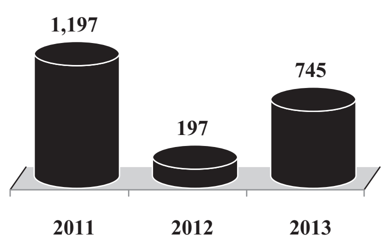
MGIC

MGIC INVESTMENT CORPORATION
2013 ANNUAL REPORT

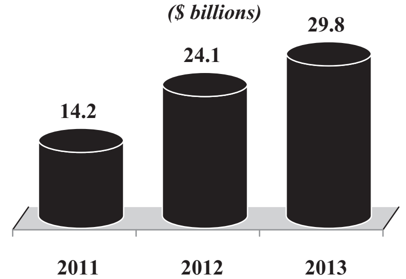
Financial Summary

	2011	2012	2013
Net loss ($ millions)	(485.9)	(927.1)	(49.8)
Diluted loss per share ($)	(2.42)	(4.59)	(0.16)

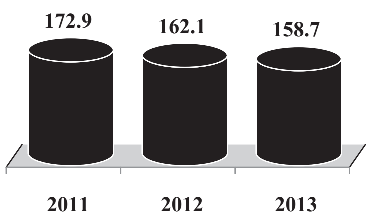
Shareholders' Equity
($ millions)



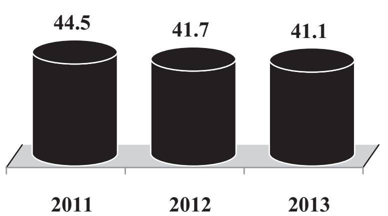
New Primary Insurance Written
($ billions)



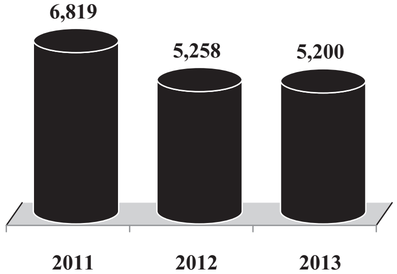
Direct Primary Insurance in Force
($ billions)



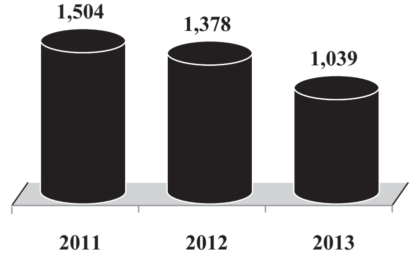
Direct Primary Risk in Force
($ billions)



Investment Portfolio,
Including Cash and Cash Equivalents
($ millions)



Revenue
($ millions)



Fellow Shareholders

Our financial performance of 2013, while significantly improved from 2012, still reflects the lingering effects of the housing depression. However, we saw home price appreciation continue as well as modest improvements in the employment picture throughout 2013. These conditions allowed our company to make substantial progress on numerous issues that had been challenging us for the last few years. Perhaps most importantly, we significantly improved the capital position of the company through the $1.15 billion capital raise in March, as well as through the strategic use of external reinsurance. On an operating basis, new insurance written increased, while new delinquent notices, delinquent inventory and claim payments declined.

In 2013, our industry continued to regain market share from the FHA reflecting both the improved landscape of the private mortgage insurance industry and the FHA price increases that went into effect early in 2013. In fact, MGIC insurance is a less expensive alternative to FHA at all FICO scores above 680. We estimate that the private MI industry's market share of all originations increased to 14% in the fourth quarter of 2013, and was approximately 11% for the full year, up from approximately 9% in 2012. Within our industry, MGIC's reported market share approximated 17% for the full year, although it ended the fourth quarter at 18%. The $29.8 billion of new insurance we wrote in 2013 represents a 24% increase from 2012.

The new business written beginning in 2009 now accounts for approximately 42% of our primary risk in force and business from the most troubled years (2005 through mid-2008) is now just 46% of our primary risk in force. This new business augments our existing claims paying ability, as each $20 billion of new insurance we write is expected to add approximately $350 million of premiums in excess of losses over its estimated life. The profitability of the new business is perhaps best captured by the fact that after five years of seasoning the 2009 book of business has an incurred loss ratio of less than 14%; after four years of seasoning the 2010 book of business has an incurred loss ratio less than 7%; and the 2011-2013 books are performing to achieve similar results after additional seasoning. We are in a "golden age" of credit quality that I expect to continue for some time, given the changes made after the lessons learned from the past as well as the impact that the definition of "qualified mortgage" is expected to have in reinforcing future quality.

While 30 year mortgage rates have risen to a level that has materially reduced refinance activity, they remain very affordable from a historical perspective and as a result, the purchase market remains relatively strong. I am optimistic that the demand for home purchases will continue to recover as household formations return to their historical levels and as the economy continues to improve, which should lead consumers to have more confidence in their future employment and increase their desire to purchase a home. And since the majority of purchasers that need a mortgage do not have a 20% down payment, we should have a wonderful opportunity in front of us.

On the credit front, the number of new notices of mortgage delinquencies decreased 20%, while the cure rate on new delinquencies continued to slowly improve. As I mentioned earlier, our books of business written beginning in 2009 now comprises 42% of our primary risk in force. The fact that less than 3% of our delinquent notices received in 2013 and in our total primary delinquent inventory are from these books demonstrates their quality. Overall, the primary delinquent inventory declined by 26% in 2013 and, reflecting the continued slow pace of completed foreclosures, paid claims declined by 29%. During 2013, we approved mortgage modifications under the HARP program, enabling nearly 58,000 borrowers (representing $9.8 billion of insurance in force) to lower their monthly payment obligations and improve their ability to continue making their mortgage payments. Since the inception of the program, approximately

15% of our primary insurance in force (nearly 156,000 borrowers with mortgage balances totaling $28.5 billion) has benefited from HARP or similar refinance programs and more than 98% of the related loans are current. Additionally, approximately 11% of the insurance in force has been modified through HAMP or other loan modification programs, thus helping these borrowers avoid a foreclosure, and MGIC avoid a claim payment.

Turning to the regulatory front, the FHFA and the GSEs continue to discuss and develop revised mortgage insurer eligibility requirements, including new capital standards. These revised eligibility requirements and capital standards are now expected to be released sometime later this year, however the specifics of what is included, and timing of their release and implementation remain unknown at this time. The NAIC review of capital standards, which the Wisconsin insurance regulator is leading, also continues to move forward. While we do not have any specifics about the proposals, we remain confident that MGIC has a number of alternative actions available to comply, once the proposals are published and effective, should action be necessary.

Financial regulators are expected to finalize the definition of a QRM loan for risk retention purposes in 2014. What they call their "preferred approach" generally aligns the QRM definition with the existing definition for QM loans. We think that the "preferred approach," which does not include a down payment requirement, is the more likely outcome given the overwhelming negative reaction to the original proposal which included a 20% down payment requirement. This preferred approach of course would be good for MGIC and our industry. Finally, the debate over the roles of the FHA and the GSEs in the housing market continued throughout 2013, and with elections looming this year, we do not expect any definitive action in 2014. Importantly, we continue to hear that there is a significant role for private MI in the various scenarios discussed.

In closing, we made meaningful progress in 2013 regarding our capital position, increasing the volume and quality of new business writings, and decreasing the level of delinquencies and claim payments, all while maintaining our industry leading cost advantage. We believe that the capital and operating strategy that we have put in place positions our company well for a better future. While not diminishing these accomplishments, we know that there is much more work to do. We are an established company with a national sales and underwriting organization in place that averages 18 years with us, and a company that has always focused on delivering stellar customer service. As a result, I feel our company is in an excellent position to take advantage of the housing recovery, and we are committed to maximizing that opportunity.

Thank you for your support.

Respectfully,

Curt S. Culver

Curt S. Culver
Chairman and Chief Executive Officer

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

Five-Year Summary of Financial Information

MGIC INVESTMENT CORPORATION & SUBSIDIARIES –
Years Ended December 31, 2013, 2012, 2011, 2010 and 2009

	Year Ended December 31,				
	2013	2012	2011	2010	2009
	(In thousands, except per share data)				
Summary of Operations					
Revenues:					
Net premiums written	$ 923,481	$1,017,832	$1,064,380	$1,101,795	$ 1,243,027
Net premiums earned	$ 943,051	$1,033,170	$1,123,835	$1,168,747	$ 1,302,341
Investment income, net	80,739	121,640	201,270	247,253	304,678
Realized investment gains (losses), net, including net impairment losses	5,731	195,409	142,715	92,937	51,934
Other revenue	9,914	28,145	36,459	11,588	49,573
Total revenues	1,039,435	1,378,364	1,504,279	1,520,525	1,708,526
Losses and expenses:					
Losses incurred, net	838,726	2,067,253	1,714,707	1,607,541	3,379,444
Change in premium deficiency reserve	(25,320)	(61,036)	(44,150)	(51,347)	(261,150)
Underwriting and other expenses	192,518	201,447	214,750	225,142	239,612
Reinsurance fee	–	–	–	–	26,407
Interest expense	79,663	99,344	103,271	98,589	89,266
Total losses and expenses	1,085,587	2,307,008	1,988,578	1,879,925	3,473,579
Loss before tax	(46,152)	(928,644)	(484,299)	(359,400)	(1,765,053)
(Benefit from) provision for income taxes	3,696	(1,565)	1,593	4,335	(442,776)
Net loss	$ (49,848)	$ (927,079)	$ (485,892)	$ (363,735)	$(1,322,277)
Weighted average common shares outstanding (in thousands)	311,754	201,892	201,019	176,406	124,209
Diluted loss per share	$ (0.16)	$ (4.59)	$ (2.42)	$ (2.06)	$ (10.65)
Dividends per share	$ –	$ –	$ –	$ –	$ –
Balance sheet data					
Total investments	$4,866,819	$4,230,275	$5,823,647	$7,458,282	$ 7,254,465
Cash and cash equivalents	332,692	1,027,625	995,799	1,304,154	1,185,739
Total assets	5,601,390	5,574,324	7,216,230	9,333,642	9,404,419
Loss reserves	3,061,401	4,056,843	4,557,512	5,884,171	6,704,990
Premium deficiency reserve	48,461	73,781	134,817	178,967	193,186
Short- and long-term debt	82,773	99,910	170,515	376,329	377,098
Convertible senior notes	845,000	345,000	345,000	345,000	–
Convertible junior debentures	389,522	379,609	344,422	315,626	291,785
Shareholders' equity	744,538	196,940	1,196,815	1,669,055	1,302,581
Book value per share	2.20	0.97	5.95	8.33	10.41

	Year Ended December 31,				
	2013	2012	2011	2010	2009
New primary insurance written ($ millions)	$ 29,796	$ 24,125	$ 14,234	$ 12,257	$ 19,942
New primary risk written ($ millions)	7,541	5,949	3,525	2,944	4,149
New pool risk written ($ millions)	–	–	–	–	4
Insurance in force (at year-end) ($ millions)					
Direct primary insurance	158,723	162,082	172,873	191,250	212,182
Direct primary risk	41,060	41,735	44,462	48,979	54,343
Direct pool risk					
With aggregate loss limits	376	439	674	1,154	1,478
Without aggregate loss limits	636	879	1,177	1,532	1,951
Primary loans in default ratios					
Policies in force	960,163	1,006,346	1,090,086	1,228,315	1,360,456
Loans in default	103,328	139,845	175,639	214,724	250,440
Percentage of loans in default	10.76%	13.90%	16.11%	17.48%	18.41%
Percentage of loans in default – bulk	29.32%	32.10%	35.33%	37.36%	40.87%
Insurance operating ratios (GAAP) (1)					
Loss ratio	88.9%	200.1%	152.6%	137.5%	259.5%
Expense ratio	18.6%	15.2%	16.0%	16.3%	15.1%
Combined ratio	107.5%	215.3%	168.6%	153.8%	274.6%
Risk-to-capital ratio (statutory)					
Mortgage Guaranty Insurance Corporation	15.8:1	44.7:1	20.3:1	19.8:1	19.4:1
MGIC Indemnity Corporation	1.3:1	1.2:1	–	–	–
Combined insurance companies	18.4:1	47.8:1	22.2:1	23.2:1	22.1:1

(1) The loss ratio is the ratio, expressed as a percentage, of the sum of incurred losses and loss adjustment expenses to net premiums earned. The expense ratio is the ratio, expressed as a percentage, of the combined insurance operations underwriting expenses to net premiums written.

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

We have reproduced below the "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Risk Factors" that appeared in our Annual Report on Form 10-K for the year ended December 31, 2013, which was filed with the SEC on February 28, 2014. Except for various cross-references, we have not changed what appears below from what was in our Form 10-K. As a result, the Management's Discussion and Analysis and Risk Factors are not updated to reflect any events or changes in circumstances that have occurred since our Annual Report on Form 10-K was filed with the SEC. Our Risk Factors are an integral part of Management's Discussion and Analysis and appear immediately after it.

Overview

Through our subsidiaries Mortgage Guaranty Insurance Corporation ("MGIC") and MGIC Indemnity Corporation ("MIC"), we are a leading provider of private mortgage insurance in the United States, as measured by $158.7 billion of primary insurance in force at December 31, 2013. For our rank based on new insurance written in 2013, see Item 1, "Our Products and Services – Sales and Marketing and Competition" in our Annual Report on Form 10-K for the year ended December 31, 2013.

As used below, "we" and "our" refer to MGIC Investment Corporation's consolidated operations. In the discussion below, we refer to Fannie Mae and Freddie Mac collectively as the "GSEs." Also in the discussion below, we classify, in accordance with industry practice, as "full documentation" loans approved by GSE and other automated underwriting systems under "doc waiver" programs that do not require verification of borrower income. For additional information about such loans, see footnote (3) to the composition of primary default inventory table under "Results of Consolidated Operations – Losses – Losses Incurred" below. The discussion of our business in this document generally does not apply to our Australian operations which have historically been immaterial. The results of our operations in Australia are included in the consolidated results disclosed. For additional information about our Australian operations, see our risk factor titled "Our Australian operations may suffer significant losses" below and "Overview – Australia" below.

Forward Looking and Other Statements

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

Outlook

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

Capital

GSEs

As mentioned above, substantially all of our insurance written is for loans sold to the GSEs, each of which has mortgage insurer eligibility requirements to maintain the highest level of eligibility. The existing eligibility requirements include a minimum financial strength rating of Aa3/AA−. Because MGIC does not meet such financial strength rating requirements (its financial strength rating from Moody's is Ba3 (with a stable outlook) and from Standard & Poor's is BB (with a positive outlook)), MGIC is currently operating with each GSE as an eligible insurer under a remediation plan. We believe that the GSEs view remediation plans as a continuing process of interaction with a mortgage insurer and MGIC will continue to operate under a remediation plan for the foreseeable future. The GSEs may include new eligibility requirements as part of our current remediation plan. There can be no assurance that MGIC will be able to continue to operate as an eligible mortgage insurer under a remediation plan.

The GSEs previously advised us that, at the direction of their conservator, the Federal Housing Finance Agency ("FHFA"), they will be revising the eligibility requirements for all mortgage insurers and replacing their existing financial strength rating requirements with capital standards (the "GSE Capital Standards"). In early 2014, the FHFA is expected to provide state insurance regulators a draft of the proposed eligibility requirements and to allow the state insurance regulators a comment period of up to six weeks in which to review the eligibility standards on a confidential basis. After considering any changes suggested by the state insurance regulators, the FHFA is expected to release the proposed eligibility requirements for public comment. We have not been informed of the content of the new eligibility requirements, including the GSE Capital Standards, their timeframes for effectiveness, or the length of the public comment period.

We have various alternatives available to improve our existing risk-to-capital position, including contributing additional funds that are on hand today from our holding company to MGIC, entering into additional external reinsurance transactions, seeking approval to write business in MIC and raising additional capital, which could be contributed to MGIC. While there can be no assurance that MGIC would meet the GSE Capital Standards by their effective date, we believe we could implement one or more of these alternatives so that we would continue to be an eligible mortgage insurer after the GSE Capital Standards are fully effective. If MGIC (or MIC, under certain circumstances) ceases to be eligible to insure loans purchased by one or both of the GSEs, it would significantly reduce the volume of our new business writings.

State Regulations

The insurance laws of 16 jurisdictions, including Wisconsin, our domiciliary state, require a mortgage insurer to maintain a minimum amount of statutory capital relative to the risk in force (or a similar measure) in order for the mortgage insurer to continue to write new business. We refer to these requirements as the "State Capital Requirements" and, together with the GSE Capital Standards, the "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 the percentage decrease in capital exceeds the percentage decrease in insured risk. Therefore, as capital decreases, the same dollar decrease in capital will cause a greater percentage decrease in capital and a greater increase in the risk-to-capital ratio. Wisconsin does not regulate capital by using a risk-to-capital measure but instead requires a minimum policyholder position ("MPP"). The "policyholder position" of a mortgage insurer is its net worth or surplus, contingency reserve and a portion of the reserves for unearned premiums.

During part of 2012 and 2013, MGIC's risk-to-capital ratio exceeded 25 to 1. In March 2013, our holding company issued additional equity and convertible debt securities and transferred $800 million to increase MGIC's capital. In April 2013, we entered into a quota share reinsurance transaction with a group of unaffiliated reinsurers. That transaction applies to new insurance written between April 1, 2013 and December 31, 2015 (with certain exclusions). In December 2013, we entered into an Addendum to the quota share transaction that applies to certain insurance written before April 1, 2013. Although the quota share transaction was approved by the GSEs, it is possible that under the GSE Capital Standards, discussed above, and/or the revised State Capital Requirements discussed below, MGIC will not be allowed full credit for the risk ceded to the reinsurers under the transaction. If MGIC is disallowed full credit, MGIC may terminate the transaction, without penalty, when such disallowance becomes effective. At December 31, 2013, MGIC's risk-to-capital ratio was 15.8 to 1, below the maximum allowed by the jurisdictions with State Capital Requirements, and its policyholder position was $454 million above the required MPP of $1.0 billion. Excluding the effects of the Addendum, MGIC's preliminary risk-to-capital would have been 19.2 to 1. At this time, we expect MGIC to continue to comply with the current State Capital Requirements, although we cannot assure you of such compliance.

In November 2013, the National Association of Insurance Commissioners ("NAIC") presented for discussion proposed changes to its Mortgage Guaranty Insurance Model Act. In connection with that, the NAIC announced that it plans to revise the minimum capital and surplus requirements for mortgage insurers, although it has not established a date by which it must make proposals to revise such requirements. Depending on the scope of the revisions made by the NAIC, MGIC may be prevented from writing new business in the jurisdictions adopting such proposals.

Qualified Residential Mortgages

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

In September 2013, the U.S. Department of Housing and Urban Development ("HUD") proposed a definition of QM that will apply to loans the Federal Housing Administration ("FHA") insures. HUD's QM definition is less restrictive than the CFPB's definition in certain respects, including that (i) it has no limit on the debt-to-income ratio of a borrower, and (ii) it allows the lender certain presumptions about compliance with the "ability to repay" requirements on higher priced loans. It is possible that lenders will prefer FHA-insured loans to loans insured by private mortgage insurance as a result of the FHA's less restrictive QM definition.

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

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

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

GSE Reform

The FHFA is the conservator of the GSEs and has the authority to control and direct their operations. The increased role that the federal government has assumed in the residential mortgage market through the GSE conservatorship may increase the likelihood that the business practices of the GSEs change in ways that have a material adverse effect on us. In addition, these factors may increase the likelihood that the charters of the GSEs are changed by new federal legislation. The Dodd-Frank Act required the U.S. Department of the Treasury to report its recommendations regarding options for ending the conservatorship of the GSEs. This report was released in February 2011 and while it does not provide any definitive timeline for GSE reform, it does recommend using a combination of federal housing policy changes to wind down the GSEs, shrink the government's footprint in housing finance (including FHA insurance), and help bring private capital back to the mortgage market. Since then, Members of Congress introduced several bills intended to 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 business practices of the GSEs, see our risk factor titled "Changes in the business practices of the GSEs, federal legislation that changes their charters or a restructuring of the GSEs could reduce our revenues or increase our losses" below.

Loan Modification and Other Similar Programs

Beginning in the fourth quarter of 2008, the federal government, including through the Federal Deposit Insurance Corporation and the GSEs, and several lenders have adopted programs to modify loans to make them more affordable to borrowers with the goal of reducing the number of foreclosures. During 2011, 2012 and 2013, we were notified of modifications that cured delinquencies that had they become paid claims would have resulted in approximately $1.8 billion, $1.2 billion and $1.0 billion, respectively, of estimated claim payments. As noted below, we cannot predict with a high degree of confidence what the ultimate re-default rate on these modifications will be. Although the recent re-default rate has been lower, for internal reporting and planning purposes, we assume approximately 50% of these modifications will ultimately re-default, and those re-defaults may result in future claim payments. Because modifications cure the defaults with respect to the previously defaulted loans, our loss reserves do not account for potential re-defaults unless at the time the reserve is established, the re-default has already occurred. Based on information that is provided to us, most of the modifications resulted in reduced payments from interest rate and/or amortization period adjustments; from 2011 through 2013, approximately 7% resulted in principal forgiveness.

One loan modification program is the Home Affordable Modification Program ("HAMP"). Some of HAMP's eligibility criteria relate to the borrower's current income and non-mortgage debt payments. Because the GSEs and servicers do not share such information with us, we cannot determine with certainty the number of loans in our delinquent inventory that are eligible to participate in HAMP. We believe that it could take several months from the time a borrower has made all of the payments during HAMP's three month "trial modification" period for the loan to be reported to us as a cured delinquency. We rely on information provided to us by the GSEs and servicers. We do not receive all of the information from such sources that is required to determine with certainty the number of loans that are participating in, or have successfully completed, HAMP. We are aware of approximately 7,600 loans in our primary delinquent inventory at December 31, 2013 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, 2013 approximately 52,700 delinquent primary loans have cured their delinquency after entering HAMP and are not in default. In each of 2012 and 2013, approximately 17% of our primary cures were the result of a modification, with HAMP accounting for approximately 70% of those modifications in 2012 and 68% in 2013. Although the HAMP program has been extended through 2015, we believe that we have realized the majority of the benefits from HAMP because the number of loans insured by us that we are aware are entering HAMP trial modification periods has decreased significantly since 2010.

In 2009, the GSEs began offering the Home Affordable Refinance Program ("HARP"). HARP, which has been extended through 2015, allows borrowers who are not delinquent but who may not otherwise be able to refinance their loans under the current GSE underwriting standards, to refinance their loans. We allow the HARP refinances on loans that we insure, regardless of whether the loan meets our current underwriting standards, and we account for the refinance as a loan modification (even where there is a new lender) rather than new insurance written. To incent lenders to allow more current borrowers to refinance their loans, in October 2011, the GSEs and their regulator, FHFA, announced an expansion of HARP. The expansion includes, among other changes, releasing certain representations in certain circumstances benefitting the GSEs. We have agreed to allow these additional HARP refinances, including releasing the insured in certain circumstances from certain rescission rights we would have under our policy. While an expansion of HARP may result in fewer delinquent loans and claims in the future, our ability to rescind coverage will be limited in certain circumstances. We are unable to predict what net impact these changes may have on our incurred or paid losses. Approximately 15% of our primary insurance in force has benefitted from HARP and is still in force.

The effect on us of loan modifications depends on how many modified loans subsequently re-default, which in turn can be affected by changes in housing values. Re-defaults can result in losses for us that could be greater than we would have paid had the loan not been modified. At this point, we cannot predict with a high degree of confidence what the ultimate re-default rate will be. In addition, because we do not have information in our database for all of the parameters used to determine which loans are eligible for modification programs, our estimates of the number of loans qualifying for modification programs are inherently uncertain. If legislation is enacted to permit a portion of a borrower's mortgage loan balance to be reduced in bankruptcy and if the borrower re-defaults after such reduction, then the amount we would be responsible to cover would be calculated after adding back the reduction. Unless a lender has obtained our prior approval, if a borrower's mortgage loan balance is reduced outside the bankruptcy context, including in association with a loan modification, and if the borrower re-defaults after such reduction, then under the terms of our policy the amount we would be responsible to cover would be calculated net of the reduction.

As shown in the following table, as of December 31, 2013 approximately 27% of our primary risk in force has been modified.

Policy Year	HAMP Modifications	Other Modifications	HARP (1) Modifications
2003 and Prior	9.2%	9.8%	7.9%
2004	9.7%	8.9%	12.6%
2005	11.6%	9.6%	16.9%
2006	14.1%	10.6%	20.2%
2007	15.2%	6.7%	28.6%
2008	8.9%	3.0%	42.2%
2009	0.5%	0.4%	16.3%
2010 - 2013	0.0%	0.0%	0.0%
Total	7.3%	4.4%	15.3%

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

As of December 31, 2013 based on loan count, the loans associated with 98.5% of all HARP modifications, 75.6% of HAMP modifications and 66.4% of other modifications were current.

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

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

Factors Affecting Our Results

Our results of operations are affected by:

- Premiums written and earned

  Premiums written and earned in a year are influenced by:

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

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

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

  - Premiums ceded under risk sharing arrangements. See Note 11 – "Reinsurance" to our consolidated financial statements for a discussion of our new quota share agreement, under which premiums are ceded net of a profit commission.

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

- Investment income

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

- Losses incurred

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

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

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

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

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

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

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

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

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

- Changes in premium deficiency reserve

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

- Underwriting and other expenses

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

- Interest expense

Interest expense reflects the interest associated with our outstanding debt obligations. The principal amount of our long-term debt obligations at December 31, 2013 is comprised of $82.9 million of 5.375% Senior Notes due in November 2015, $345 million of 5% Convertible Senior Notes due in 2017, $500 million of 2% Convertible Senior Notes due in 2020 and $389.5 million of 9% Convertible Junior Subordinated Debentures due in 2063 (interest on these debentures accrues and compounds even if we defer the payment of interest), as discussed in Note 8 – "Debt" to our consolidated financial statements and under "Liquidity and Capital Resources" below.

