-	-	-
Transfers out of Level 3	-	-	-	-	-
Balance at December 31, 2013	$ 2,423	$ -	$ 321	$ 2,744	$ 13,280
Amount of total losses included in earnings for the year ended December 31, 2013 attributable to the change in unrealized losses on assets still held at December 31, 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, 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	(8,669)	(3,129)	-	(11,798)	-
Included in earnings and reported as net impairment losses recognized in earnings	-	(2,310)	-	(2,310)	
Included in earnings and reported as losses incurred, net	-	-	-	-	(1,126)
Included in other comprehensive income	5,630	733	-	6,363	-
Purchases	27	-	-	27	11,991
Sales	(108,084)	(38,408)	-	(146,492)	(9,023)
Transfers into Level 3	-	-	-	-	-
Transfers out of Level 3	-	-	-	-	-
Balance at December 31, 2012	$ 3,130	$ 17,114	$ 321	$ 20,565	$ 3,463
Amount of total losses included in earnings for the year ended December 31, 2012 attributable to the change in unrealized losses on assets still held at December 31, 2012	$ -	$ -	$ -	$ -	$ -

Authoritative guidance over disclosures about the fair value of financial instruments requires additional disclosure for financial instruments not measured at fair value. Certain financial instruments, including insurance contracts, are excluded from these fair value disclosure requirements. The carrying values of cash and cash equivalents (Level 1) and accrued investment income (Level 2) approximated their fair values.

During 2013 we sold our remaining auction rate securities. At December 31, 2014, the majority of the $2 million balance of Level 3 securities is state premium tax credit investments. The state premium tax credit investments have an average maturity of less than 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%.

Additional fair value disclosures related to our investment portfolio are included in Note 6 – "Investments." Fair value disclosures related to our debt are included in Note 8 – "Debt."

8. Debt

5.375% Senior Notes – due November 2015

At December 31, 2014 and 2013 we had outstanding $61.9 million and $82.9 million, respectively, of 5.375% Senior Notes due in November 2015. Interest on these notes is payable semi-annually in arrears on May 1 and November 1 each year. During the second quarter of 2013 we repurchased $17.2 million of those Senior Notes at par value. In addition, in February 2014, we repurchased an additional $20.9 million in par value at a cost slightly above par. 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. Further, the notes are subject to the indenture between us and the trustee that, among other terms, include provisions that would constitute an event of default under the indenture. Upon such a default, the trustee could accelerate the maturity of the notes independent of any action by holders of the Senior Notes. This description is not intended to be complete in all respect and is qualified in its entirety by the terms of the Senior Notes, including their covenants and events of default. We were in compliance with all covenants at December 31, 2014.

Interest payments on the Senior Notes were $3.6 million and $5.1 million for the years ended December 31, 2014 and 2013, respectively.

5% Convertible Senior Notes – due May 2017

At December 31, 2014 and 2013 we had outstanding $345 million principal amount of 5% Convertible Senior Notes due in May 2017. Interest on the 5% Notes is payable semi-annually in arrears on May 1 and November 1 of each year. The 5% Notes will mature on May 1, 2017. The 5% Notes are convertible, at the holder's option, at an initial conversion rate, which is subject to adjustment, of 74.4186 shares per $1,000 principal amount at any time prior to the maturity date. This represents an initial conversion price of approximately $13.44 per share. These 5% Notes will be equal in right of payment to our other senior debt and will be senior in right of payment to our Convertible Junior Debentures. 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. 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. Further, the notes are subject to the indenture between us and the trustee that, among other terms, include provisions that would constitute an event of default under the indenture. Upon such a default, the trustee could accelerate the maturity of the notes independent of any action by holders of the 5% Notes. This description is not intended to be complete in all respect and is qualified in its entirety by the terms of the 5% Notes, including their covenants and events of default. We were in compliance with all covenants at December 31, 2014.

Interest payments on the 5% Notes were $17.3 million in each of the years ended December 31, 2014 and 2013.

2% Convertible Senior Notes – due April 2020

At December 31, 2014 and 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 15 – "Shareholders'

Equity" for information regarding the use of such proceeds. Interest on the 2% Notes is payable semi-annually in arrears on April 1 and October 1 of each year. The 2% Notes will mature on April 1, 2020, unless earlier repurchased by us or converted. Prior to January 1, 2020, the 2% Convertible Senior Notes are convertible only upon satisfaction of one or more conditions. One such condition is that during any calendar quarter commencing after March 31, 2014, the last reported sale price of our common stock for each of at least 20 trading days during the 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter be greater than or equal to 130% of the applicable conversion price on each applicable trading day. The 2% Notes are convertible at an initial conversion rate, which is subject to adjustment, of 143.8332 shares per $1,000 principal amount. This represents an initial conversion price of approximately $6.95 per share. 130% of such conversion price is $9.03. On or after January 1, 2020, holders may convert their notes irrespective of satisfaction of the conditions. These 2% Notes will be equal in right of payment to our other senior debt and will be senior in right of payment to our 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.

The provisions of the 2% Notes are complex. 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. Further, the notes are subject to the indenture between us and the trustee that, among other terms, include provisions that would constitute an event of default under the indenture. Upon such a default, the trustee could accelerate the maturity of the notes independent of any action by holders of the 2% Notes. This description is not intended to be complete in all respect and is qualified in its entirety by the terms of the 2% Notes, including their covenants and events of default. We were in compliance with all covenants at December 31, 2014.

Interest payments on the 2% Notes were $10.0 million and $5.5 million for the years ended December 31, 2014 and 2013, respectively.

9% Convertible Junior Subordinated Debentures – due April 2063

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

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

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.

On April 1, 2013 we paid a deferred interest payment, including the compound interest that had accrued on a semi-annual basis at an annual rate of 9%, from an installment initially due October 1, 2012. The interest payment, totaling approximately $18.3 million, was made from the net proceeds of our March 2013 common stock offering. We also paid the regular April 1, 2013 interest payment due on the debentures of approximately $17.5 million, and we remain current on all interest payments due. We continue to have the right to defer interest that is payable on subsequent scheduled interest payment dates. Any deferral of such interest would be on terms equivalent to those described above.

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, including their covenants and events of default. We were in compliance with all covenants at December 31, 2014.

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.

Interest payments on the debentures were $35.1 million and $53.4 million for the years ended December 31, 2014 and 2013, respectively.

All debt

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

	Par Value	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
			(In thousands)		
December 31, 2014					
Debt:					
Senior Notes	$ 61,953	$ 63,618	$ -	$ 63,618	$ -
Convertible Senior Notes due 2017	345,000	387,997	-	387,997	-
Convertible Senior Notes due 2020	500,000	735,075	-	735,075	-
Convertible Junior Subordinated Debentures	389,522	500,201	-	500,201	-
Total Debt	$ 1,296,475	$ 1,686,891	$ -	$ 1,686,891	$ -
December 31, 2013					
Debt:					
Senior Notes	$ 82,883	$ 85,991	$ 85,991	$ -	$ -
Convertible Senior Notes due 2017	345,000	388,988	388,988	-	-
Convertible Senior Notes due 2020	500,000	685,625	685,625	-	-
Convertible Junior Subordinated Debentures	389,522	439,186	-	439,186	-
Total Debt	$ 1,317,405	$ 1,599,790	$ 1,160,604	$ 439,186	$ -

The fair values of our Senior Notes, Convertible Senior Notes, and Convertible Junior Debentures were determined using available pricing for these notes, debentures or similar instruments and they are considered Level 2 securities as described in Note 3 – "Summary of Significant Accounting Policies – Fair Value Measurements." As of December 31, 2013, the fair values of our Senior Notes and Convertible Senior Notes were determined using publicly available trade information and they were considered Level 1 securities as described in Note 3 – "Summary of Significant Accounting Policies – 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 December 31, 2014, we had approximately $491 million in cash and investments at our holding company. The net unrealized losses on our holding company investment portfolio were approximately $2.5 million at December 31, 2014. The modified duration of the holding company investment portfolio, excluding cash and cash equivalents, was 2.9 years at December 31, 2014.

9. Loss Reserves

As described in Note 3 – "Summary of Significant Accounting Policies – Loss Reserves," we establish reserves to recognize the estimated liability for losses and loss adjustment expenses 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. The actual amount of the claim payments may be substantially different than our loss reserve estimates. Our estimates could be adversely affected by several factors, including a deterioration of regional or national economic conditions, including unemployment, leading to a reduction in borrowers' income and thus their ability to make mortgage payments, and a drop in housing values which may affect borrower willingness to continue to make mortgage payments when the value of the home is below the mortgage balance. Changes to our estimates could result in a material impact to our results of operations and capital position, even in a stable economic environment.

The following table provides a reconciliation of beginning and ending loss reserves for each of the past three years:

	2014	2013	2012
		(In thousands)	
Reserve at beginning of year	$3,061,401	$4,056,843	$4,557,512
Less reinsurance recoverable	64,085	104,848	154,607
Net reserve at beginning of year	2,997,316	3,951,995	4,402,905
Losses incurred:			
Losses and LAE incurred in respect of default notices received in:			
Current year	596,436	898,413	1,494,133
Prior years (1)	(100,359)	(59,687)	573,120
Subtotal	496,077	838,726	2,067,253
Losses paid:			
Losses and LAE paid in respect of default notices received in:			
Current year	32,919	73,470	134,509
Prior years	1,121,508	1,722,923	2,389,985
Reinsurance terminations (2)	-	(2,988)	(6,331)
Subtotal	1,154,427	1,793,405	2,518,163
Net reserve at end of year	2,338,966	2,997,316	3,951,995
Plus reinsurance recoverables	57,841	64,085	104,848
Reserve at end of year	$2,396,807	$3,061,401	$4,056,843

(1) A negative number for prior year losses incurred indicates a redundancy of prior year loss reserves, and a positive number for prior year losses incurred indicates a deficiency of prior year loss reserves. See table below regarding prior year loss development.

