

MGIC INVESTMENT CORP
Form 10-K
February 26, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2015

OR

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

For the transition period from ____ to ____

Commission file number 1-10816
MGIC INVESTMENT CORPORATION
(Exact name of registrant as specified in its charter)

WISCONSIN
(State or other jurisdiction of incorporation or
organization)

39-1486475
(I.R.S. Employer Identification No.)

MGIC PLAZA, 250 EAST KILBOURN AVENUE,
MILWAUKEE, WISCONSIN
(Address of principal executive offices)
(414) 347-6480
(Registrant's telephone number, including area code)

53202
(Zip Code)

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class:	Common Stock, Par Value \$1 Per Share Common Share Purchase Rights
Name of Each Exchange on Which Registered:	New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act:

Title of Class:	None
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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

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Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

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

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

State the aggregate market value of the voting common stock held by non-affiliates of the Registrant as of June 30, 2015: Approximately \$3.8 billion*

* Solely for purposes of computing such value and without thereby admitting that such persons are affiliates of the Registrant, shares held by directors and executive officers of the Registrant are deemed to be held by affiliates of the Registrant. Shares held are those shares beneficially owned for purposes of Rule 13d-3 under the Securities Exchange Act of 1934 but excluding shares subject to stock options.

Indicate the number of shares outstanding of each of the Registrant's classes of common stock as of February 12, 2016: 340,008,569

The following documents have been incorporated by reference in this Form 10-K, as indicated:

Document	Part and Item Number of Form 10-K Into Which Incorporated*
Proxy Statement for the 2015 Annual Meeting of Shareholders	Items 10 through 14 of Part III

* In each case, to the extent provided in the Items listed.

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PART I

Item 1. Business.

A. General

We are a holding company and through wholly-owned subsidiaries we provide private mortgage insurance and ancillary services. In 2015, our net premiums written were \$1.0 billion and our primary new insurance written was \$43.0 billion. As of December 31, 2015, our primary insurance in force was \$174.5 billion and our direct primary risk in force was \$45.5 billion. For further information about our results of operations, see our consolidated financial statements in Item 8. As of December 31, 2015, our principal mortgage insurance subsidiary, Mortgage Guaranty Insurance Corporation (“MGIC”), was licensed in all 50 states of the United States, the District of Columbia, Puerto Rico and Guam. During 2015, we wrote new insurance in each of those jurisdictions.

Business Strategies

Our 2016 business strategies include 1) prudently growing insurance in force, 2) pursuing new business opportunities that leverage our core competencies, 3) preserving and expanding our role and that of the private mortgage insurance industry in housing finance policy, 4) managing and deploying capital to optimize creation of shareholder value and 5) developing and diversifying the talents of our co-workers.

Following are several of the accomplishments we achieved in 2015 that furthered our 2015 business strategies.

- Increased new insurance written from \$33.4 billion in 2014 to \$43.0 billion in 2015. The new insurance written is consistent with the Company's risk and return goals and increased insurance in force by 6% year-over-year.
- Successfully renegotiated external reinsurance transaction in a manner that affords it full credit under the revised private mortgage insurer eligibility requirements (“PMIERS”) of the Federal National Mortgage Association (“Fannie Mae”) and the Federal Home Loan Mortgage Corporation (“Freddie Mac”) for risk ceded under the transaction.
- Met the revised financial requirements of the PMIERS by their effective date with a comfortable cushion.
- Worked with the private mortgage insurance industry to influence changes to the draft PMIERS before they became effective.
- Maintained our traditionally low expense base.
 - Successfully transitioned key senior executive roles, including Chief Executive Officer and Chief Risk Officer.

Overview of the Private Mortgage Insurance Industry and its Operating Environment

We established the private mortgage insurance industry in 1957 to provide a private market alternative to federal government insurance programs. Private mortgage insurance covers losses from homeowner defaults on residential mortgage loans, reducing, and in some instances eliminating, the loss to the insured institution if the homeowner defaults.

Fannie Mae and Freddie Mac have been the major purchasers of the mortgage loans underlying new insurance written by private mortgage insurers. In this annual report, we refer to Fannie Mae and Freddie Mac collectively as the “GSEs.” The GSEs purchase residential mortgages as part of their governmental mandate to provide liquidity in the secondary mortgage market. The GSEs cannot buy low down payment mortgage loans without certain forms of credit enhancement, the primary form of which is private mortgage insurance. Therefore, private mortgage insurance facilitates the sale of low down payment mortgages in the secondary mortgage market to the GSEs and plays an important role in the housing finance system by assisting consumers, especially first-time and lower net-worth

homebuyers, to affordably finance homes with less than a 20% down payment. In this annual report, we refer to loans with less than 20% down payments as “low down payment” mortgages or loans. Private mortgage insurance also reduces the regulatory capital that depository institutions are required to hold against certain low down payment mortgages that they hold as assets.

Because the GSEs have been the major purchasers of the mortgages underlying new insurance written by private mortgage insurers, the private mortgage insurance industry in the U.S. is defined in large part by the requirements and practices of the GSEs. These requirements and practices, as well as those of the federal regulators that oversee the GSEs and lenders, impact the operating results and financial performance of private mortgage insurers. In 2008, the federal government took control of the GSEs through a conservatorship process. The Federal Housing Finance Agency (“FHFA”) is the conservator of the GSEs and has the authority to control and direct their operations. The U.S. Department of the Treasury reported its recommendations regarding options for

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ending the conservatorship of the GSEs in February 2011, and while it did not provide any definitive timeline for GSE reform, 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 Federal Housing Administration ("FHA") insurance), and help bring private capital back to the mortgage market. Since then, members of Congress have 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. 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" in Item 1A.

As noted above, the GSEs have private mortgage insurer eligibility requirements, or PMIERS, for private mortgage insurers that insure loans delivered to the GSEs. The GSEs each revised their PMIERS effective December 31, 2015. The financial requirements of the PMIERS require a mortgage insurer's "Available Assets" (generally only the most liquid assets of an insurer) to equal or exceed its "Minimum Required Assets" (which are based on an insurer's book and are calculated from tables of factors with several risk dimensions and are subject to a floor amount). While on an overall basis, the amount of Available Assets MGIC must hold in order to continue to insure GSE loans increased under the revised PMIERS over what state regulation currently requires, our reinsurance transaction mitigates the negative effect of the PMIERS on our returns. See "Regulation – Direct Regulation" below for information about our compliance with the financial requirements of the PMIERS.

The private mortgage insurance industry is greatly impacted by macroeconomic conditions that affect home loan originations and credit performance of home loans, including unemployment rates, housing prices, restrictions on mortgage credit due to stringent underwriting standards, interest rates, household formations and homeownership rates. The financial crisis and the downturn in the housing market that began in 2007 had a significant negative impact on the industry and our company. During the last several years preceding the financial crisis, the mortgage lending industry increasingly made home loans to individuals with higher risk credit profiles, at higher loan-to-value ("LTV") ratios, and based on less documentation and verification of information regarding the borrower. Beginning in 2007, job creation slowed and the housing markets began slowing in certain areas, with declines in certain other areas. In 2008 and 2009, employment in the U.S. decreased substantially and nearly all geographic areas in the U.S. experienced home price declines. Together, these conditions resulted in significant adverse developments for us and our industry and we reported a net loss in each of 2007 through 2013. The operating environment for private mortgage insurers has been improving in recent years as the economy has been recovering. For 2015, we reported net income of \$1,172.0 million. Excluding the effects of the 2015 reversal of the valuation allowance we had recorded against our deferred tax assets, our adjusted net income was \$485.3 million, up from \$251.9 million in 2014 and our second year of annual profitability since 2006. We present this non-GAAP financial measure, "adjusted net income," to allow comparability between periods of our financial results by excluding the reversal of our valuation allowance, which is a non-recurring, non-cash item that we believe is not indicative of our results of operations.

During 2015, \$220 billion of mortgages were insured with primary coverage by private mortgage insurers, compared to \$176 billion in 2014 and \$207 billion in 2013. These figures include \$4 billion, \$8 billion and \$32 billion of refinance transactions that were originated under the Home Affordable Refinance Program ("HARP") in 2015, 2014 and 2013, respectively. We do not include HARP transactions in our new insurance written total because we consider them a modification of the coverage on existing insurance in force. The volume of mortgages insured by private mortgage insurers increased in 2015 compared to 2014, as both purchase mortgage originations and refinance transactions increased. Although the 2015 volume was significantly greater than the recent low in 2010 of \$70 billion, it remains significantly below the volumes of 2001 through 2007 when, on average, approximately \$311 billion of

mortgages were insured with primary coverage by private mortgage insurers.

For most of our business, we and other private mortgage insurers compete directly with federal and state governmental and quasi-governmental agencies that sponsor government-backed mortgage insurance programs, principally the FHA and the Veterans Administration (“VA”). The publication Inside Mortgage Finance estimates that in 2015, the FHA accounted for 40.1% of low down payment residential mortgages that were subject to FHA, VA or primary private mortgage insurance, up from 33.9% in 2014. In the past ten years, the FHA’s market share has been as low as 15.6% in 2006 and as high as 70.8% in 2009. Factors that influence the FHA’s market share include relative rates and fees, underwriting guidelines and loan limits of the FHA, VA, private mortgage insurers and the GSEs; flexibility for the FHA to establish new products as a result of federal legislation and programs; returns obtained by lenders for Ginnie Mae securitization of FHA-insured loans compared to those obtained from selling loans to Fannie Mae or Freddie Mac for securitization; and differences in policy terms, such as the ability of a borrower to cancel insurance coverage under certain circumstances. We cannot predict how these factors or the FHA’s share of new insurance written will change in the future.

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Inside Mortgage Finance estimates that in 2015, the VA accounted for 24.8% of all low down payment residential mortgages that were subject to FHA, the VA or primary private mortgage insurance, down from 25.4% in 2014, its highest annual market share in ten years. The VA's lowest market share in the past ten years was 5.4% in 2007. We believe that the VA's market share has generally been increasing because the VA offers 100% LTV loans and charges a one-time funding fee that can be included in the loan amount but no additional monthly expense, and because of an increase in the number of borrowers that are eligible for the VA's program.

Depending on market conditions and expectations, the private mortgage insurance industry also competes with alternatives to mortgage insurance, such as capital market transactions structured to transfer risk of default on residential mortgages, investors willing to hold credit risk on their own balance sheets without credit enhancement, and "piggyback loans," which combine a first lien loan with a second lien loan.

In addition to the FHA, VA, other governmental agencies and the alternatives to mortgage insurance discussed above, we also compete with other mortgage insurers. The level of competition, including price competition, within the private mortgage insurance industry has intensified over the past several years and is not expected to diminish. See "Our Products and Services – Sales and Marketing and Competition – Competition" below for more information about the impact on our business of competition in the private mortgage insurance industry.

In addition to being subject to the requirements and practices of the GSEs, private mortgage insurers are subject to comprehensive, detailed regulation by state insurance departments. 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. The National Association of Insurance Commissioners ("NAIC") previously announced that it plans to revise the minimum capital and surplus requirements for mortgage insurers that are provided for in its Mortgage Guaranty Insurance Model Act. A working group of state regulators is drafting the revisions, although no date has been established by which the NAIC must propose changes to such requirements.

Due to the changing environment described above, as well as other factors discussed below, at this time we are facing the following significant challenges:

Whether competition from other mortgage insurers, the FHA and the VA will result in a loss of our market share, a decrease in our revenues as a result of price competition or an increase in our losses as a result of the effects of competition on underwriting guidelines.

Whether private mortgage insurance will remain a significant credit enhancement alternative for low down payment single family mortgages. An increase in the use of alternatives to private mortgage insurance, such as credit-linked note transactions executed in the capital markets, or a possible restructuring or change in the charters of the GSEs, could significantly affect our business.

For additional information about these uncertainties, see our risk factors titled "Competition or changes in our relationships with our customers could reduce our revenues, reduce our premium yields and/or increase our losses," "The amount of insurance we write could be adversely affected if lenders and investors select alternatives to private mortgage insurance" and "Changes in the business practices of the GSEs, federal legislation that changes their charters or a restructuring of the GSEs could reduce our revenues or increase our losses" in Item 1A.

General Information About Our Company

We are a Wisconsin corporation organized in 1984. Our principal office is located at MGIC Plaza, 250 East Kilbourn Avenue, Milwaukee, Wisconsin 53202 (telephone number (414) 347-6480). As used in this annual report, "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 revenues and losses may be materially affected by the risk factors applicable to us that are included in Item 1A of this annual report. 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. Among others, statements that include words such as we “believe,” “anticipate” or “expect,” or words of similar import, are forward looking statements. We are not undertaking any obligation to update any forward looking statements 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

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should rely on these statements being current at any time other than the time at which this annual report was filed with the Securities and Exchange Commission.

B. Our Products and Services

Mortgage Insurance

In general, there are two principal types of private mortgage insurance: “primary” and “pool.” In our industry, a “book” is a group of loans that a mortgage insurer insures in a particular period, normally a calendar year. We refer to the insurance that has been written by MGIC (including MIC for portions of 2012 and 2013) as the “MGIC Book.”