Mortgage Insurance Earnings and Cash Flow Cycle

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

Australia

We began international operations in Australia, where we started to write business in June 2007. Since 2008, we are no longer writing new business in Australia and we have reduced our headcount. In December 2013, our Australian subsidiary liquidated a portion of its investment portfolio and repatriated, with regulatory approval, $89.5 million to its parent MGIC. At December 31, 2013 the equity value in our Australian operations was approximately $46 million and our risk in force in Australia was approximately $480 million. In Australia, mortgage insurance is a single premium product that covers the entire loan balance. As a result, our Australian risk in force represents the entire amount of the loans that we have insured. However, the mortgage insurance we provide only covers the unpaid loan balance after the sale of the underlying property.

Summary of 2013 Results

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

- Net premiums written and earned

Net premiums written and earned during 2013 decreased when compared to 2012. The decrease was due to our lower average insurance in force as well as an increase in premiums ceded under risk sharing arrangements.

- Investment income

Investment income in 2013 was lower when compared to 2012. The decrease was driven by the realized gains taken in prior years. These gains captured income in those years that would have otherwise been earned over several years.

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

Net realized gains for 2013 included $6.1 million in net realized gains on the sale of fixed income investments, slightly offset by $0.3 million in other-than-temporary ("OTTI") losses. Net realized gains for 2012 included $197.7 million in net realized gains on the sale of fixed income investments, slightly offset by $2.3 million in OTTI losses. At December 31, 2013, the net unrealized losses in our investment portfolio were $84.6 million, which included $101.4 million of gross unrealized losses, partially offset by $16.8 million of gross unrealized gains.

- Other revenue

Other revenue for 2013 decreased compared to 2012 primarily due to a decrease in gains on the repurchase of Senior Notes. We recognized gains of $17.8 million on repurchases in 2012.

- Losses incurred

Losses incurred for 2013 decreased compared to 2012 primarily due to a decrease in the number of new default notices received, net of cures, as well as a decrease in the estimated claim rate on recently reported delinquencies. Losses incurred in 2012 included a one-time charge of $267.5 million which was recorded to reflect the settlement of the Freddie Mac pool dispute and an increase to loss reserve estimates of approximately $100 million to reflect the estimated cost of rescission settlement agreements.

- Change in premium deficiency reserve

During 2013 the premium deficiency reserve on Wall Street bulk transactions declined by $26 million to $48 million as of December 31, 2013. The decrease in the premium deficiency reserve represents the net result of actual premiums, losses and expenses as well as a change in net assumptions for the period. The change in net assumptions for 2013 is primarily related to higher estimated ultimate premiums. The premium deficiency reserve as of December 31, 2013 reflects the present value of expected future losses and expenses that exceeds the present value of expected future premiums and already established loss reserves.

- Underwriting and other expenses

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

- Interest expense

Interest expense for 2013 decreased when compared to 2012. The decrease is primarily related to a decrease in amortization of the discount on our junior debentures. The discount on the debentures was fully amortized as of March 31, 2013. This decrease to interest expense was somewhat offset by the interest expense associated with the Convertible Senior Notes we issued in March 2013.

- Income taxes

The effective tax rate provision on our pre-tax loss was 8.0% in 2013, compared to the effective tax rate benefit of (0.2%) in 2012. During those periods, the benefit from income taxes was eliminated or reduced by the recognition of a valuation allowance.

Results of Consolidated Operations

New insurance written

The amount of our primary new insurance written during the years ended December 31, 2013, 2012 and 2011 was as follows:

	2013	2012	2011
Total Primary NIW (In billions)	$ 29.8	$ 24.1	$ 14.2
Refinance volume as a % of primary NIW	26%	36%	29%

The increase in new insurance written in each of 2013 and 2012, compared to the respective prior year, was partially due to larger origination volume as well as an increase in the private mortgage insurance industry's market share. Our industry continues to regain market share from the FHA but the pace of that recovery is slower than we expected given the continued differences in underwriting guidelines, loan level price adjustments by the GSEs and the secondary market benefits associated with government insured loans versus loans insured by the private sector.

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

From time to time, in response to market conditions, we change the types of loans that we insure and the requirements under which we insure them. Beginning in 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 described in our underwriting requirements. In December 2013, we reduced all of our borrower-paid monthly premium rates and most of our single premium rates subject to regulatory approval and made underwriting changes for loans greater than $625,500, while expanding the maximum loan amount to $850,000. In 2013, single premium policies were approximately 10% of our total NIW. During most of 2013, almost all of our single premium rates were above those most commonly used in the market. The percentage of our single premium policies may increase in the future as a result of the reduction in our single premium rates. These changes will reduce our future premium yields. Our underwriting requirements are available on our website at http://www.mgic.com/underwriting/index.html. We make exceptions to our underwriting requirements on a loan-by-loan basis and for certain customer programs. Together, the number of loans for which exceptions were made accounted for fewer than 2% of the loans we insured in 2012 and 2013.

During the second quarter of 2012, we began writing a portion of our new insurance under an endorsement to our master policy (the "Gold Cert Endorsement"). Our Gold Cert Endorsement limits our right to rescind coverage under certain circumstances. As of December 31, 2013, less than 15% of our flow, primary insurance in force was written under our Gold Cert Endorsement. However, approximately 65% of our flow, primary new insurance written in 2013, was written under this endorsement. The Gold Cert Endorsement is filed as Exhibit 99.7 to our quarterly report on Form 10-Q for the quarter ended March 31, 2012 (filed with the SEC on May 10, 2012).

We are in the process of revising our master policy. The new master policy will comply with various requirements the GSEs have communicated to the industry. These requirements contain limitations on rescission rights that, while generally similar, differ from the limitations in our Gold Cert Endorsement. Our new master policy has been approved by the GSEs, however, it remains subject to review and approval by state insurance regulators. The GSEs have stated that in the first quarter of 2014, they will announce a uniform effective date for the new master policies of all mortgage insurers and that the effective date will not be earlier than July 1, 2014.

Cancellations, insurance in force and risk in force

New insurance written and cancellations of primary insurance in force during the years ended December 31, 2013, 2012 and 2011 were as follows:

	2013	2012	2011
		(In billions)	
NIW	$ 29.8	$ 24.1	$ 14.2
Cancellations	(33.2)	(34.9)	(32.6)
Change in primary insurance in force	$ (3.4)	$ (10.8)	$ (18.4)
Direct primary insurance in force as of December 31,	$ 158.7	$ 162.1	$ 172.9
Direct primary risk in force as of December 31,	$ 41.1	$ 41.7	$ 44.5

Cancellation activity has historically been affected by the level of mortgage interest rates and the level of home price appreciation. Cancellations generally move inversely to the change in the direction of interest rates, although they generally lag a change in direction. Cancellations also include rescissions and policies cancelled due to claim payment. During 2011-2013, cancellations due to claim payments have comprised a significant amount of our cancellations.

Our persistency rate was 79.5% at December 31, 2013 compared to 79.8% at December 31, 2012 and 82.9% at December 31, 2011. Our persistency rate is affected by the level of current mortgage interest rates compared to the mortgage interest rates on our insurance in force, which affects the vulnerability of the insurance in force to refinancing. Due to refinancing, we are currently experiencing lower persistency on our 2009 through 2011 books of business. This has been partially offset by higher persistency rates on our older books of business reflecting the more restrictive credit policies of lenders (which make it more difficult for homeowners to refinance loans), as well as declines in housing values. During the 1990s, our year-end persistency ranged from a high of 87.4% at December 31, 1990 to a low of 68.1% at December 31, 1998.

Since 2000, our year-end persistency ranged from a high of 84.7% at December 31, 2009 to a low of 47.1% at December 31, 2003.

Bulk transactions

We ceased writing Wall Street bulk business in the fourth quarter of 2007. In addition, we wrote no new business through the bulk channel since the second quarter of 2008. We expect the volume of any future business written through the bulk channel will be insignificant. Wall Street bulk transactions, as of December 31, 2013, included approximately 63,100 loans with insurance in force of approximately $9.5 billion and risk in force of approximately $2.9 billion, which is approximately 77% of our bulk risk in force.

Pool insurance

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

Our direct pool risk in force was $1.0 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 compared to $1.3 billion ($0.4 billion on pool policies with aggregate loss limits and $0.9 billion on pool policies without aggregate loss limits) at December 31, 2012. If claim payments associated with a specific pool reach the aggregate loss limit the remaining insurance in force within the pool would be cancelled and any remaining defaults under the pool are removed from our default inventory.

Net premiums written and earned

Net premiums written and earned during 2013 decreased when compared to 2012. The decrease was due to our lower average insurance in force as well as an increase in premiums ceded under risk sharing arrangements.

Net premiums written and earned during 2012 decreased when compared to 2011. The decrease was due to our lower average insurance in force as well as an increase in return premium on claims paid, somewhat offset by a decrease in premiums ceded to captives and a decrease in return premium due to a lower amount of rescissions.

We expect our average insurance in force to continue to decline in the first quarter of 2014 because our expected new insurance written levels are not expected to exceed our cancellation activity. We expect our premium yields (net premiums earned, expressed on an annual basis, divided by the average insurance in force) for 2014 to decline significantly from the level experienced during 2013 primarily due to the new quota share reinsurance agreement under which premiums are ceded net of a profit commission as discussed in Note 11 – "Reinsurance" to our consolidated financial statements. Under this quota share agreement we will also recognize benefits to our income statement through reductions to losses incurred and other underwriting expenses. Additional external reinsurance transactions are an option to improve our risk-to-capital ratio in light of the capital standards the GSEs are developing; see our risk factor titled "We may not continue to meet the GSEs' mortgage insurer eligibility requirements" below. Future external reinsurance or reductions in our premium rates (including the reductions that took effect in December 2013) will reduce our future premium yields.

Risk sharing arrangements

As discussed in Note 11 – "Reinsurance" to our consolidated financial statements, in April 2013, MGIC and several of our competitors reached a settlement with the CFPB to resolve its investigation. As part of the settlement, without admitting or denying any liability, we have agreed that we will not enter into any new captive reinsurance agreement or reinsure any new loans under any existing captive reinsurance agreement for a period of ten years. In accordance with this settlement, all of our active captive arrangements have been placed into run-off. See Note 11 – "Reinsurance" to our consolidated financial statements for a description of these risk sharing arrangements and the related reinsurance recoverable, as well as a description of our new quota share reinsurance agreement effective April 1, 2013 and the Addendum to that quota share agreement in December 2013.

At December 31, 2013, approximately 55% of our insurance in force is subject to risk sharing arrangements, compared to 18% at September 30, 2013 and 10% at December 31, 2012. For the fourth quarter of 2013 approximately 92% of our new insurance written was subject to risk sharing arrangements, compared to 5% in the fourth quarter of 2012.

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

Investment income

Investment income in each of 2013 and 2012 was lower when compared to the respective prior year due to a decrease in our average invested assets as we continue to meet our claim obligations, and also due in part to the realized gains taken in 2012 and 2011. These realized gains captured income in those years that would have otherwise been earned over several years. The realized gains taken in 2012 and 2011 also drove the investment yield lower. The portfolio's average pre-tax investment yield was 1.7% at each of December 31, 2013 and 2012. The portfolio's average pre-tax investment yield was 2.8% at December 31, 2011.

Realized gains and other-than-temporary impairments

Net realized gains for 2013 included $6.1 million in net realized gains on the sale of fixed income investments, slightly offset by $0.3 million in other-than-temporary ("OTTI") losses. Net realized gains for 2012 included $197.7 million in net realized gains on the sale of fixed income investments, slightly offset by $2.3 million in OTTI losses. We elected to realize gains during 2012, by selling certain securities, given the favorable market conditions experienced in 2012. We then reinvested the funds taking into account our anticipated future claim payment obligations. At December 31, 2013, the net unrealized losses in our investment portfolio were $84.6 million, which included $101.4 million of gross unrealized losses, partially offset by $16.8 million of gross unrealized gains.

Net realized gains for 2011 included $143.4 million in net realized gains on the sale of fixed income investments, slightly offset by $0.7 million in OTTI losses. We elected to realize these gains, by selling certain securities, given the favorable market conditions experienced in 2011.

Other revenue

Other revenue for 2013 decreased compared to 2012 primarily due to a decrease in gains on debt repurchases. During 2013 we repurchased $17.2 million of our 5.375% Senior Notes due in November 2015 at par value. In 2012, we recognized $17.8 million of gains on the repurchase of $70.9 million in par value of our 5.375% Senior Notes due in November 2015.

Other revenue for 2012 decreased, when compared to 2011, due primarily to a decrease in gains recognized on debt repurchases, slightly offset by an increase in contract underwriting fees. We recognized $27.7 million in gains on the repurchase of $129.0 million in par value of our 5.375% Senior Notes in 2011.

Losses

As discussed in "Critical Accounting Policies" below and consistent with industry practices, we establish loss reserves for future claims only for loans that are currently delinquent. The terms "delinquent" and "default" are used interchangeably by us. For reporting purposes, we consider a loan in default when it is two or more payments past due. Loss reserves are established based on estimating the number of loans in our default inventory that will result in a claim payment, which is referred to as the claim rate, and further estimating the amount of the claim payment, which is referred to as claim severity. Historically, a substantial majority of borrowers have eventually cured their delinquent loans by making their overdue payments, but this percentage has decreased significantly in recent years.

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

Losses incurred

Losses incurred for 2013 decreased compared to 2012 primarily due to a decrease in the number of new default notices received, net of cures, as well as a decrease in the estimated claim rate on recently reported delinquencies. Losses incurred in 2012 included a one-time charge of $267.5 million which was recorded to reflect the settlement of the Freddie Mac pool dispute and an increase to loss reserve estimates of approximately $100 million to reflect the estimated cost of rescission settlement agreements. The primary default inventory decreased by 36,517 delinquencies in 2013, compared to a decrease of 35,794 in 2012. There was a slight increase in the estimated claim rate in 2013, compared to a larger increase in the estimated claim rate in 2012. There was a slight decrease in the estimated severity in 2013, compared to a larger decrease in the estimated severity in 2012.

In 2013, net losses incurred were $839 million, comprised of $899 million of current year loss development partially offset by $60 million of favorable prior years' loss development. In 2012, net losses incurred were $2,067 million, comprised of $1,494 million of current year loss development and $573 million of unfavorable prior years' loss development. In 2011, net losses incurred were $1,715 million, comprised of $1,814 million of current year loss development, offset by $99 million of favorable prior years' loss development.

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

See Note 9 – "Loss Reserves" to our consolidated financial statements and "Critical Accounting Policies" below for a discussion of our losses incurred and claims paying practices.

Information about the composition of the primary insurance default inventory at December 31, 2013, 2012 and 2011 appears in the table below.

	December 31,		
	2013	2012	2011
Total loans delinquent (1)	103,328	139,845	175,639
Percentage of loans delinquent (default rate)	10.76%	13.90%	16.11%
Prime loans delinquent (2)	65,724	90,270	112,403
Percentage of prime loans delinquent (default rate)	7.82%	10.44%	12.20%
A-minus loans delinquent (2)	16,496	20,884	25,989
Percentage of A-minus loans delinquent (default rate)	30.41%	32.92%	35.10%
Subprime credit loans delinquent (2)	6,391	7,668	9,326
Percentage of subprime credit loans delinquent (default rate)	38.70%	40.78%	43.60%
Reduced documentation loans delinquent (3)	14,717	21,023	27,921
Percentage of reduced documentation loans delinquent (default rate)	30.41%	35.23%	37.96%

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

(b) Servicers continue to pay our premiums for nearly all of the loans in our default inventory, but in some cases, servicers stop paying our premiums. In those cases, even though the loans continue to be included in our default inventory, the applicable loans are removed from our insurance in force and risk in force. Loans where servicers have stopped paying premiums include 5,854 defaults with a risk of $281 million as of December 31, 2013.

(1) At December 31, 2013, 2012 and 2011 20,955, 25,282 and 30,250 loans in default, respectively, related to Wall Street bulk transactions.

(2) We define prime loans as those having FICO credit scores of 620 or greater, A-minus loans as those having FICO credit scores of 575-619, and subprime credit loans as those having FICO credit scores of less than 575, all as reported to us at the time a commitment to insure is issued. Most A-minus and subprime credit loans were written through the bulk channel. However, we classify all loans without complete documentation as "reduced documentation" loans regardless of FICO score rather than as a prime, "A-minus" or "subprime" loan; in the table above, such loans appear only in the reduced documentation category and they do not appear in any of the other categories.

(3) In accordance with industry practice, loans approved by GSE and other automated underwriting (AU) systems under "doc waiver" programs that do not require verification of borrower income are classified by MGIC as "full documentation." Based in part on information provided by the GSEs, we estimate full documentation loans of this type were approximately 4% of 2007 NIW. Information for other periods is not available. We understand these AU systems grant such doc waivers for loans they judge to have higher credit quality. We also understand that the GSEs terminated their "doc waiver" programs, with respect to new commitments, in the second half of 2008.

The primary and pool loss reserves at December 31, 2013, 2012 and 2011 appear in the table below.

Gross Reserves

	December 31,		
	2013	2012	2011
Primary:			
Direct loss reserves (in millions)	$ 2,834	$ 3,744	$ 4,249
Ending default inventory	103,328	139,845	175,639
Average direct reserve per default	$ 27,425	$ 26,771	$ 24,193
Primary claims received inventory included in ending default inventory	6,948	11,731	12,610
Pool (1):			
Direct loss reserves (in millions):			
With aggregate loss limits	$ 82	$ 120	$ 278
Without aggregate loss limits	17	20	21
Reserves related to Freddie Mac settlement (2)	126	167	-
Total pool direct loss reserves	$ 225	$ 307	$ 299
Ending default inventory:			
With aggregate loss limits	5,496	7,243	31,483
Without aggregate loss limits	1,067	1,351	1,488
Total pool ending default inventory	6,563	8,594	32,971
Pool claims received inventory included in ending default inventory	173	304	1,398
Other gross reserves (in millions)	$ 2	$ 6	$ 10

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

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

The primary default inventory and primary loss reserves by region at December 31, 2013, 2012 and 2011 appears in the table below.

Losses by Region

Primary Default Inventory

Region	2013	2012	2011
Great Lakes	12,049	16,538	22,158
Mid-Atlantic	5,469	6,948	8,058
New England	5,056	6,160	6,913
North Central	11,225	16,367	20,860
Northeast	15,223	17,553	18,385
Pacific	8,313	13,235	18,381
Plains	3,156	4,126	5,462
South Central	11,606	15,418	21,035
Southeast	31,231	43,500	54,387
Total	103,328	139,845	175,639

Primary Loss Reserves
(In millions)

Region	2013	2012	2011
Great Lakes	$ 206	$ 295	$ 348
Mid-Atlantic	123	178	205
New England	139	144	149
North Central	313	445	454
Northeast	417	371	325
Pacific	360	599	750
Plains	53	69	84
South Central	192	301	413
Southeast	849	1,089	1,198
Total before IBNR and LAE	$ 2,652	$ 3,491	$ 3,926
IBNR and LAE	182	253	323
Total	$ 2,834	$ 3,744	$ 4,249

Regions contain the states as follows:

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

The primary loss reserves (before IBNR and LAE) at December 31, 2013, 2012 and 2011 separated between our flow and bulk business appears in the table below.

Primary loss reserves
(In millions)

	2013	2012	2011
Flow	$ 1,911	$ 2,586	$ 2,820
Bulk	741	905	1,106
Total primary reserves	$ 2,652	$ 3,491	$ 3,926

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

The primary average claim paid for the top 5 states (based on 2013 paid claims, excluding payments associated with the Countrywide settlement) for the years ended December 31, 2013, 2012 and 2011 appears in the table below.

Primary average claim paid

	2013*	2012	2011
Florida	$ 53,647	$ 57,181	$ 59,216
California	84,862	87,305	85,205
Illinois	47,872	47,615	49,654
Washington	63,616	68,143	64,665
Ohio	31,046	31,491	32,397
All other states	41,709	43,473	45,190
All states	$ 46,375	$ 48,722	$ 49,887

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

The primary average loan size of our insurance in force at December 31, 2013, 2012 and 2011 appears in the table below.

Primary average loan size

	2013	2012	2011
Total insurance in force	$ 165,310	$ 161,060	$ 158,590
Prime (FICO 620 & >)	167,660	162,450	158,870
A-Minus (FICO 575 - 619)	127,280	128,850	130,700
Subprime (FICO < 575)	118,510	119,630	121,130
Reduced doc (All FICOs) (1)	183,050	188,210	194,060

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

The primary average loan size of our insurance in force at December 31, 2013, 2012 and 2011 for the top 5 states (based on 2013 paid claims, excluding payments associated with the Countrywide settlement) appears in the table below.

Primary average loan size

	2013	2012	2011
Florida	$ 172,869	$ 171,884	$ 174,439
California	282,660	281,288	284,034
Illinois	154,694	154,158	154,084
Washington	225,023	223,840	223,258
Ohio	124,709	121,493	118,724
All other states	159,630	154,901	151,932

Information about net paid claims during the years ended December 31, 2013, 2012 and 2011 appears in the table below.

Net paid claims (In millions)

	2013	2012	2011
Prime (FICO 620 & >)	$ 1,163	$ 1,558	$ 1,772
A-Minus (FICO 575 - 619)	179	235	283
Subprime (FICO < 575)	50	65	70
Reduced doc (All FICOs) (1)	219	372	429
Pool (2)	104	334	480
Other (3)	107	5	6
Direct losses paid	1,822	2,569	3,040
Reinsurance	(61)	(90)	(140)
Net losses paid	1,761	2,479	2,900
LAE	36	45	60
Net losses and LAE paid before terminations	1,797	2,524	2,960
Reinsurance terminations	(3)	(6)	(39)
Net losses and LAE paid	$ 1,794	$ 2,518	$ 2,921

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

(2) 2013 and 2012 include $41 million and $100 million, respectively, paid under the terms of our settlement with Freddie Mac as discussed in Note 9 – "Loss Reserves" to our consolidated financial statements.

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

Primary claims paid for the top 15 states (based on 2013 paid claims, excluding payments associated with the Countrywide settlement) and all other states for the years ended December 31, 2013, 2012 and 2011 appears in the table below.

Paid Claims by state (In millions)

	2013*	2012	2011
Florida	$ 297	$ 317	$ 303
California	147	309	357
Illinois	139	144	101
Washington	69	64	74
Ohio	60	70	76
Georgia	58	99	130
Michigan	57	110	138
Arizona	54	122	203
Maryland	51	47	51
Nevada	47	88	134
Pennsylvania	46	38	39
Wisconsin	41	50	46
North Carolina	38	48	40
New Jersey	33	27	27
Minnesota	32	59	65
All other states	442	638	770
	$ 1,611	$ 2,230	$ 2,554
Other (Pool, LAE, Reinsurance and Other)	183	288	367
Net losses and LAE paid	$ 1,794	$ 2,518	$ 2,921

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

We believe paid claims will continue to decline in 2014, excluding the expected impact of the remaining Countrywide settlement as discussed in Note 20 – "Litigation and Contingencies" to our consolidated financial statements and in our risk factor titled "We are involved in legal proceedings and are subject to the risk of additional legal proceedings in the future" below.

The primary default inventory for the top 15 states (based on 2013 paid claims, excluding payments associated with the Countrywide settlement) at December 31, 2013, 2012 and 2011 appears in the table below.

	2013	2012	2011
Florida	14,685	22,024	27,533
California	3,656	6,201	9,542
Illinois	6,167	9,313	11,420
Washington	1,986	3,053	3,467
Ohio	5,055	6,647	8,357
Georgia	3,515	5,100	6,744
Michigan	3,284	4,808	7,269
Arizona	1,195	2,161	3,809
Maryland	2,791	3,486	3,869
Nevada	1,189	2,053	3,001
Pennsylvania	5,449	6,627	7,155
Wisconsin	2,176	3,086	3,945
North Carolina	2,886	3,956	4,929
New Jersey	4,646	5,303	5,362
Minnesota	1,326	1,937	2,778
All other states	43,322	54,090	66,459
	103,328	139,845	175,639

The primary default inventory at December 31, 2013, 2012 and 2011 separated between our flow and bulk business appears in the table below.

	2013	2012	2011
Flow	77,851	107,497	134,101
Bulk	25,477	32,348	41,538
	103,328	139,845	175,639

The flow default inventory by policy year at December 31, 2013, 2012 and 2011 appears in the table below.

Flow default inventory by policy year

	2013	2012	2011
Policy year:			
2002 and prior	6,488	9,157	12,006
2003	4,096	5,731	7,403
2004	6,085	8,142	10,116
2005	9,217	12,582	15,594
2006	13,385	18,257	23,078
2007	28,350	40,357	50,664
2008	8,674	11,914	14,247
2009	749	901	800
2010	327	264	168
2011	243	148	25
2012	189	44	-
2013	48	-	-
	77,851	107,497	134,101

Our results of operations continue to be negatively impacted by the mortgage insurance we wrote during 2005 through 2008. Although uncertainty remains with respect to the ultimate losses we may experience on these books of business, as we continue to write new insurance on high-quality mortgages, those books have become a smaller percentage of our total portfolio, and we expect this trend to continue. Our 2005 through 2008 books of business represented approximately 49% of our total primary risk in force at December 31, 2013 compared to approximately 58% at December 31, 2012.

As of December 31, 2013, 38% of our primary risk in force was written subsequent to December 31, 2009, 42% of our primary risk in force was written subsequent to December 31, 2008, and 53% of our primary risk in force was written subsequent to December 31, 2007. On our flow business, the highest claim frequency years have typically been the third and fourth year after the year of loan origination. On our bulk business, the period of highest claims frequency has generally occurred earlier than in the historical pattern on our flow business. However, the pattern of claims frequency can be affected by many factors, including persistency and deteriorating economic conditions. Low persistency can accelerate the period in the life of a book during which the highest claim frequency occurs. Deteriorating economic conditions can result in increasing claims following a period of declining claims.