(2) In a termination, the reinsurance agreement is cancelled, with no future premium ceded and funds for any incurred but unpaid losses transferred to us. The transferred funds result in an increase in our investment portfolio (including cash and cash equivalents) and a decrease in net losses paid (reduction to losses incurred). In addition, there is an offsetting decrease in the reinsurance recoverable (increase in losses incurred), and thus there is no net impact to losses incurred. (See Note 11 – "Reinsurance")

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 2014 compared to 2013, and in 2013 compared to 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 2014, 2013 and 2012 is reflected in the table below.

	2014	2013	2012
		(In millions)	
Prior year loss development:			
Pool policy settlement (1)	$ -	$ -	$ 267
(Decrease) increase in estimated claim rate on primary defaults	(43)	10	260
Decrease in estimated severity on primary defaults	(35)	(50)	(70)
Change in estimates related to pool reserves, LAE reserves, reinsurance and other (2)	(22)	(20)	116
Total prior year loss development	$ (100)	$ (60)	$ 573

(1) See below for a discussion of our settlement with Freddie Mac.
(2) Includes approximately $100 million related to probable settlements regarding our claims paying practices in 2012

The prior year loss development was based on the resolution of approximately 58%, 59% and 55% for the years ended December 31, 2014, 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 and estimated incurred but not reported items from the end of the prior year. In 2014, we recognized favorable development on our estimated claim rate as we experienced a higher cure rate on prior year default inventory. In 2012, lower estimated rescission rates, as well as our experience on defaults that were 12 months or more delinquent increased our estimate of the claim rate. The decrease in the estimated severity in 2014, 2013 and 2012 was based on the resolution of the prior year default inventory.

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

MGIC and Freddie Mac disagreed on the amount of the aggregate loss limit under certain pool insurance policies (the "Disputed Policies"). On December 1, 2012, an Agreement of Settlement, Compromise and Release (the "Settlement Agreement") between MGIC, Freddie Mac and the FHFA became effective, settling their dispute regarding the Disputed Policies. Under the Settlement Agreement, MGIC is to pay Freddie Mac a total of $267.5 million in satisfaction of all obligations under the Disputed

Policies. Of the total, $100 million was paid in December 2012, as required by the Settlement Agreement, and the remaining $167.5 million is being paid out in 48 equal monthly installments that began on January 2, 2013.

The liability associated with our estimate of premiums to be refunded on expected claim payments is accrued for separately at December 31, 2014 and 2013 and approximated $115 million and $131 million, respectively. Separate components of this liability are included in "Other liabilities" and "Premium deficiency reserve" on our consolidated balance sheet.

A rollforward of our primary default inventory for the years ended December 31, 2014, 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.

	2014	2013	2012
Default inventory at beginning of year	103,328	139,845	175,639
New Notices	88,844	106,823	133,232
Cures	(87,278)	(104,390)	(120,248)
Paids (including those charged to a deductible or captive)	(23,494)	(34,738)	(45,741)
Rescissions and denials	(1,306)	(1,939)	(3,037)
Items removed from inventory resulting from the Countrywide settlement on GSE loans	(193)	(2,273)	-
Default inventory at end of year	79,901	103,328	139,845

Pool insurance default inventory decreased from 6,563 at December 31, 2013 to 3,797 at December 31, 2014. The pool insurance notice inventory was 8,594 at December 31, 2012.

The decrease in the primary default inventory experienced during 2014 and 2013 was generally across all markets and all book years. In 2014 and 2013, the percentage of loans in the inventory that had been in default for 12 or more consecutive months had decreased compared to the prior years. In 2014, the level of loans in inventory that had been in default for 12 or more consecutive months also decreased in relation to the total primary default inventory. 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

	December 31,					
	2014		2013		2012	
Consecutive months in default						
3 months or less	15,319	19%	18,941	18%	23,282	17%
4 - 11 months	19,710	25%	24,514	24%	34,688	25%
12 months or more	44,872	56%	59,873	58%	81,875	58%
Total primary default inventory	79,901	100%	103,328	100%	139,845	100%
Primary claims received inventory included in ending default inventory (1)	4,746	6%	6,948	7%	11,731	8%

(1) Our claims received inventory includes suspended rescissions, as we have voluntarily suspended rescissions of coverage related to loans that we believed would be included in a potential resolution. As of December 31, 2014, rescissions of coverage on approximately 1,425 loans had been voluntarily suspended.

The length of time 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 Primary Payments Delinquent

	December 31,					
	2014		2013		2012	
3 payments or less	23,253	29%	28,095	27%	34,245	24%
4 - 11 payments	19,427	24%	24,605	24%	34,458	25%
12 payments or more	37,221	47%	50,628	49%	71,142	51%
Total primary default inventory	79,901	100%	103,328	100%	139,845	100%

Claims paying practices

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

The liability associated with our estimate of premiums to be refunded on expected future rescissions is accrued for separately. At December 31, 2014 and 2013 the estimate of this liability totaled $28 million and $15 million, respectively. Separate components of this liability are included in “Other liabilities” and “Premium deficiency reserve” on our consolidated balance sheets. Changes in the liability affect premiums written and earned and change in premium deficiency reserve.

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

10. Premium Deficiency Reserve

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 exceed the present value of expected future premiums and already established loss reserves.

The components of the premium deficiency reserve at December 31, 2014, 2013 and 2012 appear in the table below.

	December 31,		
	2014	2013	2012
		(In millions)	
Present value of expected future premium	$ 387	$ 432	$ 445
Present value of expected future paid losses and expenses	(941)	(1,101)	(1,285)
Net present value of future cash flows	(554)	(669)	(840)
Established loss reserves	530	621	766
Net deficiency	$ (24)	$ (48)	$ (74)
Discount rate utilized at December 31,	2.1%	1.6%	1.3%

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 reserves 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.

The decrease in the premium deficiency reserve for the years ended December 31, 2014, 2013 and 2012 was $24 million, $26 million, and $61 million, respectively, as shown in the tables below. The decrease represents the net result of actual premiums, losses and expenses as well as a net change in assumptions for these periods. The change in assumptions for 2014 and 2013 is primarily related to higher estimated ultimate premiums resulting principally from an increase in the projected persistency rate, offset in part by higher estimated ultimate losses resulting principally from an increase in the number of projected claims that will ultimately be paid. The change in assumptions for 2012 is primarily related to higher estimated ultimate losses resulting principally from an increase in the number of projected claims that will ultimately be paid.

The decrease in the premium deficiency reserve for the years ended December 31, 2014, 2013 and 2012 appears in the table below.

	Years ended December 31,					
	2014		2013		2012	
			(In millions)			
Premium Deficiency Reserve at beginning of year		$ (48)		$ (74)		$ (135)
Paid claims and loss adjustment expenses	$ 169		$ 214		$ 279	
Decrease in loss reserves	(91)		(145)		(60)	
Premium earned	(79)		(96)		(102)	
Effects of present valuing on future premiums, losses and expenses	(2)		(1)		(1)	
Change in premium deficiency reserve to reflect actual premium, losses and expenses recognized		(3)		(28)		116
Change in premium deficiency reserve to reflect change in assumptions relating to future premiums, losses, expenses and discount rate (1)		27		54		(55)
Premium Deficiency Reserve at end of year		$ (24)		$ (48)		$ (74)

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

Each quarter we perform a premium deficiency analysis on the portion of our book of business not covered by the premium deficiency reserve described above. As of December 31, 2014, the analysis concluded that there was no premium deficiency on such portion of our book of business. For the reasons discussed below, our analysis of any potential deficiency reserve is subject to inherent uncertainty and requires significant judgment by management. To the extent, in a future period, expected losses are higher or expected premiums are lower than the assumptions we used in our analysis, and we estimate that the present value of the expected future losses and expenses exceed the present value of expected future premiums and already established loss reserves, we could be required to record a premium deficiency reserve on this portion of our book of business in such period.

The calculation of premium deficiency reserves requires the use of significant judgments and estimates to determine the present value of future premium and present value of expected losses and expenses on our business. The calculation of future premium depends on, among other things, assumptions about persistency and repayment patterns on underlying loans. The calculation of expected losses and expenses depends on assumptions relating to severity of claims and claim rates on current defaults, and expected defaults in future periods. These assumptions also include an estimate of expected rescission activity. Similar to our loss reserve estimates, our estimates for premium deficiency reserves could be adversely affected by several factors, including a deterioration of regional or economic conditions leading to a reduction in borrowers' income and thus their ability to make mortgage payments, and a drop in housing values that could expose us to greater losses. Assumptions used in calculating the deficiency reserves can also be affected by volatility in the current housing and mortgage lending industries. To the extent premium patterns and actual loss experience differ from the assumptions used in calculating the premium deficiency reserves, the differences between the actual results and our estimates will affect future period earnings and could be material.

11. Reinsurance

MGIC has obtained both captive and non-captive reinsurance in the past. In a captive reinsurance agreement, 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 part, in order to consider compliance with the Real Estate Settlement Procedures Act (“RESPA”) or similar state laws. In April 2013, the U.S. District Court for the Southern District of Florida approved a settlement between MGIC and the Consumer Financial Protection Bureau (“CFPB”) that resolved a 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 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 agreements 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 $45 million at December 31, 2014 which was supported by $198 million of trust assets, while at December 31, 2013 the reinsurance recoverable on loss reserves related to captives was $64 million which was supported by $226 million of trust assets. At December 31, 2014 and December 31, 2013 there was an additional $9 million and $23 million, respectively, of trust assets in captive agreements where there was no related reinsurance recoverable on loss reserves. Trust fund assets of $3.0 million were transferred to us as a result of captive terminations during 2013.

In April 2013, we entered into a quota share reinsurance agreement with a group of unaffiliated reinsurers that are not captive reinsurers. These reinsurers primarily have a rating of A or better by Moody’s Investors Service, Standard & Poor’s Rating Services or both. This reinsurance agreement applies to new insurance written between April 1, 2013 and December 31, 2015 (with certain exclusions) and covers incurred losses, with renewal premium through December 31, 2018. 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. In December 2013, we entered into an Addendum to the quota share reinsurance agreement that applies to certain insurance written before April 1, 2013 that had never been delinquent. The structure of the quota share reinsurance agreement remains the same, with the exception that the business written before April 1, 2013 has a 40% quota share. Under the Addendum, policies for which premium was received but unearned as of December 31, 2013 were ceded, which generated “Prepaid reinsurance premiums” of $23.9 million which has been reduced to $16.8 million at December 31, 2014.