Primary Insurance. Primary insurance provides mortgage default protection on individual loans and covers a percentage of the unpaid loan principal, delinquent interest and certain expenses associated with the default and subsequent foreclosure or sale approved by us (collectively, the “claim amount”). In addition to the loan principal, the claim amount is affected by the mortgage note rate and the time necessary to complete the foreclosure or sale process, which over the past several years has increased, 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. The insurer generally pays the coverage percentage of the claim amount specified in the primary policy, but has the option to pay 100% of the claim amount and acquire title to the property. Primary insurance is generally written on first mortgage loans secured by owner occupied single-family homes, which are one-to-four family homes and condominiums. Primary insurance can be written on first liens secured by non-owner occupied single-family homes, which are referred to in the home mortgage lending industry as investor loans, and on vacation or second homes. Primary coverage can be used on any type of residential mortgage loan instrument approved by the mortgage insurer.

References in this document to amounts of insurance written or in force, risk written or in force and other historical data related to our insurance refer only to direct (before giving effect to reinsurance) primary insurance, unless otherwise indicated. Primary insurance may be written on a flow basis, in which loans are insured in individual, loan-by-loan transactions, or may be written on a bulk basis, in which each loan in a portfolio of loans is individually insured in a single, bulk transaction. New primary insurance written was \$43.0 billion in 2015, compared to \$33.4 billion in 2014 and \$29.8 billion in 2013. The 2015 increase compared to 2014 is primarily the result of an increase in purchase mortgage originations and refinance transactions, as well as an increase in our market share within the private mortgage insurance industry.

The following table shows, on a direct basis, primary insurance in force (the unpaid principal balance of insured loans as reflected in our records) and primary risk in force (the coverage percentage applied to the unpaid principal balance) for the MGIC Book as of the dates indicated.

Primary Insurance and Risk In Force

	December 31,				
	2015	2014	2013	2012	2011
	(In billions)				
Direct Primary Insurance In Force	\$174.5	\$164.9	\$158.7	\$162.1	\$172.9
Direct Primary Risk In Force	\$45.5	\$42.9	\$41.1	\$41.7	\$44.5

For loans sold to Fannie Mae or Freddie Mac, the coverage percentage must comply with the requirements established by the particular GSE to which the loan is delivered. 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 2015, nearly all of our volume was on loans with GSE standard or higher coverage.

For loans that are not sold to the GSEs, the lender determines the coverage percentage from those that we offer. Higher coverage percentages generally result in increased severity, which is the amount paid on a claim. We charge higher premium rates for higher coverage percentages. However, there can be no assurance that the higher premium rates adequately reflect the risks associated with higher coverage percentages. In accordance with GAAP for the mortgage insurance industry, reserves for losses are only established for loans in default. Because, historically, relatively few defaults occur in the early years of a book of business, the higher premium revenue from higher coverage has historically been recognized before any significant higher losses resulting from that higher coverage may be incurred. For more information, see "– Exposure to Catastrophic Loss; Defaults; Claims; Loss Mitigation – Claims."

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In general, mortgage insurance coverage cannot be terminated by the insurer. However, subject to certain restrictions as are specified in our master policy and our Gold Cert Endorsement, we may terminate or rescind coverage for, among other reasons, non-payment of premium, certain material misrepresentations made in connection with the application for the insurance policy or if the loan was never eligible for coverage under our policy. For more information including with regard to our Gold Cert Endorsement, see “– Exposure to Catastrophic Loss; Defaults; Claims; Loss Mitigation — Loss Mitigation.” Mortgage insurance coverage is renewable at the option of the insured lender, at the renewal rate fixed when the loan was initially insured. Lenders may cancel insurance written on a flow basis at any time at their option or because of mortgage repayment, which may be accelerated because of the refinancing of mortgages. In the case of a loan purchased by Freddie Mac or Fannie Mae, a borrower meeting certain conditions may require the mortgage servicer to cancel insurance upon the borrower’s request when the principal balance of the loan is 80% or less of the home’s current value.

Mortgage insurance for loans secured by one-family, primary residences can be canceled under the federal Homeowners Protection Act (the “HPA”). In general, the HPA requires a servicer to cancel the mortgage insurance if a borrower requests cancellation when the principal balance of the loan is first scheduled to reach 80% of the original value, or reaches that percentage through payments, if 1) the borrower is current on the loan and has a “good payment history” (as defined by the HPA), 2) the value of the property has not declined below the original value, and 3) if required by the mortgage owner, the borrower’s equity in the property is not subject to a subordinate lien. Additionally, the HPA requires mortgage insurance to terminate automatically when the principal balance of the loan is first scheduled to reach 78% of the original value and the borrower is current on loan payments or thereafter becomes current. Annually, servicers must inform borrowers of their right to cancel or terminate mortgage insurance. The provisions of the HPA described above apply only to borrower paid mortgage insurance, which is described below.

Coverage tends to continue for borrowers experiencing economic difficulties and living in areas experiencing housing price depreciation. The persistency of coverage for those borrowers coupled with cancellation of coverage for other borrowers can increase the percentage of an insurer’s portfolio comprised of loans with more credit risk. This development can also occur during periods of heavy mortgage refinancing because borrowers experiencing property value appreciation are less likely to require mortgage insurance at the time of refinancing, while borrowers not experiencing property value appreciation are more likely to continue to require mortgage insurance at the time of refinancing or not qualify for refinancing at all (including if they have experienced economic difficulties) and thus remain subject to the mortgage insurance coverage.

The percentage of primary new insurance written with respect to loans representing refinances was 19% for 2015, compared to 13% in 2014 and 26% in 2013. When a borrower refinances a mortgage loan insured by us by paying it off in full with the proceeds of a new mortgage that is also insured by us, the insurance on that existing mortgage is cancelled, and insurance on the new mortgage is considered to be new primary insurance written. Therefore, continuation of our coverage from a refinanced loan to a new loan results in both a cancellation of insurance and new insurance written. When a lender and borrower modify a loan rather than replace it with a new one, or enter into a new loan pursuant to a loan modification program, our insurance continues without being cancelled, assuming that we consent to the modification or new loan. As a result, such modifications or new loans, including those modified under HARP, are not included in our new insurance written.

In addition to varying with the coverage percentage, our premium rates for insurance vary depending upon the perceived risk of a claim on the insured loan and thus take into account, among other things, the loan-to-value ratio, the borrower’s credit score, whether the loan is a fixed payment loan or a non-fixed payment loan (a non-fixed payment loan is referred to in the home mortgage lending industry as an adjustable rate mortgage), the mortgage term and whether the property is the borrower’s primary residence. We generally utilize a national, rather than a regional or local, premium rate policy. However, depending upon regional economic conditions, we have made, and may make,

changes to our underwriting requirements to implement more restrictive standards in certain markets and for loan characteristics that we categorize as higher risk. Premium rates cannot be changed after the issuance of coverage.

The borrower's mortgage loan instrument may require the borrower to pay the mortgage insurance premium. Our industry refers to the related mortgage insurance as "borrower-paid." If the borrower is not required to pay the premium and mortgage insurance is required in connection with the origination of the loan, then the premium is paid by the lender, who may recover the premium through an increase in the note rate on the mortgage or higher origination fees. Our industry refers to mortgage insurance on such loans as "lender-paid." Most of our primary insurance in force is borrower-paid mortgage insurance.

There are several payment plans available to the borrower, or lender, as the case may be. Under the single premium plan, the borrower or lender pays us in advance a single payment covering a specified term exceeding twelve months. Under the monthly premium plan, the borrower or lender pays us a monthly premium payment to provide only one month of coverage. Under the annual premium plan, an annual premium is paid to us in advance, and we earn and recognize the premium over the next twelve

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months of coverage, with annual renewal premiums paid in advance thereafter and earned over the subsequent twelve months of coverage.

During 2015, 2014 and 2013, the single premium plan represented approximately 20%, 15% and 10%, respectively, of our new insurance written. The monthly premium plan represented approximately 80%, 85% and 90%, respectively. The annual premium plan represented less than 1% of new insurance written in each of those years. Our single premium plan policies have increased in part as a result of the 2014 and 2013 reductions in our single premium rates and our selectively matching reduced rates on lender-paid single premium policies being offered by competitors. We expect to receive less lifetime premium from a 2015 lender-paid single premium policy than we would from a 2015 borrower-paid monthly premium policy. Given the 2015 pricing environment, the increased percentage of our new business represented by lender-paid single premium policies reduced our weighted average premium rates on new insurance written.

In January 2016, we announced our intention to revise our premium rate cards in the near future. We expect that this will result in a decrease in premium rates on some loans with higher credit scores and an increase in premium rates on some loans with lower credit scores. We expect that our premium rate changes will modestly decrease our new insurance written; however, we expect the premium yield on new insurance written to remain approximately the same as on 2015 new insurance written, and our returns on a portfolio basis to be comparable to those we expect to earn on the business we wrote in 2015.

Pool Insurance. Pool insurance is generally used as an additional “credit enhancement” for certain secondary market mortgage transactions. Pool insurance generally covers the amount of the loss on a defaulted mortgage loan that 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. Pool insurance may have a stated aggregate loss limit for a pool of loans and may also have a deductible under which no losses are paid by the insurer until losses on the pool of loans exceed the deductible.

We have written no new pool risk 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. At each of December 31, 2015 and 2014, 98% of our risk in force was primary insurance and the remaining risk in force was pool insurance. Our direct pool risk in force was \$0.7 billion (\$0.3 billion on pool policies with aggregate loss limits and \$0.4 billion on pool policies without aggregate loss limits) at December 31, 2015, compared to \$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, and \$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.

Wall Street Bulk Transactions. In the fourth quarter of 2007, we stopped writing bulk insurance for loans that served as collateral in home equity securitizations (we refer to these as “Wall Street bulk transactions”). These securitizations represented approximately 5.0% of our risk in force at December 31, 2015. In general, the loans insured by us in Wall Street bulk transactions consisted of loans with reduced underwriting documentation, cash out refinances that exceed the standard underwriting requirements of the GSEs, A- loans, subprime loans and jumbo loans. A jumbo loan has an unpaid principal balance that exceeds the conforming loan limit. See footnote 2 to the table titled “Default Statistics for the MGIC Book” in “– Exposure to Catastrophic Loss; Defaults; Claims; Loss Mitigation – Defaults” below for the definitions of A-, subprime and reduced documentation loans, as such terms are used in this annual report. The conforming loan limit is the maximum unpaid principal amount of a mortgage loan that can be purchased by the GSEs. See footnote 4 to the table titled “Characteristics of Primary Risk in Force” in “– Risk in Force and Product Characteristics of Risk in Force” below for more information about conforming loan limits.

Geographic Dispersion

The following tables reflect the percentage of primary risk in force in the top 10 jurisdictions and top 10 core-based statistical areas for the MGIC Book at December 31, 2015.

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Dispersion of Primary Risk in Force

Top 10 Jurisdictions

California	7.8	%
Florida	6.3	%
Texas	6.3	%
Pennsylvania	5.2	%
Ohio	4.8	%
Illinois	4.1	%
Michigan	3.7	%
New York	3.4	%
Georgia	3.3	%
Washington	3.3	%
Total	48.2	%

Top 10 Core-Based Statistical Areas

Chicago-Naperville-Arlington Heights	2.7	%
Atlanta-Sandy Springs-Roswell	2.4	%
Minneapolis-St. Paul-Bloomington	2.0	%
Houston-Woodlands-Sugar Land	2.0	%
Washington-Arlington-Alexandria	1.9	%
Philadelphia	1.9	%
Los Angeles-Long Beach-Glendale	1.8	%
Portland-Vancouver-Hillsboro	1.5	%
Denver-Aurora-Lakewood	1.4	%
Seattle-Bellevue-Everett	1.4	%
Total	19.0	%

The percentages shown above for various core-based statistical areas can be affected by changes, from time to time, in the federal government's definition of a core-based statistical area.

Insurance In Force by Policy Year

The following table sets forth for the MGIC Book the dispersion of our primary insurance in force and risk in force as of December 31, 2015, by year(s) of policy origination since we began operations in 1985.

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Primary Insurance In Force and Risk In Force by Policy Year

Policy Year	Insurance in Force		Risk in Force		
	Total (In millions)	Percent of Total	Total (In millions)	Percent of Total	
2004 and prior	\$7,933	4.5	% \$2,251	5.0	%
2005	6,855	3.9	% 1,952	4.3	%
2006	11,358	6.5	% 3,103	6.8	%
2007	24,712	14.2	% 6,357	14.0	%
2008	12,944	7.4	% 3,268	7.2	%
2009	3,419	2.0	% 783	1.7	%
2010	2,783	1.6	% 755	1.7	%
2011	4,301	2.4	% 1,160	2.5	%
2012	12,315	7.1	% 3,298	7.3	%
2013	19,224	11.0	% 5,092	11.2	%
2014	28,574	16.4	% 7,333	16.1	%
2015	40,096	23.0	% 10,110	22.2	%
Total	\$174,514	100.0	% \$45,462	100.0	%

Product Characteristics

The following table reflects at the dates indicated and by the categories indicated the total dollar amount of primary risk in force for the MGIC Book and the percentage of that primary risk in force, as determined on the basis of information available on the date of mortgage origination.