Premium deficiency

Beginning in 2007, when we stopped writing Wall Street bulk business, we began to separately measure the performance of these transactions and established a premium deficiency reserve related to this business. The premium deficiency reserve reflects the present value of expected future losses and expenses that exceeded the present value of expected future premiums and already established loss reserves. This premium deficiency reserve as of December 31, 2013, 2012 and 2011 was $48 million, $74 million and $135 million, respectively. The discount rate used in the calculation of the premium deficiency reserve at December 31, 2013, 2012 and 2011 was 1.6%, 1.3% and 2.3%, respectively.

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

Underwriting and other expenses

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

Underwriting and other expenses for 2012 decreased when compared to 2011. The decrease primarily reflects our reduction in headcount.

Ratios

The table below presents our GAAP loss, expense and combined ratios for our combined insurance operations for the years ended December 31, 2013, 2012 and 2011.

	2013	2012	2011
Loss ratio	88.9%	200.1%	152.6%
Underwriting expense ratio	18.6%	15.2%	16.0%
Combined ratio	107.5%	215.3%	168.6%

The loss ratio is the ratio, expressed as a percentage, of the sum of incurred losses and loss adjustment expenses to net premiums earned. The loss ratio does not reflect any effects due to premium deficiency. The decrease in the loss ratio in 2013 compared to 2012, was due to a decrease in losses incurred, somewhat offset by a decrease in premiums earned. The underwriting expense ratio is the ratio, expressed as a percentage, of the underwriting expenses of our combined insurance operations (which excludes the cost of non-insurance operations) to net premiums written. The increase in the underwriting expense ratio in 2013 compared to 2012 was due to a decrease in premiums written as well as an increase in underwriting and other expenses of our combined insurance operations. The combined ratio is the sum of the loss ratio and the underwriting expense ratio.

The increase in the loss ratio in 2012 compared to 2011 was due to an increase in losses incurred, as well as a decrease in premiums earned. The decrease in the underwriting expense ratio in 2012 compared to 2011 was due to a decrease in underwriting and other expenses of the combined insurance operations, partially offset by a decrease in premiums written.

Interest expense

Interest expense for 2013 decreased when compared to 2012. The decrease is primarily related to a decrease in amortization of the discount on our junior debentures. The discount on the debentures was fully amortized as of March 31, 2013. This decrease to interest expense was somewhat offset by the interest expense associated with the Convertible Senior Notes we issued in March 2013.

Interest expense for 2012 decreased when compared to 2011. The decrease is primarily due to lower interest on our Senior Notes due to repayments and repurchases, partially offset by an increase in amortization on our junior debentures.

Income taxes

The effective tax rate provision on our pre-tax loss was 8.0% in 2013 compared to the effective tax rate (benefit) provision of (0.2%) and 0.3%, in 2012, and 2011, respectively. During those periods, the benefit from income taxes was eliminated or reduced by the recognition of a valuation allowance.

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

Financial Condition

At December 31, 2013 the total fair value of our investment portfolio was $4.9 billion. In addition, at December 31, 2013 our total assets included approximately $350 million of cash and cash equivalents as shown on our consolidated balance sheet. At December 31, 2013, based on fair value, virtually all of our fixed income securities were investment grade securities. The percentage of investments rated BBB may increase as we reinvest to achieve higher yields and, in part, due to the reduced availability of highly rated corporate securities. Lower rated investments have greater risk. More than 99% of our fixed income securities are readily marketable. The composition of ratings at December 31, 2013, 2012 and 2011 are shown in the table below.

Investment Portfolio Ratings

	December 31,		
	2013	2012	2011
AAA	42%	52%	37%
AA	17%	15%	26%
A	27%	22%	27%
BBB	14%	11%	10%
Investment grade	100%	100%	100%
Below investment grade	-	-	-
Total	100%	100%	100%

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

Approximately 2% of our investment portfolio, excluding cash and cash equivalents, is guaranteed by financial guarantors. We evaluate the credit risk of securities through analysis of the underlying fundamentals. The extent of our analysis depends on a variety of factors, including the issuer's sector, scale, profitability, debt cover, ratings and the tenor of the investment. At December 31, 2013, less than 1% of our fixed income securities were relying on financial guaranty insurance to elevate their rating.

We primarily place our investments in investment grade securities pursuant to our investment policy guidelines. The policy guidelines also limit the amount of our credit exposure to any one issue, issuer and type of instrument. At December 31, 2013, the modified duration of our fixed income investment portfolio was 3.2 years, which means that an instantaneous parallel shift in the yield curve of 100 basis points would result in a change of 3.2% in the fair value of our fixed income portfolio. For an upward shift in the yield curve, the fair value of our portfolio would decrease and for a downward shift in the yield curve, the fair value would increase. See Note 6 – "Investments" to our consolidated financial statements for additional disclosure surrounding our investment portfolio.

At December 31, 2013, we had outstanding $82.9 million, 5.375% Senior Notes due in November 2015, with an approximate fair value of $86 million, $345 million principal amount of 5% Convertible Senior Notes outstanding due in 2017, with an approximate fair value of $389 million, $500 million principal amount of 2% Convertible Senior Notes outstanding due in 2020, with an approximate fair value of $686 million and $389.5 million principal amount of 9% Convertible Junior Subordinated Debentures due in 2063 outstanding, with an approximate fair value of $439 million. See Note 8 – "Debt" to our consolidated financial statements for additional disclosure on our debt.

See Note 14 – "Income Taxes" to our consolidated financial statements for a description of our federal income tax contingencies.

Our principal exposure to loss is our obligation to pay claims under MGIC's mortgage guaranty insurance policies. At December 31, 2013, MGIC's direct (before any reinsurance) primary and pool risk in force, which is the unpaid principal balance of insured loans as reflected in our records multiplied by the coverage percentage, and taking account of any loss limit, was approximately $42.1 billion. In addition, as part of our contract underwriting activities provided through a non-insurance subsidiary, that subsidiary is responsible for the quality of the underwriting decisions in accordance with the terms of the contract underwriting agreements with customers. That subsidiary may be required to provide certain remedies to our customers if certain standards relating to the quality of our underwriting work are not met, and we have an established reserve for such future obligations. Claims for remedies may be made a number of years after the underwriting work was performed. Beginning in the second half of 2009, our subsidiary has experienced an increase in claims for contract underwriting remedies, which continued throughout 2012. The related contract underwriting remedy expense was approximately $27 million, $23 million and $19 million for the years ended December 31, 2012, 2011 and 2010. The underwriting remedy expense for the year ended December 31, 2013 was approximately $5 million, but may increase in the future.

Liquidity and Capital Resources

Overview

Our sources of funds consist primarily of:

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

Our obligations consist primarily of:

- claim payments under MGIC's mortgage guaranty insurance policies,
- $83 million of 5.375% Senior Notes due in November 2015,
- $345 million of 5% Convertible Senior Notes due in 2017,
- $500 million of 2% Convertible Senior Notes due in 2020,
- $390 million of 9% Convertible Junior Debentures due in 2063,
- interest on the foregoing debt instruments, and
- the other costs and operating expenses of our business.

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

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

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

	For the year ended December 31,		
	2013	2012	2011
		(In thousands)	
Total cash (used in) provided by:			
Operating activities	$ (971,531)	$ (1,568,600)	$ (1,883,851)
Investing activities	(854,127)	1,653,533	1,754,217
Financing activities	1,130,725	(53,107)	(178,721)
(Decrease) increase in cash and cash equivalents	$ (694,933)	$ 31,826	$ (308,355)

Cash used in operating activities for 2013 and 2012 was lower, when compared to the prior year, due to a decrease in losses paid, partially offset by a decrease in premiums collected.

Cash used in investing activities for 2013 was higher when compared to 2012 and 2011 due to investment activity related to the proceeds from our concurrent common stock and convertible senior notes offerings in March 2013 discussed in Note 8 – "Debt" and Note 15 – "Shareholders' Equity" to our consolidated financial statements as well as our election in 2012 and 2011 to realize gains by selling certain securities. The increase in cash provided from financing activities in 2013, compared to 2012 and 2011, was also related to these offerings.

Cash used in financing activities for 2012 was lower compared to 2011, as we made less debt repurchases in 2012 than 2011. In 2012 we repurchased $70.9 million in par value of our 5.375% Senior Notes due in November 2015 at a cost of $53.1 million, compared to repurchases of $129 million in par value of our 5.375% Senior Notes in 2011 at a cost of $101.3 million. In 2011 we also repaid approximately $77 million in par value of senior notes that came due.

Debt at Our Holding Company and Holding Company Capital Resources

See Note 8 – "Debt" and Note 15 – "Shareholders' Equity" to our consolidated financial statements for information related to our sale of common stock and issuance of convertible senior notes in March 2013.

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

At December 31, 2013, we had approximately $560 million in cash and investments at our holding company.

As of December 31, 2013, our holding company's debt obligations were $1,317 million in par value consisting of:

- $83 million in par value of 5.375% Senior Notes due in November 2015, with an annual interest cost of $5 million;
- $345 million in par value of 5% Convertible Senior Notes due in 2017, with an annual interest cost of $17 million;
- $500 million in par value of 2% Convertible Senior Notes due in 2020, with an annual interest cost of $10 million; and
- $390 million in par value of 9% Convertible Junior Debentures due in 2063, with an annual interest cost of $35 million

See Note 8 – "Debt" to our consolidated financial statements for additional information about this indebtedness, including restrictive covenants in our Senior Notes and our option to defer interest on our Convertible Junior Debentures. Any deferred interest compounds at the stated rate of 9%. The description in Note 8 – "Debt" to our consolidated financial statements is qualified in its entirety by the terms of the notes and debentures. The terms of our Senior Notes are contained in the Officer's Certficate, dated as of

October 4, 2005, which specifies the interest rate, maturity date and other terms, and in the Indenture dated as of October 15, 2000, between us and the trustee, included as an exhibit to our Form 8-K filed with the SEC on October 19, 2000 (the "2000 Indenture"). The terms of our 5% Convertible Senior Notes are contained in a Supplemental Indenture, dated as of April 26, 2010, between us and U.S. Bank National Association, as trustee, which is included as an exhibit to our 8-K filed with the SEC on April 30, 2010, and in the 2000 Indenture. The terms of our 2% Convertible Senior Notes are contained in a Second Supplemental Indenture, dated as of March 12, 2013, between us and U.S. Bank National Association, as trustee, and the Indenture dated as of October 15, 2000, between us and the trustee. The terms of our Convertible Junior Debentures are contained in the Indenture dated as of March 28, 2008, between us and U.S. Bank National Association filed as an exhibit to our Form 10-Q filed with the SEC on May 12, 2008.

Our holding company has no other material sources of cash inflows other than investment income. Furthermore, our holding company contributed $800 million in the first quarter of 2013, $100 million in December 2012 and $200 million in December 2011 to support its insurance operations. Any further contributions to our insurance operations or other non-insurance affiliates would further decrease our holding company cash and investments. See discussion of our non-insurance contract underwriting services under "Financial Condition" above and in Note 20 – "Litigation and Contingencies" to our consolidated financial statements. We may also contribute funds to our insurance operations in connection with the implementation of revised mortgage insurer capital standards by the GSEs or NAIC. See "Overview – Capital" above for a discussion of these capital standards.

During 2013 we repurchased $17.2 million of our 5.375% Senior Notes due in November 2015 at par value. In 2012, we repurchased approximately $70.9 million in par value of our 5.375% Senior Notes due in November 2015, at a cost of $53.1 million. We recognized $17.8 million in gains on the 2012 repurchases, which is included in other revenue on the Consolidated Statements of Operations for the year ended December 31, 2012. In addition, in February 2014, we repurchased an additional $20.9 million in par value of the 5.375% Senior Notes at a cost slightly above par. We may from time to time continue to seek to acquire our debt obligations through cash purchases and/or exchanges for other securities. We may do this in open market purchases, privately negotiated acquisitions or other transactions. The amounts involved may be material.

Risk-to-Capital

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

The premium deficiency reserve discussed in Note 10 – "Premium Deficiency Reserve" to our consolidated financial statements is not recorded as a liability on the statutory balance sheet and is not a component of statutory net income. The present value of expected future premiums and already established loss reserves and statutory contingency reserves, exceeds the present value of expected future losses and expenses on our total in force book, so no deficiency is recorded on a statutory basis. On a GAAP basis, contingency loss reserves are not established and thus not considered when calculating premium deficiency reserve and policies are grouped based on how they are acquired, serviced and measured.

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

	December 31, 2013	December 31, 2012
	(In millions, except ratio)	
Risk in force – net (1)	$ 24,054	$ 30,802
Statutory policyholders' surplus	$ 1,521	$ 689
Statutory contingency reserve	-	-
Statutory policyholders' position	$ 1,521	$ 689
Risk-to-capital	15.8:1	44.7:1

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

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

	December 31, 2013	December 31, 2012
	(In millions, except ratio)	
Risk in force – net (1)	$ 29,468	$ 36,113
Statutory policyholders' surplus	$ 1,584	$ 749
Statutory contingency reserve	19	6
Statutory policyholders' position	$ 1,603	$ 755
Risk-to-capital	18.4:1	47.8:1

(1) Risk in force – net, as shown in the table above, is net of reinsurance and exposure on policies currently in default ($4.7 billion at December 31, 2013 and $6.5 billion at December 31, 2012) and for which loss reserves have been established.

Statutory policyholders' position increased in 2013, due to an $800 million capital contribution to MGIC from part of the proceeds from our March 2013 sale of common stock and issuance of convertible senior notes. Our risk in force, net of reinsurance, decreased in 2013, due to the Addendum to our quota share reinsurance agreement discussed in Note 1 – "Nature of Business – Capital" and Note 11 – "Reinsurance" to our consolidated financial statements. Our risk-to-capital ratio will increase if the percentage decrease in capital exceeds the percentage decrease in insured risk. Therefore, as capital decreases, the same dollar decrease in capital will cause a greater percentage decrease in capital and a greater increase in the risk-to-capital ratio.

For additional information regarding regulatory capital see Note 1 – "Nature of Business – Capital" to our consolidated financial statements as well as our risk factor titled "Capital requirements may prevent us from continuing to write new insurance on an uninterrupted basis" below.

Financial Strength Ratings

The financial strength of MGIC, our principal mortgage insurance subsidiary, is rated Ba3 by Moody's Investors Service with a stable outlook. Standard & Poor's Rating Services' insurer financial strength rating of MGIC is BB with a positive outlook. For further information about the importance of MGIC's ratings, see our risk factor titled "We may not continue to meet the GSEs' mortgage insurer eligibility requirements" and "Competition or changes in our relationships with our customers could reduce our revenues or increase our losses" below.

Contractual Obligations

At December 31, 2013, the approximate future payments under our contractual obligations of the type described in the table below are as follows:

	Payments due by period				
Contractual Obligations (In millions):	**Total**	**Less than 1 year**	**1 - 3 years**	**3 - 5 years**	**More than 5 years**
Long-term debt obligations	$ 3,187	$ 67	$ 212	$ 444	$ 2,464
Operating lease obligations	3	1	1	1	-
Tax obligations	18	-	-	18	-
Purchase obligations	3	2	1	-	-
Pension, SERP and other post-retirement benefit plans	182	13	29	33	107
Other long-term liabilities	3,061	1,592	1,255	214	-
Total	$ 6,454	$ 1,675	$ 1,498	$ 710	$ 2,571

Our long-term debt obligations at December 31, 2013 include, $82.9 million of 5.375% Senior Notes due in November 2015, $345.0 million of 5% Convertible Senior Notes due in 2017, $500 million 2% Convertible Senior Notes due in 2020 and $389.5 million in convertible debentures due in 2063, including related interest, as discussed in Note 8 – "Debt" to our consolidated financial statements and under "Liquidity and Capital Resources" above. Our operating lease obligations include operating leases on certain office space, data processing equipment and autos, as discussed in Note 19 – "Leases" to our consolidated financial statements. Tax obligations consist primarily of amounts related to our current dispute with the IRS, as discussed in Note 14 – "Income Taxes" to our consolidated financial statements. Purchase obligations consist primarily of agreements to purchase data processing hardware or services made in the normal course of business. See Note 13 – "Benefit Plans" to our consolidated financial statements for discussion of expected benefit payments under our benefit plans.

Our other long-term liabilities represent the loss reserves established to recognize the liability for losses and loss adjustment expenses related to defaults on insured mortgage loans. The timing of the future claim payments associated with the established loss reserves was determined primarily based on two key assumptions: the length of time it takes for a notice of default to develop into a received claim and the length of time it takes for a received claim to be ultimately paid. The future claim payment periods are estimated based on historical experience, and could emerge significantly different than this estimate. Due to the uncertainty regarding how certain factors, such as new loss mitigation protocols established by servicers and changes in some state foreclosure laws that may include, for example, a requirement for additional review and/or mediation process, will affect our future paid claims it has become even more difficult to estimate the amount and timing of future claim payments. Current conditions in the housing and mortgage industries make all of the assumptions discussed in this paragraph more volatile than they would otherwise be. See Note 9 – "Loss Reserves" to our consolidated financial statements and "– Critical Accounting Policies" below. In accordance with GAAP for the mortgage insurance industry, we establish loss reserves only for loans in default. Because our reserving method does not take account of the impact of future losses that could occur from loans that are not delinquent, our obligation for ultimate losses that we expect to occur under our policies in force at any period end is not reflected in our financial statements or in the table above.

Critical Accounting Policies

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

Loss reserves and premium deficiency reserves

Loss reserves

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

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

The incurred but not reported, or IBNR, reserves referred to above result from defaults occurring prior to the close of an accounting period, but which have not been reported to us. Consistent with reserves for reported defaults, IBNR reserves are established using estimated claim rates and claim amounts for the estimated number of defaults not reported. As of December 31, 2013 and 2012, we had IBNR reserves of approximately $128 million and $180 million, respectively.

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

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

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

In considering the potential sensitivity of the factors underlying our best estimate of loss reserves, it is possible that even a relatively small change in estimated claim rate or a relatively small percentage change in estimated claim amount could have a significant impact on reserves and, correspondingly, on results of operations. For example, a $1,000 change in the average severity reserve factor combined with a 1% change in the average claim rate reserve factor would change the reserve amount by approximately $112 million as of December 31, 2013. Historically, it has not been uncommon for us to experience variability in the development of the loss reserves through the end of the following year at this level or higher, as shown by the historical development of our loss reserves in the table below:

	Losses incurred related to prior years (1)	Reserve at end of prior year
	(In thousands)	
2013	$ (59,687)	$ 4,056,843
2012	573,120	4,557,512
2011	(99,328)	5,884,171
2010	(266,908)	6,704,990
2009	466,765	4,775,552

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

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

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

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

Premium deficiency reserve

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

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

As is the case with our loss reserves, as discussed above, the severity of claims and claim rates, as well as persistency for the premium deficiency calculation, are likely to be affected by external events, including actual economic conditions, as well as future rescission activity. However, our estimation process does not include a correlation between these economic conditions and our assumptions because it is our experience that an analysis of that nature would not produce reliable results. In considering the potential sensitivity of the factors underlying management's best estimate of premium deficiency reserves, it is possible that even a relatively small change in estimated claim rate or a relatively small percentage change in estimated claim amount could have a significant impact on the premium deficiency reserve and, correspondingly, on our results of operations. For example, a $1,000 change in the average severity combined with a 1% change in the average claim rate could change the Wall Street bulk premium deficiency reserve amount by approximately $44 million. Additionally, a 5% change in the persistency of the underlying loans could change the Wall Street bulk premium deficiency reserve amount by approximately $12 million. We do not anticipate changes in the discount rate will be significant enough as to result in material changes in the calculation.

Revenue recognition

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

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

Deferred insurance policy acquisition costs

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

Because our insurance premiums are earned over time, changes in persistency result in deferred insurance policy acquisition costs being amortized against revenue over a comparable period of time. At December 31, 2013, the persistency rate of our primary mortgage insurance was 79.5%, compared to 79.8% at December 31, 2012. This change did not significantly affect the amortization of deferred insurance policy acquisition costs for the period ended December 31, 2013. A 10% change in persistency would not have a material effect on the amortization of deferred insurance policy acquisition costs in the subsequent year.

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

Fair Value Measurements

For the years ended December 31, 2013, 2012 and 2011, we did not elect the fair value option for any financial instruments acquired for which the primary basis of accounting is not fair value.

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

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

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

Level 3 – Valuations derived from valuation techniques in which one or more significant inputs or value drivers are unobservable. Level 3 inputs reflect our own assumptions about the assumptions a market participant would use in pricing an asset or liability. Financial assets utilizing Level 3 inputs include certain state and auction rate (backed by student loans) securities. Non-financial assets which utilize Level 3 inputs include real estate acquired through claim settlement.

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

Assets classified as Level 3 are as follows:

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

- Nominal credit risk as substantially all of the underlying collateral of these securities is ultimately guaranteed by the United States Department of Education;

- Time to liquidity through December 31, 2013;

- Continued receipt of contractual interest; and

- Discount rates ranging from 16.87% to 18.35%, which include a spread for liquidity risk.

During the first three months of 2013 we sold our remaining auction rate securities. At December 31, 2013, the majority of the $3 million balance of Level 3 securities is state premium tax credit investments. The state premium tax credit investments have an average maturity of under 5 years, credit ratings of AA+ or higher, and their balance reflects their remaining scheduled payments discounted at an average annual rate of 7.3%.

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

Investment Portfolio

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

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

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

Under the current guidance a debt security impairment is deemed other than temporary if we either intend to sell the security, or it is more likely than not that we will be required to sell the security before recovery or we do not expect to collect cash flows sufficient to recover the amortized cost basis of the security. During 2013, 2012 and 2011 we recognized OTTI losses in earnings of $0.3 million, $2.3 million and $0.7 million, respectively.

Risk Factors

Forward Looking Statements and Risk Factors

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

Our actual results could be affected by the risk factors below. These risk factors are an integral part of this annual report. These risk factors may also cause actual results to differ materially from the results contemplated by forward looking statements that we may make. Forward looking statements consist of statements which relate to matters other than historical fact, including matters that inherently refer to future events. Among others, statements that include words such as "believe," "anticipate," "will" or "expect," or words of similar import, are forward looking statements. We are not undertaking any obligation to update any forward looking statements or other statements we may make even though these statements may be affected by events or circumstances occurring after the forward looking statements or other statements were made. No reader of this annual report should rely on these statements being current at any time other than the time at which our Annual Report on Form 10-K for the year ended December 31, 2013 was filed with the Securities and Exchange Commission.

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

Substantially all of our insurance written is for loans sold to Fannie Mae and Freddie Mac (the "GSEs"), each of which has mortgage insurer eligibility requirements to maintain the highest level of eligibility. The existing eligibility requirements include a minimum financial strength rating of Aa3/AA−. Because MGIC does not meet such financial strength rating requirements (its financial strength rating from Moody's is Ba3 (with a stable outlook) and from Standard & Poor's is BB (with a positive outlook)), MGIC is currently operating with each GSE as an eligible insurer under a remediation plan. We believe that the GSEs view remediation plans as a continuing process of interaction with a mortgage insurer and MGIC will continue to operate under a remediation plan for the foreseeable future. The GSEs may include new eligibility requirements as part of our current remediation plan. There can be no assurance that MGIC will be able to continue to operate as an eligible mortgage insurer under a remediation plan.

The GSEs previously advised us that, at the direction of their conservator, the Federal Housing Finance Agency ("FHFA"), they will be revising the eligibility requirements for all mortgage insurers and replacing their existing financial strength rating requirements with capital standards (the "GSE Capital Standards"). In early 2014, the FHFA is expected to provide state insurance regulators a draft of the proposed eligibility requirements and to allow the state insurance regulators a comment period of up to six weeks in which to review the eligibility standards on a confidential basis. After considering any changes suggested by the state insurance regulators, the FHFA is expected to release the proposed eligibility requirements for public comment. We have not been informed of the content of the new eligibility requirements, including the GSE Capital Standards, their timeframes for effectiveness, or the length of the public comment period.

We have various alternatives available to improve our existing risk-to-capital position, including contributing additional funds that are on hand today from our holding company to MGIC, entering into additional external reinsurance transactions, seeking approval to write business in MIC and raising additional capital, which could be contributed to MGIC. While there can be no assurance that MGIC would meet the GSE Capital Standards by their effective date, we believe we could implement one or more of these alternatives so that we would continue to be an eligible mortgage insurer after the GSE Capital Standards are fully effective. If MGIC (or MIC, under certain circumstances) ceases to be eligible to insure loans purchased by one or both of the GSEs, it would significantly reduce the volume of our new business writings.

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

The insurance laws of 16 jurisdictions, including Wisconsin, our domiciliary state, require a mortgage insurer to maintain a minimum amount of statutory capital relative to the risk in force (or a similar measure) in order for the mortgage insurer to continue to write new business. We refer to these requirements as the "State Capital Requirements" and, together with the GSE Capital Standards, the "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 the percentage decrease in capital exceeds the percentage decrease in insured risk. Therefore, as capital decreases, the same dollar decrease in capital will cause a greater percentage decrease in capital and a greater increase in the risk-to-capital ratio. Wisconsin does not regulate capital by using a risk-to-capital measure but instead requires a minimum policyholder position ("MPP"). The "policyholder position" of a mortgage insurer is its net worth or surplus, contingency reserve and a portion of the reserves for unearned premiums.