We have accrued a profit commission receivable of $91.5 million and $2.4 million as of December 31, 2014 and 2013, respectively. This receivable could continue to increase materially through the term of the agreement, but the ultimate amount of the commission will depend on the ultimate level of premiums earned and losses incurred under the agreement. Any profit commission would be paid to us upon termination of the reinsurance agreement. Recoverables under the agreement are supported by trust funds or letters of credit.

A summary of the combined quota share reinsurance agreement for 2014 and 2013 appears below.

	2014	2013
	(In thousands)	
Ceded premiums written, net of profit commission	$ 100,031	$ 49,672
Ceded premiums earned, net of profit commission	88,528	13,821
Ceded losses incurred	15,163	176
Ceding commissions (1)	37,833	10,408

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

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

	Years ended December 31,		
	2014	2013	2012
		(In thousands)	
Premiums earned:			
Direct	$ 950,973	$ 979,078	$1,065,663
Assumed	1,653	2,074	2,425
Ceded	(108,255)	(38,101)	(34,918)
Net premiums earned	$ 844,371	$ 943,051	$1,033,170
Losses incurred:			
Direct	$ 524,051	$ 863,871	$2,115,974
Assumed	2,012	2,645	6,912
Ceded	(29,986)	(27,790)	(55,633)
Net losses incurred	$ 496,077	$ 838,726	$2,067,253

Generally, reinsurance recoverables on primary loss reserves, paid losses and prepaid reinsurance premiums are supported by trust funds or letters of credit. As such, we have not established an allowance against these recoverables.

See Note 20 – "Litigation and Contingencies" for a discussion of requests or subpoenas for information regarding captive mortgage reinsurance arrangements.

12. Other Comprehensive Income

Our other comprehensive income for the years ended December 31, 2014, 2013 and 2012 was as follows:

	2014			
	Before tax	Tax effect	Valuation allowance	Net of tax
	(In thousands)			
Other comprehensive income (loss):				
Change in unrealized gains and losses on investments	$ 91,782	$ (32,017)	$ 31,374	$ 91,139
Benefit plans adjustments	(52,112)	18,239	(18,239)	(52,112)
Unrealized foreign currency translation adjustment	(4,067)	1,425	-	(2,642)
Other comprehensive income (loss)	$ 35,603	$ (12,353)	$ 13,135	$ 36,385

	2013			
	Before tax	Tax effect	Valuation allowance	Net of tax
	(In thousands)			
Other comprehensive income (loss):				
Change in unrealized gains and losses on investments	$ (126,175)	$ 43,732	$ (41,148)	$ (123,591)
Benefit plans adjustments	68,038	(23,813)	23,813	68,038
Unrealized foreign currency translation adjustment	(21,563)	7,553	-	(14,010)
Other comprehensive income (loss)	$ (79,700)	$ 27,472	$ (17,335)	$ (69,563)

	2012			
	Before tax	Tax effect	Valuation allowance	Net of tax
	(In thousands)			
Other comprehensive income (loss):				
Change in unrealized gains and losses on investments	$ (78,546)	$ 27,510	$ (27,623)	$ (78,659)
Benefit plan adjustments	(1,221)	428	(428)	(1,221)
Unrealized foreign currency translation adjustment	2,452	(859)	-	1,593
Other comprehensive income (loss)	$ (77,315)	$ 27,079	$ (28,051)	$ (78,287)

See Note 14 – “Income Taxes” for a discussion of the valuation allowance.

A rollforward of accumulated other comprehensive income (loss) for the years ended December 31, 2014, 2013, and 2012, including amounts reclassified from accumulated other comprehensive income (loss), are included in the table below.

	2014			
	Unrealized gains and losses on available-for-sale securities	Defined benefit plans	Foreign currency translation	Total
	(In thousands)			
Balance at December 31, 2013, before tax	$ (84,634)	$ (3,766)	$ 11,184	$ (77,216)
Other comprehensive income (loss) before reclassifications	78,294	(45,182)	(4,067)	29,045
Less: Amounts reclassified from accumulated other comprehensive income (loss)	(13,488) (1)	6,930 (2)	-	(6,558)
Net current period other comprehensive income (loss)	91,782	(52,112)	(4,067)	35,603
Balance at December 31, 2014, before tax	7,148	(55,878)	7,117	(41,613)
Tax effect (3)	(64,699)	26,940	(1,969)	(39,728)
Balance at December 31, 2014, net of tax	$ (57,551)	$ (28,938)	$ 5,148	$ (81,341)

	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	(112,667)	68,039	(21,563)	(66,191)
Less: Amounts reclassified from accumulated other comprehensive income (loss)	13,508 (1)	1 (2)	-	13,509
Net current period other comprehensive income (loss)	(126,175)	68,038	(21,563)	(79,700)
Balance at December 31, 2013, before tax	(84,634)	(3,766)	11,184	(77,216)
Tax effect (3)	(64,056)	26,940	(3,394)	(40,510)
Balance at December 31, 2013, net of tax	$ (148,690)	$ 23,174	$ 7,790	$ (117,726)

	2012			
	Unrealized gains and losses on available-for-sale securities	Defined benefit plans	Foreign currency translation	Total
	(In thousands)			
Balance at December 31, 2011, before tax	$ 120,087	$ (70,582)	$ 30,294	$ 79,799
Other comprehensive income (loss) before reclassifications	22,710	(2,296)	2,453	22,867
Less: Amounts reclassified from accumulated other comprehensive income (loss)	101,256 (1)	(1,074) (2)	-	100,182
Net current period other comprehensive income (loss)	(78,546)	(1,222)	2,453	(77,315)
Balance at December 31, 2012, before tax	41,541	(71,804)	32,747	2,484
Tax effect (3)	(66,640)	26,940	(10,947)	(50,647)
Balance at December 31, 2012, net of tax	$ (25,099)	$ (44,864)	$ 21,800	$ (48,163)

(1) During 2014, 2013 and 2012, net unrealized (losses) gains of ($13.5) million, $13.5 million and $101.3 million, respectively, were reclassified to the Consolidated Statement of Operations and included in Realized investment gains.

(2) For the years ended December 31, 2014, 2013 and 2012, other comprehensive income (loss) related to benefit plans of $6.9 million, $1 thousand, and ($1.1) million, respectively, was reclassified to the Consolidated Statements of Operations and included in Underwriting and other expenses, net.

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

13. Benefit Plans

We have a non-contributory defined benefit pension plan covering substantially all domestic employees, as well as a supplemental executive retirement plan. We also offer both medical and dental benefits for retired domestic employees and their eligible spouses under a postretirement benefit plan. The following tables provide the components of aggregate annual net periodic benefit cost, changes in the benefit obligation and the funded status of the pension, supplemental executive retirement and other postretirement benefit plans as recognized in the consolidated balance sheets:

Components of Net Periodic Benefit Cost for fiscal year ending

	Pension and Supplemental Executive Retirement Plans			Other Postretirement Benefits		
	12/31/2014	12/31/2013	12/31/2012	12/31/2014	12/31/2013	12/31/2012
	(In thousands)					
1. Company Service Cost	$ 8,565	$ 11,338	$ 9,662	$ 659	$ 812	$ 1,226
2. Interest Cost	15,987	15,289	16,481	653	618	1,144
3. Expected Return on Assets	(21,030)	(20,144)	(18,211)	(4,648)	(3,679)	(3,162)
4. Other Adjustments	-	-	-	-	-	-
Subtotal	3,522	6,483	7,932	(3,336)	(2,249)	(792)
5. Amortization of :						
a. Net Transition Obligation/ (Asset)	-	-	-	-	-	-
b. Net Prior Service Cost/ (Credit)	(930)	503	665	(6,649)	(6,649)	(6,217)
c. Net Losses/(Gains)	1,083	6,145	5,829	(435)	-	797
Total Amortization	153	6,648	6,494	(7,084)	(6,649)	(5,420)
6. Net Periodic Benefit Cost	3,675	13,131	14,426	(10,420)	(8,898)	(6,212)
7. Cost of settlements or curtailments	302	-	-	-	-	-
8. Total Expense for Year	$ 3,977	$ 13,131	$ 14,426	$(10,420)	$ (8,898)	$ (6,212)

Development of Funded Status

	Pension and Supplemental Executive Retirement Plans		Other Postretirement Benefits	
	12/31/2014	12/31/2013	12/31/2014	12/31/2013
	(In thousands)			
Actuarial Value of Benefit Obligations				
1. Measurement Date	12/31/2014	12/31/2013	12/31/2014	12/31/2013
2. Accumulated Benefit Obligation	$ 366,440	$ 304,825	$ 18,225	$ 15,764
Funded Status/Asset (Liability) on the Consolidated Balance Sheet				
1. Projected Benefit Obligation	$ (379,324)	$ (317,606)	$ (18,225)	$ (15,764)
2. Plan Assets at Fair Value	378,701	355,704	66,940	62,298
3. Funded Status - Overfunded/Asset	N/A	$ 38,098	$ 48,715	$ 46,534
4. Funded Status - Underfunded/Liability	(623)	N/A	N/A	N/A

Accumulated Other Comprehensive Income

	Pension and Supplemental Executive Retirement Plans		Other Postretirement Benefits	
	12/31/2014	12/31/2013	12/31/2014	12/31/2013
	(In thousands)			
1. Net Actuarial (Gain)/Loss	$ 93,243	$ 49,925	$ (8,222)	$ (9,439)
2. Net Prior Service Cost/(Credit)	(3,853)	(4,782)	(25,289)	(31,938)
3. Net Transition Obligation/(Asset)	-	-	-	-
4. Total at Year End	$ 89,390	$ 45,143	$ (33,511)	$ (41,377)

The amortization of gains and losses resulting from actual experience different from assumed experience or changes in assumptions including discount rates is included as a component of Net Periodic Benefit Cost/(Income) for the year. The gain or loss in excess of a 10% corridor is amortized by the average remaining service period of participating employees expected to receive benefits under the plan.