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Characteristics of Primary Risk in Force

	December 31, 2015	December 31, 2014	
Primary Risk in Force (In Millions):	\$45,462	\$42,946	
Loan-to-value ratios: ⁽¹⁾			
95.01% and above	16.2	% 18.7	%
90.01-95%	48.0	% 44.5	%
85.01-90%	29.8	% 30.4	%
80.01-85%	4.5	% 4.6	%
80% and below	1.5	% 1.8	%
Total	100.0	% 100.0	%
Loan Type:			
Fixed ⁽²⁾	96.4	% 95.9	%
Adjustable rate mortgages (“ARMs” ⁽³⁾)	3.6	% 4.1	%
Total	100.0	% 100.0	%
Original Insured Loan Amount: ⁽⁴⁾			
Conforming loan limit and below	96.0	% 96.1	%
Non-conforming	4.0	% 3.9	%
Total	100.0	% 100.0	%
Mortgage Term:			
15-years and under	2.7	% 3.1	%
Over 15 years	97.3	% 96.9	%
Total	100.0	% 100.0	%
Property Type:			
Single-family detached	87.4	% 87.0	%
Condominium/Townhouse/Other attached	11.9	% 12.3	%
Other ⁽⁵⁾	0.7	% 0.7	%
Total	100.0	% 100.0	%
Occupancy Status:			
Owner occupied	96.8	% 96.4	%
Second home	2.2	% 2.3	%
Investor property	1.0	% 1.3	%
Total	100.0	% 100.0	%
Documentation:			
Reduced documentation ⁽⁶⁾	3.9	% 4.8	%
Full documentation	96.1	% 95.2	%
Total	100.0	% 100.0	%
FICO Score: ⁽⁷⁾			
Prime (FICO 620 and above)	95.1	% 94.4	%
A Minus (FICO 575 – 619)	3.5	% 4.3	%
Subprime (FICO below 575)	1.4	% 1.3	%
Total	100.0	% 100.0	%

Loan-to-value ratio represents the ratio (expressed as a percentage) of the dollar amount of the first mortgage loan (1) to the value of the property at the time the loan became insured and does not reflect subsequent housing price appreciation or depreciation. Subordinate mortgages may also be present.

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(2) Includes fixed rate mortgages with temporary buydowns (where in effect the applicable interest rate is typically reduced by one or two percentage points during the first two years of the loan), ARMs in which the initial interest rate is fixed for at least five years and balloon payment mortgages (a loan with a maturity, typically five to seven years, that is shorter than the loan's amortization period).

(3) Includes ARMs where payments adjust fully with interest rate adjustments. Also includes pay option ARMs and other ARMs with negative amortization features, which collectively at December 31, 2015 and 2014, represented 0.7% and 0.9%, respectively, of primary risk in force. As indicated in note (2), does not include ARMs in which the initial interest rate is fixed for at least five years. As of December 31, 2015 and 2014, ARMs with loan-to-value ratios in excess of 90% represented 0.7% and 0.9%, respectively, of primary risk in force.

(4) Loans within the conforming loan limit have an original principal balance that does not exceed the maximum original principal balance of loans that the GSEs are eligible to purchase. The conforming loan limit, for one unit properties, is subject to annual adjustment and was \$417,000 for 2007 and early 2008; this amount was temporarily increased to up to \$729,500 in the most costly communities in early 2008 and remained at such level through September 30, 2011. The limit was decreased to \$417,000 although it remains \$625,500 in high cost communities for loans originated after September 30, 2011. Non-conforming loans are loans with an original principal balance above the conforming loan limit.

(5) Includes cooperatives and manufactured homes deemed to be real estate.

(6) Reduced documentation loans, many of which are commonly referred to as "Alt-A" loans, are originated under programs in which there is a reduced level of verification or disclosure compared to traditional mortgage loan underwriting, including programs in which the borrower's income and/or assets are disclosed in the loan application but there is no verification of those disclosures and programs in which there is no disclosure of income or assets in the loan application. In accordance with industry practice, loans approved by GSE and other automated underwriting (AU) systems under "doc waiver" programs that did not require verification of borrower income are classified by us 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 new insurance written. Information for other periods is not available. We understand these AU systems granted such doc waivers for loans they judged to have higher credit quality. We also understand that the GSEs terminated their "doc waiver" programs in the second half of 2008.

(7) Represents the FICO score at loan origination. The weighted average "decision FICO score" at loan origination for new insurance written in 2015 and 2014 was 744 and 743, respectively. The FICO 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. A FICO score is a score based on a borrower's credit history generated by a model developed by Fair Isaac Corporation.

Other Products and Services

Contract Underwriting. A non-insurance subsidiary of ours performs contract underwriting services for lenders. In performing those services, we underwrite loans to conform to prescribed guidelines. The guidelines might be the lender's own guidelines or the guidelines of Fannie Mae, Freddie Mac or a non-GSE investor. These services are provided for loans that require private mortgage insurance as well as for loans that do not require private mortgage insurance. The complaint in the Real Estate Settlement Procedures Act ("RESPA") litigation that we settled in 2003,

which litigation is referred to in our risk factor titled “We are involved in legal proceedings and are subject to the risk of additional legal proceedings in the future” in Item 1A, alleged, among other things, that the pricing of contract underwriting provided by us violated RESPA.

Under our contract underwriting agreements, we 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. The contract remedy expense of the subsidiary performing the contract underwriting services was approximately \$1 million, \$4 million and \$5 million for the years ended December 31, 2015, 2014 and 2013, respectively. Claims for remedies may be made a number of years after the underwriting work was performed.

Other. We provide various fee-based services for the mortgage finance industry, such as analysis of loan originations and portfolios, and mortgage lead generation.

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Reinsurance Agreements

At December 31, 2015, approximately 76% of our insurance in force was subject to reinsurance agreements, compared to 61% at December 31, 2014. In 2015, approximately 91% of our new insurance written was subject to reinsurance agreements, compared to 90% in 2014.

External Reinsurance. In April 2013, we entered into a quota share reinsurance agreement with a group of unaffiliated reinsurers that was settled by commutation effective July 1, 2015. Also effective July 1, 2015, we entered into a new quota share reinsurance agreement with the same group of unaffiliated reinsurers which provides coverage on policies that were covered under the 2013 agreement; certain additional in force policies as of July 1, 2015; and all qualifying new insurance written through December 31, 2016. The agreement covers incurred losses, with renewal premium through December 31, 2024. The structure of the 2015 agreement is a 30% quota share for all policies covered, with a 20% ceding commission as well as a profit commission. Generally, under the 2015 agreement, we will receive a profit commission provided that the loss ratio on the loans covered under the agreement remains below 60%. Although reinsuring against possible loan losses does not discharge us from liability to a policyholder, it reduces the amount of capital we are required to retain against potential future losses for the PMIERS, rating agency and insurance regulatory purposes. We are currently allowed full credit under the PMIERS for the risk ceded under the quota share transaction. However, the GSEs' ongoing approval of the transaction is subject to several conditions and it will be reviewed under the PMIERS at least annually by the GSEs. Early termination of the agreement can be elected by us effective December 31, 2018 for a fee, or under specified scenarios for no fee upon prior written notice. Further, at our sole discretion we may elect to terminate the 2015 agreement if we will receive less than 90% of the full PMIERS credit amount for the risk ceded under the agreement in any required calculation period.

Captive Reinsurance. In a captive reinsurance arrangement, the reinsurer is affiliated with the lender for whom MGIC provides mortgage insurance. Since June 2005, various state and federal regulators have conducted investigations or requested information regarding captive mortgage reinsurance arrangements in which we participated, in part, in order to consider compliance with RESPA. In 2013, we entered into a settlement agreement with the Consumer Financial Protection Bureau ("CFPB") that resolved a federal investigation of MGIC's participation in captive reinsurance arrangements without the CFPB or a 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. In accordance with this settlement, all of our active captive arrangements have been placed into run-off.

For further information about our reinsurance agreements, see Note 11 – "Reinsurance," to our consolidated financial statements in Item 8. For further information about investigations and litigation concerning captive reinsurance arrangements, see our risk factor titled "We are involved in legal proceedings and are subject to the risk of additional legal proceedings in the future" in Item 1A.

Customers

Originators of residential mortgage loans such as savings institutions, commercial banks, mortgage brokers, credit unions, mortgage bankers and other lenders have historically determined the placement of mortgage insurance written on a flow basis and as a result are our customers. To obtain primary insurance from us written on a flow basis, a mortgage lender must first apply for and receive a mortgage guaranty master policy from us. Our top 10 customers, none of whom represented more than 10% of our consolidated revenues, generated 23.4% of our new insurance written on a flow basis in 2015, compared to 19.5% in 2014 and 23.0% in 2013. Our largest customer accounted for approximately 5% of our flow new insurance written in 2015 compared to approximately 4% in 2014. Our relationships with our customers could be adversely affected by a variety of factors, including premium rates higher than can be obtained from competitors, tightening of and adherence to our underwriting requirements, which may

result in our declining to insure some of the loans originated by our customers and insurance rescissions and curtailments that affect the customer. Information about some of the other factors that can affect a mortgage insurer's relationship with its customers can be found in our risk factor titled "Competition or changes in our relationships with our customers could reduce our revenues, reduce our premium yields and/or increase our losses" in Item 1A.

Sales and Marketing and Competition

Sales and Marketing. We sell our insurance products through our own employees, located throughout all regions of the United States and in Puerto Rico.

Competition. Our competition includes other mortgage insurers, governmental agencies and products designed to eliminate the need to purchase private mortgage insurance. For flow business, we and other private mortgage insurers compete directly with federal and state governmental and quasi-governmental agencies, principally the FHA and the VA. The FHA and the VA sponsor

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government-backed mortgage insurance programs, and it is estimated that during 2015, 2014 and 2013, they accounted for a combined approximately 64.9%, 59.3% and 63.5% , respectively, of the total low down payment residential mortgages which were subject to FHA, VA or primary private mortgage insurance. For more information about the market share of the FHA and the VA, see “Overview of the Private Mortgage Insurance Industry and its Operating Environment” above.

In addition to competition from the FHA and the VA, we and other private mortgage insurers face competition from state-supported mortgage insurance funds in several states. From time to time, other state legislatures and agencies consider expanding the authority of their state governments to insure residential mortgages.

The private mortgage insurance industry is highly competitive. We believe that we currently compete with other private mortgage insurers based on pricing, underwriting requirements, financial strength, customer relationships, name recognition, reputation, the strength of our management team and field organization, the ancillary products and services provided to lenders (including contract underwriting services), the depth of our databases covering insured loans and the effective use of technology and innovation in the delivery and servicing of our mortgage insurance products.

The U.S. private mortgage insurance industry currently consists of seven active mortgage insurers and their affiliates. The names of these mortgage insurers can be found in our risk factor titled “Competition or changes in our relationships with our customers could reduce our revenues, reduce our premium yields and/or increase our losses” in Item 1A. Until 2010 the mortgage insurance industry had not had new entrants in many years. Since 2010, two public companies have been 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. At December 31, 2015, we had the third largest book of direct primary insurance in force. According to Inside Mortgage Finance, through 2010, we had been the largest private mortgage insurer (as measured by new insurance written) for more than ten years. In 2015, we had the second largest market share (as measured by new insurance written) and it was 19.9% in 2015, compared to 19.8% in 2014 and 16.4% in 2013, in each case excluding HARP refinances.

The mortgage insurance industry historically viewed a financial strength rating of Aa3/AA- as critical to writing new business, in part because it was required in order to maintain the highest level of eligibility with the GSEs before the PMIERS were revised effective December 31, 2015. At the time that this annual report was finalized, the financial strength of MGIC was rated Baa3 (with a stable outlook) by Moody’s Investors Service and BB+ (with a positive outlook) by Standard & Poor’s Rating Services. The revised PMIERS replaced the financial strength rating requirements with a requirement that a mortgage insurer’s “Available Assets” (generally only the most liquid assets of an insurer) equal or exceed its “Minimum Required Assets” (which are based on an insurer’s book and are calculated from tables of factors with several risk dimensions and are subject to a floor amount). For further information about the importance of MGIC’s capital, see our risk factor titled “We may not continue to meet the GSEs’ mortgage insurer eligibility requirements and our returns may decrease as we are required to maintain significantly more capital in order to maintain our eligibility” in Item 1A. Depending on the evolution of housing finance reform, the level of issuances of non-GSE mortgage-backed securities (“MBS”) may increase in the future. Financial strength ratings may be considered by issuers of non-GSE MBS in determining whether to purchase private mortgage insurance for loans supporting such securities. In assigning financial strength ratings, in addition to considering the adequacy of the mortgage insurer’s capital to withstand very high claim scenarios under assumptions determined by the rating agency, we believe rating agencies review a mortgage insurer’s historical and projected operating performance, franchise risk, business outlook, competitive position, management, corporate strategy, and other factors. The rating agency issuing the financial strength rating can withdraw or change its rating at any time.

Risk Management

We believe that mortgage credit risk is materially affected by:

the borrower's credit profile, including the borrower's credit history, debt-to-income ratios and cash reserves, and the willingness of a borrower with sufficient resources to make mortgage payments when the mortgage balance exceeds the value of the home;

the loan product, which encompasses the loan-to-value ratio, the type of loan instrument, including whether the instrument provides for fixed or variable payments and the amortization schedule, the type of property and the purpose of the loan;

origination practices of lenders and the percentage of coverage on insured loans;

the size of insured loans; and

the condition of the economy, including the direction of change in housing values and employment, in the area in which the property is located.