During part of 2012 and 2013, MGIC's risk-to-capital ratio exceeded 25 to 1. In March 2013, our holding company issued additional equity and convertible debt securities and transferred $800 million to increase MGIC's capital. In April 2013, we entered into a quota share reinsurance transaction with a group of unaffiliated reinsurers. That transaction applies to new insurance written between April 1, 2013 and December 31, 2015 (with certain exclusions). In December 2013, we entered into an Addendum to the quota share transaction that applies to certain insurance written before April 1, 2013. Although the quota share has been approved by the GSEs, it is possible that under the GSE Capital Standards and/or the revised State Capital Requirements discussed below, MGIC will not be allowed full credit for the risk ceded to the reinsurers under the transaction. If MGIC is disallowed full credit, MGIC may terminate the transaction, without penalty, when such disallowance becomes effective. At December 31, 2013, MGIC's risk-to-capital ratio was 15.8 to 1, below the maximum allowed by the jurisdictions with State Capital Requirements, and its policyholder position was $454 million above the required MPP of $1.0 billion. Excluding the effects of the Addendum, MGIC's risk-to-capital would have been 19.2 to 1. At this time, we expect MGIC to continue to comply with the current State Capital Requirements, although we cannot assure you of such compliance. You should read the rest of these risk factors for information about matters that could negatively affect such compliance.

At December 31, 2013, the risk-to-capital ratio of our combined insurance operations (which includes reinsurance affiliates) was 18.4 to 1. Excluding the effects of the Addendum, the risk-to-capital of our combined insurance operations would have been 21.8 to 1. A higher risk-to-capital ratio on a combined basis may indicate that, in order for MGIC to continue to utilize reinsurance arrangements with its subsidiaries or subsidiaries of our holding company, unless a waiver of the State Capital Requirements is obtained from the appropriate regulators, additional capital contributions to the reinsurance affiliates could be needed. These reinsurance arrangements permit MGIC to write insurance with a higher coverage percentage than it could on its own under certain state-specific requirements. The Office of the Commissioner of Insurance of the State of Wisconsin ("OCI") waived, through 2015, the State Capital Requirements for our reinsurance affiliate that did not meet them. Although we do not believe it is likely, the OCI may modify or revoke the waiver at any time. If the waiver were revoked, we could make a capital contribution to the reinsurance affiliate so that it would comply with the State Capital Requirements.

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. The NAIC has established a working group of state regulators that is considering this issue, although no date has been established by which the NAIC must propose revisions to such requirements. Depending on the scope of revisions made by the NAIC, MGIC may be prevented from writing new business in the jurisdictions adopting such revisions.

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

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. New insurance written in the jurisdictions that have State Capital Requirements represented approximately 50% of our new insurance written in 2013. Depending on the level of losses that MGIC experiences in the future, it is possible that regulatory action by one or more jurisdictions, including those that do not have specific State Capital Requirements, may prevent MGIC from continuing to write new insurance in such jurisdictions.

A possible future failure by MGIC to meet the Capital Requirements will not necessarily mean that MGIC lacks sufficient resources to pay claims on its insurance liabilities. While we believe MGIC has sufficient claims paying resources to meet its claim obligations on its insurance in force on a timely basis, we cannot assure you that events that may lead MGIC to fail to meet Capital Requirements would not also result in it not having sufficient claims paying resources. You should read the rest of these risk factors for additional information about matters that could negatively affect MGIC's claims paying resources.

We have in place a longstanding plan to write new business in MIC, a direct subsidiary of MGIC, in the event MGIC cannot meet the State Capital Requirements of a jurisdiction or obtain a waiver of them. MIC is licensed to write business in all jurisdictions. During 2012, MIC began writing new business in the jurisdictions where MGIC did not have a waiver of the State Capital Requirements. Because MGIC again meets the State Capital Requirements, MGIC is again writing new business in all jurisdictions and MIC has suspended writing new business. As of December 31, 2013, MIC had statutory capital of $458 million and risk in force, net of reinsurance, of approximately $600 million. Before MIC may again write new business, it must obtain the necessary approvals from the OCI and the GSEs.

We cannot assure you that the OCI or GSEs will approve MIC to write new business in all jurisdictions in which MGIC may become unable to do so. If one GSE does not approve MIC in all jurisdictions in which MGIC becomes unable to write new business, MIC may be able to write insurance on loans that will be sold to the other GSE or retained by private investors. However, because lenders may not know which GSE will purchase their loans until mortgage insurance has been procured, lenders may be unwilling to procure mortgage insurance from MIC. Furthermore, if we are unable to write business in all jurisdictions utilizing a combination of MGIC and MIC, lenders may be unwilling to procure insurance from us anywhere. In addition, a lender's assessment of the financial strength of our insurance operations may affect its willingness to procure insurance from us. In this regard, see our risk factor titled "*Competition or changes in our relationships with our customers could reduce our revenues or increase our losses*."

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

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

In September 2013, the U.S. Department of Housing and Urban Development ("HUD") proposed a definition of QM that will apply to loans the Federal Housing Administration ("FHA") insures. HUD's QM definition is less restrictive than the CFPB's definition in certain respects, including that (i) it has no limit on the debt-to-income ratio of a borrower, and (ii) it allows the lender certain presumptions about compliance with the "ability to repay" requirements on higher priced loans. It is possible that lenders will prefer FHA-insured loans to loans insured by private mortgage insurance as a result of the FHA's less restrictive QM definition.

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

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

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

Alternatives to private mortgage insurance include:

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

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

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

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

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

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

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

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

The FHFA is the conservator of the GSEs and has the authority to control and direct their operations. The increased role that the federal government has assumed in the residential mortgage market through the GSE conservatorship may increase the likelihood that the business practices of the GSEs change in ways that have a material adverse effect on us. In addition, these factors may increase the likelihood that the charters of the GSEs are changed by new federal legislation. The Dodd-Frank Act required the U.S. Department of the Treasury to report its recommendations regarding options for ending the conservatorship of the GSEs. This report was released in February 2011 and while it does not provide any definitive timeline for GSE reform, it does recommend using a combination of federal housing policy changes to wind down the GSEs, shrink the government's footprint in housing finance (including FHA insurance), and help bring private capital back to the mortgage market. Since then, Members of Congress introduced several bills intended to 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.

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

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

As of December 31, 2013, we had approximately $2.6 billion of net operating losses for tax purposes that we can use in certain circumstances to offset future taxable income and thus reduce our federal income tax liability. Our ability to utilize these net operating losses to offset future taxable income may be significantly limited if we experience an "ownership change" as defined in Section 382 of the Internal Revenue Code of 1986, as amended (the "Code"). In general, an ownership change will occur if there is a cumulative change in our ownership by "5-percent shareholders" (as defined in the Code) that exceeds 50 percentage points over a rolling three-year period. A corporation that experiences an ownership change will generally be subject to an annual limitation on the corporation's subsequent use of net operating loss carryovers that arose from pre-ownership change periods and use of losses that are subsequently recognized with respect to assets that had a built-in-loss on the date of the ownership change. The amount of the annual limitation generally equals the value of the corporation immediately before the ownership change multiplied by the long-term tax-exempt interest rate (subject to certain adjustments). To the extent that the limitation in a post-ownership-change year is not fully utilized, the amount of the limitation for the succeeding year will be increased.

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

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

Before paying a claim, we review the loan and servicing files to determine the appropriateness of the claim amount. All of our insurance policies provide that we can reduce or deny a claim if the servicer did not comply with its obligations under our insurance policy, including the requirement to mitigate our loss by performing reasonable loss mitigation efforts or, for example, diligently pursuing a foreclosure or bankruptcy relief in a timely manner. We call such reduction of claims submitted to us "curtailments." In 2012 and 2013, curtailments reduced our average claim paid by approximately 4.1% and 5.8%, respectively. In addition, the claims submitted to us sometimes include costs and expenses not covered by our insurance policies, such as hazard insurance premiums for periods after the claim date and losses resulting from property damage that has not been repaired. These other adjustments reduced claim amounts by less than the amount of curtailments. After we pay a claim, servicers and insureds sometimes object to our curtailments and other adjustments. We review these objections if they are sent to us within 90 days after the claim was paid. Historically, we have not had material disputes regarding our curtailments or other adjustments.

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

We estimate rescissions mitigated our incurred losses by approximately $2.5 billion in 2009 and $0.2 billion in 2010. All of these figures include the benefit of claims not paid in the period as well as the impact of changes in our estimated expected rescission activity on our loss reserves in the period. In 2012, we estimate that our rescission benefit in loss reserves was reduced by $0.2 billion due to probable rescission settlement agreements. We estimate that other rescissions had no significant impact on our losses incurred in 2011 through 2013. At December 31, 2013, we estimate that our total loss reserves were benefited from anticipated rescissions by approximately $0.1 billion. Our loss reserving methodology incorporates our estimates of future rescissions and reversals of rescissions. Historically, reversals of rescissions have been immaterial. A variance between ultimate actual rescission and reversal rates and our estimates, as a result of the outcome of litigation, settlements or other factors, could materially affect our losses.

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

If we are unable to reach a settlement, the outcome of the dispute ultimately would be determined by legal proceedings. Under our policies, legal proceedings disputing our right to rescind coverage may be brought up to three years after the lender has obtained title to the property (typically through a foreclosure) or the property was sold in a sale that we approved, whichever is applicable, although in a few jurisdictions there is a longer time to bring such an action. As of December 31, 2013, the period in which a dispute may be brought has not ended for approximately 28% of our post-2008 rescissions that are not subject to a settlement agreement.

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

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

In April 2013, MGIC entered into separate settlement agreements with CHL and BANA, pursuant to which the parties will settle the Countrywide litigation as it relates to MGIC's rescission practices (as amended, the "Agreements"). The original Agreements are described in our Form 8-K filed with the SEC on April 25, 2013. The original Agreements are filed as exhibits to that Form 8-K and amendments were filed with our Form 10-Q for the quarter ended September 30, 2013 and our Form 10-K for 2013, although certain portions of the Agreements are redacted and covered by a confidential treatment request that has been granted (or is pending).

The Agreement with BANA covers loans purchased by the GSEs. As of September 30, 2013, rescissions of coverage on approximately 2,100 loans under the Agreement with BANA had been suspended. That Agreement was implemented beginning in November 2013 and we resolved all of those suspended rescissions in November and December 2013 by paying the associated claim or processing the rescission. The pending arbitration proceedings concerning the loans covered by that agreement have been dismissed, the mutual releases between the parties regarding such loans have become effective and the litigation between the parties regarding such loans is to be dismissed.

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

We recorded the estimated impact of the Agreements and another probable settlement in our financial statements for the quarter ending December 31, 2012. We have also recorded the estimated impact of other probable settlements, which in the aggregate have not been material. The estimated impact that we recorded is our best estimate of our loss from these matters. We estimate that the maximum exposure above the best estimate provision we recorded is $475 million, of which about 50% is from rescission practices subject to the Agreement with CHL. If we are not able to implement the Agreement with CHL or the other settlements we consider probable, we intend to defend MGIC vigorously against any related legal proceedings.

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

We are involved in discussions and legal proceedings with customers with respect to our claims paying practices that are collectively material in amount. Although it is reasonably possible that, when these discussions or legal proceedings are completed, we will not prevail in all cases, we are unable to make a reasonable estimate or range of estimates of the potential liability. We estimate the maximum exposure associated with these discussions and legal proceedings to be approximately $260 million, although we believe we will ultimately resolve these matters for significantly less than this amount.

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

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

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

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

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

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

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

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

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

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

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

The Internal Revenue Service ("IRS") completed examinations of our federal income tax returns for the years 2000 through 2007 and issued proposed assessments for unpaid taxes, interest and penalties related to our treatment of the flow-through income and loss from an investment in a portfolio of residual interests of Real Estate Mortgage Investment Conduits ("REMICs"). The IRS indicated that it did not believe that, for various reasons, we had established sufficient tax basis in the REMIC residual interests to deduct the losses from taxable income. The proposed assessments for taxes and penalties related to these matters is $197.5 million and at December 31, 2013, there would also be interest of approximately $154.5 million. In addition, depending on the outcome of this matter, additional state income taxes and state interest may become due when a final resolution is reached. As of December 31, 2013, those state taxes and interest would approximate $46.0 million. In addition, there could also be state tax penalties.

Our total amount of unrecognized tax benefits as of December 31, 2013 is $105.4 million, which represents the tax benefits generated by the REMIC portfolio included in our tax returns that we have not taken benefit for in our financial statements, including any related interest. We continue to believe that our previously recorded tax provisions and liabilities are appropriate. However, we would need to make appropriate adjustments, which could be material, to our tax provision and liabilities if our view of the probability of success in this matter changes, and the ultimate resolution of this matter could have a material negative impact on our effective tax rate, results of operations, cash flows and statutory capital. In this regard, see our risk factors titled "*We may not continue to meet the GSEs' mortgage insurer eligibility requirements*" and "*State capital requirements may prevent us from continuing to write new insurance on an uninterrupted basis*."

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

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

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

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

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

The establishment of loss reserves is subject to inherent uncertainty and requires judgment by management. Current conditions in the housing and mortgage industries make the assumptions that we use to establish loss reserves more volatile than they would otherwise be. The actual amount of the claim payments may be substantially different than our loss reserve estimates. Our estimates could be adversely affected by several factors, including a deterioration of regional or national economic conditions, including unemployment, leading to a reduction in borrowers' income and thus their ability to make mortgage payments and a drop in housing values that could result in, among other things, greater losses on loans that have pool insurance, and may affect borrower willingness to continue to make mortgage payments when the value of the home is below the mortgage balance. Changes to our estimates could result in material impact to our results of operations, even in a stable economic environment, and there can be no assurance that actual claims paid by us will not be substantially different than our loss reserves.

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

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

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

Beginning in the fourth quarter of 2008, the federal government, including through the Federal Deposit Insurance Corporation and the GSEs, and several lenders have adopted programs to modify loans to make them more affordable to borrowers with the goal of reducing the number of foreclosures. During 2011, 2012 and 2013, we were notified of modifications that cured delinquencies that had they become paid claims would have resulted in approximately $1.8 billion, $1.2 billion and $1.0 billion, respectively, of estimated claim payments. As noted below, we cannot predict with a high degree of confidence what the ultimate re-default rate on these modifications will be. Although the recent re-default rate has been lower, for internal reporting and planning purposes, we assume approximately 50% of these modifications will ultimately re-default, and those re-defaults may result in future claim payments. Because modifications cure the defaults with respect to the previously defaulted loans, our loss reserves do not account for potential re-defaults unless at the time the reserve is established, the re-default has already occurred. Based on information that is provided to us, most of the modifications resulted in reduced payments from interest rate and/or amortization period adjustments; from 2011 through 2013, approximately 7% resulted in principal forgiveness.

One loan modification program is the Home Affordable Modification Program ("HAMP"). Some of HAMP's eligibility criteria relate to the borrower's current income and non-mortgage debt payments. Because the GSEs and servicers do not share such information with us, we cannot determine with certainty the number of loans in our delinquent inventory that are eligible to participate in HAMP. We believe that it could take several months from the time a borrower has made all of the payments during HAMP's three month "trial modification" period for the loan to be reported to us as a cured delinquency. We rely on information provided to us by the GSEs and servicers. We do not receive all of the information from such sources that is required to determine with certainty the number of loans that are participating in, or have successfully completed, HAMP. We are aware of approximately 7,600 loans in our primary delinquent inventory at December 31, 2013 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, 2013 approximately 52,700 delinquent primary loans have cured their delinquency after entering HAMP and are not in default. In each of 2012 and 2013, approximately 17% of our primary cures were the result of a modification, with HAMP accounting for approximately 70% of those modifications in 2012 and 68% in 2013. Although the HAMP program has been extended through 2015, we believe that we have realized the majority of the benefits from HAMP because the number of loans insured by us that we are aware are entering HAMP trial modification periods has decreased significantly since 2010.

In 2009, the GSEs began offering the Home Affordable Refinance Program ("HARP"). HARP, which has been extended through 2015, allows borrowers who are not delinquent but who may not otherwise be able to refinance their loans under the current GSE underwriting standards, to refinance their loans. We allow the HARP refinances on loans that we insure, regardless of whether the loan meets our current underwriting standards, and we account for the refinance as a loan modification (even where there is a new lender) rather than new insurance written. To incent lenders to allow more current borrowers to refinance their loans, in October 2011, the GSEs and their regulator, FHFA, announced an expansion of HARP. The expansion includes, among other changes, releasing certain representations in certain circumstances benefitting the GSEs. We have agreed to allow these additional HARP refinances, including releasing the insured in certain circumstances from certain rescission rights we would have under our policy. While an expansion of HARP may result in fewer delinquent loans and claims in the future, our ability to rescind coverage will be limited in certain circumstances. We are unable to predict what net impact these changes may have on our incurred or paid losses. Approximately 15% of our primary insurance in force has benefitted from HARP and is still in force.

The effect on us of loan modifications depends on how many modified loans subsequently re-default, which in turn can be affected by changes in housing values. Re-defaults can result in losses for us that could be greater than we would have paid had the loan not been modified. At this point, we cannot predict with a high degree of confidence what the ultimate re-default rate will be. In addition, because we do not have information in our database for all of the parameters used to determine which loans are eligible for modification programs, our estimates of the number of loans qualifying for modification programs are inherently uncertain. If legislation is enacted to permit a portion of a borrower's mortgage loan balance to be reduced in bankruptcy and if the borrower re-defaults after such reduction, then the amount we would be responsible to cover would be calculated after adding back the reduction. Unless a lender has obtained our prior approval, if a borrower's mortgage loan balance is reduced outside the bankruptcy context, including in association with a loan modification, and if the borrower re-defaults after such reduction, then under the terms of our policy the amount we would be responsible to cover would be calculated net of the reduction.

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

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

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

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

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

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

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

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

In recent years, the level of competition within the private mortgage insurance industry has been intense as many large mortgage lenders reduced the number of private mortgage insurers with whom they do business. At the same time, consolidation among mortgage lenders has increased the share of the mortgage lending market held by large lenders. During 2012 and 2013, approximately 10% and 7%, respectively, of our new insurance written was for loans for which one lender was the original insured, although revenue from such loans was significantly less than 10% of our revenues during each of those periods. Our private mortgage insurance competitors include:

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

Until 2010 the mortgage insurance industry had not had new entrants in many years. In 2010, Essent Guaranty, Inc. began writing mortgage insurance and in October 2013, it raised additional capital in an initial public offering. Essent has publicly reported that one of our customers, JPMorgan Chase, is one of its investors. Another new company, National Mortgage Insurance Corporation, began writing mortgage insurance in the second quarter of 2013. Also in 2013, the parent company of Republic Mortgage Insurance Company ("RMIC"), which had ceased writing new mortgage insurance commitments in mid-2011 and was placed under the supervision of the insurance department of its domiciliary state, announced a plan of recapitalization for RMIC that is intended to allow RMIC to resume writing new business early in 2014. In addition, in January 2014, a worldwide insurer and reinsurer with mortgage insurance operations in Europe announced that it had completed the purchase of a competitor, CMG Mortgage Insurance Company, and that it had received approval as an eligible insurer from both GSEs. The perceived increase in credit quality of loans that are being insured today, the ability to start a mortgage insurance company unencumbered with a portfolio of pre-crisis mortgages, and the possibility of a decrease in the FHA's share of the mortgage insurance market may encourage additional new entrants.

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

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

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

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

The mix of business we write affects the likelihood of losses occurring and our premium yields.

Even when housing values are stable or rising, mortgages with certain characteristics have higher probabilities of claims. These characteristics include loans with loan-to-value ratios over 95% (or in certain markets that have experienced declining housing values, over 90%), FICO credit scores below 620, limited underwriting, including limited borrower documentation, or higher total debt-to-income ratios, as well as loans having combinations of higher risk factors. As of December 31, 2013, approximately 22.1% of our primary risk in force consisted of loans with loan-to-value ratios greater than 95%, 6.8% had FICO credit scores below 620, and 6.9% had limited underwriting, including limited borrower documentation, each attribute as determined at the time of loan origination. A material portion of these loans were written in 2005 - 2007 or the first quarter of 2008. In accordance with industry practice, loans approved by GSEs and other automated underwriting systems under “doc waiver” programs that do not require verification of borrower income are classified by us as “full documentation.” For additional information about such loans, see footnote (3) to the composition of primary default inventory table under “Results of Consolidated Operations-Losses-Losses incurred” in Management’s Discussion and Analysis of Financial Condition and Results of Operations.

From time to time, in response to market conditions, we change the types of loans that we insure and the requirements under which we insure them. Beginning in August 2013, we 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 described in our underwriting requirements. In December 2013, we reduced all of our borrower-paid monthly premium rates and most of our single premium rates subject to regulatory approval and made underwriting changes for loans greater than $625,500, while expanding the maximum loan amount to $850,000. In 2013, single premium policies were approximately 10% of our total NIW. During most of 2013, almost all of our single premium rates were above those most commonly used in the market. The percentage of our single premium policies may increase in the future as a result of the reduction in our single premium rates. These changes will reduce our future premium yields. Our underwriting requirements are available on our website at http://www.mgic.com/underwriting/index.html. We make exceptions to our underwriting requirements on a loan-by-loan basis and for certain customer programs. Together, the number of loans for which exceptions were made accounted for fewer than 2% of the loans we insured in 2012 and 2013.

As noted above in our risk factor titled “*State capital requirements may prevent us from continuing to write new insurance on an uninterrupted basis*,” in April 2013, we entered into a quota share reinsurance transaction with a group of unaffiliated reinsurers. The transaction was amended in December 2013 so that it applies to additional insurance inforce. The transaction will significantly reduce our future premium yields.

During the second quarter of 2012, we began writing a portion of our new insurance under an endorsement to our master policy (the “Gold Cert Endorsement”). Our Gold Cert Endorsement limits our ability to rescind coverage under certain circumstances. As of December 31, 2013, less than 15% of our flow, primary insurance in force was written under our Gold Cert Endorsement. However, approximately 65% of our flow, primary new insurance written in 2013, was written under this endorsement. The Gold Cert Endorsement is filed as Exhibit 99.7 to our quarterly report on Form 10-Q for the quarter ended March 31, 2012 (filed with the SEC on May 10, 2012).

We are in the process of revising our master policy. The new master policy will comply with various requirements the GSEs have communicated to the industry. These requirements contain limitations on rescission rights that, while generally similar, differ in some respects from the limitations in our Gold Cert

Endorsement. Our new master policy has been approved by the GSEs, however, it remains subject to review and approval by state insurance regulators. The GSEs have stated that in the first quarter of 2014, they will announce a uniform effective date for the new master policies of all mortgage insurers and that the effective date will not be earlier than July 1, 2014.

As of December 31, 2013, approximately 1.8% of our primary risk in force written through the flow channel, and 21.7% of our primary risk in force written through the bulk channel, consisted of adjustable rate mortgages in which the initial interest rate may be adjusted during the five years after the mortgage closing (“ARMs”). We classify as fixed rate loans adjustable rate mortgages in which the initial interest rate is fixed during the five years after the mortgage closing. If interest rates should rise between the time of origination of such loans and when their interest rates may be reset, claims on ARMs and adjustable rate mortgages whose interest rates may only be adjusted after five years would be substantially higher than for fixed rate loans. In addition, we have insured “interest-only” loans, which may also be ARMs, and loans with negative amortization features, such as pay option ARMs. We believe claim rates on these loans will be substantially higher than on loans without scheduled payment increases that are made to borrowers of comparable credit quality.

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

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

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

In January 2008, we announced that we had decided to stop writing the portion of our bulk business that insures loans included in Wall Street securitizations because the performance of such loans deteriorated materially in the fourth quarter of 2007 and this deterioration was materially worse than we experienced for loans insured through the flow channel or loans insured through the remainder of our bulk channel. As of December 31, 2007 we established a premium deficiency reserve of approximately $1.2 billion. As of December 31, 2013, the premium deficiency reserve was $48 million, which reflects the present value of expected future losses and expenses that exceeds the present value of expected future premium and already established loss reserves on these bulk transactions.

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

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

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

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

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

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

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

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

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

Our persistency rate was 79.5% at December 31, 2013, compared to 79.8% at December 31, 2012 and 82.9% at December 31, 2011. During the 1990s, our year-end persistency ranged from a high of 87.4% at December 31, 1990 to a low of 68.1% at December 31, 1998. Since 2000, our year-end persistency ranged from a high of 84.7% at December 31, 2009 to a low of 47.1% at December 31, 2003.

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

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

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

We have $389.5 million principal amount of 9% Convertible Junior Subordinated Debentures outstanding. The principal amount of the debentures is currently convertible, at the holder's option, at an initial conversion rate, which is subject to adjustment, of 74.0741 common shares per $1,000 principal amount of debentures. This represents an initial conversion price of approximately $13.50 per share. On April 1, 2013, we paid all interest that we had previously elected to defer on these debentures. We continue to have the right, and may elect, to defer interest payable under the debentures in the future. If a holder elects to convert its debentures, the interest that has been deferred on the debentures being converted is also convertible into shares of our common stock. The conversion rate for such deferred interest is based on the average price that our shares traded at during a 5-day period immediately prior to the election to convert the associated debentures. We may elect to pay cash for some or all of the shares issuable upon a conversion of the debentures. We also have $345 million principal amount of 5% Convertible Senior Notes and $500 million principal amount of 2% Convertible Senior Notes outstanding. The 5% Convertible Senior Notes are convertible, at the holder's option, at an initial conversion rate, which is subject to adjustment, of 74.4186 shares per $1,000 principal amount at any time prior to the maturity date. This represents an initial conversion price of approximately $13.44 per share. Prior to January 1, 2020, the 2% Convertible Senior Notes are convertible only upon satisfaction of one or more conditions. One such condition is that during any calendar quarter commencing after March 31, 2014, the last reported sale price of our common stock for each of at least 20 trading days during the 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter be greater than or equal to 130% of the applicable conversion price on each applicable trading day. The notes are convertible at an initial conversion rate, which is subject to adjustment, of 143.8332 shares per $1,000 principal amount. This represents an initial conversion price of approximately $6.95 per share. 130% of such conversion price is $9.03. On or after January 1, 2020, holders may convert their notes irrespective of satisfaction of the conditions. We do not have the right to defer interest on our Convertible Senior Notes. For a discussion of the dilutive effects of our convertible securities on our earnings per share, see Note 3 – "Summary of Significant Accounting Policies" to our consolidated financial statements.