The changes in the projected benefit obligation are as follows:

Change in Projected Benefit/Accumulated Benefit Obligation

	Pension and Supplemental Executive Retirement Plans		Other Postretirement Benefits	
	12/31/2014	12/31/2013	12/31/2014	12/31/2013
	(In thousands)			
1. Benefit Obligation at Beginning of Year	$ 317,606	$ 362,657	$ 15,764	$ 16,284
2. Company Service Cost	8,565	11,338	659	812
3. Interest Cost	15,987	15,289	653	618
4. Plan Participants' Contributions	-	-	336	299
5. Net Actuarial (Gain)/Loss due to Assumption Changes	59,901	(44,205)	2,276	(1,414)
6. Net Actuarial (Gain)/Loss due to Plan Experience	(55)	1,353	(855)	101
7. Benefit Payments from Fund (1)	(21,539)	(22,497)	(645)	(871)
8. Benefit Payments Directly by Company	(1,404)	(275)	-	(65)
9. Plan Amendments	(1)	(6,054)	-	-
10. Other Adjustment	264	-	37	-
11. Benefit Obligation at End of Year	$ 379,324	$ 317,606	$ 18,225	$ 15,764

(1) In 2014, includes lump sum payments of $11.8 million from our pension plan to eligible participants, which were former employees with vested benefits. In 2013, includes lump sum payments of $13.8 million from our pension plan to eligible participants, which were former employees with vested benefits of $200 thousand or less.

In the fourth quarter of 2014, the Society of Actuaries released new mortality tables as a result of their detailed study on the future life expectancies of pension plan participants. We have used these new mortality tables in calculating our year-end 2014 retirement program obligations. If all pension plan participants elected to receive their pension benefits in monthly payments, the new tables would have increased year-end obligations by $23.2 million. However, based on our experience, we estimate that 75% of our active pension plan participants will elect to receive their pension benefits in a lump sum, which under the terms of the pension plan, are calculated based on mortality assumptions prescribed by the IRS, not the Society of Actuaries. The combined effect of the new Society of Actuaries mortality tables and the 75% lump-sum election assumption was a net increase in year-end obligations of $14.6 million. In addition, the benefit obligation will also change due to changes in the actuarial assumptions applied, as shown in the table below, to determine the outstanding liability.

The changes in the fair value of the net assets available for plan benefits are as follows:

Change in Plan Assets

	Pension and Supplemental Executive Retirement Plans		Other Postretirement Benefits	
	12/31/2014	12/31/2013	12/31/2014	12/31/2013
	(In thousands)			
1. Fair Value of Plan Assets at Beginning of Year	$ 355,704	$ 340,335	$ 62,298	$ 49,391
2. Company Contributions	9,504	10,275	-	-
3. Plan Participants' Contributions	-	-	336	299
4. Benefit Payments from Fund	(21,539)	(22,497)	(645)	(871)
5. Benefit Payments paid directly by Company	(1,404)	(275)	-	(65)
6. Actual Return on Assets	36,436	27,866	5,250	13,778
7. Other Adjustment	-	-	(299)	(234)
8. Fair Value of Plan Assets at End of Year	$ 378,701	$ 355,704	$ 66,940	$ 62,298

Change in Accumulated Other Comprehensive Income (AOCI)

	Pension and Supplemental Executive Retirement Plans		Other Postretirement Benefits	
	12/31/2014	12/31/2013	12/31/2014	12/31/2013
	(In thousands)			
1. AOCI in Prior Year	$ 45,143	$ 108,436	$ (41,377)	$ (36,602)
2. Increase/(Decrease) in AOCI				
a. Recognized during year - Prior Service (Cost)/Credit	930	(503)	6,649	6,649
b. Recognized during year - Net Actuarial (Losses)/Gains	(1,083)	(6,145)	435	-
c. Occurring during year - Prior Service Cost	(1)	(6,054)	-	-
d. Occurring during year - Net Actuarial Losses/(Gains)	44,703	(50,574)	782	(11,411)
f. Occuring during year - Net Settlement Losses/(Gains)	(302)	-	-	-
e. Other adjustments	-	(17)	-	(13)
3. AOCI in Current Year	$ 89,390	$ 45,143	$ (33,511)	$ (41,377)

Amortizations Expected to be Recognized During Next Fiscal Year Ending

	12/31/2015	12/31/2015
	(In thousands)	
1. Amortization of Net Transition Obligation/(Asset)	$ -	$ -
2. Amortization of Prior Service Cost/(Credit)	(846)	(6,649)
3. Amortization of Net Losses/(Gains)	4,837	(142)

The projected benefit obligations, net periodic benefit costs and accumulated postretirement benefit obligation for the plans were determined using the following weighted average assumptions.

Actuarial Assumptions

	Pension and Supplemental Executive Retirement Plans		Other Postretirement Benefits	
	12/31/2014	12/31/2013	12/31/2014	12/31/2013
Weighted-Average Assumptions Used to Determine Benefit Obligations at year end				
1. Discount Rate	4.25%	5.15%	4.00%	4.75%
2. Rate of Compensation Increase	3.00%	3.00%	N/A	N/A
Weighted-Average Assumptions Used to Determine Net Periodic Benefit Cost for Year				
1. Discount Rate	5.15%	4.25%	4.75%	3.85%
2. Expected Long-term Return on Plan Assets	6.00%	6.00%	7.50%	7.50%
3. Rate of Compensation Increase	3.00%	3.00%	N/A	N/A
Assumed Health Care Cost Trend Rates at year end				
1. Health Care Cost Trend Rate Assumed for Next Year	N/A	N/A	7.00%	7.00%
2. Rate to Which the Cost Trend Rate is Assumed to Decline (Ultimate Trend Rate)	N/A	N/A	5.00%	5.00%
3. Year That the Rate Reaches the Ultimate Trend Rate	N/A	N/A	2019	2018

In selecting a discount rate, we performed a hypothetical cash flow bond matching exercise, matching our expected pension plan and postretirement medical plan cash flows, respectively, against a selected portfolio of high quality corporate bonds. The modeling was performed using a bond portfolio of noncallable bonds with at least $50 million outstanding. The average yield of these hypothetical bond portfolios was used as the benchmark for determining the discount rate. In selecting the expected long-term rate of return on assets, we considered the average rate of earnings expected on the classes of funds invested or to be invested to provide for the benefits of these plans. This included considering the trusts' targeted asset allocation for the year and the expected returns likely to be earned over the next 20 years.

The year-end asset allocations of the plans are as follows:

Plan Assets

	Pension Plan		Other Postretirement Benefits	
	12/31/2014	12/31/2013	12/31/2014	12/31/2013
Allocation of Assets at year end				
1. Equity Securities	22%	43%	100%	100%
2. Debt Securities	78%	57%	0%	0%
3. Total	100%	100%	100%	100%

In accordance with fair value guidance, we applied the following fair value hierarchy in order to measure fair value of our benefit plan assets:

Level 1 – Quoted prices for identical instruments in active markets that we have the ability to access. Financial assets utilizing Level 1 inputs include equity securities, mutual funds, money market funds, certain U.S. Treasury securities and ETF's.

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 include certain municipal, corporate and foreign bonds, obligations of U.S. government corporations and agencies, and pooled equity accounts.

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. There are no securities that utilize Level 3 inputs.

To determine the fair value of securities 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 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. In addition, on a quarterly basis, we perform quality controls over values received from the pricing source (the "Trustee") which include comparing values to other independent pricing sources. In addition, we review annually the Trustee's auditor's report on internal controls in order to determine that their controls around valuing securities are operating effectively. We have not made any adjustments to the prices obtained from the independent sources.

The following table sets forth by level, within the fair value hierarchy, the pension plan assets at fair value as of December 31, 2014 and 2013.

Assets at Fair Value as of December 31, 2014

Pension Plan	Level 1	Level 2	Level 3	Total
		(In thousands)		
Domestic Mutual Funds	$ 9,913	$ -	$ -	$ 9,913
Corporate Bonds	-	200,732	-	200,732
U.S. Government Securities	5,327	1,234	-	6,561
Municipals	-	65,214	-	65,214
Foreign Bonds	-	23,028	-	23,028
ETF's	5,636	-	-	5,636
Pooled Equity Accounts	-	67,617	-	67,617
Total Assets at fair value	$ 20,876	$ 357,825	$ -	$ 378,701

Assets at Fair Value as of December 31, 2013

Pension Plan	Level 1	Level 2	Level 3	Total
		(In thousands)		
Domestic Mutual Funds	$ 51,240	$ -	$ -	$ 51,240
International Mutual Funds	39,814	-	-	39,814
Common Stocks	60,332	-	-	60,332
Corporate Bonds	-	134,012	-	134,012
U.S. Government Securities	9,574	9,245	-	18,819
Municipals	-	33,402	-	33,402
Foreign Bonds	-	15,961	-	15,961
Foreign Stocks	2,124	-	-	2,124
Total Assets at fair value	$ 163,084	$ 192,620	$ -	$ 355,704

During the year ended December 31, 2014, we changed the classification of our U.S. government corporation and agency securities from Level 1 to Level 2 in the fair value hierarchy. The fair value of our U.S. government corporations and agencies, in current market conditions, is determined from quoted prices for similar instruments in active markets, which is in accordance with our policy for determining fair value for Level 2 securities. The classification of these securities in the fair value table as of December 31, 2013 has been revised to conform to the 2014 presentation, as we believe the most appropriate classification for these securities was Level 2 at that date. There were no other transfers between Level 1 and Level 2 during the year ended December 31, 2014.

The pension plan has implemented a strategy to reduce risk through the use of a targeted funded ratio. The liability driven component is key to the asset allocation. The liability driven component seeks to align the duration of the fixed income asset allocation with the expected duration of the plan liabilities or benefit payments. Overall asset allocation is dynamic and specifies target allocation weights and ranges based on the funded status.

An improvement in funding status results in the de-risking of the portfolio, allocating more funds to fixed income and less to equity. A decline in funding status would result in a higher allocation to equity. The maximum equity allocation is 40%.