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We believe that, excluding other factors, claim incidence increases:

- for loans to borrowers with lower FICO scores compared to loans to borrowers with higher FICO scores;
- for loans with less than full underwriting documentation compared to loans with full underwriting documentation;
- during periods of economic contraction and housing price depreciation, including when these conditions may not be nationwide, compared to periods of economic expansion and housing price appreciation;
- for loans with higher loan-to-value ratios compared to loans with lower loan-to-value ratios;
- for ARMs when the reset interest rate significantly exceeds the interest rate at the time of loan origination;
- for loans that permit the deferral of principal amortization compared to loans that require principal amortization with each monthly payment;
- for loans in which the original loan amount exceeds the conforming loan limit compared to loans below that limit; and
- for cash out refinance loans compared to rate and term refinance loans.

Other types of loan characteristics relating to the individual loan or borrower may also affect the risk potential for a loan. The presence of a number of higher-risk characteristics in a loan materially increases the likelihood of a claim on such a loan unless there are other characteristics to lower the risk.

We charge higher premium rates to reflect the increased risk of claim incidence that we perceive is associated with a loan, although not all higher risk characteristics are reflected in the premium rate. There can be no assurance that our premium rates adequately reflect the increased risk, particularly in a period of economic recession, high unemployment, slowing home price appreciation or housing price declines. For additional information, see our risk factors in Item 1A, including the one titled “The premiums we charge may not be adequate to compensate us for our liabilities for losses and as a result any inadequacy could materially affect our financial condition and results of operations.”

Beginning in late 2007 and into 2008, we implemented a series of changes to our underwriting requirements that were designed to improve the risk profile of our new business. The changes primarily affected borrowers who had multiple risk factors such as a high loan-to-value ratio, a lower FICO score and limited documentation or those financing a home in a market we categorized as higher risk. The loans insured in the periods leading up to the effectiveness of the new requirements continue to experience significantly higher than historical lifetime claim rates and incurred losses. Beginning in September 2009, we have made changes to our underwriting requirements that have allowed certain loans to be eligible for insurance that were not eligible prior to those changes and we expect to continue to make changes in appropriate circumstances in the future.

Delegated Underwriting and Automated Underwriting. In the past, we allowed approved lenders to commit us to insure loans originated through the flow channel using their own underwriting guidelines that we had pre-approved. Subsequently, some lenders developed their own automated underwriting systems. After we reviewed such systems, we agreed to allow certain lenders to commit us to insure loans that their systems approved. From 2000 through January 2007, the use of automated underwriting systems by the GSEs and lenders increased materially. During this same period, we allowed loans approved by the automated underwriting systems of the GSEs and certain approved lenders to be automatically approved for MGIC mortgage insurance. As a result, during this period, a substantial

majority of the loans insured by us through the flow channel were approved as a result of loan approvals by automated underwriting systems. Beginning in 2007 and continuing through 2012, loans would not automatically be insured by us even though the loans were approved by the underwriting systems described above. Beginning in 2013, we aligned 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 changes to our underwriting guidelines and requirements, and other factors, our business written beginning in the second half of 2013 is expected to have a somewhat higher claim incidence than business written 2009 through the first half of 2013. However, we believe this business presents an acceptable level of risk. Our underwriting requirements are available on our website at <http://www.mgic.com/underwriting/index.html>.

Applications for mortgage insurance are submitted to us through both our delegated and non-delegated options. Under the delegated option, applications are submitted to us electronically and we rely upon the lender's representations and warranties that the data submitted is true and correct when making our insurance decision. If the loan data submitted meets the underwriting

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requirements, a commitment to insure the loan is immediately issued. If the requirements are not met, the loan is reviewed by one of our underwriters. Non-delegated applications are submitted with documents from the lender's loan origination file. During loan set-up, data is entered from those application documents and electronically evaluated against our underwriting requirements. An internally generated feedback report guides the mortgage insurance review as a full review of the mortgage documents is performed by one of our underwriters. If the loan meets the underwriting requirements, a commitment to insure the loan is issued. Our underwriters are authorized to approve loans that do not meet all of our underwriting requirements provided appropriate offsetting factors can be identified. The number of loans for which underwriting exceptions were made accounted for fewer than 2% of the loans we insured in each of 2014 and 2015.

Exposure to Catastrophic Loss; Defaults; Claims; Loss Mitigation

Exposure to Catastrophic Loss. The private mortgage insurance industry has from time to time experienced catastrophic losses similar to the losses we have experienced in recent years. For background information about the current cycle of such losses, refer to "General – Overview of Private Mortgage Insurance Industry and its Operating Environment" above. To the extent our premium yield materially declines without either a corresponding decrease in our risk written or achieving other benefits, we become less likely to be able to withstand the occurrence of a catastrophic loss scenario. Prior to the most recent cycle of such losses, the last time that private mortgage insurers experienced substantial losses was in the mid-to-late 1980s. From the 1970s until 1981, rising home prices in the United States generally led to profitable insurance underwriting results for the industry and caused private mortgage insurers to emphasize market share. To maximize market share, until the mid-1980s, private mortgage insurers employed liberal underwriting practices, and charged premium rates which, in retrospect, generally did not adequately reflect the risk assumed, particularly on pool insurance. These industry practices compounded the losses which resulted from changing economic and market conditions which occurred during the early and mid-1980s, including (1) severe regional recessions and attendant declines in property values in the nation's energy producing states; (2) the lenders' development of new mortgage products to defer the impact on homebuyers of double digit mortgage interest rates; and (3) changes in federal income tax incentives which initially encouraged the growth of investment in non-owner occupied properties.

Defaults. The claim cycle on private mortgage insurance generally begins with the insurer's receipt of notification of a default on an insured loan from the loan servicer. We consider a loan to be in default when it is two or more payments past due. Most servicers report delinquent loans to us within this two month period. The incidence of default is affected by a variety of factors, including the level of borrower income growth, unemployment, health issues, family status, the level of interest rates, rates of housing price appreciation or depreciation and general borrower creditworthiness. Defaults that are not cured result in a claim to us. See "– Claims." Defaults may be cured by the borrower bringing current the delinquent loan payments or by a sale of the property and the satisfaction of all amounts due under the mortgage. In addition, when a policy is rescinded or a claim is denied we remove the default from our default inventory.

The following table shows the number of primary and pool loans insured in the MGIC Book, including A- and subprime loans, the related number of loans in default and the percentage of loans in default, or default rate, as of December 31, 2011-2015.

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Default Statistics for the MGIC Book

	December 31,					
	2015	2014	2013	2012	2011	
PRIMARY INSURANCE						
Insured loans in force	992,188	968,748	960,163	1,006,346	1,090,086	
Loans in default ⁽¹⁾	62,633	79,901	103,328	139,845	175,639	
Default rate – all loans	6.3	% 8.3	% 10.8	% 13.9	% 16.1	%
Prime loans in default ⁽²⁾	40,214	50,307	65,724	90,270	112,403	
Default rate – prime loans	4.5	% 5.8	% 7.8	% 10.4	% 12.2	%
A-minus loans in default ⁽²⁾	10,451	13,021	16,496	20,884	25,989	
Default rate – A-minus loans	25.7	% 27.6	% 30.4	% 32.9	% 35.1	%
Subprime loans in default ⁽²⁾	4,080	5,228	6,391	7,668	9,326	
Default rate – subprime loans	31.2	% 35.2	% 38.7	% 40.8	% 43.6	%
Reduced documentation loans delinquent ⁽³⁾	7,888	11,345	14,717	21,023	27,921	
Default rate – reduced doc loans	22.0	% 27.1	% 30.4	% 35.2	% 38.0	%
POOL INSURANCE						
Insured loans in force ⁽⁴⁾	52,189	62,869	87,584	119,061	374,228	
Loans in default	2,739	3,797	6,563	8,594	32,971	
Default rate	5.3	% 6.0	% 7.5	% 7.2	% 8.8	%

(1) At December 31, 2015, 2014, 2013, 2011 and 2011, 2,769, 4,746, 6,948, 11,731 and 12,610 loans in default, respectively, were in our claims received inventory.

(2) We define prime loans as those having FICO scores of 620 or greater, A-minus loans as those having FICO scores of 575-619, and subprime credit loans as those having FICO scores of less than 575, all as reported to MGIC at the time a commitment to insure is issued. In this annual report we classify loans without complete documentation as “reduced documentation” loans regardless of FICO 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.

(3) In accordance with industry practice, loans approved by GSE and other automated underwriting (AU) systems under “doc waiver” programs that do not require verification of borrower income are classified by us 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 new insurance written. Information for other periods is not available. We understand these AU systems granted such doc waivers for loans they judged to have higher credit quality. We also understand that the GSEs terminated their “doc waiver” programs in the second half of 2008.

(4) The number of loans insured under pool policies declined significantly from 2011 to 2012, partly due to the cancellation of certain pool policies due to the exhaustion of their aggregate loss limits.

Different geographical areas may experience different default rates due to varying localized economic conditions from year to year. The following table shows the percentage of primary loans we insured that were in default as of December 31, 2015, 2014 and 2013 for the 15 jurisdictions for which we paid the most claims during 2015.

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Jurisdiction Default Rates

	December 31,			
	2015	2014	2013	
Florida	10.1	% 17.7	% 27.5	%
Illinois	7.1	10.3	14.3	
Maryland	9.4	12.8	17.1	
New Jersey	15.6	18.7	21.9	
California	4.1	5.9	8.2	
Pennsylvania	6.5	8.3	10.1	
New York	12.7	15.0	16.6	
Ohio	5.2	6.5	8.5	
Washington	4.0	5.6	8.3	
Georgia	6.5	8.2	10.7	
Connecticut	7.1	9.8	13.4	
Michigan	4.1	5.5	7.4	
Virginia	4.9	6.4	8.0	
Wisconsin	3.8	5.1	6.3	
Massachusetts	7.4	8.5	9.8	
All other jurisdictions	5.7	7.0	8.9	

The primary default inventory in those same jurisdictions as of December 31, 2015, 2014 and 2013 appears in a table found in “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Results of Consolidated Operations – Losses – Losses Incurred,” in Item 7.

Claims. Claims result from defaults that are not cured or a short sale that we approve. Whether a claim results from an uncured default depends, in large part, on the borrower’s equity in the home at the time of default, the borrower’s or the lender’s ability to sell the home for an amount sufficient to satisfy all amounts due under the mortgage and the willingness and ability of the borrower and lender to enter into a loan modification that provides for a cure of the default. Various factors affect the frequency and amount of claims, including local housing prices and employment levels, and interest rates. If a default goes to claim, any premium collected from the time of default to time of the claim payment is returned to the servicer along with the claim payment.

Under the terms of our master policy, the lender is required to file a claim for primary insurance with us within 60 days after it has acquired title to the underlying property (typically through foreclosure). 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.

Within 60 days after a claim has been filed and all documents required to be submitted to us have been delivered, we have the option of either (1) paying the coverage percentage specified for that loan, with the insured retaining title to the underlying property and receiving all proceeds from the eventual sale of the property (we have elected this option for the vast majority of claim payments in the recent past), or (2) paying 100% of the claim amount in exchange for the lender’s conveyance of good and marketable title to the property to us. After we receive title to properties, we sell them for our own account. If we fail to pay a claim timely, we would be subject to additional interest expense.

Claim activity is not evenly spread throughout the coverage period of a book of primary business. Relatively few claims are typically received during the first two years following issuance of coverage on a loan. This is typically followed by a period of rising claims which, based on industry experience, has historically reached its highest level in the third and fourth years after the year of loan origination. Thereafter, the number of claims typically received has historically declined at a gradual rate, although the rate of decline can be affected by conditions in the economy, including slowing home price appreciation or housing price depreciation. Moreover, when a loan is refinanced, because the new loan replaces, and is a continuation of, an earlier loan, the pattern of claims frequency for that new loan may be different from the historical pattern for other loans. Persistency, the condition of the economy, including unemployment, and other factors can affect the pattern of claim activity. For example, a weak economy

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can lead to claims from older books increasing, continuing at stable levels or experiencing a lower rate of decline. As of December 31, 2015, 50% of our primary risk in force was written subsequent to December 31, 2012, 57% was written subsequent to December 31, 2011, and 59% was written subsequent to December 31, 2010. See “Our Products and Services – Mortgage Insurance – Primary Insurance In Force and Risk In Force by Policy Year” above.

Another important factor affecting MGIC Book losses is the amount of the average claim size, which is generally referred to as claim severity. The primary average claim paid on the MGIC Book was \$48,248 in 2015, compared to \$45,596 in 2014, \$46,375 in 2013, \$48,722 in 2012 and \$49,887 in 2011. The main determinants of claim severity are the amount of the mortgage loan, the coverage percentage on the loan, loss mitigation efforts and local market conditions.

Information about net claims we paid during 2015, 2014 and 2013 appears in the table below.