Our debt obligations materially exceed our holding company cash and investments

At December 31, 2013, we had approximately $560 million in cash and investments at our holding company and our holding company's debt obligations were $1,317 million in aggregate principal amount, consisting of $83 million of Senior Notes due in November 2015, $345 million of Convertible Senior Notes due in 2017, $500 million of Convertible Senior Notes due in 2020 and $390 million of Convertible Junior

Debentures due in 2063. Annual debt service on the debt outstanding as of December 31, 2013, is approximately $67 million.

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

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

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

Our Australian operations may suffer significant losses.

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

Management's Report on Internal Control Over Financial Reporting

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

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our internal control over financial reporting using the framework in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 1992. Based on such evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2013.

PricewaterhouseCoopers LLP, an independent registered public accounting firm, has audited the consolidated financial statements and effectiveness of internal control over financial reporting as of December 31, 2013, as stated in their report which appears herein.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of
MGIC Investment Corporation

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, comprehensive income, shareholders' equity and of cash flows present fairly, in all material respects, the financial position of MGIC Investment Corporation and its subsidiaries (the "Company") at December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control – Integrated Framework* (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

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

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Milwaukee, Wisconsin
February 28, 2014

Consolidated Balance Sheets

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
December 31, 2013 and 2012

	2013	2012
	(In thousands)	
ASSETS		
Investment portfolio (notes 6 and 7):		
Securities, available-for-sale, at fair value:		
Fixed maturities (amortized cost, 2013 – $4,948,543; 2012 – $4,185,937)	$ 4,863,925	$ 4,227,339
Equity securities	2,894	2,936
Total investment portfolio	4,866,819	4,230,275
Cash and cash equivalents	332,692	1,027,625
Restricted cash and cash equivalents (note 2)	17,440	–
Accrued investment income	31,660	27,243
Prepaid reinsurance premiums (note 11)	36,243	841
Reinsurance recoverable on loss reserves (note 11)	64,085	104,848
Reinsurance recoverable on paid losses	10,425	15,605
Premiums receivable	62,301	67,828
Home office and equipment, net	26,185	27,190
Deferred insurance policy acquisition costs	9,721	11,245
Other assets	143,819	61,624
Total assets	$ 5,601,390	$ 5,574,324
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Loss reserves (notes 9 and 11)	$ 3,061,401	$ 4,056,843
Premium deficiency reserve (note 10)	48,461	73,781
Unearned premiums (note 11)	154,479	138,840
Senior notes (note 8)	82,773	99,910
Convertible senior notes (note 8)	845,000	345,000
Convertible junior debentures (note 8)	389,522	379,609
Other liabilities	275,216	283,401
Total liabilities	4,856,852	5,377,384
Contingencies (note 20)		
Shareholders' equity (note 15):		
Common stock (one dollar par value, shares authorized 1,000,000; shares issued 2013 – 340,047; 2012 – 205,047; outstanding 2013 – 337,758; 2012 – 202,032)	340,047	205,047
Paid-in capital	1,661,269	1,135,296
Treasury stock (shares at cost 2013 – 2,289; 2012 – 3,015)	(64,435)	(104,959)
Accumulated other comprehensive loss, net of tax (note 12)	(117,726)	(48,163)
Retained deficit	(1,074,617)	(990,281)
Total shareholders' equity	744,538	196,940
Total liabilities and shareholders' equity	$ 5,601,390	$ 5,574,324

See accompanying notes to consolidated financial statements.

Consolidated Statements of Operations

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
Years Ended December 31, 2013, 2012 and 2011

	2013	2012	2011
	(In thousands, except per share data)		
Revenues:			
Premiums written:			
Direct	$ 994,910	$1,049,549	$1,119,182
Assumed	2,074	2,425	(4,898)
Ceded (note 11)	(73,503)	(34,142)	(49,904)
Net premiums written	923,481	1,017,832	1,064,380
Decrease in unearned premiums	19,570	15,338	59,455
Net premiums earned (note 11)	943,051	1,033,170	1,123,835
Investment income, net of expenses (note 6)	80,739	121,640	201,270
Realized investment gains, net (note 6)	6,059	197,719	143,430
Total other-than-temporary impairment losses	(328)	(2,310)	(715)
Portion of losses recognized in other comprehensive income (loss), before taxes (note 12)	–	–	–
Net impairment losses recognized in earnings	(328)	(2,310)	(715)
Other revenue	9,914	28,145	36,459
Total revenues	1,039,435	1,378,364	1,504,279
Losses and expenses:			
Losses incurred, net (notes 9 and 11)	838,726	2,067,253	1,714,707
Change in premium deficiency reserve (note 10)	(25,320)	(61,036)	(44,150)
Amortization of deferred policy acquisition costs	10,641	7,452	6,880
Other underwriting and operating expenses, net (note 11)	181,877	193,995	207,870
Interest expense (note 8)	79,663	99,344	103,271
Total losses and expenses	1,085,587	2,307,008	1,988,578
Loss before tax	(46,152)	(928,644)	(484,299)
Provision for (benefit from) income taxes (note 14)	3,696	(1,565)	1,593
Net loss	$ (49,848)	$ (927,079)	$ (485,892)
Loss per share (note 3):			
Basic	$ (0.16)	$ (4.59)	$ (2.42)
Diluted	$ (0.16)	$ (4.59)	$ (2.42)
Weighted average common shares outstanding – basic (note 3)	311,754	201,892	201,019
Weighted average common shares outstanding – diluted (note 3)	311,754	201,892	201,019
Dividends per share	$ –	$ –	$ –

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
Years Ended December 31, 2013, 2012 and 2011

	2013	2012	2011
		(In thousands)	
Net Loss	$ (49,848)	$ (927,079)	$ (485,892)
Other comprehensive income (loss), net of tax (note 12):			
Change in unrealized investment gains and losses (note 6)	(123,591)	(78,659)	21,057
Benefit plans adjustment (note 13)	68,038	(1,221)	(12,862)
Foreign currency translation adjustment	(14,010)	1,593	(207)
Other comprehensive (loss) income, net of tax	(69,563)	(78,287)	7,988
Comprehensive loss	$ (119,411)	$ (1,005,366)	$ (477,904)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
Years Ended December 31, 2011, 2012 and 2013

	Common stock	Paid-in capital	Treasury stock	Accumulated other comprehensive income (loss) (note 12)	Retained earnings/ (deficit)
			(In thousands)		
Balance, December 31, 2010	$ 205,047	$ 1,138,942	$ (222,632)	$ 22,136	$ 525,562
Net loss	–	–	–	–	(485,892)
Change in unrealized investment gains and losses, net	–	–	–	21,057	–
Reissuance of treasury stock, net	–	(14,577)	60,090	–	(51,305)
Equity compensation	–	11,456	–	–	–
Benefit plans adjustments, net	–	–	–	(12,862)	–
Unrealized foreign currency translation adjustment, net	–	–	–	(207)	–
Balance, December 31, 2011	$ 205,047	$ 1,135,821	$ (162,542)	$ 30,124	$ (11,635)
Net loss	–	–	–	–	(927,079)
Change in unrealized investment gains and losses, net	–	–	–	(78,659)	–
Reissuance of treasury stock, net	–	(8,749)	57,583	–	(51,567)
Equity compensation	–	8,224	–	–	–
Benefit plans adjustments, net	–	–	–	(1,221)	–
Unrealized foreign currency translation adjustment, net	–	–	–	1,593	–
Balance, December 31, 2012	$ 205,047	$ 1,135,296	$ (104,959)	$ (48,163)	$ (990,281)
Net loss	–	–	–	–	(49,848)
Change in unrealized investment gains and losses, net (note 6)	–	–	–	(123,591)	–
Common stock issuance (note 15)	135,000	528,335	–	–	–
Reissuance of treasury stock, net (note 15)	–	(7,892)	40,524	–	(34,488)
Equity compensation (note 18)	–	5,530	–	–	–
Benefit plans adjustments, net (note 13)	–	–	–	68,038	–
Unrealized foreign currency translation adjustment, net	–	–	–	(14,010)	–
Balance, December 31, 2013	$ 340,047	$ 1,661,269	$ (64,435)	$ (117,726)	$ (1,074,617)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flow

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
Years Ended December 31, 2013, 2012 and 2011

	2013	2012	2011
		(In thousands)	
Cash flows from operating activities:			
Net loss	$ (49,848)	$ (927,079)	$ (485,892)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and other amortization	68,716	100,135	84,828
Deferred tax provision (benefit)	590	(34)	(738)
Realized investment gains, net	(6,059)	(197,719)	(143,430)
Net investment impairment losses	328	2,310	715
Gain on repurchase on senior notes	–	(17,775)	(27,688)
Other	27,709	(21,802)	(15,238)
Change in certain assets and liabilities:			
Accrued investment income	(4,417)	28,423	14,639
Prepaid reinsurance premium	(35,402)	776	1,020
Reinsurance recoverable on loss reserves	40,763	49,759	120,683
Reinsurance recoverable on paid losses	5,180	4,286	14,269
Premiums receivable	5,527	3,245	8,494
Deferred insurance policy acquisition costs	1,524	(3,740)	777
Real estate	(9,817)	(1,842)	4,599
Loss reserves	(995,442)	(500,669)	(1,326,659)
Premium deficiency reserve	(25,320)	(61,036)	(44,150)
Unearned premiums	15,639	(16,026)	(60,291)
Return premium	(11,800)	(11,700)	(28,300)
Income taxes payable (current)	598	1,888	(1,489)
Net cash used in operating activities	(971,531)	(1,568,600)	(1,883,851)
Cash flows from investing activities:			
Investment purchases:			
Equity securities	(111)	(132)	(126)
Fixed maturities	(3,248,602)	(5,025,204)	(4,393,471)
Proceeds from sale of:			
Equity securities	–	–	504
Fixed maturities	1,054,985	5,216,934	4,742,213
Proceeds from maturity of fixed maturities	1,357,028	1,461,955	1,407,325
Net increase (decrease) in payable for securities	13	(20)	(2,228)
Net change in restricted cash	(17,440)	–	–
Net cash (used in) provided by investing activities	(854,127)	1,653,533	1,754,217
Cash flows from financing activities:			
Repayment of long-term debt	(17,235)	(53,107)	(178,721)
Net proceeds from convertible senior notes	484,625	–	–
Common stock shares issued	663,335	–	–
Net cash provided by (used in) financing activities	1,130,725	(53,107)	(178,721)
Net (decrease) increase in cash and cash equivalents	(694,933)	31,826	(308,355)
Cash and cash equivalents at beginning of year	1,027,625	995,799	1,304,154
Cash and cash equivalents at end of year	$ 332,692	$ 1,027,625	$ 995,799

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1. Nature of Business

MGIC Investment Corporation is a holding company which, through Mortgage Guaranty Insurance Corporation ("MGIC"), MGIC Indemnity Corporation ("MIC") and several other subsidiaries, is principally engaged in the mortgage insurance business. We provide mortgage insurance to lenders throughout the United States and to government sponsored entities to protect against loss from defaults on low down payment residential mortgage loans. Our principal product is primary mortgage insurance. Through certain other non-insurance subsidiaries, we also provide various services for the mortgage finance industry, such as contract underwriting and portfolio analysis and retention. We began our international operations in Australia, where we started to write business in June 2007. Since 2008, we are no longer writing new business in Australia. Our Australian operations are included in our consolidated financial statements; however they are not material to our consolidated results.

Primary mortgage insurance may be written through the flow channel, in which loans are insured in individual, loan-by-loan transactions. Primary mortgage insurance may also be written through the bulk channel, in which portfolios of loans are individually insured in single, bulk transactions. Prior to 2008, we wrote significant volume through the bulk channel, substantially all of which was Wall Street bulk business, which we discontinued writing in 2007. We have not written any business through the bulk channel since 2008. Prior to 2009, we also wrote pool mortgage insurance. Pool insurance generally covers the excess of the loss on a defaulted mortgage loan which exceeds the claim payment under the primary coverage, if primary insurance is required on that mortgage loan, as well as the total loss on a defaulted mortgage loan which did not require primary insurance. 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.

At December 31, 2013, our direct domestic primary insurance in force was $158.7 billion, which represents the principal balance in our records of all mortgage loans that we insure, and our direct domestic primary risk in force was $41.1 billion, which represents the insurance in force multiplied by the insurance coverage percentage. Our direct pool risk in force at December 31, 2013 was approximately $1.0 billion ($0.4 billion on pool policies with aggregate loss limits and $0.6 billion on pool policies without aggregate loss limits). Our risk in force in Australia at December 31, 2013 was approximately $480 million which represents the risk associated with 100% coverage on the insurance in force. The mortgage insurance we provided in Australia only covers the unpaid loan balance after the sale of the underlying property.

Capital – GSEs

Substantially all of our insurance written is for loans sold to Fannie Mae and Freddie Mac (the "GSEs"), each of which has mortgage insurer eligibility requirements to maintain the highest level of eligibility. The existing eligibility requirements include a minimum financial strength rating of Aa3/AA−. Because MGIC does not meet such financial strength rating requirements (its financial strength rating from Moody's is Ba3 (with a stable outlook) and from Standard & Poor's is BB (with a positive outlook)), MGIC is currently operating with each GSE as an eligible insurer under a remediation plan. We believe that the GSEs view remediation plans as a continuing process of interaction with a mortgage insurer and MGIC will continue to operate under a remediation plan for the foreseeable future. The GSEs may include new eligibility requirements as part of our current remediation plan. There can be no assurance that MGIC will be able to continue to operate as an eligible mortgage insurer under a remediation plan.

The GSEs previously advised us that, at the direction of their conservator, the Federal Housing Finance Agency ("FHFA"), they will be revising the eligibility requirements for all mortgage insurers and replacing their existing financial strength rating requirements with capital standards (the "GSE Capital Standards"). In early 2014, the FHFA is expected to provide state insurance regulators a draft of the proposed eligibility requirements and to allow the state insurance regulators a comment period of up to six weeks in which to review the eligibility standards on a confidential basis. After considering any changes suggested by the state insurance regulators, the FHFA is expected to release the proposed eligibility requirements for public comment. We have not been informed of the content of the new eligibility requirements, including the GSE Capital Standards, their timeframes for effectiveness, or the length of the public comment period.

We have various alternatives available to improve our existing risk-to-capital position, including contributing additional funds that are on hand today from our holding company to MGIC, entering into additional external reinsurance transactions, seeking approval to write business in MIC and raising additional capital, which could be contributed to MGIC. While there can be no assurance that MGIC would meet the GSE Capital Standards by their effective date, we believe we could implement one or more of these alternatives so that we would continue to be an eligible mortgage insurer after the GSE Capital Standards are fully effective. If MGIC (or MIC, under certain circumstances) ceases to be eligible to insure loans purchased by one or both of the GSEs, it would significantly reduce the volume of our new business writings.

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

2. Basis of Presentation

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

Principles of Consolidation

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

Cash and Cash Equivalents

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

Restricted cash and cash equivalents

During the second quarter of 2013, approximately $60.3 million was placed in escrow in connection with the two agreements we entered into to resolve our dispute with Countrywide Home Loans ("CHL") and its affiliate, Bank of America, N.A., as successor to Countrywide Home Loans Servicing LP ("BANA" and collectively with CHL, "Countrywide") regarding rescissions. In the fourth quarter of 2013, approximately $42.9 million was released from escrow in connection with the BANA agreement. At December 31, 2013, approximately \$17.4 million remains in escrow in connection with the CHL agreement. See additional discussion of these settlement agreements in Note 20 – "Litigation and contingencies."

Reclassifications

Certain reclassifications have been made in the accompanying financial statements to 2012 and 2011 amounts to conform to the 2013 presentation.

Subsequent Events

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

3. Summary of Significant Accounting Policies

Fair value measurements

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

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

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

Level 3 – Valuations derived from valuation techniques in which one or more significant inputs or value drivers are unobservable. Level 3 inputs reflect our own assumptions about the assumptions a market participant would use in pricing an asset or liability. Financial assets utilizing Level 3 inputs include certain state and auction rate (backed by student loans) securities. Non-financial assets which utilize Level 3 inputs include real estate acquired through claim settlement.

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

Assets classified as Level 3 are as follows:

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

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

  During 2013 we sold our remaining auction rate securities. At December 31, 2013, the majority of the $3 million balance of Level 3 securities is state premium tax credit investments. The state premium tax credit investments have an average maturity of under 5 years, credit ratings of AA+ or higher, and their balance reflects their remaining scheduled payments discounted at an average annual rate of 7.3%.

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

Investments

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

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

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

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

Under the current guidance a debt security impairment is deemed other than temporary if (1) we either intend to sell the security, or it is more likely than not that we will be required to sell the security before recovery or (2) we do not expect to collect cash flows sufficient to recover the amortized cost basis of the security.

Home office and equipment

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

Home office and equipment is shown net of accumulated depreciation of $53.0 million, $51.3 million and $65.2 million at December 31, 2013, 2012 and 2011, respectively. Depreciation expense for the years ended December 31, 2013, 2012 and 2011 was $1.8 million, $1.9 million and $2.3 million, respectively.

Deferred Insurance Policy Acquisition Costs

Costs directly associated with the successful acquisition of mortgage insurance business, consisting of employee compensation and other policy issuance and underwriting expenses, are initially deferred and reported as deferred insurance policy acquisition costs ("DAC"). The deferred costs are net of any reinsurance recoveries from ceding commissions associated with our risk sharing arrangements. For each underwriting year of business, these costs are amortized to income in proportion to estimated gross profits over the estimated life of the policies. We utilize anticipated investment income in our calculation. This includes accruing interest on the unamortized balance of DAC. The estimates for each underwriting year are reviewed quarterly and updated when necessary to reflect actual experience and any changes to key variables such as persistency or loss development. If a premium deficiency exists, we reduce the related DAC by the amount of the deficiency or to zero through a charge to current period earnings. If the deficiency is more than the related DAC balance, we then establish a premium deficiency reserve equal to the excess, by means of a charge to current period earnings.

Loss Reserves

Reserves are established for reported insurance losses and loss adjustment expenses based on when we receive notices of default on insured mortgage loans. For reporting purposes, we consider a loan in default when it is two or more payments past due. Reserves are also established for estimated losses incurred on notices of default not yet reported to us. Even though the accounting standard, Accounting Standards Codification ("ASC") 944, regarding accounting and reporting by insurance entities specifically excludes mortgage insurance from its guidance relating to loss reserves, we establish loss reserves using the general principles contained in the insurance standard. However, consistent with industry standards for mortgage insurers, we do not establish loss reserves for future claims on insured loans which are not currently in default. Loss reserves are established by estimating the number of loans in our inventory of delinquent loans that will result in a claim payment, which is referred to as the claim rate, and further estimating the amount of the claim payment, which is referred to as claim severity. Our loss estimates are established based upon historical experience, including rescission and loan modification activity. Adjustments to reserve estimates are reflected in the financial statements in the years in which the adjustments are made. The liability for reinsurance assumed is based on information provided by the ceding companies.

The incurred but not reported ("IBNR") reserves result from defaults occurring prior to the close of an accounting period, but which have not been reported to us. Consistent with reserves for reported defaults, IBNR reserves are established using estimated claim rates and claim amounts for the estimated number of defaults not reported.

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

Premium Deficiency Reserve

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

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

Revenue Recognition

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

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

Income Taxes

Deferred income taxes are provided under the liability method, which recognizes the future tax effects of temporary differences between amounts reported in the financial statements and the tax bases of these items. The expected tax effects are computed at the current federal tax rate. We review the need to establish a deferred tax asset valuation allowance on a quarterly basis. We analyze several factors, among which are the severity and frequency of operating losses, our capacity for the carryback or carryforward of any losses, the existence and current level of taxable operating income, the expected occurrence of future income or loss and available tax planning strategies. As discussed in Note 14 – "Income Taxes," we continue to reduce our benefit from income tax through the recognition of a valuation allowance.

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

Benefit Plans

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

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

Reinsurance

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

Foreign Currency Translation

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

Share-Based Compensation

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

Earnings per Share

Our basic EPS is based on the weighted average number of common shares outstanding, which excludes participating securities (with non-forfeitable rights to dividends) of 0.1 million, 1.1 million and 1.1 million, respectively, for the years ended December 31, 2013, 2012 and 2011 because they were anti-dilutive due to our reported net loss. Typically, diluted EPS is based on the weighted average number of common shares outstanding plus common stock equivalents which include certain stock awards, stock options and the dilutive effect of our convertible debt. In accordance with accounting guidance, if we report a net loss from continuing operations, then our diluted EPS is computed in the same manner as the basic EPS. In addition, if any common stock equivalents are anti-dilutive they are always excluded from the calculation. The following is a reconciliation of the weighted average number of shares; for the years ended December 31, 2013, 2012 and 2011, common stock equivalents of 114.3 million, 61.7 million and 55.6 million, respectively, were not included because they were anti-dilutive.

	Years Ended December 31,		
	2013	2012	2011
	(In thousands, except per share data)		
Basic loss per share:			
Average common shares outstanding	311,754	201,892	201,019
Net loss	$ (49,848)	$ (927,079)	$ (485,892)
Basic loss per share	$ (0.16)	$ (4.59)	$ (2.42)
Diluted loss per share:			
Weighted-average shares - Basic	311,754	201,892	201,019
Common stock equivalents	-	-	-
Weighted-average shares - Diluted	311,754	201,892	201,019
Net loss	$ (49,848)	$ (927,079)	$ (485,892)
Diluted loss per share	$ (0.16)	$ (4.59)	$ (2.42)

4. New Accounting Policies

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

In July 2013, the FASB issued an update to the accounting standard regarding income taxes. This update provides guidance concerning the balance sheet presentation of an unrecognized tax benefit when a net operating loss carryforward or a tax credit carryforward (the "Carryforwards") is available. This accounting standard requires an entity to net its liability related to unrecognized tax benefits against the related deferred tax assets for the Carryforwards. A gross presentation will be required when the Carryforwards are not available under the tax law of the applicable jurisdiction or when the Carryforwards would not be used by the entity to settle any additional income taxes resulting from disallowance of the uncertain tax position. This update is effective for fiscal years and interim periods within such years beginning after December 15, 2013. This new guidance will have no impact on our consolidated financial statements and disclosures.

5. Related Party Transactions

There were no related party transactions during 2013, 2012 or 2011.

6. Investments

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

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

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

(1) There were no other-than-temporary impairment losses recorded in other comprehensive income at December 31, 2013 and 2012.

Our foreign investments primarily consist of the investment portfolio supporting our Australian domiciled subsidiary. In December 2013, our Australian subsidiary liquidated a portion of its investment portfolio and repatriated, with regulatory approval, $89.5 million to its parent MGIC. The remaining portfolio is comprised of Australian government and semi government securities, representing 84% of the market value of our foreign investments with the remaining 11% invested in corporate securities and 5% in cash equivalents. Seventy-eight percent of the Australian portfolio is rated AAA, by one or more of Moody's, Standard & Poor's and Fitch Ratings, and the remaining 22% is rated AA. At December 31, 2013 the equity value in our Australian operations was approximately $46 million.

The amortized cost and fair values of debt securities at December 31, 2013, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Because most asset-backed and mortgage-backed securities and collateralized loan obligations provide for periodic payments throughout their lives, they are listed below in separate categories.

	Amortized Cost	Fair Value
	(In thousands)	
December 31, 2013		
Due in one year or less	$ 739,401	$ 740,155
Due after one year through five years	1,800,785	1,800,866
Due after five years through ten years	809,680	781,170
Due after ten years	476,213	451,033
	3,826,079	3,773,224
Asset-backed securities	399,839	400,486
Residential mortgage-backed securities	383,368	358,537
Commercial mortgage-backed securities	277,920	271,383
Collateralized loan obligations	61,337	60,295
Total at December 31, 2013	$4,948,543	$4,863,925

At December 31, 2013 and 2012, the investment portfolio had gross unrealized losses of $101.4 million and $5.3 million, respectively. For those securities in an unrealized loss position, the length of time the securities were in such a position, as measured by their month-end fair values, is as follows:

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

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
December 31, 2012						
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 24,094	$ 71	$ -	$ -	$ 24,094	$ 71
Obligations of U.S. states and political subdivisions	156,111	505	1,006	1	157,117	506
Corporate debt securities	280,765	2,714	3,353	2	284,118	2,716
Asset-backed securities	29,675	23	-	-	29,675	23
Residential mortgage-backed securities	315,000	982	19,939	332	334,939	1,314
Commercial mortgage-backed securities	72,689	414	-	-	72,689	414
Debt securities issued by foreign sovereign governments	14,695	208	-	-	14,695	208
Total investment portfolio	$ 893,029	$ 4,917	$ 24,298	$ 335	$ 917,327	$ 5,252

The unrealized losses in all categories of our investments at December 31, 2013 were primarily caused by the difference in interest rates at December 31, 2013 compared to interest rates at the time of purchase. At December 31, 2013, the weighted average fair value as a percent of amortized cost of the securities in an unrealized loss position was 97% and 50% of the securities in an unrealized loss position were backed by the U.S. Government. At December 31, 2012, the securities in an unrealized loss position were primarily corporate debt securities.

During 2013 we recognized other-than-temporary impairment ("OTTI") losses in earnings of \$0.3 million. During 2012 we recognized OTTI losses in earnings of \$2.3 million, related to impairments on certain auction rate securities, some of which were previously impaired in 2011. During 2011 we recognized OTTI losses in earnings of \$0.7 million.