The equity investments utilize combinations of mutual funds, ETFs, and pooled equity account structures. Within the equity investments; return seeking growth investments allocate to global quality growth and global low volatility investments and return seeking bridge investments allocate to enduring asset investments and durable company investments.

The fixed income objective is to preserve capital and to provide monthly cash flows for the payment of plan liabilities. Fixed income investments can include government, government agencies, corporate, mortgage backed, asset backed, municipal securities, and other classes of bonds. The duration of the fixed income portfolio has an objective of being within one year of the duration of the accumulated benefit obligation. The fixed income investments have an objective of a weighted average credit of A3/A−/A− by Moody's, S&P, and Fitch, respectively.

The following table sets forth by level, within the fair value hierarchy, the postretirement plan assets at fair value as of December 31, 2014 and 2013.

Assets at Fair Value as of December 31, 2014

Postretirement Plan	Level 1	Level 2	Level 3	Total
		(In thousands)		
Domestic Mutual Funds	$ 50,710	$ -	$ -	$ 50,710
International Mutual Funds	16,230	-	-	16,230
Total Assets at fair value	$ 66,940	$ -	$ -	$ 66,940

Assets at Fair Value as of December 31, 2013

Postretirement Plan	Level 1	Level 2	Level 3	Total
		(In thousands)		
Domestic Mutual Funds	$ 45,585	$ -	$ -	$ 45,585
International Mutual Funds	16,713	-	-	16,713
Total Assets at fair value	$ 62,298	$ -	$ -	$ 62,298

Our postretirement plan portfolio is designed to achieve the following objectives over each market cycle and for at least 5 years:

- Total return should exceed growth in the Consumer Price Index by 5.75% annually
- Achieve competitive investment results

The primary focus in developing asset allocation ranges for the portfolio is the assessment of the portfolio's investment objectives and the level of risk that is acceptable to obtain those objectives. To achieve these goals the minimum and maximum allocation ranges for fixed income securities and equity securities are:

	Minimum	Maximum
Equities (long only)	70%	100%
Real estate	0%	15%
Commodities	0%	10%
Fixed income/Cash	0%	10%

Given the long term nature of this portfolio and the lack of any immediate need for significant cash flow, it is anticipated that the equity investments will consist of growth stocks and will typically be at the higher end of the allocation ranges above.

Investment in international oriented funds is limited to a maximum of 30% of the equity range. The current international allocation is invested in two mutual funds with 4% of the equity allocation in a fund which has the objective of investing primarily in equity securities of emerging market countries, and 21% of the equity allocation in a fund investing in securities of companies based outside the United States. It invests in companies primarily based in Europe and the Pacific Basin, and primarily in equity investments although it may also hold cash, money market instruments, and fixed income securities depending on market conditions.

The following tables show the current and estimated future contributions and benefit payments.

	Pension and Supplemental Executive Retirement Plans 12/31/2014	Other Postretirement Benefits 12/31/2014
	(In thousands)	
Company Contributions		
Company Contributions for the Year Ending:		
1. Current	$ 9,504	$ -
2. Current + 1	17,000	-
Benefit Payments (Total)		
Actual Benefit Payments for the Year Ending:		
1. Current	$ 22,942	$ 272
Expected Benefit Payments for the Year Ending:		
2. Current + 1	22,966	781
3. Current + 2	23,159	837
4. Current + 3	24,356	912
5. Current + 4	25,683	1,136
6. Current + 5	27,217	1,238
7. Current + 6 - 10	135,585	8,138

Health care sensitivities

For measurement purposes, a 7.0% health care trend rate was used for benefits for retirees before they reach age 65 for 2014. In 2015, the rate is assumed to be 7.0%, decreasing to 5.0% by 2019 and remaining at this level beyond.

Assumed health care cost trend rates have a significant effect on the amounts reported for the postretirement plan. A 1% point change in the health care trend rate assumption would have the following effects on other postretirement benefits:

	1-Percentage Point Increase	1-Percentage Point Decrease
	(In thousands)	
Effect on total service and interest cost components	$ 259	$ (201)
Effect on postretirement benefit obligation	2,963	(2,466)

We have a profit sharing and 401(k) savings plan for employees. At the discretion of the Board of Directors, we may make a contribution of up to 5% of each participant's eligible compensation. We provide a matching 401(k) savings contribution for employees' on their before-tax contributions at a rate of 80% of the first $1,000 contributed and 40% of the next $2,000 contributed. For employees hired after January 1, 2014, the match is 100% up to 4% contributed. We recognized expenses related to these plans of $5.0 million, $5.3 million and $3.1 million in 2014, 2013 and 2012, respectively.

14. Income Taxes

Net deferred tax assets and liabilities as of December 31, 2014 and 2013 are as follows:

	2014	2013
	(In thousands)	
Total deferred tax assets	$ 933,576	$1,043,477
Total deferred tax liabilities	(33,789)	(42,158)
Net deferred tax asset before valuation allowance	899,787	1,001,319
Valuation allowance	(902,289)	(1,004,256)
Net deferred tax liability	$ (2,502)	$ (2,937)

The components of the net deferred tax liability as of December 31, 2014 and 2013 are as follows:

	2014	2013
	(In thousands)	
Unearned premium reserves	$ 12,296	$ (1,073)
Benefit plans	(13,900)	(26,111)
Net operating loss	845,616	915,378
Loss reserves	23,069	36,236
Unrealized (appreciation) depreciation in investments	(2,800)	29,230
Mortgage investments	15,346	13,450
Deferred compensation	11,955	15,994
Premium deficiency reserves	8,313	16,961
Other, net	(108)	1,254
Net deferred tax asset before valuation allowance	899,787	1,001,319
Valuation allowance	(902,289)	(1,004,256)
Net deferred tax liability	$ (2,502)	$ (2,937)

We review the need to maintain the 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, the expiration dates of the carryforwards, the cyclical nature of our operating results, and available tax planning strategies. Based on our analysis and the current level of cumulative operating losses, we continue to reduce our benefit from income tax through the recognition of a valuation allowance.

It is reasonably possible that the valuation allowance will be reversed in the foreseeable future. Specifically, if we continue to recognize meaningful levels of sustainable pre-tax income, it is likely that the valuation allowance would be reversed during 2015. In the period in which the valuation allowance is reversed, we would recognize a tax benefit which will increase our earnings for that period. In future years, after the valuation allowance has been reversed and until such time as our net operating loss carryforwards are exhausted or expired, our provision for income tax would substantially exceed the amount of cash tax payments.

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

	2014	2013	2012
		(In thousands)	
Provision for (benefit from) income taxes before valuation allowance	$ 91,607	$ (17,239)	$ (330,740)
Change in valuation allowance	(88,833)	20,935	329,175
Provision for (benefit from) income taxes	$ 2,774	$ 3,696	$ (1,565)

The change in the valuation allowance that was included in other comprehensive income was a decrease of $13.1 million, an increase of $17.3 million, and an increase of $28.1 million for the years ended December 31, 2014, 2013 and 2012, respectively. The total valuation allowance as of December 31, 2014, December 31, 2013 and December 31, 2012 was $902.3 million, $1,004.2 million, and $966.0 million, respectively.

Giving full effect to the carryback of net operating losses for federal income tax purposes, we have approximately $2,417 million of net operating loss carryforwards on a regular tax basis and $1,529 million of net operating loss carryforwards for computing the alternative minimum tax as of December 31, 2014. Any unutilized carryforwards are scheduled to expire at the end of tax years 2029 through 2033.

The following summarizes the components of the provision for (benefit from) income taxes:

	2014	2013	2012
		(In thousands)	
Current	$ 2,391	$ 916	$ (4,251)
Deferred	1	7	90
Other	382	2,773	2,596
Provision for (benefit from) income taxes	$ 2,774	$ 3,696	$ (1,565)

We paid (received) $1.3 million, $0.1 million, and ($7.0) million in federal income tax in 2014, 2013 and 2012, respectively.

The reconciliation of the federal statutory income tax rate to the effective income tax rate is as follows:

	2014	2013	2012
Federal statutory income tax rate	35.0%	(35.0)%	(35.0)%
Valuation allowance	(34.9)	45.4	35.4
Tax exempt municipal bond interest	(0.4)	(3.7)	(0.8)
Other, net	1.4	1.3	0.2
Effective income tax rate	1.1%	8.0%	(0.2)%

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

On September 10, 2014, we received Notices of Deficiency (commonly referred to as "90 day letters") covering the 2000-2007 tax years. The Notices of Deficiency reflect taxes and penalties related to the REMIC matters of $197.5 million and at December 31, 2014, there would also be interest related to these matters of approximately $168.4 million. In 2007, we made a payment of $65.2 million to the United States Department of the Treasury which will reduce any amounts we would ultimately owe. The Notices of Deficiency also reflect additional amounts due of $261.4 million, which are primarily associated with the disallowance of the carryback of the 2009 net operating loss to the 2004-2007 tax years. We believe the IRS included the carryback adjustments as a precaution to keep open the statute of limitations on collection of the tax that was refunded when this loss was carried back, and not because the IRS actually intends to disallow the carryback permanently.

We filed a petition with the U.S. Tax Court contesting most of the IRS' proposed adjustments reflected in the Notices of Deficiency and the IRS has filed an answer to our petition which continues to assert their claim. Litigation to resolve our dispute with the IRS could be lengthy and costly in terms of legal fees and related expenses. We can provide no assurance regarding the outcome of any such litigation or whether a compromised settlement with the IRS will ultimately be reached and finalized. Depending on the outcome of this matter, additional state income taxes and state interest may become due when a final resolution is reached. As of December 31, 2014, those state taxes and interest would approximate $47.4 million. In addition, there could also be state tax penalties. Our total amount of unrecognized tax benefits as of December 31, 2014 is $106.2 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, available assets and statutory capital. In this regard, see Note 1 – "Nature of Business – Capital-GSEs."

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. In October 2014, we received a Revenue Agent's Report from the IRS related to the examination of our federal income tax returns for the years 2011 and 2012. The results of these examinations had no material effect on the financial statements.