Net paid claims (In millions)

	2015	2014	2013
Prime (FICO 620 & >)	\$510	\$755	\$1,163
A-Minus (FICO 575-619)	96	124	179
Subprime (FICO < 575)	37	38	50
Reduced doc (All FICOs) ⁽¹⁾	134	157	219
Pool ⁽²⁾	68	84	104
Other ⁽³⁾	5	1	107
Direct losses paid	\$850	\$1,159	\$1,822
Reinsurance	(23)	(34)	(61)
Net losses paid	\$827	\$1,125	\$1,761
LAE	22	29	36
Net losses and LAE before terminations	\$849	\$1,154	\$1,797
Reinsurance terminations	(15)	—	(3)
Net losses and LAE paid	\$834	\$1,154	\$1,794

In this annual report we classify loans without complete documentation as “reduced documentation” loans regardless (1) of FICO 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) Each of 2015, 2014 and 2013 includes \$42 million paid under the terms of the settlement with Freddie Mac as discussed under Note 9 – “Loss Reserves” to our consolidated financial statements in Item 8.

(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 in Item 8.

Primary claims paid for the top 15 jurisdictions (based on 2015 paid claims, excluding payments associated with the Countrywide settlement) and all other jurisdictions for the years ended December 31, 2015, 2014 and 2013 appear in a table found in “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Results of Consolidated Operations – Losses – Losses Incurred,” in Item 7.

From time to time, proposals to give bankruptcy judges the authority to reduce mortgage balances in bankruptcy cases have been made. Such reductions are sometimes referred to as bankruptcy cramdowns. A bankruptcy cramdown is not an event that entitles an insured party to make a claim under our insurance policy. If a borrower ultimately satisfies his or her mortgage after a bankruptcy cramdown, then our insurance policies provide that we would not be required to pay any claim. Under our insurance policies, however, if a borrower re-defaults on a mortgage after a bankruptcy cramdown, the claim we would be required to pay would be based upon the original, unreduced loan balance. We are

not aware of any bankruptcy cramdown proposals that would change these provisions of our insurance policies. 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 a reduction, then under the terms of our policy the amount we would be responsible to cover would be calculated net of the reduction.

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Loss Mitigation.

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 each of 2015 and 2014, curtailments reduced our average claim paid by approximately 6.7%. 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. In our SEC reports, we refer to insurance rescissions and denials of claims as “rescissions” and variations of this term. 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 the Gold Cert Endorsement, which limited our ability to rescind coverage compared to our master policy in effect at that time. Our rescission rights under our new master policy introduced in 2014 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.

In recent quarters, approximately 5% of claims received in a quarter have been resolved by rescissions, down from the peak of approximately 28% in the first half of 2009. Our rescissions involve inaccurate information or fraud committed regarding a borrower’s income, debts or intention to occupy the property; a faulty appraisal; negligence in the origination of the loan; or a failure to provide us with documentation we request under our policy (we use this documentation to investigate whether a claim must be paid). We do not expect future rescissions will be a significant portion of the claims we resolve over the next few years.

Our loss reserving methodology incorporates our estimates of future rescissions, reversals of rescissions and curtailments. When we rescind coverage, we return all premiums previously paid to us under the policy and are relieved of our obligation to pay a claim under the policy. A variance between ultimate actual rescission, reversal or curtailment 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. Certain settlements require GSE approval. The GSEs consented to settlement agreements we entered into with Countrywide Home Loans, Inc. (“CHL”) and its affiliate, Bank of America, N.A., as successor to Countrywide Home Loans Servicing LP, but there is no guarantee they will approve others. 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 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 may 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. The estimated impact that we have recorded is our best estimate of our loss from these matters. If we are not able to implement settlements we consider probable, we intend to defend MGIC vigorously against any related legal proceedings.

In addition to the probable settlements for which we have recorded a loss, we are involved in other discussions and/or proceedings with insureds with respect to our claims paying practices. Although it is reasonably possible that when these matters are resolved we will not prevail in all cases, we are unable to make a reasonable estimate or range of estimates of the potential liability. We estimate the maximum exposure associated with matters where a loss is reasonably possible to be approximately \$317 million, although we believe we will ultimately resolve these matters for significantly less than this amount. This estimate includes the maximum exposure for losses that we have determined are probable in excess of the provision we have recorded for such losses.

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

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Although loan modification programs continued to mitigate our losses in 2015, the impact of modifications has been decreasing. During 2014 and 2015, we were notified of modifications that cured delinquencies that had they become paid claims would have resulted in approximately \$0.8 billion and \$0.6 billion, respectively, of estimated claim payments. These levels are down from a high of \$3.2 billion in 2010. For more information, see the risk factor titled “Loan modification and other similar programs may not continue to provide substantial benefits to us ” in Item 1A.

Another loss mitigation technique available to us is obtaining a deficiency judgment against the borrower and attempting to recover some or all of the paid claim from the borrower. Various factors, including state laws that limit or eliminate our ability to pursue deficiency judgments and borrowers’ financial conditions, have limited our recoveries in recent years to less than one-half of 1% of our paid claims.

Loss Reserves and Premium Deficiency Reserve

A significant period of time typically elapses between the time when a borrower defaults on a mortgage payment, which is the event triggering a potential future claim payment by us, the reporting of the default to us, the acquisition of the property by the lender (typically through foreclosure) or the sale of the property with our approval, and the eventual payment of the claim related to the uncured default or a rescission. To recognize the estimated liability for losses related to outstanding reported defaults, or default inventory, we establish loss reserves. Loss reserves are established by 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. Our loss reserve estimates are established based upon historical experience, including rescission activity. In accordance with GAAP for the mortgage insurance industry, we generally do not establish loss reserves for future claims on insured loans that are not currently in default.

We also establish reserves to provide for the estimated costs of settling claims, general expenses of administering the claims settlement process, legal fees and other fees (“loss adjustment expenses”), and for losses and loss adjustment expenses from defaults that have occurred, but which have not yet been reported to us.

Our reserving process bases our estimates of future events on our past experience. However, estimation of loss reserves is inherently judgmental and conditions that have affected the development of the loss reserves in the past may not necessarily affect development patterns in the future, in either a similar manner or degree. For further information, see our risk factors in Item 1A, including the ones titled “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,” and “Because loss reserve estimates are subject to uncertainties, paid claims may be substantially different than our loss reserves.”

Our losses incurred from our risk in force have declined in recent years in part due to the improving economy and the run-off of the insurance policies we wrote before the financial crisis, both of which resulted in fewer defaulted loans, as well as an improved cure rate on defaulted loans. Our losses incurred were \$343.5 million in 2015, compared to \$496.1 million in 2014 and \$838.7 million in 2013. Rescissions had no significant impact on our losses incurred in 2013 through 2015.

After our reserves are initially established, we perform premium deficiency tests using best estimate assumptions as of the testing date. We establish a premium deficiency reserve, if necessary, when the present value of expected future losses and expenses exceeds the present value of expected future premiums and already established reserves. In the fourth quarter of 2007, we recorded a premium deficiency reserve of \$1.2 billion relating to Wall Street bulk transactions remaining in our insurance in force. That premium deficiency reserve was eliminated in the second quarter of 2015.

C. Investment Portfolio

Policy and Strategy

At December 31, 2015, the fair value of our investment portfolio was approximately \$4.7 billion. In addition, at December 31, 2015, our total assets included approximately \$181 million of cash and cash equivalents. At December 31, 2015, of our portfolio plus cash and cash equivalents, approximately \$402 million was held by our parent company and the remainder was held by our subsidiaries, primarily MGIC.

As of December 31, 2015, approximately 71% of our investment portfolio (excluding cash and cash equivalents) was managed by Wellington Management Company, LLP, although we maintain overall control of investment policy and strategy. We maintain direct management of the remainder of our investment portfolio. Unless otherwise indicated, the remainder of the discussion regarding our investment portfolio refers to our investment portfolio only and not to cash and cash equivalents.

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Our current investment policy emphasizes preservation of capital. Therefore, our investment portfolio consists almost entirely of high-quality, investment grade, fixed maturity securities. Our investment portfolio strategy encompasses tax efficiency. The mix of tax-exempt municipal securities in our investment portfolio will increase with sustained profitability of the company. The goal is maintain or grow net investment income through a combination of investment income and tax advantages. Also, our investment policies and strategies are subject to change depending upon regulatory, economic and market conditions and our existing or anticipated financial condition and operating requirements.

Our investment policies in effect at December 31, 2015 limit investments in the securities of a single issuer, other than the U.S. government, and generally limit the purchase of fixed maturity securities to those that are rated investment grade by at least one rating agency. They also limit the amount of investment in foreign governments and foreign domiciled securities and in any individual foreign country. The aggregate market value of the holdings of a single obligor, or type of investment, as applicable, is limited to:

U.S. government securities	No limit
Pre-refunded municipals escrowed in Treasury securities	No limit
U.S. government agencies (in total) ⁽¹⁾	15% of portfolio market value
Securities rated “AA” or “AAA”	3% of portfolio market value
Securities rated “BBB” or “A”	2% of portfolio market value
Foreign governments & foreign domiciled securities (in total)	10% of portfolio market value
Individual AAA rated foreign countries	3% of portfolio market value
Individual below AAA rated foreign countries	1% of portfolio market value

(1) As used with respect to our investment portfolio, U.S. government agencies include GSEs (which, in the sector table below are included as part of U.S. Treasuries) and Federal Home Loan Banks.

For information about the credit ratings of securities in our investment portfolio and the portion of our investment portfolio that is insured by financial guarantors, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Financial Condition” in Item 7.

Investment Operations

At December 31, 2015, the sectors of our investment portfolio were as shown in the table below:

	Percentage of Portfolio’s Fair Value	
1. Corporate	46.3	%
2. Tax-Exempt Municipals	20.6	
3. Taxable Municipals	16.2	
4. GNMA Pass-through Certificates	5.5	
5. Asset Backed	5.5	
6. U.S. Treasuries	3.4	
7. Escrowed/Prerefunded Municipals	1.6	
8. Foreign Debt	0.7	
9. Other	0.2	
	100.0	%

We had no derivative financial instruments in our investment portfolio. Securities due within up to one year, after one year and up to five years, after five years and up to ten years, and after ten years, represented 6%, 34%, 28% and 32%, respectively, of the total fair value of our investment in debt securities. Our pre-tax yield was 2.5%, 2.2% and 1.7% for 2015, 2014 and 2013, respectively.

Our ten largest holdings at December 31, 2015 appear in the table below:

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	Fair Value (In thousands)
1. New York State Dormitory Authority Rev	\$56,752
2. JP Morgan Chase	47,293
3. Goldman Sachs Group Inc	42,050
4. Wells Fargo & Co	41,004
5. Morgan Stanley	36,139
6. New York, NY	35,584
7. Chicago Airport Rev	34,666
8. Bear Stearns Commercial Mortgage	34,118
9. Metropolitan Transit Authority New York	32,464
10. Citigroup Inc	32,057
	\$392,127

Note: This table excludes securities issued by the U.S. government, U.S. government agencies, the GSEs and the Federal Home Loan Banks.

For further information concerning investment operations, see Note 6 – “Investments,” to our consolidated financial statements in Item 8.

D. Regulation

Direct Regulation

We are subject to comprehensive, detailed regulation by state insurance departments. These regulations are principally designed for the protection of our insured policyholders, rather than for the benefit of investors. Although their scope varies, state insurance laws generally grant broad supervisory powers to agencies or officials to examine insurance companies and enforce rules or exercise discretion affecting almost every significant aspect of the insurance business. Given the recent significant losses incurred by many insurers in the mortgage and financial guaranty industries, our insurance subsidiaries have been subject to heightened scrutiny by insurance regulators.

In general, regulation of our subsidiaries’ business relates to:

- licenses to transact business;
- policy forms;
- premium rates;
- insurable loans;
- annual and other reports on financial condition;
- the basis upon which assets and liabilities must be stated;
- requirements regarding contingency reserves equal to 50% of premiums earned;
- minimum capital levels and adequacy ratios;
- reinsurance requirements;
- limitations on the types of investment instruments which may be held in an investment portfolio;
- the size of risks and limits on coverage of individual risks which may be insured;
- deposits of securities;
- transactions among affiliates;
- limits on dividends payable; and
- claims handling.

The insurance laws of 16 jurisdictions, including Wisconsin, our domiciliary state, require a mortgage insurer to maintain a minimum amount of statutory capital relative to the risk in force (or a similar measure) in order for the mortgage insurer to continue to write new business. We refer to these requirements as the “State Capital Requirements.” While they vary among jurisdictions, currently the most common State Capital Requirements allow for a maximum risk-to-capital ratio of 25 to 1. Wisconsin does not regulate capital by using a risk-to-capital measure but instead requires a minimum policyholder position (“MPP”). The

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“policyholder position” of a mortgage insurer is its net worth or surplus, contingency reserve and a portion of the reserves for unearned premiums.

During part of 2012 and 2013, MGIC’s risk-to-capital ratio exceeded 25 to 1. We funded MIC, a direct subsidiary of MGIC, to write new business in jurisdictions where MGIC no longer met, and was not able to obtain a waiver of, the State Capital Requirements. In the third quarter of 2012, we began writing new mortgage insurance in MIC in those jurisdictions. In 2013, our holding company issued additional equity and convertible debt securities and transferred \$800 million to increase MGIC’s capital. As a result, later in 2013, MGIC was again able to write new business in all jurisdictions and MIC suspended writing new business. In 2015, much of MIC's capital was repatriated to MGIC. At December 31, 2015, MGIC’s risk-to-capital ratio was 12.1 to 1, below the maximum allowed by the jurisdictions with State Capital Requirements, and its policyholder position was \$1.2 billion above the required MPP of \$1.1 billion.