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

Net investment income is comprised of the following:

	2013	2012	2011
		(In thousands)	
Fixed maturities	$ 82,168	$ 122,886	$ 202,301
Equity securities	229	200	330
Cash equivalents	353	333	496
Other	675	782	926
Investment income	83,425	124,201	204,053
Investment expenses	(2,686)	(2,561)	(2,783)
Net investment income	$ 80,739	$ 121,640	$ 201,270

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

	2013	2012	2011
		(In thousands)	
Net realized investment gains (losses) on investments:			
Fixed maturities	$ 3,274	$ 195,652	$ 142,284
Equity securities	1,068	487	330
Other	1,389	(730)	101
Total net realized investment gains	$ 5,731	$ 195,409	$ 142,715
Change in net unrealized appreciation (depreciation):			
Fixed maturities	$ (126,020)	$ (78,604)	$ 31,576
Equity securities	(153)	58	86
Other	-	-	-
Total change in net unrealized appreciation (depreciation)	$ (126,173)	$ (78,546)	$ 31,662

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

	2013	2012	2011
		(In thousands)	
Gross realized gains	$ 11,043	$ 213,827	$ 158,659
Gross realized losses	(4,984)	(16,108)	(15,229)
Impairment losses	(328)	(2,310)	(715)
Net realized gains on securities	$ 5,731	$ 195,409	$ 142,715

We had $20.3 million and $21.4 million of investments on deposit with various states at December 31, 2013 and 2012, respectively, due to regulatory requirements of those state insurance departments.

7. Fair Value Measurements

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

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

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

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In thousands)			
December 31, 2012				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 866,251	$ 866,251	$ -	$ -
Obligations of U.S. states and political subdivisions	812,394	-	809,264	3,130
Corporate debt securities	1,480,941	-	1,463,827	17,114
Asset-backed securities	324,436	-	324,436	-
Residential mortgage-backed securities	450,909	-	450,909	-
Commercial mortgage-backed securities	150,342	-	150,342	-
Debt securities issued by foreign sovereign governments	142,066	142,066	-	-
Total debt securities	4,227,339	1,008,317	3,198,778	20,244
Equity securities	2,936	2,615	-	321
Total investments	$ 4,230,275	$ 1,010,932	$ 3,198,778	$ 20,565
Real estate acquired (1)	$ 3,463	$ -	$ -	$ 3,463

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

There were no transfers of securities between Level 1 and Level 2 during 2013 or 2012.

For assets and liabilities measured at fair value using significant unobservable inputs (Level 3), a reconciliation of the beginning and ending balances for the years ended December 31, 2013 and 2012 is as follows:

	Obligations of U.S. States and Political Subdivisions	Corporate Debt Securities	Equity Securities	Total Investments	Real Estate Acquired
			(In thousands)		
Balance at December 31, 2012	$ 3,130	$ 17,114	$ 321	$ 20,565	$ 3,463
Total realized/unrealized gains (losses):					
Included in earnings and reported as realized investment gains (losses), net	-	(225)	-	(225)	-
Included in earnings and reported as losses incurred, net	-	-	-	-	(4,959)
Purchases	30	-	-	30	39,188
Sales	(737)	(16,889)	-	(17,626)	(24,412)
Transfers into Level 3	-	-	-	-	-
Transfers out of Level 3	-	-	-	-	-
Balance at December 31, 2013	$ 2,423	$ -	$ 321	$ 2,744	$ 13,280
Amount of total losses included in earnings for the year ended December 31, 2013 attributable to the change in unrealized losses on assets still held at December 31, 2013	$ -	$ -	$ -	$ -	$ -

	Obligations of U.S. States and Political Subdivisions	Corporate Debt Securities	Equity Securities	Total Investments	Real Estate Acquired
			(In thousands)		
Balance at December 31, 2011	$ 114,226	$ 60,228	$ 321	$ 174,775	$ 1,621
Total realized/unrealized gains (losses):					
Included in earnings and reported as realized investment gains (losses), net	(8,669)	(3,129)	-	(11,798)	-
Included in earnings and reported as net impairment losses recognized in earnings	-	(2,310)	-	(2,310)	-
Included in earnings and reported as losses incurred, net	-	-	-	-	(1,126)
Included in other comprehensive income	5,630	733	-	6,363	-
Purchases	27	-	-	27	11,991
Sales	(108,084)	(38,408)	-	(146,492)	(9,023)
Transfers into Level 3	-	-	-	-	-
Transfers out of Level 3	-	-	-	-	-
Balance at December 31, 2012	$ 3,130	$ 17,114	$ 321	$ 20,565	$ 3,463
Amount of total losses included in earnings for the year ended December 31, 2012 attributable to the change in unrealized losses on assets still held at December 31, 2012	$ -	$ -	$ -	$ -	$ -

	Obligations of U.S. States and Political Subdivisions	Corporate Debt Securities	Equity Securities	Total Investments	Real Estate Acquired
			(In thousands)		
Balance at December 31, 2010	$ 295,690	$ 70,053	$ 321	$ 366,064	$ 6,220
Total realized/unrealized gains (losses):					
Included in earnings and reported as realized investment gains (losses), net	(7,883)	200	-	(7,683)	-
Included in earnings and reported as net impairment losses recognized in earnings	-	(662)	-	(662)	-
Included in earnings and reported as losses incurred, net	-	-	-	-	(371)
Included in other comprehensive income	6,894	637	-	7,531	-
Purchases	-	-	-	-	5,279
Sales	(180,475)	(10,000)	-	(190,475)	(9,507)
Transfers into Level 3	-	-	-	-	-
Transfers out of Level 3	-	-	-	-	-
Balance at December 31, 2011	$ 114,226	$ 60,228	$ 321	$ 174,775	$ 1,621
Amount of total losses included in earnings for the year ended December 31, 2011 attributable to the change in unrealized losses on assets still held at December 31, 2011	$ -	$ -	$ -	$ -	$ -

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

8. Debt

5.375% Senior Notes – due November 2015

At December 31, 2013 and 2012 we had outstanding $82.9 million and $100.1 million, respectively, of 5.375% Senior Notes due in November 2015. During the second quarter of 2013 we repurchased $17.2 million of those Senior Notes at par value. In addition, in February 2014, we repurchased an additional $20.9 million in par value at a cost slightly above par. Covenants in the Senior Notes include the requirement that there be no liens on the stock of the designated subsidiaries unless the Senior Notes are equally and ratably secured; that there be no disposition of the stock of designated subsidiaries unless all of the stock is disposed of for consideration equal to the fair market value of the stock; and that we and the designated subsidiaries preserve our corporate existence, rights and franchises unless we or any such subsidiary determines that such preservation is no longer necessary in the conduct of its business and that the loss thereof is not disadvantageous to the Senior Notes. A designated subsidiary is any of our consolidated subsidiaries which has shareholders' equity of at least 15% of our consolidated shareholders' equity. We were in compliance with all covenants at December 31, 2013.

If we fail to meet any of the covenants of the Senior Notes; there is a failure to pay when due at maturity, or a default results in the acceleration of maturity of, any of our other debt in an aggregate amount of $40 million or more; or we fail to make a payment of principal on the Senior Notes when due or a payment of interest on the Senior Notes within thirty days after due and we are not successful in obtaining an agreement from holders of a majority of the Senior Notes to change (or waive) the applicable requirement or payment default, then the holders of 25% or more of our Senior Notes would have the right to accelerate the maturity of those notes. In addition, the trustee of the Senior Notes could, independent of any action by holders of Senior Notes, accelerate the maturity of the Senior Notes. The amounts we owe under the Senior Notes would also be accelerated upon certain bankruptcy or insolvency-related events involving our holding company, including certain events involving the appointment of a custodian, receiver, liquidator, assignee, trustee or other similar official (collectively, an “Insolvency Official”) of our holding company or any substantial part of its property or the consent of our holding company to such an appointment. The description above is not intended to be complete in all respects. Moreover, the description is qualified in its entirety by the terms of the notes, which are contained in the Indenture, dated as of October 15, 2000, between us and U.S. Bank, National Association, as trustee, and in an Officer’s Certificate dated as of October 4, 2005, which specifies the interest rate, maturity date and other terms of the Senior Notes.

Interest payments on the Senior Notes were $5.1 million and $7.4 million for the years ended December 31, 2013 and 2012, respectively.

5% Convertible Senior Notes – due May 2017

At December 31, 2013 and 2012 we had outstanding $345 million principal amount of 5% Convertible Senior Notes due in May 2017. Interest on the 5% Notes is payable semi-annually in arrears on May 1 and November 1 of each year. The 5% Notes will mature on May 1, 2017. Covenants in the 5% Notes include a requirement to notify holders in advance of certain events and that we and the designated subsidiaries (defined above) preserve our corporate existence, rights and franchises unless we or any such subsidiary determines that such preservation is no longer necessary in the conduct of its business and that the loss thereof is not disadvantageous to the 5% Notes.

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

The 5% Notes are convertible, at the holder's option, at an initial conversion rate, which is subject to adjustment, of 74.4186 shares per $1,000 principal amount at any time prior to the maturity date. This represents an initial conversion price of approximately $13.44 per share. These 5% Notes will be equal in right of payment to our other senior debt, discussed above, and will be senior in right of payment to our existing Convertible Junior Debentures, discussed below. Debt issuance costs are being amortized to interest expense over the contractual life of the 5% Notes. The provisions of the 5% Notes are complex. The description above is not intended to be complete in all respects. Moreover, that description is qualified in its entirety by the terms of the notes, which are contained in the Supplemental Indenture, dated as of April 26, 2010, between us and U.S. Bank National Association, as trustee, and the Indenture dated as of October 15, 2000, between us and the trustee.

Interest payments on the 5% Notes were $17.3 million in each of the years ended December 31, 2013 and 2012.

2% Convertible Senior Notes – due April 2020

At December 31, 2013, we had outstanding $500 million principal amount of 2% Convertible Senior Notes due in 2020 which we issued in March 2013. We received net proceeds of approximately $484.6 million after deducting underwriting discount and offering expenses. See Note 15 – "Shareholders' Equity" for information regarding the use of such proceeds. Interest on the 2% Notes is payable semi-annually in arrears on April 1 and October 1 of each year. The 2% Notes will mature on April 1, 2020, unless earlier repurchased by us or converted. Subject to certain limitations the 2% Notes are convertible at the holder's option at an initial conversion rate, which is subject to adjustment, of 143.8332 shares per $1,000 principal amount. This represents an initial conversion price of approximately $6.95 per share. Before January 1, 2020, conversions may only occur under certain circumstances, including upon redemption of the 2% Notes. On or after January 1, 2020, holders may convert their notes at any time. These 2% Notes will be equal in right of payment to our other senior debt and will be senior in right of payment to our existing Convertible Junior Debentures. Debt issuance costs will be amortized to interest expense over the contractual life of the 2% Notes. Prior to April 10, 2017, the notes will not be redeemable. On any business day on or after April 10, 2017 we may redeem for cash all or part of the notes, at our option, at a redemption price equal to 100% of the principal amount of the notes being redeemed, plus any accrued and unpaid interest, if the closing sale price of our common stock exceeds 130% of the then prevailing conversion price of the notes for at least 20 of the 30 trading days preceding notice of the redemption.

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

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

The provisions of the 2% Notes are complex. The description above is not intended to be complete in all respects. Moreover, that description is qualified in its entirety by the terms of the notes, which are contained in the Second Supplemental Indenture, dated March 12, 2013, between us and U.S. Bank National Association, as trustee, and the Indenture dated as of October 15, 2000, between us and the trustee.

Interest payments on the 2% Notes were $5.5 million for the year ended December 31, 2013.

9% Convertible Junior Subordinated Debentures – due April 2063

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

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

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

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

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

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

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

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

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

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

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

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

Interest payments on the debentures were $53.4 million and $17.5 for the years ended December 31, 2013 and 2012, respectively.

All debt

The par value and fair value of our debt at December 31, 2013 and 2012 appears in the table below.

	Par Value	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
			(In thousands)		
December 31, 2013					
Liabilities:					
Senior Notes	$ 82,883	$ 85,991	$ 85,991	$ -	$ -
Convertible Senior Notes due 2017	345,000	388,988	388,988	-	-
Convertible Senior Notes due 2020	500,000	685,625	685,625	-	-
Convertible Junior Subordinated Debentures	389,522	439,186	-	439,186	-
Total Debt	$ 1,317,405	$ 1,599,790	$ 1,160,604	$ 439,186	$ -
December 31, 2012					
Liabilities:					
Senior Notes	$ 100,118	$ 79,594	$ 79,594	$ -	$ -
Convertible Senior Notes due 2017	345,000	242,880	242,880	-	-
Convertible Junior Subordinated Debentures	389,522	173,096	-	173,096	-
Total Debt	$ 834,640	$ 495,570	$ 322,474	$ 173,096	$ -

The fair value of our Senior Notes and Convertible Senior Notes was determined using publicly available trade information and are considered Level 1 securities as described in Note 3 – "Summary of Significant Accounting Policies – Fair Value Measurements." The fair value of our debentures was determined using available pricing for these debentures or similar instruments and are considered Level 2 securities as described in Note 3 – "Summary of Significant Accounting Policies – Fair Value Measurements."

The Senior Notes, Convertible Senior Notes and Convertible Junior Debentures are obligations of our holding company, MGIC Investment Corporation, and not of its subsidiaries. At December 31, 2013, we had approximately $560 million in cash and investments at our holding company. The net unrealized losses on our holding company investment portfolio were approximately $9.4 million at December 31, 2013. The modified duration of the holding company investment portfolio, excluding cash and cash equivalents, was 2.4 years at December 31, 2013.

9. Loss Reserves

As described in Note 3 – "Summary of Significant Accounting Policies – Loss Reserves," we establish reserves to recognize the estimated liability for losses and loss adjustment expenses related to defaults on insured mortgage loans. Loss reserves are established by estimating the number of loans in our inventory of delinquent loans that will result in a claim payment, which is referred to as the claim rate, and further estimating the amount of the claim payment, which is referred to as claim severity.

Estimation of losses is inherently judgmental. The conditions that affect the claim rate and claim severity include the current and future state of the domestic economy, including unemployment, and the current and future strength of local housing markets. Current conditions in the housing and mortgage industries make these assumptions more volatile than they would otherwise be. The actual amount of the claim payments may be substantially different than our loss reserve estimates. Our estimates could be adversely affected by several factors, including a deterioration of regional or national economic conditions, including unemployment, leading to a reduction in borrowers' income and thus their ability to make mortgage payments, and a drop in housing values that could result in, among other things, greater losses on loans that have pool insurance, and may affect borrower willingness to continue to make mortgage payments when the value of the home is below the mortgage balance. Changes to our estimates could result in a material impact to our results of operations and capital position, even in a stable economic environment.

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

	2013	2012	2011
		(In thousands)	
Reserve at beginning of year	$4,056,843	$4,557,512	$5,884,171
Less reinsurance recoverable	104,848	154,607	275,290
Net reserve at beginning of year (1)	3,951,995	4,402,905	5,608,881
Losses incurred:			
Losses and LAE incurred in respect of default notices received in:			
Current year	898,413	1,494,133	1,814,035
Prior years (2)	(59,687)	573,120	(99,328)
Subtotal (3)	838,726	2,067,253	1,714,707
Losses paid:			
Losses and LAE paid in respect of default notices received in:			
Current year	73,470	134,509	121,383
Prior years (4)	1,722,923	2,389,985	2,838,069
Reinsurance terminations (5)	(2,988)	(6,331)	(38,769)
Subtotal (6)	1,793,405	2,518,163	2,920,683
Net reserve at end of year (7)	2,997,316	3,951,995	4,402,905
Plus reinsurance recoverables	64,085	104,848	154,607
Reserve at end of year	$3,061,401	$4,056,843	$4,557,512

(1) At December 31, 2012, 2011 and 2010 the estimated reduction in loss reserves related to rescissions approximated $0.2 billion, $0.7 billion and $1.3 billion, respectively.

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

(3) Rescissions did not have a significant impact on our losses incurred in 2013 or 2011. Our estimated rescissions were reduced by approximately $0.2 billion in 2012 due to probable settlement agreements (See Note 20 – "Litigation and Contingencies"), other rescissions had no significant impact on our losses incurred in 2012.

(4) 2013 and 2012, include $41 million and $100 million, respectively, paid under the terms of our settlement agreement with Freddie Mac as discussed below.

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

(6) Rescissions mitigated our paid losses by an estimated $0.1 billion, $0.3 billion and $0.6 billion in 2013, 2012 and 2011, respectively, which excludes amounts that may have been applied to a deductible.

(7) At December 31, 2013, 2012 and 2011 the estimated reduction in loss reserves related to rescissions approximated $0.1 billion, $0.2 billion and $0.7 billion, respectively.

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

Losses incurred on default notices received in the current year decreased in 2013 compared to 2012, and in 2012 compared to 2011, primarily due to a decrease in the number of new default notices received, net of cures, as well as a decrease in the estimated claim rate on recently reported delinquencies.

The prior year development of the reserves in 2013, 2012 and 2011 is reflected in the table below.

	2013	2012	2011
		(In millions)	
Prior year loss development:			
Pool policy settlement (1)	$ -	$ 267	$ -
Increase in estimated claim rate on primary defaults	10	260	200
Decrease in estimated severity on primary defaults	(50)	(70)	(165)
Change in estimates related to pool reserves, LAE reserves, reinsurance and other (2)	(20)	116	(134)
Total prior year loss development	$ (60)	$ 573	$ (99)

(1) See below for a discussion of our settlement with Freddie Mac.
(2) Includes approximately $100 million related to probable settlements regarding our claims paying practices in 2012 and ($114) million related to LAE reserves in 2011.

The prior year loss development was based on the resolution of approximately 59%, 55% and 57% for the years ended December 31, 2013, 2012 and 2011, respectively of the prior year default inventory, as well as a re-estimation of amounts to be ultimately paid on defaults remaining in inventory from the end of the prior year and estimated incurred but not reported items from the end of the prior year. In 2012, lower estimated rescission rates, as well as our experience on defaults that were 12 months or more delinquent increased our estimate of the claim rate. The decrease in the estimated severity in 2013, 2012 and 2011 was based on the resolution of the prior year default inventory. The decrease in estimated loss adjustment expense in 2011 was based on historical trends in the costs associated with resolving a claim.

The "Losses paid" section of the table above shows the breakdown between claims paid on default notices received in the current year, claims paid on default notices received in prior years and the decrease in losses paid related to terminated reinsurance agreements as noted in footnote (5) of that table. Until a few years ago, it took, on average, approximately twelve months for a default that is not cured to develop into a paid claim. Over the past several years, the average time it takes to receive a claim associated with a default has increased. This is, in part, due to new loss mitigation protocols established by servicers and to changes in some state foreclosure laws that may include, for example, a requirement for additional review and/or mediation processes. It is difficult to estimate how long it may take for current and future defaults that do not cure to develop into paid claims.

MGIC and Freddie Mac disagreed on the amount of the aggregate loss limit under certain pool insurance policies (the "Disputed Policies"). On December 1, 2012, an Agreement of Settlement, Compromise and Release (the "Settlement Agreement") between MGIC, Freddie Mac and the FHFA became effective, settling their dispute regarding the Disputed Policies. Under the Settlement Agreement, MGIC is to pay Freddie Mac a total of $267.5 million in satisfaction of all obligations under the Disputed Policies. Of the total, $100 million was paid in December 2012, as required by the Settlement Agreement, and the remaining $167.5 million is being paid out in 48 equal monthly installments that began on January 2, 2013.

The liability associated with our estimate of premiums to be refunded on expected claim payments is accrued for separately at December 31, 2013 and 2012 and approximated $131 million and $134 million, respectively. Separate components of this liability are included in "Other liabilities" and "Premium deficiency reserve" on our consolidated balance sheet.

A rollforward of our primary default inventory for the years ended December 31, 2013, 2012 and 2011 appears in the table below. The information concerning new notices and cures is compiled from monthly reports received from loan servicers. The level of new notice and cure activity reported in a particular month can be influenced by, among other things, the date on which a servicer generates its report, the number of business days in a month and by transfers of servicing between loan servicers.

	2013	2012	2011
Default inventory at beginning of period	139,845	175,639	214,724
New Notices	106,823	133,232	169,305
Cures	(104,390)	(120,248)	(149,643)
Paids (including those charged to a deductible or captive)	(34,738)	(45,741)	(51,138)
Rescissions and denials	(1,939)	(3,037)	(7,609)
Items removed from inventory resulting from the Countrywide settlement on GSE loans	(2,273)	-	-
Default inventory at end of period	103,328	139,845	175,639

Pool insurance notice inventory decreased from 8,594 at December 31, 2012 to 6,563 at December 31, 2013. The pool insurance notice inventory was 32,971 at December 31, 2011.

The decrease in the primary default inventory experienced during 2013 and 2012 was generally across all markets and all book years. In 2012, the percentage of loans in the inventory that had been in default for 12 or more consecutive months had increased, as shown in the table below. Historically as a default ages it becomes more likely to result in a claim. The percentage of loans that have been in default for 12 or more consecutive months has been affected by our suspended rescissions discussed below.

Aging of the Primary Default Inventory

	December 31,					
	2013		2012		2011	
Consecutive months in default						
3 months or less	18,941	18%	23,282	17%	31,456	18%
4 - 11 months	24,514	24%	34,688	25%	46,352	26%
12 months or more	59,873	58%	81,875	58%	97,831	56%
Total primary default inventory	103,328	100%	139,845	100%	175,639	100%
Primary claims received inventory included in ending default inventory (1)	6,948	7%	11,731	8%	12,610	7%

(1) Our claims received inventory includes suspended rescissions, as we have voluntarily suspended rescissions of coverage related to loans that we believed would be included in a potential resolution. As of December 31, 2013, rescissions of coverage on approximately 1,500 loans had been voluntarily suspended.

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

Number of Payments Delinquent

	December 31,					
	2013		2012		2011	
3 payments or less	28,095	27%	34,245	24%	42,804	24%
4 - 11 payments	24,605	24%	34,458	25%	47,864	27%
12 payments or more	50,628	49%	71,142	51%	84,971	49%
Total primary default inventory	103,328	100%	139,845	100%	175,639	100%

Claims paying practices

We estimate rescissions mitigated our incurred losses by approximately $2.5 billion in 2009 and $0.2 billion in 2010. All of these figures include the benefit of claims not paid in the period as well as the impact of changes in our estimated expected rescission activity on our loss reserves in the period. In 2012, we estimate that our rescission benefit in loss reserves was reduced by $0.2 billion due to probable rescission settlement agreements. We estimate that other rescissions had no significant impact on our losses incurred in 2011 through 2013. At December 31, 2013, we estimate that our total loss reserves were benefited from anticipated rescissions by approximately $0.1 billion. Our loss reserving methodology incorporates our estimates of future rescissions and reversals of rescissions. Historically, reversals of rescissions have been immaterial. A variance between ultimate actual rescission and reversal rates and our estimates, as a result of the outcome of litigation, settlements or other factors, could materially affect our losses.

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

The liability associated with our estimate of premiums to be refunded on expected future rescissions is accrued for separately. At December 31, 2013 and 2012 the estimate of this liability totaled $15 million and $18 million, respectively. Separate components of this liability are included in “Other liabilities” and “Premium deficiency reserve” on our consolidated balance sheet. Changes in the liability affect premiums written and earned and change in premium deficiency reserve.

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

10. Premium Deficiency Reserve

Beginning in 2007, when we stopped writing Wall Street bulk business, we began to separately measure the performance of these transactions and established a premium deficiency reserve related to this business. The premium deficiency reserve reflects the present value of expected future losses and expenses that exceeded the present value of expected future premiums and already established loss reserves.

The components of the premium deficiency reserve at December 31, 2013, 2012 and 2011 appear in the table below.

	December 31, 2013	December 31, 2012	December 31, 2011
	(In millions)		
Present value of expected future premium	$ 432	$ 445	$ 494
Present value of expected future paid losses and expenses	(1,101)	(1,285)	(1,455)
Net present value of future cash flows	(669)	(840)	(961)
Established loss reserves	621	766	826
Net deficiency	$ (48)	$ (74)	$ (135)
Discount rate utilized at December 31,	1.6%	1.3%	2.3%

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

The decrease in the premium deficiency reserve for the years ended December 31, 2013, 2012 and 2011 was $26 million, $61 million and $44 million, respectively, as shown in the tables below. The decrease represents the net result of actual premiums, losses and expenses as well as a net change in assumptions for these periods. The change in assumptions for 2013 is primarily related to higher estimated ultimate premiums resulting principally from an increase in the projected persistency rate, somewhat offset by higher estimated ultimate losses resulting principally from an increase in the number of projected claims that will ultimately be paid. The change in assumptions for 2012 is primarily related to higher estimated ultimate losses resulting principally from an increase in the number of projected claims that will ultimately be paid. The change in assumptions for 2011 is primarily related to higher estimated ultimate premiums resulting principally from an increase in the projected persistency rate, somewhat offset by higher estimated ultimate losses resulting principally from an increase in the number of projected claims that will ultimately be paid.

The decrease in the premium deficiency reserve for the years ended December 31, 2013, 2012 and 2011 appears in the table below.

	Year ended December 31,					
	2013		2012		2011	
			(In millions)			
Premium Deficiency Reserve at beginning of period		$ (74)		$ (135)		$ (179)
Paid claims and loss adjustment expenses	$ 214		$ 279		$ 334	
Decrease in loss reserves	(145)		(60)		(249)	
Premium earned	(96)		(102)		(120)	
Effects of present valuing on future premiums, losses and expenses	(1)		(1)		(8)	
Change in premium deficiency reserve to reflect actual premium, losses and expenses recognized		(28)		116		(43)
Change in premium deficiency reserve to reflect change in assumptions relating to future premiums, losses, expenses and discount rate (1)		54		(55)		87
Premium Deficiency Reserve at end of period		$ (48)		$ (74)		$ (135)

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

Each quarter we perform a premium deficiency analysis on the portion of our book of business not covered by the premium deficiency described above. As of December 31, 2013, the analysis concluded that there was no premium deficiency on such portion of our book of business. For the reasons discussed below, our analysis of any potential deficiency reserve is subject to inherent uncertainty and requires significant judgment by management. To the extent, in a future period, expected losses are higher or expected premiums are lower than the assumptions we used in our analysis, we could be required to record a premium deficiency reserve on this portion of our book of business in such period.