Under current guidance, when evaluating a tax position for recognition and measurement, an entity shall presume that the tax position will be examined by the relevant taxing authority that has full knowledge of all relevant information. The interpretation adopts a benefit recognition model with a two-step approach, a more-likely-than-not threshold for recognition and derecognition, and a measurement attribute that is the greatest amount of benefit that is cumulatively greater than 50% likely of being realized. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	2014	2013	2012
		(In thousands)	
Balance at beginning of year	$ 105,366	$ 104,550	$ 110,080
Additions based on tax positions related to the current year	-	-	-
Additions for tax positions of prior years	864	816	511
Reductions for tax positions of prior years	-	-	(4,041)
Settlements	-	-	(2,000)
Balance at end of year	$ 106,230	$ 105,366	$ 104,550

The total amount of the unrecognized tax benefits, related to our aforementioned REMIC issue, that would affect our effective tax rate is $93.6 million. We recognize interest accrued and penalties related to unrecognized tax benefits in income taxes. During 2014, we recognized $0.8 million in interest. As of December 31, 2014 and 2013, we had $26.9 million and $26.1 million of accrued interest related to uncertain tax positions, respectively. The statute of limitations related to the consolidated federal income tax return is closed for all years prior to 2000. It is reasonably possible that our 2000-2007 federal tax case will be resolved, other than through litigation. If it is resolved under terms similar to our previous settlement agreement, our total unrecognized tax benefits would be reduced by $106.2 million during 2015. After taking into account prior payments and the effect of available net operating loss carrybacks, any net cash outflows would approximate $25 million.

15. 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 April 2012, we amended our Articles of Incorporation to increase our authorized common stock from 460 million shares to 680 million 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 8 – "Debt."

In March 2013 we contributed $800 million to MGIC to increase its capital as discussed in Note 17 – "Statutory 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.

We have 28.9 million authorized shares reserved for conversion under our convertible debentures and 97.6 million authorized shares reserved for conversion under our convertible senior notes. (See Note 8 – "Debt")

16. Dividend Restrictions

In the fourth quarter of 2008, our holding company suspended the payment of dividends to shareholders.

The senior notes, convertible senior notes and convertible debentures, discussed in Note 8 – "Debt", are obligations of MGIC Investment Corporation, our holding company, and not of its subsidiaries. Our holding company has no material sources of cash inflows other than investment income, dividends from subsidiaries and capital raised in the public markets. MGIC is the principal source of dividend-paying capacity. Since 2008, MGIC has not paid any dividends to our holding company. Through 2015, MGIC cannot pay any dividends to our holding company without approval from the OCI and the GSEs.

Our insurance subsidiaries are subject to state insurance regulations as to maintenance of policyholders' surplus and payment of dividends. The maximum amount of dividends that the insurance subsidiaries may pay in any twelve-month period without regulatory approval by the Office of the

Commissioner of Insurance of the State of Wisconsin (the "OCI") is the lesser of adjusted statutory net income or 10% of statutory policyholders' surplus as of the preceding calendar year end. Adjusted statutory net income is defined for this purpose to be the greater of statutory net income, net of realized investment gains, for the calendar year preceding the date of the dividend or statutory net income, net of realized investment gains, for the three calendar years preceding the date of the dividend less dividends paid within the first two of the preceding three calendar years.

17. Statutory Capital

Accounting Principles

The accounting principles used in determining statutory financial amounts differ from GAAP, primarily for the following reasons:

Under statutory accounting practices, including practice prescribed by the OCI, mortgage guaranty insurance companies are required to maintain contingency loss reserves equal to 50% of premiums earned. Such amounts cannot be withdrawn for a period of ten years except as permitted by insurance regulations. With regulatory approval a mortgage guaranty insurance company may make early withdrawals from the contingency reserve when incurred losses exceed 35% of net premiums earned in a calendar year. Changes in contingency loss reserves impact the statutory statement of operations. Contingency loss reserves are not reflected as liabilities under GAAP and changes in contingency loss reserves do not impact the GAAP statements of operations. A premium deficiency reserve that may be recorded on a GAAP basis when the present value of expected future losses and expenses exceeds the present value of expected future premiums and already established loss reserves, may not be recorded on a statutory basis if 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 a GAAP basis, when calculating a premium deficiency reserve policies are grouped based on how they are acquired, serviced and measured. On a statutory basis, a premium deficiency reserve is calculated on all policies in force.

Under statutory accounting practices, insurance policy acquisition costs are charged against operations in the year incurred. Under GAAP, these costs are deferred and amortized as the related premiums are earned commensurate with the expiration of risk.

Under statutory accounting practices, purchases of tax and loss bonds are accounted for as investments. Under GAAP, purchases of tax and loss bonds are recorded as payments of current income taxes.

Under statutory accounting practices, changes in deferred tax assets and liabilities are recognized as a separate component of gains and losses in statutory surplus. Under GAAP, changes in deferred tax assets and liabilities are recorded on the statement of operations as a component of the (benefit) provision for income tax.

Under statutory accounting practices, fixed maturity investments are generally valued at amortized cost. Under GAAP, those investments which we do not have the ability and intent to hold to maturity are considered to be available-for-sale and are recorded at fair value, with the unrealized gain or loss recognized, net of tax, as an increase or decrease to shareholders' equity.

Under statutory accounting practices, certain assets, including certain deferred tax assets, designated as non-admitted assets, are charged directly against statutory surplus. Such assets are reflected on the GAAP financial statements.

The statutory net income, surplus and the contingency reserve liability of the insurance subsidiaries of our holding company, as well as the surplus contributions made to MGIC and other insurance subsidiaries and dividends paid by MGIC to us, are shown in the tables below. The surplus amounts included below are the combined surplus of our insurance operations as utilized in our risk-to-capital calculations.

Year Ended December 31,	Net income (loss)	Surplus	Contingency Reserve
		(In thousands)	
2014	$ 13,203	$ 1,585,164	$ 318,247
2013	(8,046)	1,584,121	18,558
2012	(902,878)	748,592	6,430

Year Ended December 31,	Additions to the surplus of MGIC from parent company funds	Additions to the surplus of other insurance subsidiaries from parent company funds	Dividends paid by MGIC to the parent company
		(In thousands)	
2014	$ -	$ -	$ -
2013	800,000	-	-
2012	100,000	-	-

Statutory Capital Requirements

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

At December 31, 2014, MGIC's preliminary risk-to-capital ratio was 14.6 to 1, below the maximum allowed by the jurisdictions with State Capital Requirements and its policyholder position was $673 million above the required MPP of $1.0 billion. In 2013, we entered into a quota share reinsurance agreement with a group of unaffiliated reinsurers that reduced our risk-to-capital ratio. It is possible that under the revised State Capital Requirements discussed below, MGIC will not be allowed full credit for the risk ceded to the reinsurers. If MGIC is disallowed full credit, under either the State Capital Requirements or the GSE Financial Requirements, MGIC may terminate the reinsurance agreement, without penalty. At this time, we expect MGIC to continue to comply with the current State Capital Requirements; however, you should read the rest of these financial statement footnotes for information about matters that could negatively affect such compliance.

At December 31, 2014, the preliminary risk-to-capital ratio of our combined insurance operations (which includes reinsurance affiliates) was 16.4 to 1. Reinsurance agreements with affiliates permit MGIC to write insurance with a higher coverage percentage than it could on its own under certain state-specific requirements. A higher risk-to-capital ratio on a combined basis may indicate that, in order for MGIC to continue to utilize reinsurance agreements with its affiliates, unless a waiver of the State Capital Requirements of Wisconsin continues to be effective, additional capital contributions to the reinsurance affiliates could be needed.

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

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

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 $138 million were included in MGIC's statutory capital at December 31, 2014 and 2013 and deferred tax assets of $63 million were included in MGIC's statutory capital at December 31, 2012.

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

18. Share-based Compensation Plans

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

We have an omnibus incentive plan that was adopted in May 2011. The purpose of the plan is to motivate and incent performance by, and to retain the services of, key employees and non-employee directors through receipt of equity-based and other incentive awards under the plan. The maximum number of shares of stock that can be awarded under the plan is 7.0 million. Awards issued under the plan that are subsequently forfeited will not count against the limit on the maximum number of shares that may be issued under the plan. In addition, shares used for income tax withholding or used for payment of the exercise price of an option will not be counted against such limit. The plan provides for the award of stock options, stock appreciation rights, restricted stock and restricted stock units, as well as cash incentive awards. No awards may be granted after May 5, 2021 under the plan. The vesting provisions of options, restricted stock and restricted stock units are determined at the time of grant. Shares issued under the plan are treasury shares if available, otherwise they will be newly issued shares.

The compensation cost that has been charged against income for share-based plans was $9.2 million, $6.6 million, and $8.6 million for the years ended December 31, 2014, 2013 and 2012, respectively. The related income tax benefit, before valuation allowance, recognized for share-based plans was $3.2 million, $2.3 million, and $3.0 million for the years ended December 31, 2014, 2013 and 2012, respectively. See Note 14 – "Income Taxes" for a discussion of our valuation allowance.

There have been no options granted since 2004, and no options exercised since 2007. At December 31, 2013, all 529,800 options outstanding were exercisable at a price of $68.20 each. All of these options expired in January 2014 without being exercised.

A summary of restricted stock or restricted stock unit (collectively called "restricted stock") activity during 2014 is as follows:

	Weighted Average Grant Date Fair Market Value	Shares
Restricted stock outstanding at December 31, 2013	$ 5.15	3,622,707
Granted	8.43	1,804,800
Vested	5.66	(1,368,234)
Forfeited	8.44	(206,882)
Restricted stock outstanding at December 31, 2014	$ 6.33	3,852,391

At December 31, 2014, the 3.9 million shares of restricted stock outstanding consisted of 2.9 million shares that are subject to performance conditions ("performance shares") and 1.0 million shares that are subject only to service conditions ("time vested shares"). The weighted-average grant date fair value of restricted stock granted during 2013 and 2012 was $2.75 and $3.97, respectively. The fair value of restricted stock granted is the closing price of the common stock on the New York Stock Exchange on the date of grant. The total fair value of restricted stock vested during 2014, 2013 and 2012 was $12.1 million, $4.3 million, and $6.9 million, respectively.