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 drafting the revisions, 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.

See our risk factors “We may not continue to meet the GSEs’ mortgage insurer eligibility requirements and our returns may decrease as 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” in Item 1A, for information about regulations governing our capital adequacy and our expectations regarding our future capital position. See "Management's Discussion and Analysis – Liquidity and Capital Resources – Capital" in Item 7 for information about our current capital position.

Most states also regulate transactions between insurance companies and their parents or affiliates and have restrictions on transactions that have the effect of inducing lenders to place business with the insurer. For a description of limits on dividends payable to us from MGIC, see “Management’s Discussion and Analysis – Liquidity and Capital Resources” in Item 7 and Note 16 – “Dividend restrictions,” to our consolidated financial statements in Item 8.

Mortgage insurance premium rates are also subject to state regulation to protect policyholders against the adverse effects of excessive, inadequate or unfairly discriminatory rates and to encourage competition in the insurance marketplace. Any increase in premium rates must be justified, generally on the basis of the insurer’s loss experience, expenses and future trend analysis. The general mortgage default experience may also be considered. Premium rates are subject to review and challenge by state regulators.

We are required to establish statutory accounting contingency loss reserves in an amount equal to 50% of net earned premiums. These amounts cannot be withdrawn for a period of 10 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. For further information, see Note 17 – “Capital Requirements,” to our consolidated financial statements in Item 8.

Mortgage insurers are generally single-line companies, restricted to writing residential mortgage insurance business only. Although we, as an insurance holding company, are prohibited from engaging in certain transactions with MGIC, MIC or our other insurance subsidiaries without submission to and, in some instances, prior approval by applicable insurance departments, we are not subject to insurance company regulation on our non-insurance businesses.

Wisconsin's insurance regulations generally provide that no person may acquire control of us unless the transaction in which control is acquired has been approved by the Office of the Commissioner of the State of Wisconsin (the "OCI"). The regulations provide for a rebuttable presumption of control when a person owns or has the right to vote more than 10% of the voting securities. In addition, the insurance regulations of other states in which MGIC is licensed require notification to the state's insurance department a specified time before a person acquires control of us. If regulators in these states disapprove the change of control, our licenses to conduct business in the disapproving states could be terminated. For further information about regulatory proceedings applicable to us and our industry, see "We are involved in legal proceedings and are subject to the risk of additional legal proceedings in the future" in Item 1A.

The CFPB was established by the Dodd-Frank Act to regulate the offering and provision of consumer financial products or services under federal law. The CFPB's 2014 rules implementing laws that require mortgage lenders to make ability-to-pay determinations prior to extending credit affected the characteristics of loans being originated and the volume of loans available to be insured. We are uncertain whether the CFPB will issue any other rules or regulations that affect our business apart from any action it may take as a result of its investigation of captive mortgage reinsurance. Such rules and regulations could have a material adverse effect on us.

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As the most significant purchasers and sellers of conventional mortgage loans and beneficiaries of private mortgage insurance, Freddie Mac and Fannie Mae impose financial and other requirements on private mortgage insurers in order for them to be eligible to insure loans sold to the GSEs (these requirements are referred to as the "PMIERS", as discussed above). These requirements are subject to change from time to time. Based on our interpretation of the financial requirements of the PMIERS, as of December 31, 2015, MGIC's preliminary Available Assets are \$5.0 billion and its preliminary Minimum Required Assets are \$4.5 billion; and MGIC is in compliance with the financial requirements of the PMIERS and eligible to insure loans purchased by the GSEs. For information about the possible reduction in Available Assets in connection with the first quarter 2016 purchase by MGIC of a portion of our outstanding 9% Convertible Junior Subordinated Debentures, see "Management's Discussion and Analysis – Debt at Our Holding Company and Holding Company Capital Resources" in Item 7. 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. For information about matters that could be negatively affect our compliance with the PMIERS, see our risk factor titled "We may not continue to meet the GSEs' mortgage insurer eligibility requirements and our returns may decrease as we are required to maintain significantly more capital in order to maintain our eligibility" in Item 1A.

The FHFA is the conservator of the GSEs and has the authority to control and direct their operations. The increased role that the federal government has assumed in the residential mortgage market through the GSE conservatorship may increase the likelihood that the business practices of the GSEs change in ways that have a material adverse effect on us. In addition, these factors may increase the likelihood that the charters of the GSEs are changed by new federal legislation. The Dodd-Frank Act required the U.S. Department of the Treasury to report its recommendations regarding options for ending the conservatorship of the GSEs. This report was released in February 2011 and while it does not provide any definitive timeline for GSE reform, it does recommend using a combination of federal housing policy changes to wind down the GSEs, shrink the government's footprint in housing finance (including FHA insurance), and help bring private capital back to the mortgage market. Since then members of Congress introduced several bills intended to scale back the GSEs; however, no legislation has been enacted. As a result of the matters referred to above, it is uncertain what role the GSEs, FHA and private capital, including private mortgage insurance, will play in the domestic residential housing finance system in the future or the impact of any such changes on our business. In addition, the timing of the impact of any resulting changes on our business is uncertain. Most meaningful changes would require Congressional action to implement and it is difficult to estimate when Congressional action would be final and how long any associated phase-in period may last. For additional information about the potential impact that any such changes in the GSE's roles may have on us, see the 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" in Item 1A.

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 and if they will become effective.

Indirect Regulation

We are also indirectly, but significantly, impacted by regulations affecting purchasers of mortgage loans, such as Freddie Mac and Fannie Mae, and regulations affecting governmental insurers, such as the FHA and the VA, and lenders. 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" in Item 1A for a discussion of how potential changes in the GSEs' business practices could affect us. Private mortgage insurers, including MGIC, are highly dependent upon federal housing legislation and other laws and regulations to the extent they affect the demand for private mortgage insurance and the housing market generally. From time to time, those laws and regulations have been amended to affect competition from government agencies. Proposals are discussed from time to time by

Congress and certain federal agencies to reform or modify the FHA and the Government National Mortgage Association, which securitizes mortgages insured by the FHA.

Subject to certain exceptions, in general, RESPA prohibits any person from giving or receiving any “thing of value” pursuant to an agreement or understanding to refer settlement services. 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” in Item 1A.

The Office of the Comptroller of the Currency, the Federal Reserve Board, and the Federal Deposit Insurance Corporation have uniform guidelines on real estate lending by insured lending institutions under their supervision. The guidelines specify that a residential mortgage loan originated with a loan-to-value ratio of 90% or greater should have appropriate credit enhancement in the form of mortgage insurance or readily marketable collateral, although no depth of coverage percentage is specified in the guidelines.

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Lenders are subject to various laws, including the Home Mortgage Disclosure Act, the Community Reinvestment Act and the Fair Housing Act, and Fannie Mae and Freddie Mac are subject to various laws, including laws relating to government sponsored enterprises, which may impose obligations or create incentives for increased lending to low and moderate income persons, or in targeted areas.

There can be no assurance that other federal laws and regulations affecting these institutions and entities will not change, or that new legislation or regulations will not be adopted which will adversely affect the private mortgage insurance industry. In this regard, see the 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” in Item 1A.

E. Employees

At December 31, 2015, we had approximately 800 full- and part-time employees, of whom approximately 33% were assigned to our field offices. The number of employees given above does not include “on-call” employees. The number of “on-call” employees can vary substantially, primarily as a result of changes in demand for contract underwriting services. In recent years, the number of “on-call” employees has ranged from fewer than 70 to more than 220.

F. Website Access

We make available, free of charge, through our Internet website our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after we electronically file these materials with the Securities and Exchange Commission. The address of our website is <http://mtg.mgic.com>, and such reports and amendments are accessible through the “Investor Information” and “Stockholder Information” links at such address.

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Item 1A. 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 this annual report was filed with the Securities and Exchange Commission.

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

Our private mortgage insurance competitors include:

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

The level of competition, including price competition, within the private mortgage insurance industry has intensified over the past several years and is not expected to diminish. Lender demand and the discounted pricing for lender-paid single premium policies, have generally increased the percentage of the industry’s and MGIC’s new insurance written under those policies over the past several years. During most of 2013, when almost all of our lender-paid single premium policy rates were above those most commonly used in the market, lender-paid single premium policies were approximately 4% of our total new insurance written; they were approximately 11% in 2014; and 17% in 2015. The increases compared to 2014 were primarily a result of our selectively matching reduced rates. Prior to the fourth quarter of 2014, we did not use our rate card’s authority to adjust premiums to offer significant discounts from our standard lender-paid single premium policy rate card. The average discount from our rate card on lender-paid single premium policies was 4% in the fourth quarter of 2014 and 13% in 2015. Given the 2015 pricing environment, an increase in the percentage of business written as lender-paid single premium policies, all other things equal, decreased our weighted average premium rates on new insurance written.

The private mortgage insurer eligibility requirements (the “PMIERS”) of Fannie Mae and Freddie Mac (the “GSEs”) require more Minimum Required Assets be maintained by a private mortgage insurer for loans dated on or after January 1, 2016, that are insured under lender-paid mortgage insurance policies or other policies that are not subject to automatic termination under the Homeowners Protection Act (“HPA”) or an automatic termination consistent with the HPA termination requirements for borrower-paid mortgage insurance. This requirement may reduce our future returns because we will be required to maintain more Available Assets in connection with a portion of our business.

In January 2016, we announced our intention to revise our premium rate cards in the near future. We expect that this will result in a decrease in premium rates on some higher-FICO score loans and an increase in premium rates on some lower-FICO score loans. If we do not revise our premium rates in this manner, we believe lenders may select our competitors to insure higher-FICO score loans because, in many cases, they currently offer lower premiums rates for those loans and lenders may select MGIC to insure lower-FICO score loans because, in many cases, we currently offer lower rates for those loans. We expect that our premium rate changes will modestly decrease our new insurance written; however, we expect the premium yield on new insurance written

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to remain approximately the same as on 2015 new insurance written, and our returns on a portfolio basis to be comparable to those we expect to earn on the business we wrote in 2015.

During 2014 and 2015, approximately 4% and 5%, 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 may result in our declining to insure some of the loans originated by our customers, and insurance rescissions and curtailments that affect the customer. We have ongoing discussions with lenders who are significant customers regarding their objections to our claims paying practices.

In the past several years, we believe many lenders considered financial strength and compliance with the State Capital Requirements (discussed below) as important factors when selecting a mortgage insurer. Lenders may consider expected future compliance with the PMIERS important when selecting a mortgage insurer in the future. As noted below, MGIC is in compliance with the financial requirements of the PMIERS and we expect MGIC's Available Assets to continue to exceed its Minimum Required Assets under the PMIERS and its risk-to-capital ratio to continue to comply with the current State Capital Requirements. However, we cannot assure you that we will continue to 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 as we are required to maintain more capital in order to maintain our eligibility" and "State capital requirements may prevent us from continuing to write new insurance on an uninterrupted basis."

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 Baa3 (with a stable outlook) and from Standard & Poor's is BB+ (with a positive outlook). It is possible that MGIC's and MIC's financial strength ratings could decline from these levels. Our ability to participate in the non-GSE market could depend on our ability to secure investment grade ratings for our mortgage insurance subsidiaries.

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

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

Alternatives to private mortgage insurance include:

- lenders using FHA, VA and other government mortgage insurance programs,

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

- investors (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 increased its share of the low down payment residential mortgages that were subject to FHA, VA or primary private mortgage insurance to an estimated 40.1% in 2015 from 33.9% in 2014. In the past ten years, the FHA's share has been as

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low as 15.5% in 2006 and as high as 70.8% in 2009. Factors that influence the FHA's market share include relative rates and fees, underwriting guidelines and loan limits of the FHA, VA, private mortgage insurers and the GSEs; flexibility for the FHA to establish new products as a result of federal legislation and programs; returns obtained by lenders for Ginnie Mae securitization of FHA-insured loans compared to those obtained from selling loans to Fannie Mae or Freddie Mac for securitization; and differences in policy terms, such as the ability of a borrower to cancel insurance coverage under certain circumstances. We cannot predict how these factors or the FHA's share of new insurance written will change in the future.

In 2015, the VA accounted for an estimated 24.8% of all low down payment residential mortgages that were subject to FHA, VA or primary private mortgage insurance, down from 25.4% in 2014 (which had been its highest annual market share in ten years). The VA's lowest market share in the past ten years was 5.4% in 2007. We believe that the VA's market share has generally been increasing because the VA offers 100% LTV loans and charges a one-time funding fee that can be included in the loan amount but no additional monthly expense, and because of an increase in the number of borrowers that are eligible for the VA's program.

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

The 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 Federal Housing Finance Agency ("FHFA") is the conservator of the GSEs and has the authority to control and direct their operations. The increased role that the federal government has assumed in the residential housing finance system through the GSE conservatorship may increase the likelihood that the business practices of the GSEs change in ways that have a material adverse effect on us and that the charters of the GSEs are changed by new federal legislation. The financial reform legislation that was passed in July 2010 (the "Dodd-Frank Act" 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 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.