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

11. Reinsurance

MGIC has obtained both captive and non-captive reinsurance in the past. In a captive reinsurance 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 review with the Real Estate Settlement Procedures Act (“RESPA”). In April 2013, the U.S. District Court for the Southern District of Florida approved a settlement between MGIC and the Consumer Financial Protection Bureau (“CFPB”) that resolved federal investigation of MGIC’s participation in captive reinsurance arrangements in the mortgage insurance industry. The settlement concludes the investigation with respect to MGIC without the CFPB or the court making any findings of wrongdoing. Three other mortgage insurers agreed to similar settlements. As part of the settlements, MGIC and the three other mortgage insurers agreed that they would not enter into any new captive reinsurance agreement or reinsure any new loans under any existing captive reinsurance agreement for a period of ten years. In accordance with this settlement, all of our active captive arrangements have been placed into run-off.

Captive agreements were written on an annual book of business and the captives are required to maintain a separate trust account to support the combined reinsured risk on all annual books. MGIC is the sole beneficiary of the trust, and the trust account is made up of capital deposits by the lender captive, premium deposits by MGIC, and investment income earned. These amounts are held in the trust account and are available to pay reinsured losses. The reinsurance recoverable on loss reserves related to captive agreements was $64 million at December 31, 2013 which was supported by $226 million of trust assets, while at December 31, 2012 the reinsurance recoverable on loss reserves related to captives was $104 million which was supported by $303 million of trust assets. At December 31, 2013 and December 31, 2012 there was an additional $23 million and $25 million, respectively, of trust assets in captive agreements where there was no related reinsurance recoverable on loss reserves. Trust fund assets of $3.0 million and $6.3 million were transferred to us as a result of captive terminations during 2013 and 2012, respectively.

In April 2013, we entered into a quota share reinsurance agreement with a group of unaffiliated reinsurers that are not captive reinsurers. These reinsurers primarily have a rating of A or better by Moody’s Investors Service, Standard & Poor’s Rating Services or both. This reinsurance agreement applies to new insurance written between April 1, 2013 and December 31, 2015 (with certain exclusions) and covers incurred losses, with renewal premium through December 31, 2018. Early termination is possible under specified scenarios. The structure of the reinsurance agreement is a 30% quota share, with a 20% ceding commission as well as a profit commission. Recoverables under the agreement are supported by trust funds or letters of credit. In December 2013, we entered into an Addendum to the quota share reinsurance agreement that applies to certain insurance written before April 1, 2013 that has never been delinquent. The structure of the quota share reinsurance agreement remains the same, with the exception that the business written before April 1, 2013 has a 40% quota share. Under the Addendum, policies for which premium was received but unearned as of December 31, 2013 were ceded, which generated “Prepaid reinsurance premiums" of $23.9 million at December 31, 2013. A summary of the combined quota share reinsurance agreement for 2013 appears below.

	2013
	(In thousands)
Ceded premiums written, net of profit commission	$ 49,672
Ceded premiums earned, net of profit commission	13,821
Ceded losses incurred	176
Ceding commissions	10,408

The effect of all risk sharing arrangements on premiums earned and losses incurred is as follows:

	2013	2012	2011
		(In thousands)	
Premiums earned:			
Direct	$ 979,078	$1,065,663	$1,170,868
Assumed	2,074	2,425	3,891
Ceded	(38,101)	(34,918)	(50,924)
Net premiums earned	$ 943,051	$1,033,170	$1,123,835
Losses incurred:			
Direct	$ 863,871	$2,115,974	$1,775,122
Assumed	2,645	6,912	5,229
Ceded	(27,790)	(55,633)	(65,644)
Net losses incurred	$ 838,726	$2,067,253	$1,714,707

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

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

12. Other Comprehensive Income

Our other comprehensive income for the years ended December 31, 2013, 2012 and 2011 was as follows:

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

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

	2011			
	Before tax	Tax effect	Valuation allowance	Net of tax
	(In thousands)			
Other comprehensive income (loss):				
Change in unrealized gains and losses on investments	$ 31,662	$ (10,605)	$ -	$ 21,057
Benefit plan adjustments	(19,789)	6,927	-	(12,862)
Unrealized foreign currency translation adjustment	(318)	111	-	(207)
Other comprehensive income (loss)	$ 11,555	$ (3,567)	$ -	$ 7,988

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

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

	2013			
	Unrealized gains and losses on available-for-sale securities	Defined benefit plans	Foreign currency translation	Total
	(In thousands)			
Balance at December 31, 2012, before tax	$ 41,541	$ (71,804)	$ 32,747	$ 2,484
Other comprehensive income (loss) before reclassifications	(112,667)	68,039	(21,563)	(66,191)
Amounts reclassified from accumulated other comprehensive income (loss)	13,508 (1)	1 (2)	-	13,509
Net current period other comprehensive income (loss)	(126,175)	68,038	(21,563)	(79,700)
Balance at December 31, 2013, before tax	(84,634)	(3,766)	11,184	(77,216)
Tax effect (3)	(64,056)	26,940	(3,394)	(40,510)
Balance at December 31, 2013, net of tax	$ (148,690)	$ 23,174	$ 7,790	$ (117,726)

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

	2011			
	Unrealized gains and losses on available-for-sale securities	Defined benefit plans	Foreign currency translation	Total
		(In thousands)		
Balance at December 31, 2010, before tax	$ 88,425	$ (50,793)	$ 30,612	$ 68,244
Other comprehensive income (loss) before reclassifications	105,167	(18,875)	(318)	85,974
Amounts reclassified from accumulated other comprehensive income (loss)	73,505 (1)	914 (2)	-	74,419
Net current period other comprehensive income (loss)	31,662	(19,789)	(318)	11,555
Balance at December 31, 2011, before tax	120,087	(70,582)	30,294	79,799
Tax effect (3)	(66,526)	26,940	(10,089)	(49,675)
Balance at December 31, 2011, net of tax	$ 53,561	$ (43,642)	$ 20,205	$ 30,124

(1) During 2013, 2012 and 2011, net unrealized gains of $13.5 million, $101.3 million and $73.5 million, respectively, were reclassified to the Consolidated Statement of Operations and included in Realized investment gains.

(2) During 2013, 2012 and 2011, other comprehensive income related to benefit plans of $1 thousand, ($1.1) million and $0.9 million, respectively, was reclassified to the Consolidated Statement of Operations and included in Underwriting and other expenses, net.

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

13. Benefit Plans

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

Components of Net Periodic Benefit Cost for fiscal year ending

	Pension and Supplemental Executive Retirement Plans			Other Postretirement Benefits		
	12/31/2013	12/31/2012	12/31/2011	12/31/2013	12/31/2012	12/31/2011
	(In thousands)					
1. Company Service Cost	$ 11,338	$ 9,662	$ 8,917	$ 812	$ 1,226	$ 1,090
2. Interest Cost	15,289	16,481	16,098	618	1,144	1,350
3. Expected Return on Assets	(20,144)	(18,211)	(17,373)	(3,679)	(3,162)	(3,299)
4. Other Adjustments	-	-	-	-	-	-
Subtotal	6,483	7,932	7,642	(2,249)	(792)	(859)
5. Amortization of :						
a. Net Transition Obligation/(Asset)	-	-	-	-	-	-
b. Net Prior Service Cost/ (Credit)	503	665	661	(6,649)	(6,217)	(6,217)
c. Net Losses/(Gains)	6,145	5,829	4,010	-	797	632
Total Amortization	6,648	6,494	4,671	(6,649)	(5,420)	(5,585)
6. Net Periodic Benefit Cost	13,131	14,426	12,313	(8,898)	(6,212)	(6,445)
7. Cost of settlements or curtailments	-	-	-	-	-	-
8. Total Expense for Year	$ 13,131	$ 14,426	$ 12,313	$ (8,898)	$ (6,212)	$ (6,445)

Development of Funded Status

	Pension and Supplemental Executive Retirement Plans		Other Postretirement Benefits	
	12/31/2013	12/31/2012	12/31/2013	12/31/2012
	(In thousands)			
Actuarial Value of Benefit Obligations				
1. Measurement Date	12/31/2013	12/31/2012	12/31/2013	12/31/2012
2. Accumulated Benefit Obligation	$ 304,825	$ 331,985	$ 15,764	$ 16,284
Funded Status/Asset (Liability) on the Consolidated Balance Sheet				
1. Projected Benefit Obligation	$ (317,606)	$ (362,657)	$ (15,764)	$ (16,284)
2. Plan Assets at Fair Value	355,704	340,335	62,298	49,391
3. Funded Status - Overfunded/Asset	$ 38,098	N/A	$ 46,534	$ 33,107
4. Funded Status - Underfunded/Liability	N/A	$ (22,322)	N/A	N/A

Accumulated Other Comprehensive Income

	Pension and Supplemental Executive Retirement Plans		Other Postretirement Benefits	
	12/31/2013	12/31/2012	12/31/2013	12/31/2012
	(In thousands)			
1. Net Actuarial (Gain)/Loss	$ 49,925	$ 106,661	$ (9,439)	$ 1,985
2. Net Prior Service Cost/(Credit)	(4,782)	1,775	(31,938)	(38,587)
3. Net Transition Obligation/(Asset)	-	-	-	-
4. Total at Year End	$ 45,143	$ 108,436	$ (41,377)	$ (36,602)

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

The changes in the projected benefit obligation are as follows:

Change in Projected Benefit/Accumulated Benefit Obligation

	12/31/2013	12/31/2012	12/31/2013	12/31/2012
	(In thousands)			
1. Benefit Obligation at Beginning of Year	$ 362,657	$ 318,048	$ 16,284	$ 25,007
2. Company Service Cost	11,338	9,662	812	1,226
3. Interest Cost	15,289	16,481	618	1,144
4. Plan Participants' Contributions	-	-	299	356
5. Net Actuarial (Gain)/Loss due to Assumption Changes	(44,205)	37,418	(1,414)	(6,517)
6. Net Actuarial (Gain)/Loss due to Plan Experience	1,353	634	101	(497)
7. Benefit Payments from Fund (1)	(22,497)	(19,483)	(871)	(661)
8. Benefit Payments Directly by Company	(275)	(265)	(65)	(42)
9. Plan Amendments	(6,054)	162	-	(3,732)
10. Other Adjustment	-	-	-	-
11. Benefit Obligation at End of Year	$ 317,606	$ 362,657	$ 15,764	$ 16,284

(1) In 2013, includes lump sum payments of $13.8 million from our pension plan to eligible participants, which were former employees with vested benefits of $200 thousand or less. In 2014, former employees with vested benefits of $500 thousand or less may elect this option. In 2012, includes lump sum payments of $12.0 million from our pension plan to eligible participants, which were former employees with vested benefits of $100 thousand or less.

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

Change in Plan Assets

	Pension and Supplemental Executive Retirement Plans		Other Postretirement Benefits	
	12/31/2013	12/31/2012	12/31/2013	12/31/2012
	(In thousands)			
1. Fair Value of Plan Assets at Beginning of Year	$ 340,335	$ 305,748	$ 49,391	$ 42,578
2. Company Contributions	10,275	15,265	-	-
3. Plan Participants' Contributions	-	-	299	356
4. Benefit Payments from Fund	(22,497)	(19,483)	(871)	(661)
5. Benefit Payments paid directly by Company	(275)	(265)	(65)	(42)
6. Actual Return on Assets	27,866	39,070	13,778	7,474
7. Other Adjustment	-	-	(234)	(314)
8. Fair Value of Plan Assets at End of Year	$ 355,704	$ 340,335	$ 62,298	$ 49,391

Change in Accumulated Other Comprehensive Income (AOCI)

	12/31/2013	12/31/2012	12/31/2013	12/31/2012
	(In thousands)			
1. AOCI in Prior Year	$ 108,436	$ 97,576	$ (36,602)	$ (26,964)
2. Increase/(Decrease) in AOCI				
a. Recognized during year - Prior Service (Cost)/Credit	(503)	(665)	6,649	6,217
b. Recognized during year - Net Actuarial (Losses)/Gains	(6,145)	(5,829)	-	(797)
c. Occurring during year - Prior Service Cost	(6,054)	162	-	(3,732)
d. Occurring during year - Net Actuarial Losses/(Gains)	(50,574)	17,192	(11,411)	(11,326)
e. Other adjustments	(17)	-	(13)	-
3. AOCI in Current Year	$ 45,143	$ 108,436	$ (41,377)	$ (36,602)

Amortizations Expected to be Recognized During Next Fiscal Year Ending

	12/31/2014	12/31/2014
	(In thousands)	
1. Amortization of Net Transition Obligation/(Asset)	$ -	$ -
2. Amortization of Prior Service Cost/(Credit)	(169)	(6,649)
3. Amortization of Net Losses/(Gains)	1,164	(292)

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

Actuarial Assumptions

	Pension and Supplemental Executive Retirement Plans		Other Postretirement Benefits	
	12/31/2013	12/31/2012	12/31/2013	12/31/2012
Weighted-Average Assumptions Used to Determine Benefit Obligations at year end				
1. Discount Rate	5.15%	4.25%	4.75%	3.85%
2. Rate of Compensation Increase	3.00%	3.00%	N/A	N/A
Weighted-Average Assumptions Used to Determine Net Periodic Benefit Cost for Year				
1. Discount Rate	4.25%	5.25%	3.85%	4.75%
2. Expected Long-term Return on Plan Assets	6.00%	6.00%	7.50%	7.50%
3. Rate of Compensation Increase	3.00%	3.00%	N/A	N/A
Assumed Health Care Cost Trend Rates at year end				
1. Health Care Cost Trend Rate Assumed for Next Year	N/A	N/A	7.00%	7.50%
2. Rate to Which the Cost Trend Rate is Assumed to Decline (Ultimate Trend Rate)	N/A	N/A	5.00%	5.00%
3. Year That the Rate Reaches the Ultimate Trend Rate	N/A	N/A	2018	2018

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

The weighted-average asset allocations of the plans are as follows:

Plan Assets

	Pension Plan		Other Postretirement Benefits	
	12/31/2013	12/31/2012	12/31/2013	12/31/2012
Allocation of Assets at year end				
1. Equity Securities	43%	40%	100%	100%
2. Debt Securities	57%	60%	0%	0%
3. Other	0%	0%	0%	0%
4. Total	100%	100%	100%	100%

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

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

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

Level 3 – Valuations derived from valuation techniques in which one or more significant inputs or value drivers are unobservable. Level 3 inputs reflect our own assumptions about the assumptions a market participant would use in pricing an asset or liability. There are no securities that utilize Level 3 inputs.

To determine the fair value of securities in Level 1 and Level 2 of the fair value hierarchy, independent pricing sources have been utilized. One price is provided per security based on observable market data. To ensure securities are appropriately classified in the fair value hierarchy, we review the pricing techniques and methodologies of the independent pricing sources and believe that their policies adequately consider market activity, either based on specific transactions for the issue valued or based on modeling of securities with similar credit quality, duration, yield and structure that were recently traded. A variety of inputs are utilized by the independent pricing sources including benchmark yields, reported trades, non-binding broker/dealer quotes, issuer spreads, two sided markets, benchmark securities, bids, offers and reference data including market research publications. Inputs may be weighted differently for any security, and not all inputs are used for each security evaluation. Market indicators, industry and economic events are also considered. This information is evaluated using a multidimensional pricing model. In addition, on a quarterly basis, we perform quality controls over values received from the pricing source (the "Trustee") which include comparing values to other independent pricing sources. In addition, we review annually the Trustee's auditor's report on internal controls in order to determine that their controls around valuing securities are operating effectively. We have not made any adjustments to the prices obtained from the independent sources.

The following table sets forth by level, within the fair value hierarchy, the pension plan assets at fair value as of December 31, 2013 and 2012.

Assets at Fair Value as of December 31, 2013

Pension Plan	Level 1	Level 2	Level 3	Total
		(In thousands)		
Domestic Mutual Funds	$ 51,240	$ -	$ -	$ 51,240
International Mutual Funds	39,814	-	-	39,814
Common Stocks	60,332	-	-	60,332
Corporate Bonds	-	134,012	-	134,012
U.S. Government Securities	18,819	-	-	18,819
Municipals	-	33,402	-	33,402
Foreign Bonds	-	15,961	-	15,961
Foreign Stocks	2,124	-	-	2,124
Total Assets at fair value	$ 172,329	$ 183,375	$ -	$ 355,704

Assets at Fair Value as of December 31, 2012

Pension Plan	Level 1	Level 2	Level 3	Total
		(In thousands)		
Domestic Mutual Funds	$ 45,071	$ -	$ -	$ 45,071
International Mutual Funds	39,479	-	-	39,479
Common Stocks	54,210	-	-	54,210
Corporate Bonds	-	130,643	-	130,643
U.S. Government Securities	25,859	-	-	25,859
Municipals	-	26,595	-	26,595
Foreign Bonds	-	17,710	-	17,710
Foreign Stocks	768	-	-	768
Total Assets at fair value	$ 165,387	$ 174,948	$ -	$ 340,335

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

Fixed income allocation

- Protect actuarial benefit payment stream through asset liability matching
- Reduce volatility of investment returns compared to actuarial benefit liability

Equity allocation

- Protect long tailed liabilities through the use of equity portfolio
- Achieve competitive investment results

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

	Minimum	Maximum
Fixed income	40%	100%
Equity	0%	60%
Cash equivalents	0%	10%

The following table sets forth by level, within the fair value hierarchy, the postretirement plan assets at fair value as of December 31, 2013 and 2012.

Assets at Fair Value as of December 31, 2013

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

Assets at Fair Value as of December 31, 2012

Postretirement Plan	Level 1	Level 2	Level 3	Total
		(In thousands)		
Domestic Mutual Funds	$ 34,720	$ -	$ -	$ 34,720
International Mutual Funds	14,671	-	-	14,671
Total Assets at fair value	$ 49,391	$ -	$ -	$ 49,391

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

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

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

	Minimum	Maximum
Fixed income	0%	10%
Equity	90%	100%

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

Investment in international oriented funds is limited to a maximum of 30% of the equity range. The current international allocation is invested in two mutual funds with 4% of the equity allocation in a fund which has the objective of investments primarily in equity securities of emerging markets countries, and 23% of the equity allocation in a fund investing in securities of companies based outside the United States. It invests in companies primarily based in Europe and the Pacific Basin, and includes common and preferred stocks, convertibles, ADRs, EDRs, bonds and cash. In addition to the foreign mutual funds, separately managed accounts have investments in equity securities of foreign corporations, and fixed income securities issued by foreign entities.

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

	Pension and Supplemental Executive Retirement Plans 12/31/2013	Other Postretirement Benefits 12/31/2013
	(In thousands)	
Company Contributions		
Company Contributions for the Year Ending:		
1. Current	$ 10,275	$ -
2. Current + 1	2,158	-
Benefit Payments (Total)		
Actual Benefit Payments for the Year Ending:		
1. Current	$ 22,773	$ 638
Expected Benefit Payments for the Year Ending:		
2. Current + 1	12,538	793
3. Current + 2	13,240	832
4. Current + 3	13,743	870
5. Current + 4	14,872	942
6. Current + 5	16,105	1,160
7. Current + 6 - 10	99,395	7,558

Health care sensitivities

For measurement purposes, a 7.5% health care trend rate was used for benefits for retirees before they reach age 65 for 2013. In 2014, the rate is assumed to be 7.0%, decreasing to 5.0% by 2018 and remaining at this level beyond.

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

	1-Percentage Point Increase	1-Percentage Point Decrease
	(In thousands)	
Effect on total service and interest cost components	$ 301	$ (233)
Effect on postretirement benefit obligation	2,525	(1,971)

We have a profit sharing and 401(k) savings plan for employees. At the discretion of the Board of Directors, we may make a contribution of up to 5% of each participant's eligible compensation. We provide a matching 401(k) savings contribution on employees' before-tax contributions at a rate of 80% of the first $1,000 contributed and 40% of the next $2,000 contributed. We recognized expenses related to these plans of $5.3 million, $3.1 million and $3.6 million in 2013, 2012 and 2011, respectively.

14. Income Taxes

Net deferred tax assets and liabilities as of December 31, 2013 and 2012 are as follows:

	2013	2012
	(In thousands)	
Total deferred tax assets	$1,043,477	$ 997,784
Total deferred tax liabilities	(42,158)	(44,350)
Net deferred tax asset before valuation allowance	1,001,319	953,434
Valuation allowance	(1,004,256)	(965,987)
Net deferred tax liability	$ (2,937)	$ (12,553)

The components of the net deferred tax liability as of December 31, 2013 and 2012 are as follows:

	2013	2012
	(In thousands)	
Benefit plans	$ (26,111)	$ 77
Net operating loss	915,378	866,700
Loss reserves	36,236	55,615
Unrealized (appreciation) depreciation in investments	29,230	(14,448)
Mortgage investments	13,450	14,602
Deferred compensation	15,994	13,288
Premium deficiency reserves	16,961	25,823
Other, net	181	(8,223)
Net deferred tax asset before valuation allowance	1,001,319	953,434
Valuation allowance	(1,004,256)	(965,987)
Net deferred tax liability	$ (2,937)	$ (12,553)

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

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

	2013	2012	2011
		(In thousands)	
Benefit from income taxes	$ (17,239)	$ (330,740)	$ (196,835)
Change in valuation allowance	20,935	329,175	198,428
Provision for (benefit from) income taxes	$ 3,696	$ (1,565)	$ 1,593

The increase in the valuation allowance that was included in other comprehensive income was $17.3 million, $28.1 million and zero for the years ended December 31, 2013, 2012 and 2011, respectively. The total valuation allowance as of December 31, 2013, December 31, 2012 and December 31, 2011 was $1,004.2 million, $966.0 million and $608.8 million, respectively.

Giving full effect to the carryback of net operating losses for federal income tax purposes, we have approximately $2,616 million of net operating loss carryforwards on a regular tax basis and $1,731 million of net operating loss carryforwards for computing the alternative minimum tax as of December 31, 2013. Any unutilized carryforwards are scheduled to expire at the end of tax years 2029 through 2033.

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

	2013	2012	2011
		(In thousands)	
Current	$ 916	$ (4,251)	$ 598
Deferred	7	90	(945)
Other	2,773	2,596	1,940
Provision for (benefit from) income taxes	$ 3,696	$ (1,565)	$ 1,593

We paid (received) $0.1 million, ($7.0) million and zero in federal income tax in 2013, 2012 and 2011, respectively.

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

	2013	2012	2011
Federal statutory income tax benefit rate	(35.0)%	(35.0)%	(35.0)%
Valuation allowance	45.4	35.4	41.0
Tax exempt municipal bond interest	(3.7)	(0.8)	(5.4)
Other, net	1.3	0.2	(0.3)
Effective income tax rate	8.0%	(0.2)%	0.3%

The Internal Revenue Service ("IRS") completed examinations of our federal income tax returns for the years 2000 through 2007 and issued proposed assessments for unpaid taxes, interest and penalties related to our treatment of the flow-through income and loss from an investment in a portfolio of residual interests of Real Estate Mortgage Investment Conduits ("REMICs"). The IRS indicated that it did not believe that, for various reasons, we had established sufficient tax basis in the REMIC residual interests to deduct the losses from taxable income. The proposed assessments for taxes and penalties related to these matters is

$197.5 million and at December 31, 2013, there would also be interest of approximately $154.5 million. In addition, depending on the outcome of this matter, additional state income taxes and state interest may become due when a final resolution is reached. As of December 31, 2013, those state taxes and interest would approximate $46.0 million. In addition, there could also be state tax penalties.

Our total amount of unrecognized tax benefits as of December 31, 2013 is $105.4 million, which represents the tax benefits generated by the REMIC portfolio included in our tax returns that we have not taken benefit for in our financial statements, including any related interest. We continue to believe that our previously recorded tax provisions and liabilities are appropriate. However, we would need to make appropriate adjustments, which could be material, to our tax provision and liabilities if our view of the probability of success in this matter changes, and the ultimate resolution of this matter could have a material negative impact on our effective tax rate, results of operations, cash flows and statutory capital. In this regard, see Note 1 – "Nature of Business – Capital."

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

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

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

	Unrecognized tax benefits		
	2013	2012	2011
		(In thousands)	
Balance at beginning of year	$ 104,550	$ 110,080	$ 109,282
Additions based on tax positions related to the current year	-	-	-
Additions for tax positions of prior years	816	511	798
Reductions for tax positions of prior years	-	(4,041)	-
Settlements	-	(2,000)	-
Balance at end of year	$ 105,366	$ 104,550	$ 110,080

The total amount of the unrecognized tax benefits, related to our aforementioned REMIC issue, that would affect our effective tax rate is $92.8 million. We recognize interest accrued and penalties related to unrecognized tax benefits in income taxes. During 2013, we recognized $0.8 million in interest. As of December 31, 2013 and 2012, we had $26.1 million and $25.3 million of accrued interest related to uncertain tax positions, respectively. The statute of limitations related to the consolidated federal income tax return is closed for all years prior to 2000.

15. Shareholders' Equity

In June 2013, we amended our Articles of Incorporation to increase our authorized common stock from 680 million shares to 1.0 billion shares. In April 2012, we amended our Articles of Incorporation to increase our authorized common stock from 460 million shares to 680 million shares.

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

In March 2013 we also concurrently completed the sale of $500 million principal amount of 2% Convertible Senior Notes due in 2020. For more information, see Note 8 – "Debt."

In March 2013 we contributed $800 million to MGIC to increase its capital as discussed in Note 17 – "Statutory Capital." We intend to use the remaining net proceeds from the offerings for general corporate purposes, which may include further increasing the capital of MGIC and other subsidiaries and improving liquidity by providing funds for debt service.