As of December 31, 2014, there was $12.8 million of total unrecognized compensation cost related to non-vested share-based compensation agreements granted under the plans. Of this total, $9.9 million of unrecognized compensation costs relate to performance shares and $2.9 million relates to time vested shares. A portion of the unrecognized costs associated with the performance shares may or may not be recognized in future periods, depending upon whether or not the performance and service conditions are met. The cost associated with the time vested shares is expected to be recognized over a weighted-average period of 1.7 years.

In 2011, we granted 449,350 shares of restricted stock units that were to be settled as cash payments over the vesting period under our 2002 stock incentive plan. As of December 31, 2014, all shares granted under this award had either vested or been forfeited. A summary of activity related to these restricted share units for the years ended December 31, 2014, 2013 and 2012 is as follows:

	2014	2013	2012
Outstanding at beginning of year	144,146	294,782	443,950
Granted	-	-	-
Vested	(144,146)	(147,368)	(147,968)
Forfeited	-	(3,268)	(1,200)
Outstanding at end of year	-	144,146	294,782
Cash payments at vesting (in millions)	$ 1.2	$ 0.4	0.6

At December 31, 2014, 2.3 million shares were available for future grant under the 2011 omnibus incentive plan.

19. Leases

We lease certain office space as well as data processing equipment and autos under operating leases that expire during the next seven years. Generally, rental payments are fixed.

Total rental expense under operating leases was $2.8 million, $4.6 million, and $4.8 million in 2014, 2013 and 2012, respectively.

At December 31, 2014, minimum future operating lease payments are as follows (in thousands):

2015	1,041
2016	1,000
2017	467
2018	231
2019 and thereafter	497
Total	$ 3,236

20. Litigation and Contingencies

Before paying a claim, we review the loan and servicing files to determine the appropriateness of the claim amount. All of our insurance policies provide that we can reduce or deny a claim if the servicer did not comply with its obligations under our insurance policy, including the requirement to mitigate our loss by performing reasonable loss mitigation efforts or, for example, diligently pursuing a foreclosure or bankruptcy relief in a timely manner. We call such reduction of claims submitted to us "curtailments." In 2013 and 2014, curtailments reduced our average claim paid by approximately 5.8% and 6.7%, respectively. In addition, the claims submitted to us sometimes include costs and expenses not covered by our insurance policies, such as hazard insurance premiums for periods after the claim date and losses resulting from property damage that has not been repaired. These other adjustments reduced claim amounts by less than the amount of curtailments. After we pay a claim, servicers and insureds sometimes object to our curtailments and other adjustments. We review these objections if they are sent to us within 90 days after the claim was paid.

When reviewing the loan file associated with a claim, we may determine that we have the right to rescind coverage on the loan. Prior to 2008, rescissions of coverage on loans were not a material portion of our claims resolved during a year. However, beginning in 2008, our rescissions of coverage on loans have materially mitigated our paid losses. In 2009 through 2011, rescissions mitigated our paid losses in the aggregate by approximately $3.0 billion; and in 2012, 2013 and 2014, rescissions mitigated our paid losses by approximately $0.3 billion, $135 million and $97 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 pool policy, and may have been charged to a captive reinsurer). In recent quarters, approximately 5% of claims received in a quarter have been resolved by rescissions, down from the peak of approximately 28% in the first half of 2009.

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

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

If we are unable to reach a settlement, the outcome of a dispute ultimately would be determined by legal proceedings. Under our policies in effect prior to October 1, 2014, 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, and under our master policy effective October 1, 2014, such proceedings may be brought up to two years from the date of the notice of rescission. In a few jurisdictions there is a longer time to bring such proceedings.

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

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

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

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

The estimated impact of the Agreements and other probable settlements have been recorded in our financial statements. The estimated impact that we recorded for probable settlements is our best estimate of our loss from these matters. We estimate that the maximum exposure above the best estimate provision we recorded is $626 million, of which about 60% is related to claims paying practices subject to the Agreement with CHL and the previously disclosed curtailment matters with Countrywide. If we are not able to implement the Agreement with CHL or the other settlements we consider probable, we intend to defend MGIC vigorously against any related legal proceedings.

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

We are involved in discussions and legal and consensual proceedings with customers with respect to our claims paying practices. Although it is reasonably possible that when these discussions or proceedings are completed we will not prevail in all cases, we are unable to make a reasonable estimate or range of estimates of the potential liability. We estimate the maximum exposure associated with these discussions and proceedings to be approximately $16 million, although we believe we will ultimately resolve these matters for significantly less than this amount.

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

Consumers continue to bring lawsuits against home mortgage lenders and settlement service providers. Mortgage insurers, including MGIC, have been involved in litigation alleging violations of the anti-referral fee provisions of the Real Estate Settlement Procedures Act, which is commonly known as RESPA, and the notice provisions of the Fair Credit Reporting Act, which is commonly known as FCRA. MGIC's settlement of class action litigation against it under RESPA became final in October 2003. MGIC settled the named plaintiffs' claims in litigation against it under FCRA in December 2004, following denial of class certification in June 2004. Since December 2006, class action litigation has been brought against a number of large lenders alleging that their captive mortgage reinsurance arrangements violated RESPA. Beginning in December 2011, MGIC, together with various mortgage lenders and other mortgage insurers, has been named as a defendant in twelve lawsuits, alleged to be class actions, filed in various U.S. District Courts. The complaints in all of the cases allege various causes of action related to the captive mortgage reinsurance arrangements of the mortgage lenders, including that the lenders' captive reinsurers received excessive premiums in relation to the risk assumed by those captives, thereby violating RESPA. Seven of those cases had been dismissed prior to February 2015 without any further opportunity to appeal. Of the remaining five cases, three were dismissed with prejudice in February 2015 pursuant to stipulations of dismissal from the plaintiffs, and the remaining two cases are expected to be dismissed with prejudice in connection with plaintiffs' stipulations in such cases. There can be no assurance that we will not be subject to further litigation under RESPA (or FCRA) or that the outcome of any such litigation, including the lawsuits mentioned above, would not have a material adverse effect on us.

In 2013, the U.S. District Court for the Southern District of Florida approved a settlement with the CFPB that resolved a federal investigation of MGIC's participation in captive reinsurance agreements 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 agreements in 2008 in response to market conditions and GSE requests. In connection with the settlement, MGIC paid a civil penalty of $2.65 million and the court issued an injunction prohibiting MGIC from violating any provisions of RESPA.

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

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

We are subject to comprehensive, detailed regulation by state insurance departments. These regulations are principally designed for the protection of our insured policyholders, rather than for the benefit of investors. Although their scope varies, state insurance laws generally grant broad supervisory powers to agencies or officials to examine insurance companies and enforce rules or exercise discretion affecting almost every significant aspect of the insurance business. State insurance regulatory authorities could take actions, including changes in capital requirements, that could have a material adverse effect on us. In addition, the CFPB may issue additional rules or regulations, which may materially affect our business.

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

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

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

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

Through a non-insurance subsidiary, we utilize our underwriting skills to provide an outsourced underwriting service to our customers known as contract underwriting. As part of the contract underwriting activities, that subsidiary is responsible for the quality of the underwriting decisions in accordance with the terms of the contract underwriting agreements with customers. That subsidiary may be required to provide certain remedies to its customers if certain standards relating to the quality of our underwriting work are not met, and we have an established reserve for such future obligations. Claims for remedies may be made a number of years after the underwriting work was performed. Beginning in the second half of 2009, our subsidiary experienced an increase in claims for contract underwriting remedies, which continued throughout 2012. The related contract underwriting remedy expense was approximately $5 million and $27 million for the years ended December 31, 2013 and 2012, respectively. The underwriting remedy expense for 2014 was approximately $4 million, but may increase in the future.

See Note 14 – "Income Taxes" for a description of federal income tax contingencies.

21. Unaudited Quarterly Financial Data

2014:	Quarter First	Second	Third	Fourth	Full Year
	(In thousands, except share data)				
Net premiums earned	$ 214,261	$ 207,486	$ 209,035	$ 213,589	$ 844,371
Investment income, net of expenses	20,156	21,180	22,355	23,956	87,647
Realized (losses) gains	(231)	522	632	434	1,357
Other revenue	896	2,048	3,093	2,385	8,422
Loss incurred, net	122,608	141,141	115,254	117,074	496,077
Underwriting and other expenses, net	51,766	43,455	47,595	48,181	190,997
Provision for income tax	726	1,118	249	681	2,774
Net income	59,982	45,522	72,017	74,428	251,949
Income per share (a) (b):					
Basic	0.18	0.13	0.21	0.22	0.74
Diluted	0.15	0.12	0.18	0.19	0.64

2013:	Quarter First	Second	Third	Fourth	Full Year
	(In thousands, except share data)				
Net premiums earned	$ 247,059	$ 237,777	$ 231,857	$ 226,358	$ 943,051
Investment income, net of expenses	18,328	20,883	20,250	21,278	80,739
Realized gains (losses)	1,259	2,485	(139)	2,126	5,731
Other revenue	2,539	2,715	2,481	2,179	9,914
Loss incurred, net	266,208	196,274	180,189	196,055	838,726
Underwriting and other expenses, net	74,768	54,221	61,810	56,062	246,861
Provision for income tax	1,139	990	336	1,231	3,696
Net (loss) income	(72,930)	12,375	12,114	(1,407)	(49,848)
(Loss) income per share (a):					
Basic	(0.31)	0.04	0.04	(0.00)	(0.16)
Diluted	(0.31)	0.04	0.04	(0.00)	(0.16)

(a) Due to the use of weighted average shares outstanding when calculating earnings per share, the sum of the quarterly per share data may not equal the per share data for the year.

(b) In periods where convertible debt instruments are dilutive to earnings per share the "if-converted" method of computing diluted EPS requires an interest expense adjustment, net of tax, to net income available to shareholders. This adjustment has not been reflected in the Unaudited Quarterly Financial Data presented. See Note 3 – "Summary of Significant Accounting Policies" for further discussion.