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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. The final rule implementing that requirement became effective on December 24, 2015 for asset-backed securities collateralized by residential mortgages. 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. Because there is a temporary category of QMs for mortgages that satisfy the general product feature requirements of QMs and meet the GSEs' underwriting requirements, 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 that implemented the rule 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 for our new risk written in 2014 and 2015, 83% and 85%, respectively, 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 2014 and 2015, was for loans that would have met the temporary category in the 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.

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

Substantially all of our insurance written since 2008 has been for loans purchased by the GSEs. The GSEs each revised its PMIERS effective December 31, 2015. The financial requirements of the PMIERS require a mortgage insurer's "Available Assets" (generally only the most liquid assets of an insurer) to equal or exceed its "Minimum Required Assets" (which are based on an insurer's book and are calculated from tables of factors with several risk dimensions and are subject to a floor amount).

Based on our interpretation of the PMIERS, as of December 31, 2015, MGIC's Available Assets are \$5.0 billion and its Minimum Required Assets are \$4.5 billion; and MGIC is in compliance with the financial requirements of the PMIERS and eligible to insure loans purchased by the GSEs. Our Available Assets do not include approximately \$100 million of statutory capital in excess of MIC's minimum policyholder position that remained after MIC repatriated \$387 million to MGIC in the fourth quarter of 2015. Additional repatriation of funds from MIC to MGIC would be subject to regulatory approval. For information about the possible reduction in Available Assets in connection with the first quarter 2016 purchase by MGIC of a portion of our outstanding 9% Convertible Junior Subordinated Debentures, see "Management's Discussion and Analysis – Debt at Our Holding Company and Holding Company Capital Resources" in Item 7.

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

The GSEs may reduce the amount of credit they allow under the PMIERS for the risk ceded under our quota share reinsurance transaction. The GSEs' ongoing approval of that transaction is subject to several conditions and the transaction will be reviewed under the PMIERS at least annually by the GSEs. For more information about the transaction, see our risk factor titled "The mix of business we write affects the likelihood of losses occurring, our Minimum Required Assets under the PMIERS, and our premium yields."

• The GSEs could make the PMIERS more onerous in the future; in this regard, the PMIERS provide that the tables of factors that determine Minimum Required Assets will be updated every two years and may be updated more

frequently to reflect changes in macroeconomic conditions or loan performance. The GSEs will provide notice 180 days prior to the effective date of table updates. In addition, the GSEs may amend the PMIERS at any time. Our future operating results may be negatively impacted by the matters discussed in the rest of these risk factors. Such matters could decrease our revenues, increase our losses or require the use of assets, thereby creating a shortfall in Available Assets.

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

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

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

As of December 31, 2015, we had approximately \$1.9 billion of net operating losses for tax purposes that we can use in certain circumstances to offset future taxable income and thus reduce our federal income tax liability. Our ability to utilize these net operating losses to offset future taxable income may be significantly limited if we experience an “ownership change” as defined in Section 382 of the Internal Revenue Code of 1986, as amended (the “Code”). In general, an ownership change will occur if there is a cumulative change in our ownership by “5-percent shareholders” (as defined in the Code) that exceeds 50 percentage points over a rolling three-year period. A corporation that experiences an ownership change will generally be subject to an annual limitation on the corporation’s subsequent use of net operating loss carryovers that arose from pre-ownership change periods and use of losses that are subsequently recognized with respect to assets that had a built-in-loss on the date of the ownership change. The amount of the annual limitation generally equals the fair value of the corporation immediately before the ownership change multiplied by the long-term tax-exempt interest rate (subject to certain adjustments). To the extent that the limitation in a post-ownership-change year is not fully utilized, the amount of the limitation for the succeeding year will be increased.

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

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

Before paying a claim, we review the loan and servicing files to determine the appropriateness of the claim amount. All of our insurance policies provide that we can reduce or deny a claim if the servicer did not comply with its obligations under our insurance policy, 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 each of 2014 and 2015, curtailments reduced our average claim paid by approximately 6.7%. 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. (In our SEC reports, we refer to insurance rescissions and denials of claims collectively as “rescissions” and variations of that term.) In recent quarters, approximately 5% of claims received in a quarter have been resolved by rescissions, down from the peak of approximately 28% in the first half of 2009. Our loss reserving methodology incorporates our estimates of future rescissions, reversals of rescissions and curtailments. A variance between ultimate actual rescission, reversal or curtailment 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. Certain settlements require GSE approval. The GSEs consented to settlement agreements we entered into with Countrywide Home Loans, Inc. (“CHL”) and its affiliate, Bank of America, N.A., as successor to Countrywide Home Loans Servicing LP, but there is no guarantee they will approve others. 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.

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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 may 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. The estimated impact that we have recorded is our best estimate of our loss from these matters. If we are not able to implement settlements we consider probable, we intend to defend MGIC vigorously against any related legal proceedings.

In addition to the probable settlements for which we have recorded a loss, we are involved in other discussions and/or proceedings with insureds with respect to our claims paying practices. Although it is reasonably possible that when these matters are resolved we will not prevail in all cases, we are unable to make a reasonable estimate or range of estimates of the potential liability. We estimate the maximum exposure associated with matters where a loss is reasonably possible to be approximately \$317 million, although we believe we will ultimately resolve these matters for significantly less than this amount. This estimate includes the maximum exposure for losses that we have determined are probable in excess of the provision we have recorded for such losses.

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

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, was 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 alleged 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. As of the end of the first quarter of 2015, MGIC had been dismissed from all twelve 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 would not have a material adverse effect on us.

In 2013, we entered into a settlement with the CFPB that resolved a federal investigation of MGIC's participation in captive reinsurance arrangements without the CFPB or a 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.

In 2015, MGIC executed a Consent Order with the Minnesota Department of Commerce that resolved that department's investigation of captive reinsurance matters without making any findings of wrongdoing. The Consent Order provided, among other things, that MGIC is prohibited from entering into any new captive reinsurance agreement or reinsuring any new loans under any existing captive reinsurance agreement for a period of ten years. Various regulators, including the CFPB, state insurance commissioners and state attorneys general may bring other actions seeking various forms of relief in connection with alleged violations of RESPA. The insurance law provisions of many states prohibit paying for the referral of insurance business and provide various mechanisms to enforce this prohibition. While we believe our practices are in conformity with applicable laws and regulations, it is not possible to predict the eventual scope, duration or outcome of any such reviews or investigations nor is it possible to predict their effect on us or the mortgage insurance industry.

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.

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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.

In 2014, we received Notices of Deficiency (commonly referred to as “90 day letters”) covering the 2000-2007 tax years. The Notices of Deficiency reflect taxes and penalties related to the REMIC matters of \$197.5 million and at December 31, 2015, there would also be interest related to these matters of approximately \$182.9 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, 2015, those state taxes and interest would approximate \$48.8 million. In addition, there could also be state tax penalties. Our total amount of unrecognized tax benefits as of December 31, 2015 is \$107.1 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 as we are required to maintain more capital in order to maintain our eligibility” and “State capital requirements may prevent us from continuing to write new insurance on an uninterrupted basis.”

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

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

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

When we establish reserves, we estimate the ultimate loss on delinquent loans using estimated claim rates and claim amounts. The estimated claim rates and claim amounts represent our best estimates of what we will actually pay on the loans in default as of the reserve date and incorporate anticipated mitigation from rescissions. 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. The deterioration in conditions may include an increase in unemployment, reducing borrowers' income and thus their ability to make mortgage payments, and a decrease in housing values, which may affect borrower willingness to continue to make mortgage payments when the value of the home is below the mortgage balance. Changes to our

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estimates could have a material impact on our future results, even in a stable economic environment. In addition, historically, losses incurred have followed a seasonal trend in which the second half of the year has weaker credit performance than the first half, with higher new default notice activity and a lower cure rate.

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

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

Our reinsurance agreement with unaffiliated reinsurers allows each reinsurer to terminate such reinsurer's portion of the transaction on a run-off basis if during any six month period prior to July 1, 2016, two or more officers with positions of executive vice president or higher (of which there are currently four) 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 substantial benefits to us.

The federal government, including through the U.S. Department of the Treasury and the GSEs, and several lenders have modification programs to make loans more affordable to borrowers with the goal of reducing the number of foreclosures. During 2014 and 2015, we were notified of modifications that cured delinquencies that had they become paid claims would have resulted in approximately \$0.8 billion and \$0.6 billion, respectively, of estimated claim payments. These levels are down from a high of \$3.2 billion in 2010.

One loan modification program is the Home Affordable Modification Program ("HAMP"). We are aware of approximately 5,065 loans in our primary delinquent inventory at December 31, 2015 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, 2015, approximately 62,500 primary loans that we continue to insure have cured their delinquency after entering HAMP and are not in default. 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"), 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, 2015, approximately 13% of our primary insurance in force had benefitted from HARP and was still in force.

In each of 2014 and 2015, approximately 16% of our primary cures were the result of modifications, with HAMP accounting for approximately 67% and 66% of the modifications in each of those periods, respectively. Although the HAMP and HARP programs have been extended through December 2016, we believe that we have realized the majority of the benefits from them because the number of loans insured by us that we are aware are entering those programs has decreased significantly.

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

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

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

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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.” 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, 2015, MGIC’s risk-to-capital ratio was 12.1 to 1, below the maximum allowed by the jurisdictions with State Capital Requirements, and its policyholder position was \$1.2 billion above the required MPP of \$1.1 billion. In calculating our risk-to-capital ratio and MPP, we are allowed full credit for the risk ceded under our reinsurance transaction with a group of unaffiliated reinsurers. It is possible that under the revised State Capital Requirements discussed below, MGIC will not be allowed full credit for the risk ceded to the reinsurers. If MGIC is not allowed an agreed level of credit under either the State Capital Requirements or the PMIERS, MGIC may terminate the reinsurance agreement, without penalty. At this time, we expect MGIC to continue to comply with the current State Capital Requirements; however, you should read the rest of these risk factors for information about matters that could negatively affect such compliance.

At December 31, 2015, the risk-to-capital ratio of our combined insurance operations (which includes reinsurance affiliates) was 13.6 to 1. Reinsurance transactions with affiliates permit MGIC to write insurance with a higher coverage percentage than it could on its own under certain state-specific requirements. A higher risk-to-capital ratio on a combined basis may indicate that, in order for MGIC to continue to utilize reinsurance arrangements with its affiliates, additional capital contributions to the reinsurance affiliates could be needed.

The NAIC previously announced that it plans to revise the minimum capital and surplus requirements for mortgage insurers that are provided for in its Mortgage Guaranty Insurance Model Act. A working group of state regulators is drafting the revisions, 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 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

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not have specific State Capital Requirements, may prevent MGIC from continuing to write new insurance in such jurisdictions. If we are unable to write business in all jurisdictions, lenders may be unwilling to procure insurance from us anywhere. In addition, a lender's assessment of the future ability of our insurance operations to meet the State Capital Requirements or the PMIERS may affect its willingness to procure insurance from us. In this regard, see our risk factor titled "Competition or changes in our relationships with our customers could reduce our revenues, reduce our premium yields and/or increase our losses." A possible future failure by MGIC to meet the State Capital Requirements or the PMIERS will not necessarily mean that MGIC lacks sufficient resources to pay claims on its insurance liabilities. While we believe MGIC has sufficient claims paying resources to meet its claim obligations on its insurance in force on a timely basis, you should read the rest of these risk factors for information about matters that could negatively affect MGIC's claims paying resources.

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

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

The mix of business we write affects the likelihood of losses occurring, our Minimum Required Assets under the PMIERS, 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 higher loan-to-value ratios, lower FICO scores, limited underwriting, including limited borrower documentation, or higher total debt-to-income ratios, as well as loans having combinations of higher risk factors. As of December 31, 2015, approximately 16.2% of our primary risk in force consisted of loans with loan-to-value ratios greater than 95%, 4.6% had FICO scores below 620, and 4.6% had limited underwriting, including limited borrower documentation, each attribute as determined at the time of loan origination. A material number of these loans were originated in 2005 - 2007 or the first half of 2008. For information about our classification of loans by FICO score and documentation, see footnotes (1) and (2) to the composition of primary default inventory table under "Results of Consolidated Operations – Losses – Losses incurred" in Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7.

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

From time to time, in response to market conditions, we change the types of loans that we insure and the requirements under which we insure them. We also change our underwriting guidelines, in part through aligning some of them with Fannie Mae and Freddie Mac for loans that receive and are processed in accordance with certain approval recommendations from a GSE automated underwriting system. As a result of changes to our underwriting guidelines and requirements and other factors, our business written beginning in the second half of 2013 is expected to have a somewhat higher claim incidence than business written in 2009 through the first half of 2013. However, we believe this business presents an acceptable level of risk. Our underwriting requirements are available on our website at <http://www.mgic.com/underwriting/index.html>. We monitor the competitive landscape and will make adjustments to our pricing and underwriting guidelines as warranted. We also make exceptions to our underwriting requirements on a loan-by-loan basis and for certain customer programs. Together, the number of loans for which exceptions were made accounted for fewer than 2% of the loans we insured in each of 2014 and 2015.