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

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

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

16. Dividend Restrictions

Our insurance subsidiaries are subject to statutory regulations as to maintenance of policyholders' surplus and payment of dividends. The maximum amount of dividends that the insurance subsidiaries may pay in any twelve-month period without regulatory approval by the Office of the Commissioner of Insurance of the State of Wisconsin is the lesser of adjusted statutory net income or 10% of statutory policyholders' surplus as of the preceding calendar year end. Adjusted statutory net income is defined for this purpose to be the greater of statutory net income, net of realized investment gains, for the calendar year preceding the date of the dividend or statutory net income, net of realized investment gains, for the three calendar years preceding the date of the dividend less dividends paid within the first two of the preceding three calendar years.

The senior notes, convertible senior notes and convertible debentures, discussed in Note 8 – "Debt", are obligations of MGIC Investment Corporation, our holding company, and not of its subsidiaries. Our holding company has no material sources of cash inflows other than investment income. The payment of dividends from our insurance subsidiaries, which other than raising capital in the public markets is the principal source of our holding company cash inflow, is restricted by insurance regulation. MGIC is the principal source of dividend-paying capacity. Since 2008, MGIC has not paid any dividends to our holding company. Through 2014, MGIC cannot pay any dividends to our holding company without approval from the OCI.

In the fourth quarter of 2008, we suspended the payment of dividends to shareholders.

17. Statutory Capital

Accounting Principles

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

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

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

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

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

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

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

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

Year Ended December 31,	Net loss	Surplus	Contingency Reserve
		(In thousands)	
2013	$ (8,046)	$ 1,584,121	$ 18,558
2012	(902,878)	748,592	6,430
2011	(436,277)	1,657,349	4,104

Year Ended December 31,	Additions to the surplus of MGIC from parent company funds	Additions to the surplus of other insurance subsidiaries from parent company funds	Dividends paid by MGIC to the parent company
		(In thousands)	
2013	$ 800,000	$ -	$ -
2012	100,000	-	-
2011	200,000	-	-

Statutory Capital Requirements

The insurance laws of 16 jurisdictions, including Wisconsin, our domiciliary state, require a mortgage insurer to maintain a minimum amount of statutory capital relative to the risk in force (or a similar measure) in order for the mortgage insurer to continue to write new business. We refer to these requirements as the

"State Capital Requirements" and, together with the GSE Capital Standards, the "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. This ratio is computed on a statutory basis for our insurance entities and is our net risk in force divided by our policyholders' position. Policyholders' position consists primarily of statutory policyholders' surplus, plus the statutory contingency reserve. A risk-to-capital ratio will increase if the percentage decrease in capital exceeds the percentage decrease in insured risk. Therefore, as capital decreases, the same dollar decrease in capital will cause a greater percentage decrease in capital and a greater increase in the risk-to-capital ratio. Wisconsin does not regulate capital by using a risk-to-capital measure but instead requires a minimum policyholder position ("MPP"). The "policyholder position" of a mortgage insurer is its net worth or surplus, contingency reserve and a portion of the reserves for unearned premiums.

During part of 2012 and 2013, MGIC's risk-to-capital ratio exceeded 25 to 1. In March 2013, our holding company issued additional equity and convertible debt securities and transferred $800 million to increase MGIC's capital. In April 2013, we entered into a quota share reinsurance transaction with a group of unaffiliated reinsurers. That transaction applies to new insurance written between April 1, 2013 and December 31, 2015 (with certain exclusions). In December 2013, we entered into an Addendum to the quota share transaction that applies to certain insurance written before April 1, 2013. Although the quota share transaction was approved by the GSEs, it is possible that under the GSE Capital Standards, discussed in Note 1 – "Nature of Business – Capital", and/or the revised State Capital Requirements discussed below, MGIC will not be allowed full credit for the risk ceded to the reinsurers under the transaction. If MGIC is disallowed full credit, MGIC may terminate the transaction, without penalty, when such disallowance becomes effective. At December 31, 2013, MGIC's risk-to-capital ratio was 15.8 to 1, below the maximum allowed by the jurisdictions with State Capital Requirements, and its policyholder position was $454 million above the required MPP of $1.0 billion. Excluding the effects of the Addendum, MGIC's risk-to-capital would have been 19.2 to 1. At this time, we expect MGIC to continue to comply with the current State Capital Requirements, although we cannot assure you of such compliance. Matters that could negatively affect such compliance are discussed throughout the financial statement footnotes.

At December 31, 2013, the risk-to-capital ratio of our combined insurance operations (which includes reinsurance affiliates) was 18.4 to 1. A higher risk-to-capital ratio on a combined basis may indicate that, in order for MGIC to continue to utilize reinsurance arrangements with its subsidiaries or subsidiaries of our holding company, unless a waiver of the State Capital Requirements is obtained from the appropriate regulators, additional capital contributions to the reinsurance affiliates could be needed. These reinsurance arrangements permit MGIC to write insurance with a higher coverage percentage than it could on its own under certain state-specific requirements. The OCI waived, through 2015, the State Capital Requirements for our reinsurance affiliate that did not meet them. Although we do not believe it is likely, the OCI may modify or revoke the waiver at any time. If the waiver were revoked, we could make a capital contribution to the reinsurance affiliate so that it would comply with the State Capital Requirements.

In November 2013, the NAIC presented for discussion proposed changes to its Mortgage Guaranty Insurance Model Act. In connection with that, the NAIC announced that it plans to revise the minimum capital and surplus requirements for mortgage insurers, although it has not established a date by which it must make proposals to revise such requirements. Depending on the scope of the revisions made by the NAIC, MGIC may be prevented from writing new business in the jurisdictions adopting such proposals.

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

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. New insurance written in the jurisdictions that have State Capital Requirements represented approximately 50% of our new insurance written in 2013. Depending on the level of losses that MGIC experiences in the future, it is possible that regulatory action by one or more jurisdictions, including those that do not have specific State Capital Requirements, may prevent MGIC from continuing to write new insurance in such jurisdictions.

A possible future failure by MGIC to meet the Capital Requirements will not necessarily mean that MGIC lacks sufficient resources to pay claims on its insurance liabilities. While we believe MGIC has sufficient claims paying resources to meet its claim obligations on its insurance in force on a timely basis, we cannot assure you that events that may lead MGIC to fail to meet Capital Requirements would not also result in it not having sufficient claims paying resources. Matters that could negatively affect MGIC's claims paying resources are discussed throughout the financial statement footnotes.

We have in place a longstanding plan to write new business in MIC, a direct subsidiary of MGIC, in the event MGIC cannot meet the State Capital Requirements of a jurisdiction or obtain a waiver of them. MIC is licensed to write business in all jurisdictions. During 2012, MIC began writing new business in the jurisdictions where MGIC did not have a waiver of the State Capital Requirements. Because MGIC again meets the State Capital Requirements, MGIC is again writing new business in all jurisdictions and MIC has suspended writing new business. As of December 31, 2013, MIC had statutory capital of $458 million and risk in force, net of reinsurance, of approximately $600 million. Before MIC may again write new business, it must obtain the necessary approvals from the OCI and the GSEs.

We cannot assure you that the OCI or GSEs will approve MIC to write new business in all jurisdictions in which MGIC may become unable to do so. If one GSE does not approve MIC in all jurisdictions in which MGIC becomes unable to write new business, MIC may be able to write insurance on loans that will be sold to the other GSE or retained by private investors. However, because lenders may not know which GSE will purchase their loans until mortgage insurance has been procured, lenders may be unwilling to procure mortgage insurance from MIC. Furthermore, if we are unable to write business in all jurisdictions utilizing a combination of MGIC and MIC, lenders may be unwilling to procure insurance from us anywhere. In addition, a lender's assessment of the financial strength of our insurance operations may affect its willingness to procure insurance from us.

Statement of Statutory Accounting Principles No. 101 ("SSAP No. 101") became effective January 1, 2012 and prescribed new standards for determining the amount of deferred tax assets that can be recognized as admitted assets for determining statutory capital. Under a permitted practice effective September 30, 2012 and until further notice, the OCI has approved MGIC to report its net deferred tax asset as an admitted asset in an amount not to exceed 10% of surplus as regards policyholders, notwithstanding any contrary provisions of SSAP No. 101. Deferred tax assets of $138 million and $63 million were included in MGIC's statutory capital at December 31, 2013 and 2012, respectively.

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

18. Share-based Compensation Plans

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

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

The compensation cost that has been charged against income for the share-based plans was $6.6 million, $8.6 million and $12.1 million for the years ended December 31, 2013, 2012 and 2011, respectively. The related income tax benefit, before valuation allowance, recognized for the share-based compensation plans was $2.3 million, $3.0 million and $4.2 million for the years ended December 31, 2013, 2012 and 2011, respectively. See Note 14 – "Income Taxes" for a discussion of our valuation allowance.

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

A summary of restricted stock or restricted stock unit (collectively called "restricted stock") activity during 2013 is as follows:

	Weighted Average Grant Date Fair Market Value	Shares
Restricted stock outstanding at December 31, 2012	$ 7.08	3,077,582
Granted	2.75	1,853,800
Vested	6.36	(1,273,215)
Forfeited	3.37	(35,460)
Restricted stock outstanding at December 31, 2013	$ 5.15	3,622,707

At December 31, 2013, the 3.6 million shares of restricted stock outstanding consisted of 2.7 million shares that are subject to performance conditions ("performance shares") and 0.9 million shares that are subject only to service conditions ("time vested shares"). The weighted-average grant date fair value of restricted stock granted during 2012 and 2011 was $3.97 and $8.94, respectively. The fair value of restricted stock granted is the closing price of the common stock on the New York Stock Exchange on the date of grant. The total fair value of restricted stock vested during 2013, 2012 and 2011 was $4.3 million, $6.9 million and $14.9 million, respectively.

As of December 31, 2013, there was $8.3 million of total unrecognized compensation cost related to nonvested share-based compensation agreements granted under the plans. Of this total, $6.9 million of unrecognized compensation costs relate to performance shares and $1.4 million relates to time vested shares. The unrecognized costs associated with the performance shares may or may not be recognized in future periods, depending upon whether or not the performance conditions are met. The cost associated with the time vested shares is expected to be recognized over a weighted-average period of 1.6 years.

During 2011, we granted 449,350 shares that will be settled as cash payments over the vesting period under the 2002 stock incentive plan. The grant date fair value of these restricted share units was $8.94 in 2011. As of December 31, 2013, there was $0.1 million of total unrecognized compensation cost related to the nonvested shares under this grant. The unrecognized compensation cost associated with this grant is expected to be recognized over a period of 0.1 years. A summary of activity related to these restricted share units for the years ended December 31, 2013, 2012 and 2011 is as follows:

	2013	2012	2011
Outstanding at beginning of year	294,782	443,950	-
Granted	-	-	449,350
Vested	(147,368)	(147,968)	-
Forfeited	(3,268)	(1,200)	(5,400)
Outstanding at end of year	144,146	294,782	443,950
Cash payments at vesting (in millions)	$ 0.4	$ 0.6	

At December 31, 2013, 3.6 million shares were available for future grant under the 2011 stock incentive plan.

19. Leases

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

Total rental expense under operating leases was $4.6 million, $4.8 million and $5.4 million in 2013, 2012 and 2011, respectively.

At December 31, 2013, minimum future operating lease payments are as follows (in thousands):

2014	$ 907
2015	730
2016	540
2017	402
2018 and thereafter	569
Total	$ 3,148

20. Litigation and Contingencies

Before paying a claim, we review the loan and servicing files to determine the appropriateness of the claim amount. All of our insurance policies provide that we can reduce or deny a claim if the servicer did not comply with its obligations under our insurance policy, including the requirement to mitigate our loss by performing reasonable loss mitigation efforts or, for example, diligently pursuing a foreclosure or bankruptcy relief in a timely manner. We call such reduction of claims submitted to us "curtailments." In 2011, 2012 and 2013, curtailments reduced our average claim paid by approximately 3.0%, 4.1% and 5.8%, respectively. In addition, the claims submitted to us sometimes include costs and expenses not covered by our insurance policies, such as hazard insurance premiums for periods after the claim date and losses resulting from property damage that has not been repaired. These other adjustments reduced claim amounts by less than the amount of curtailments. After we pay a claim, servicers and insureds sometimes object to our curtailments and other adjustments. We review these objections if they are sent to us within 90 days after the claim was paid. Historically, we have not had material disputes regarding our curtailments or other adjustments.

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

We estimate rescissions mitigated our incurred losses by approximately $2.5 billion in 2009 and $0.2 billion in 2010. All of these figures include the benefit of claims not paid in the period as well as the impact of changes in our estimated expected rescission activity on our loss reserves in the period. In 2012, we estimate that our rescission benefit in loss reserves was reduced by $0.2 billion due to probable rescission settlement agreements. We estimate that other rescissions had no significant impact on our losses incurred in 2011 through 2013. At December 31, 2013, we estimate that our total loss reserves were benefited from anticipated rescissions by approximately $0.1 billion. Our loss reserving methodology incorporates our estimates of future rescissions and reversals of rescissions. Historically, reversals of rescissions have been immaterial. A variance between ultimate actual rescission and reversal rates and our estimates, as a result of the outcome of litigation, settlements or other factors, could materially affect our losses.

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

If we are unable to reach a settlement, the outcome of the dispute ultimately would be determined by legal proceedings. Under our policies, legal proceedings disputing our right to rescind coverage may be brought up to three years after the lender has obtained title to the property (typically through a foreclosure) or the property was sold in a sale that we approved, whichever is applicable, although in a few jurisdictions there is a longer time to bring such an action. As of December 31, 2013, the period in which a dispute may be brought has not ended for approximately 28% of our post-2008 rescissions that are not subject to a settlement agreement.

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

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

In April 2013, MGIC entered into separate settlement agreements with CHL and BANA, pursuant to which the parties will settle the Countrywide litigation as it relates to MGIC’s rescission practices (as amended, the “Agreements”). The Agreement with BANA covers loans purchased by the GSEs. As of September 30, 2013, rescissions of coverage on approximately 2,100 loans under the Agreement with BANA had been suspended. That Agreement was implemented beginning in November 2013 and we resolved all of those suspended rescissions in November and December 2013 by paying the associated claim or processing the rescission. The pending arbitration proceedings concerning the loans covered by that agreement have been dismissed, the mutual releases between the parties regarding such loans have become effective and the litigation between the parties regarding such loans is to be dismissed.

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

We recorded the estimated impact of the Agreements and another probable settlement in our financial statements for the quarter ending December 31, 2012. We have also recorded the estimated impact of other probable settlements, which in the aggregate have not been material. The estimated impact that we recorded is our best estimate of our loss from these matters. We estimate that the maximum exposure above the best estimate provision we recorded is $475 million, of which about 50% is from rescission practices subject to the Agreement with CHL. If we are not able to implement the Agreement with CHL or the other settlements we consider probable, we intend to defend MGIC vigorously against any related legal proceedings.

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

We are involved in discussions and legal proceedings with customers with respect to our claims paying practices that are collectively material in amount. Although it is reasonably possible that, when these discussions or legal proceedings are completed, we will not prevail in all cases, we are unable to make a reasonable estimate or range of estimates of the potential liability. We estimate the maximum exposure associated with these discussions and legal proceedings to be approximately $260 million, although we believe we will ultimately resolve these matters for significantly less than this amount.

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

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

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

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

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

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

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

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

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

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

Through a non-insurance subsidiary, we utilize our underwriting skills to provide an outsourced underwriting service to our customers known as contract underwriting. As part of the contract underwriting activities, that subsidiary is responsible for the quality of the underwriting decisions in accordance with the terms of the contract underwriting agreements with customers. That subsidiary may be required to provide certain remedies to its customers if certain standards relating to the quality of our underwriting work are not met, and we have an established reserve for such future obligations. Claims for remedies may be made a number of years after the underwriting work was performed. Beginning in the second half of 2009, our subsidiary experienced an increase in claims for contract underwriting remedies, which continued throughout 2012. The related contract underwriting remedy expense was approximately $27 million, $23 million and $19 million for the years ended December 31, 2012, 2011 and 2010. The underwriting remedy expense for 2013 was approximately $5 million, but may increase in the future.

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

21. Unaudited Quarterly Financial Data

	Quarter				2013
2013:	First	Second	Third	Fourth	Year
	(In thousands, except share data)				
Net premiums written	$ 248,500	$ 236,622	$ 234,278	$ 204,081	$ 923,481
Net premiums earned	247,059	237,777	231,857	226,358	943,051
Investment income, net of expenses	18,328	20,883	20,250	21,278	80,739
Loss incurred, net	266,208	196,274	180,189	196,055	838,726
Change in premium deficiency reserves	(1,650)	(11,283)	(3,813)	(8,574)	(25,320)
Underwriting and other operating expenses	50,012	47,562	47,970	46,974	192,518
Interest expense	26,406	17,942	17,653	17,662	79,663
Net income (loss)	(72,930)	12,375	12,114	(1,407)	(49,848)
Income (loss) per share (a):					
Basic	(0.31)	0.04	0.04	(0.00)	(0.16)
Diluted	(0.31)	0.04	0.04	(0.00)	(0.16)

2012:	Quarter First	Second	Third	Fourth (b)	2012 Year
	(In thousands, except share data)				
Net premiums written	$ 254,986	$ 238,605	$ 263,505	$ 260,736	$1,017,832
Net premiums earned	262,405	242,628	266,432	261,705	1,033,170
Investment income, net of expenses	37,408	32,178	30,394	21,660	121,640
Loss incurred, net	337,088	551,408	490,121	688,636	2,067,253
Change in premium deficiency reserves	(14,183)	(27,358)	(9,144)	(10,351)	(61,036)
Underwriting and other operating expenses	50,343	48,910	50,678	51,516	201,447
Interest expense	24,627	24,912	24,478	25,327	99,344
Net income (loss)	(19,555)	(273,891)	(246,942)	(386,691)	(927,079)
Income (loss) per share (a):					
Basic	(0.10)	(1.36)	(1.22)	(1.91)	(4.59)
Diluted	(0.10)	(1.36)	(1.22)	(1.91)	(4.59)

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

(b) The results for the fourth quarter of 2012 include a loss of approximately $267 million related to our settlement with Freddie Mac and approximately $100 million related to our probable rescission settlement agreements. See Note 20 – "Litigation and Contingencies."

Directors

James A. Abbott
Chairman and Principal
American Security Mortgage Corp.
Charlotte, NC
A mortgage banking company

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

Cassandra C. Carr
Consultant
San Antonio, TX

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

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

Thomas M. Hagerty
Managing Director
Thomas H. Lee Partners, L.P.
Boston, MA
A private investment firm

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

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

Daniel P. Kearney
Business Consultant and Private Investor
Chicago, IL

Michael E. Lehman
Chief Financial Officer
Ciber Inc.
Greenwood Village, CO
An information technology company

William A. McIntosh
Former Executive Committee Member and Managing Director
Salomon Brothers Inc
New York, NY
An investment banking firm

Leslie M. Muma
Former President and Chief Executive Officer
Fiserv, Inc.
Brookfield, WI
A financial industry automation products and services company

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

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

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

Officers

MGIC Investment Corporation

Chairman and Chief Executive Officer
Curt S. Culver

President and Chief Operating Officer
Patrick Sinks

Executive Vice President
Jeffrey H. Lane
General Counsel and Secretary

Senior Vice President
Timothy J. Mattke
Chief Financial Officer

Vice President
Julie K. Sperber
Controller and Chief Accounting Officer

Mortgage Guaranty Insurance Corporation

Chairman and Chief Executive Officer
Curt S. Culver

President and Chief Operating Officer
Patrick Sinks

Executive Vice Presidents
Jeffrey H. Lane
General Counsel and Secretary

Lawrence J. Pierzchalski
Risk Management

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

Carla A. Gallas
Claims

Timothy J. Mattke
Chief Financial Officer

Cheryl L. Webb
Field Operations

Michael J. Zimmerman
Investor Relations

Vice Presidents
Gary A. Antonovich
Internal Audit

Dean D. Dardzinski
National Accounts

Stephen M. Dempsey
Managing Director

Sandra K. Dunst
Claims Operations

Edward G. Durant
Analytic Services

Mary L. Elkins
Information Services – Systems Development

Susan E. Friedrich
Information Services – Chief Information Security Officer

David A. Greco
Credit Policy

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

James J. Hughes
Managing Director

Malcom T. Hurst
Sales

Eric B. Klopfer
Corporate Strategy

Mark J. Krauter
National Accounts

Michael L. Kull
National Accounts

Robin D. Mallory
Managing Director

Mark E. Marple
Mortgage Banking Strategies

Salvatore A. Miosi
Marketing

Jerome J. Murphy
Field Operations

Jeffrey N. Nielsen
Financial Planning/Analysis

Lisa M. Pendergast
Treasurer

Eric L. Rice
Sales

John R. Schroeder
Risk Management

Julie K. Sperber
Controller and Chief Accounting Officer

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

Kurt J. Thomas
Human Resources

Steven M. Thompson
Risk Management

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

Kathleen E. Valenti
Loss Mitigation

Bernhard W. Verhoeven
Risk Management

Carie L. Vos
Claims Administration

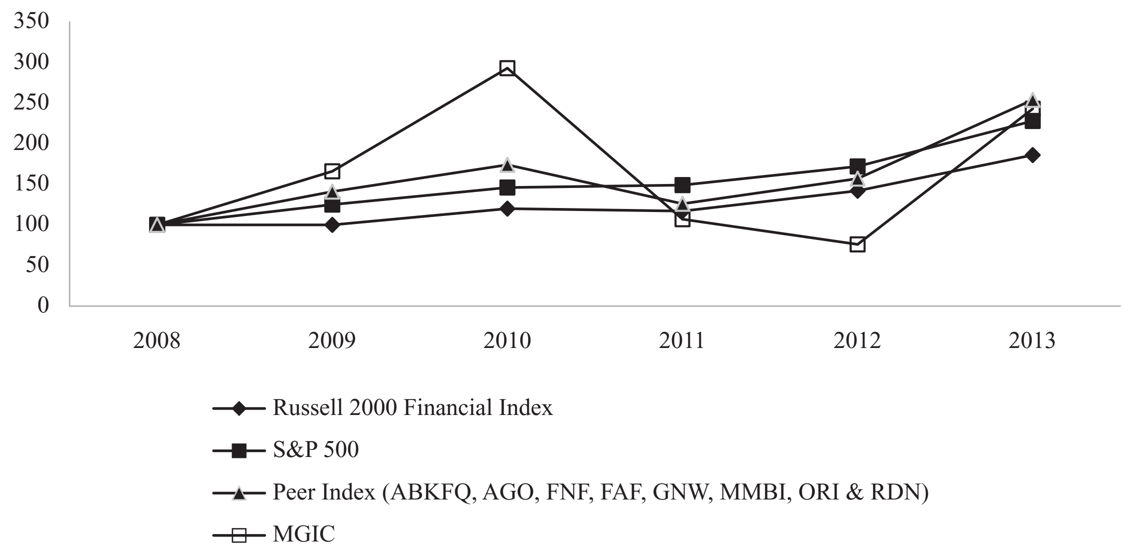
John S. Wiseman
Managing Director

Jerry L. Wormmeester
National Accounts

Performance Graph

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

We selected this peer group because it includes all of our direct competitors that were public throughout 2013 and whose mortgage insurance operations are a significant part of their overall business, financial guaranty insurers, and other financial services companies focused on the residential real estate industry that are believed to be potential competitors for executive talent.



	2008	2009	2010	2011	2012	2013
Russell 2000 Financial Index	100	100	120	117	142	186
S&P 500	100	125	146	149	172	228
Peer Index (ABKFQ, AGO, FNF, FAF, GNW, MMBI, ORI & RDN)	100	141	174	126	157	254
MGIC	100	166	293	107	76	243

Shareholder Information

The Annual Meeting

The Annual Meeting of Shareholders of MGIC Investment Corporation will convene at 9 a.m. Central Time on April 24, 2014 in the Bradley Pavilion of the Marcus Center for the Performing Arts, 929 North Water Street, Milwaukee, Wisconsin.

10-K Report

Copies of the Annual Report on Form 10-K for the year ended December 31, 2013, filed with the Securities and Exchange Commission, are available without charge to shareholders on request from:

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

The Annual Report on Form 10-K referred to above includes as exhibits certifications from the Company's Chief Executive Officer and Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act. Following the 2013 Annual Meeting of Shareholders, the Company's Chief Executive Officer submitted a Written Affirmation to the New York Stock Exchange that he was not aware of any violation by the Company of the corporate governance listing standards of Exchange.

Transfer Agent and Registrar

Wells Fargo Bank Minnesota, N.A.
Shareowner Services
P. O. Box 64854
St. Paul, Minnesota 55164
(800) 468-9716

Corporate Headquarters

MGIC Plaza
250 East Kilbourn Avenue
Milwaukee, Wisconsin 53202

Mailing Address

P. O. Box 488
Milwaukee, Wisconsin 53201

Shareholder Services

(414) 347-6596

MGIC Stock

MGIC Investment Corporation Common Stock is listed on the New York Stock Exchange under the symbol MTG. At February 28, 2014, 338,036,029 shares were outstanding. The following table sets forth for 2012 and 2013 by quarter the high and low sales prices of the Common Stock on the New York Stock Exchange.

	2012		2013	
Quarter	High	Low	High	Low
1st	$ 5.15	$ 3.43	$ 6.19	$ 2.36
2nd	5.13	2.14	6.60	4.55
3rd	3.08	0.66	8.16	5.88
4th	2.71	1.42	8.69	6.62

In October 2008, the Company's Board suspended payment of our dividend. Accordingly, no cash dividends were paid in 2012 or 2013. The payment of future dividends is subject to the discretion of our Board and will depend on many factors, including our operating results, financial condition and capital position. See Note 8 – "Debt" to our consolidated financial statements for dividend restrictions that apply when we elect to defer interest on our Convertible Junior Debentures.

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

As of February 14, 2014, the number of shareholders of record was 249. In addition, we estimate that there are approximately 28,000 beneficial owners of shares held by brokers and fiduciaries.

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

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