Directors

Daniel A. Arrigoni
Former President and Chief Executive Officer
U.S. Bank Home Mortgage Corp.
Minneapolis, MN
Home loan originator and servicer

Cassandra C. Carr
Consultant
San Antonio, TX

C. Edward Chaplin
President and Chief Financial Officer
MBIA Inc.
Armonk, NY
Provider of financial guarantee insurance

Curt S. Culver
Chairman
Former Chief Executive Officer
MGIC Investment Corporation
Milwaukee, WI

Timothy A. Holt
Former Senior Vice President and Chief Investment Officer
Aetna, Inc.
Hartford, CT
Diversified health care benefits company

Kenneth M. Jastrow, II
Non-Executive Chairman
Forestar Group Inc.
Austin, TX
Company engaged in various real estate and natural resource businesses

Michael E. Lehman
Consultant
Saratoga, CA

Donald T. Nicolaisen
Former Chief Accountant
United States Securities and Exchange Commission
Washington, DC

Gary A. Poliner
Former President
Northwestern Mutual Life Ins. Co.
Milwaukee, WI
Financial services company

Patrick Sinks
President and Chief Executive Officer
MGIC Investment Corporation
Milwaukee, WI

Mark M. Zandi
Chief Economist
Moody's Analytics, Inc.
West Chester, PA
Risk measurement and management firm

Officers

MGIC Investment Corporation

President and Chief Executive Officer
Patrick Sinks

Executive Vice Presidents
Jeffrey H. Lane
General Counsel and Secretary

Timothy J. Mattke
Chief Financial Officer

Vice President
Julie K. Sperber
Controller and Chief Accounting Officer

Heidi A. Heyrman
Assistant Secretary

Lisa M. Pendergast
Treasurer

Paul A. Spiroff
Assistant Treasurer

Dan D. Stilwell
Assistant Secretary

Martha F. Tsuchihashi
Assistant Secretary

Mortgage Guaranty Insurance Corporation

President and Chief Executive Officer
Patrick Sinks

Executive Vice Presidents
Jeffrey H. Lane
General Counsel and Secretary

Timothy J. Mattke
Chief Financial Officer

Lawrence J. Pierzchalski
Risk Management

Senior Vice Presidents
Gregory A. Chi
Information Services and Chief Information Officer

Carla A. Gallas
Claims

Sean A. Dilweg
Government Relations

James J. Hughes
Sales and Business Development

Salvatore A. Miosi
Business Strategies and Field Operations

Kurt J. Thomas
Chief Human Resources Officer

Michael J. Zimmerman
Investor Relations

Vice Presidents
Gary A. Antonovich
Internal Audit

Robert K. Bates
National Accounts

Robert J. Candelmo
Chief Technology Officer

Margaret M. Crowley
Marketing and Customer Experience

Dean D. Dardzinski
Managing Director

Stephen M. Dempsey
Managing Director

Sandra K. Dunst
Claims Operations

Edward G. Durant
Analytic Services

Mary L. Elkins
Information Services – Systems Development

Susan E. Friedrich
Information Services – Chief Information Security Officer

David A. Greco
Credit Policy

Heidi A. Heyrman
Regulatory Relations,
Assistant General Counsel and Assistant Secretary

Eric B. Klopfer
Corporate Strategy

Mark J. Krauter
National Accounts

Michael L. Kull
National Accounts

Robin D. Mallory
Managing Director

Mark E. Marple
Mortgage Banking Strategies

Elyse M. Mitchell
National Accounts

Jerome J. Murphy
Field Operations

Jeffrey N. Nielsen
Financial Planning/Analysis

Lisa M. Pendergast
Treasurer

W. Todd Pittman
Managing Director

John R. Schroeder
Risk Management

Julie K. Sperber
Controller and Chief Accounting Officer

Paul A. Spiroff
Assistant Treasurer

Dan D. Stilwell
Chief Compliance Officer, Assistant General Counsel and Assistant Secretary

Steven M. Thompson
Risk Management

Martha F. Tsuchihashi
Securities Law Counsel, Assistant General Counsel and Assistant Secretary

Kathleen E. Valenti
Loss Mitigation

Bernhard W. Verhoeven
Risk Management

Carie L. Vos
Claims Administration

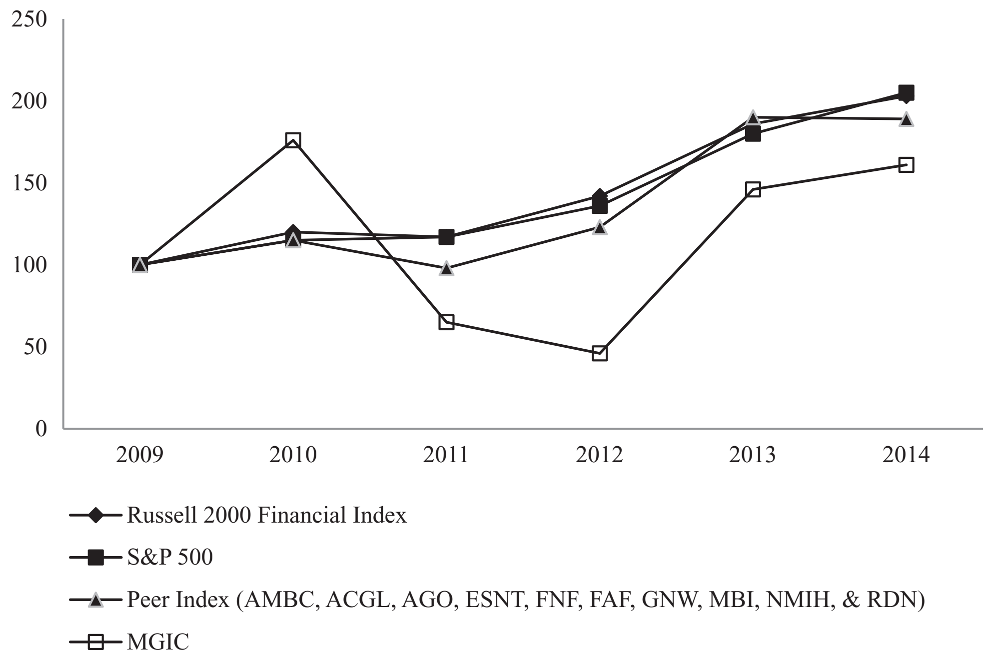
John S. Wiseman
Managing Director

Jerry L. Wormmeester
National Accounts

Performance Graph

The graph below compares the cumulative total return on (a) our Common Stock, (b) a composite peer group index selected by us, (c) the Russell 2000 Financial Index and (d) the S&P 500. Our peer group index consists of the peers against which we analyze our executive compensation: Ambac Financial Group, Inc., Arch Capital Group Ltd., Assured Guaranty Ltd., Essent Group Ltd., Fidelity National Financial Inc., First American Financial Corp., Genworth Financial Inc., MBIA Inc., NMI Holdings Inc. and Radian Group.

We selected this peer group because it includes all of our direct competitors that were public throughout 2014 and whose mortgage insurance operations are a significant part of their overall business, financial guaranty insurers, and other financial services companies focused on the residential real estate industry that are believed to be potential competitors for executive talent.



	2009	2010	2011	2012	2013	2014
Russell 2000 Financial Index	100	120	117	142	186	203
S&P 500	100	115	117	136	180	205
Peer Index (AMBC, ACGL, AGO, ESNT, FNF, FAF, GNW, MBI, NMIH, & RDN)	100	115	98	123	190	189
MGIC	100	176	65	46	146	161

Shareholder Information

The Annual Meeting

The Annual Meeting of Shareholders of MGIC Investment Corporation will convene at 9 a.m. Central Time on April 23, 2015 in the Bradley Pavilion of the Marcus Center for the Performing Arts, 929 North Water Street, Milwaukee, Wisconsin.

10-K Report

Copies of the Annual Report on Form 10-K for the year ended December 31, 2014, filed with the Securities and Exchange Commission, are available without charge to shareholders on request from:

Secretary
MGIC Investment Corporation
P. O. Box 488
Milwaukee, WI 53201

The Annual Report on Form 10-K referred to above includes as exhibits certifications from the Company's Chief Executive Officer and Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act. Following the 2014 Annual Meeting of Shareholders, the Company's Chief Executive Officer submitted a Written Affirmation to the New York Stock Exchange that he was not aware of any violation by the Company of the corporate governance listing standards of Exchange.

Transfer Agent and Registrar

Wells Fargo Shareowner Services
P. O. Box 64874
St. Paul, Minnesota 55164-0874
(800) 468-9716

Corporate Headquarters

MGIC Plaza
250 East Kilbourn Avenue
Milwaukee, Wisconsin 53202

Mailing Address

P. O. Box 488
Milwaukee, Wisconsin 53201

Shareholder Services

(414) 347-6596

MGIC Stock

MGIC Investment Corporation Common Stock is listed on the New York Stock Exchange under the symbol MTG. At February 13, 2015, 338,920,963 shares were outstanding. The following table sets forth for 2014 and 2013 by quarter the high and low sales prices of the Common Stock on the New York Stock Exchange.

	2014		2013	
Quarter	**High**	**Low**	**High**	**Low**
1st	$ 9.46	$ 7.92	$ 6.19	$ 2.36
2nd	9.50	7.65	6.60	4.55
3rd	9.50	7.16	8.16	5.88
4th	9.67	7.27	8.69	6.62

In October 2008, the Company's Board suspended payment of our dividend. Accordingly, no cash dividends were paid in 2014 or 2013. The payment of future dividends is subject to the discretion of our Board and will depend on many factors, including our operating results, financial condition and capital position. See Note 8 – "Debt" to our consolidated financial statements for dividend restrictions that apply when we elect to defer interest on our Convertible Junior Debentures.

The Company is a holding company and the payment of dividends from its insurance subsidiaries is restricted by insurance regulations. For a discussion of these restrictions, see "Management's Discussion and Analysis – Liquidity and Capital Resources" and Note 16 – "Dividend restrictions" to our consolidated financial statements.

As of February 13, 2015, the number of shareholders of record was 263. In addition, we estimate that there are approximately 22,000 beneficial owners of shares held by brokers and fiduciaries.

MGIC Investment Corporation
MGIC Plaza, Milwaukee, Wisconsin 53202 • www.mgic.com

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