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As noted above in our risk factor titled “We may not continue to meet the GSEs’ mortgage insurer eligibility requirements and our returns may decrease as we are required to maintain more capital in order to maintain our eligibility,” in 2014 and 2015, we increased the percentage of our business from lender-paid single premium policies. Depending on the actual life of a single premium policy and its premium rate relative to that of a monthly premium policy, a single premium policy may generate more or less premium than a monthly premium policy over its life. Currently, we expect to receive less lifetime premium from a new lender-paid single premium policy than we would from a new borrower-paid monthly premium policy.

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

In addition to the effect of reinsurance on our premium yield, we expect a modest decline in premium yield resulting from the premium rates themselves: the books we wrote before 2009, which have a higher average premium rate than subsequent books, are expected to continue to decline as a percentage of the insurance in force; and the average premium rate on these books is also expected to decline as the premium rates reset to lower levels at the time the loans reach the ten-year anniversary of their initial coverage date. However, for loans that have utilized HARP, the initial ten-year period was reset to begin as of the date of the HARP transaction. As of December 31, 2015, approximately 24%, 28%, 36%, and 51% of the insurance in force from 2005, 2006, 2007, and 2008, respectively, has been reported to us as utilizing HARP.

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

To comply with requirements of the GSEs, in 2014 we introduced a new master policy. Our rescission rights under our new master policy are comparable to those under our previous master policy, as modified by the Gold Cert Endorsement, but may be further narrowed if the GSEs permit modifications to them. Our new master policy is filed as Exhibit 99.19 to our quarterly report on Form 10-Q for the quarter ended September 30, 2014 (filed with the SEC on November 7, 2014). All of our primary new insurance on loans with mortgage insurance application dates on or after October 1, 2014, was written under our new master policy. As of December 31, 2015, approximately 48% of our flow, primary insurance in force was written under our Gold Cert Endorsement or our new master policy.

As of December 31, 2015, approximately 2.2% of our primary risk in force consisted of adjustable rate mortgages in which the initial interest rate may be adjusted during the five years after the mortgage closing (“ARMs”). We classify as fixed rate loans adjustable rate mortgages in which the initial interest rate is fixed during the five years after the mortgage closing. If interest rates should rise between the time of origination of such loans and when their interest rates may be reset, claims on ARMs and adjustable rate mortgages whose interest rates may only be adjusted after five years would be substantially higher than for fixed rate loans. In addition, we have insured “interest-only” loans, which may also be ARMs, and loans with negative amortization features, such as pay option ARMs. We believe claim rates on these loans will be substantially higher than on loans without scheduled payment increases that are made to borrowers of comparable credit quality.

Although we attempt to incorporate these higher expected claim rates into our underwriting and pricing models, there can be no assurance that the premiums earned and the associated investment income will be adequate to compensate

for actual losses even under our current underwriting requirements. We do, however, believe that our insurance written beginning in the second half of 2008 will generate underwriting profits.

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

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

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insurance policy. As a result, higher than anticipated claims generally cannot be offset by premium increases on policies in force or mitigated by our non-renewal or cancellation of insurance coverage. The premiums we charge, and the associated investment income, may not be adequate to compensate us for the risks and costs associated with the insurance coverage provided to customers. An increase in the number or size of claims, compared to what we anticipate, could adversely affect our results of operations or financial condition.

Our current expectation is that the incurred losses from our 2005-2008 books, although declining, will continue to generate a material portion of our total incurred losses for a number of years. The ultimate amount of these losses will depend in part on general economic conditions, including unemployment, and the direction of home prices, which in turn will be influenced by general economic conditions and other factors.

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

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

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

The premium from a single premium policy is collected upfront and generally earned over the estimated life of the policy. In contrast, premiums from a monthly premium policy are received and earned each month over the life of the policy. In each year, most of our premiums received are from insurance that has been written in prior years. As a result, the length of time insurance remains in force, which is also generally referred to as persistency, is a significant determinant of our revenues. Future premiums on our monthly paid insurance policies in force represent a material portion of our claims paying resources and a low persistency rate will reduce those future premiums. In contrast, a higher than expected persistency rate will decrease the profitability from single premium policies because they will remain in force longer than was estimated when the policies were written.

The monthly premium program used for the substantial majority of loans we insured provides that, for the first ten years of the policy, the premium is determined by the product of the premium rate and the initial loan balance; thereafter, a lower premium rate is applied to the initial loan balance. The initial ten-year period is reset when the loan is refinanced under HARP. The premiums on many of the policies in our 2005 book that were not refinanced under HARP reset in 2015 and the premiums on many of the policies in our 2006 book that were not refinanced under HARP will reset in 2016. As of December 31, 2015, approximately 4%, 7%, 14% and 7%, of our primary risk-in-force was written in 2005, 2006, 2007 and 2008, respectively, and approximately 24%, 28%, 36%, and 51% of that remaining insurance in force, respectively, has been refinanced under HARP.

Our persistency rate was 79.7% at December 31, 2015, compared to 82.8% at December 31, 2014, and 79.5% at December 31, 2013. 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. 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 as we are required to maintain more capital in order to maintain our eligibility," although we are currently in compliance with the financial requirements of the PMIERS, there can be no assurance that we would not seek to issue non-dilutive debt capital or to raise additional equity capital to manage our

capital position under the PMIERS or for other purposes. Any future issuance of equity securities may dilute your ownership interest in our company. In addition, the market price of our common stock could decline as a result of sales of a large number of shares or similar securities in the market or the perception that such sales could occur.

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At December 31, 2015, we had \$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. At December 31, 2015, we also had \$333.5 million principal amount of 5% Convertible Senior Notes and \$500 million principal amount of 2% Convertible Senior Notes outstanding. The 5% Convertible Senior Notes are convertible, at the holder's option, at an initial conversion rate, which is subject to adjustment, of 74.4186 shares per \$1,000 principal amount at any time prior to the maturity date. This represents an initial conversion price of approximately \$13.44 per share. Prior to January 1, 2020, the 2% Convertible Senior Notes are convertible only upon satisfaction of one or more conditions. One such condition is that conversion may occur during any calendar quarter commencing after March 31, 2014, if the last reported sale price of our common stock for each of at least 20 trading days during the 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the applicable conversion price on each applicable trading day. The notes are convertible at an initial conversion rate, which is subject to adjustment, of 143.8332 shares per \$1,000 principal amount. This represents an initial conversion price of approximately \$6.95 per share. 130% of such conversion price is \$9.03. On or after January 1, 2020, holders may convert their notes irrespective of satisfaction of the conditions. We do not have the right to defer interest on our Convertible Senior Notes. For a discussion of the dilutive effects of our convertible securities on our earnings per share, see Note 3 – "Summary of Significant Accounting Policies Earnings per Share" to our consolidated financial statements in Item 8. For a discussion of the first quarter 2016 purchase by our holding company of a portion of our 5% Convertible Senior Notes and purchase by MGIC of a portion of our outstanding 9% Convertible Junior Subordinated Debentures, see "Management's Discussion and Analysis – Debt at Our Holding Company and Holding Company Capital Resources" in Item 7.

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

At December 31, 2015, we had approximately \$402 million in cash and investments at our holding company and our holding company's debt obligations were \$1,223 million in aggregate principal amount, consisting of \$334 million of 5% Convertible Senior Notes due in 2017, \$500 million of 2% Convertible Senior Notes due in 2020 and \$390 million of 9% Convertible Junior Subordinated Debentures due in 2063. Annual debt service on the debt outstanding as of December 31, 2015, is approximately \$62 million. We have from time to time purchased our debt securities, including those that are convertible, and may continue to do so in the future. For a discussion of the first quarter 2016 purchase by our holding company of a portion of our 5% Convertible Senior Notes and purchase by MGIC of a portion of our outstanding 9% Convertible Junior Subordinated Debentures, see "Management's Discussion and Analysis – Debt at Our Holding Company and Holding Company Capital Resources" in Item 7. While the repurchase of the 5% Convertible Senior Notes will reduce our annual cash interest paid, it will improve our liquidity (which for this purpose is our expected cash balance immediately after the maturity of the these Notes in 2017) only modestly taking into account the above-par purchase price and the lost investment income on the funds used for the repurchase. The Convertible Senior Notes and Convertible Junior Subordinated Debentures are obligations of our holding company, MGIC Investment Corporation, and not of its subsidiaries. The payment of dividends from our insurance subsidiaries which, other than investment income and raising capital in the public markets, is the principal source of our holding company cash inflow, is restricted by insurance regulation. MGIC is the principal source of dividend-paying capacity and OCI authorization is required for MGIC to pay dividends. Although MGIC has not paid any dividends to our holding company since 2008, we are discussing with the OCI the resumption of ongoing dividends in 2016. If any additional capital contributions to our subsidiaries were required, such contributions would decrease our holding company cash and investments.

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

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

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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.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties

At December 31, 2015, we leased office space in various cities throughout the United States under leases expiring between 2016 and 2021 and which required monthly rental payments that in the aggregate are immaterial.

We own our headquarters facility and an additional office/warehouse facility, both located in Milwaukee, Wisconsin, which contain an aggregate of approximately 310,000 square feet of space.

Item 3. Legal Proceedings.

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

In 2014, we received Notices of Deficiency (commonly referred to as “90 day letters”) covering the 2000-2007 tax years. The Notices of Deficiency reflect taxes and penalties related to the REMIC matters of \$197.5 million and at December 31, 2015, there would also be interest related to these matters of approximately \$182.9 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, 2015, those state taxes and interest would approximate \$48.8 million. In addition, there could also be state tax penalties. Our total amount of unrecognized tax benefits as of December 31, 2015 is \$107.1 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 as 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” in Item 1A.

In addition to the above litigation, we face other litigation, regulatory risks and disputes. For additional information about such other litigation and regulatory risks, you should review our risk factors titled “We are involved in legal proceedings and are subject to the risk of additional legal proceedings in the future.”

Item 4. Mine Safety Disclosures.

Not Applicable.

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Executive Officers of the Registrant

Certain information with respect to our executive officers as of February 26, 2016 is set forth below:

Name and Age	Title
Patrick Sinks, 59	President and Chief Executive Officer of MGIC Investment Corporation and MGIC; Director of MGIC Investment Corporation and MGIC
Timothy J. Mattke, 40	Executive Vice President and Chief Financial Officer of MGIC Investment Corporation and MGIC
Jeffrey H. Lane, 66	Executive Vice President, General Counsel and Secretary of MGIC Investment Corporation and MGIC
Stephen C. Mackey, 55	Executive Vice President and Chief Risk Officer of MGIC Investment Corporation and MGIC
Gregory A. Chi, 55	Senior Vice President–Information Services and Chief Information Officer of MGIC
James J. Hughes, 53	Senior Vice President – Sales and Business Development of MGIC

Mr. Sinks has served as our Chief Executive Officer since March 2015 and has been our and MGIC’s President since January 2006. He was Executive Vice President-Field Operations of MGIC from January 2004 to January 2006 and was Senior Vice President-Field Operations of MGIC from July 2002 to January 2004. From March 1985 to July 2002, he held various positions within MGIC’s finance and accounting organization, the last of which was Senior Vice President, Controller and Chief Accounting Officer. Mr. Sinks has been a director of MGIC Investment Corporation and MGIC since July 2014.

Mr. Mattke has been the Company’s Chief Financial Officer since March 2014. He served as the Company’s Controller from 2009 through March 2014. He joined the Company in 2006. Prior to his becoming Controller, he was Assistant Controller of MGIC beginning in August 2007 and prior to that was a manager in MGIC’s accounting department. Before joining MGIC, Mr. Mattke was an audit manager and an auditor with PricewaterhouseCoopers LLP, the Company’s independent registered accounting firm.

Mr. Lane has served as our and MGIC’s Executive Vice President, General Counsel and Secretary since January 2008 and prior thereto as our Senior Vice President, General Counsel and Secretary from August 1996 to January 2008. For more than five years prior to his joining us, Mr. Lane was a partner of Foley & Lardner, a law firm headquartered in Milwaukee, Wisconsin.

Mr. Mackey joined MGIC in June 2015 and has served as Executive Vice President and Chief Risk Officer since September 2015. Before joining MGIC, Mr. Mackey was with JP Morgan Chase & Company from March 2011 until June 2015, where he held a number of senior leadership positions, including Managing Director, Firmwide Market Risk, Senior Vice President and Risk Management Executive in Mortgage Banking and Senior Vice President and Controller in Mortgage Banking. He has a diverse professional background prior to JP Morgan that includes 13 years with Fannie Mae where he had been a Vice President.

Mr. Chi joined MGIC in February 2012 and has served as MGIC’s Senior Vice President–Information Services and Chief Information Officer since March 2012. Prior to joining MGIC, Mr. Chi had been Senior Vice President of Enterprise Delivery Services with SunTrust Bank since 2008. Prior to joining SunTrust, Mr. Chi had been Vice President, Information Technology Development Application with MetLife, Inc. since 2005. Prior to that, Mr. Chi

held various senior management positions in the financial services industry.

Mr. Hughes has served as Senior Vice President – Sales and Business Development of MGIC since 2015. He served as Vice President, Managing Director in the sales area from October 2001 to March 2015. He joined MGIC in 1987 and prior to becoming Vice President, Managing Director, he had been an Account Manager and a Sales Manager.