M I HOMES INC
Form 10-Q
July 29, 2016

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

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended June 30, 2016
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES ACT OF 1934
Commission File Number 1-12434

M/I HOMES, INC.
(Exact name of registrant as specified in it charter)

Ohio	31-1210837
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

3 Easton Oval, Suite 500, Columbus, Ohio 43219
(Address of principal executive offices) (Zip Code)
(614) 418-8000
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes X No

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.
Common shares, par value $.01 per share: 24,668,833 shares outstanding as of July 27, 2016.

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M/I HOMES, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except par values)	June 30, 2016	December 31, 2015
ASSETS:		
Cash and cash equivalents	$27,672	$10,205
Restricted cash	2,328	2,896
Mortgage loans held for sale	100,379	127,001
Inventory	1,170,325	1,112,042
Property and equipment - net	22,154	12,897
Investment in unconsolidated joint ventures	28,160	36,967
Deferred income taxes	47,023	67,404
Other assets	55,113	46,142
TOTAL ASSETS	$1,453,154	$1,415,554
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES:		
Accounts payable	$105,669	$86,878
Customer deposits	27,415	19,567
Other liabilities	85,449	93,670
Community development district ("CDD") obligations	722	1,018
Obligation for consolidated inventory not owned	5,169	6,007
Notes payable bank - homebuilding operations	70,000	43,800
Notes payable bank - financial services operations	92,666	123,648
Notes payable - other	8,552	8,441
Convertible senior subordinated notes due 2017 - net	56,806	56,518
Convertible senior subordinated notes due 2018 - net	85,069	84,714
Senior notes due 2021 - net	295,125	294,727
TOTAL LIABILITIES	$832,642	$818,988
Commitments and contingencies (Note 6)	—	—
SHAREHOLDERS' EQUITY:		
Preferred shares - $.01 par value; authorized 2,000,000 shares; 2,000 shares issued and outstanding at both June 30, 2016 and December 31, 2015	$48,163	$48,163
Common shares - $.01 par value; authorized 58,000,000 shares at both June 30, 2016 and December 31, 2015; issued 27,092,723 shares at both June 30, 2016 and December 31, 2015	271	271
Additional paid-in capital	242,125	241,239
Retained earnings	378,094	355,427
Treasury shares - at cost - 2,423,890 and 2,443,679 shares at June 30, 2016 and December 31, 2015, respectively	(48,141)	(48,534)
TOTAL SHAREHOLDERS' EQUITY	$620,512	$596,566

TOTAL LIABILITIES AND SHAREHOLDERS’ EQUITY	$ 1,453,154	$ 1,415,554

See Notes to Unaudited Condensed Consolidated Financial Statements.

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M/I HOMES, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands, except per share amounts)	2016	2015	2016	2015
Revenue	$401,247	$322,856	$725,617	$586,015
Costs and expenses:				
Land and housing	319,708	252,595	579,880	458,778
General and administrative	26,830	21,705	49,089	41,039
Selling	25,533	22,935	47,799	40,621
Equity in income of unconsolidated joint ventures	(82)	(14)	(389)	(212)
Interest	4,308	3,750	9,573	8,212
Total costs and expenses	376,297	300,971	685,952	548,438
Income before income taxes	24,950	21,885	39,665	37,577
Provision for income taxes	9,034	8,535	14,560	14,659
Net income	15,916	13,350	25,105	22,918
Preferred dividends	1,219	1,219	2,438	2,438
Net income to common shareholders	$14,697	$12,131	$22,667	$20,480
Earnings per common share:				
Basic	$0.60	$0.49	$0.92	$0.84
Diluted	$0.52	$0.43	$0.81	$0.74
Weighted average shares outstanding:				
Basic	24,669	24,531	24,663	24,523
Diluted	30,077	30,023	30,055	30,002

See Notes to Unaudited Condensed Consolidated Financial Statements.

M/I HOMES, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

	Six Months Ended June 30, 2016							
	Preferred Shares		Common Shares					
(Dollars in thousands)	Shares Outstanding	Amount	Shares Outstanding	Amount	Additional Paid-in Capital	Retained Earnings	Treasury Shares	Total Shareholders' Equity
Balance at December 31, 2015	2,000	$48,163	24,649,044	$ 271	$241,239	$355,427	$(48,534)	$ 596,566
Net income	—	—	—	—	—	25,105	—	25,105
Dividends declared to preferred shareholders	—	—	—	—	—	(2,438)	—	(2,438)
Reversal of deferred tax asset related to stock options and executive deferred compensation distributions	—	—	—	—	(1,030)	—	—	(1,030)
Stock options exercised	—	—	6,000	—	(46)	—	119	73
Stock-based compensation expense	—	—	—	—	2,126	—	—	2,126
Deferral of executive and director compensation	—	—	—	—	110	—	—	110
Executive and director deferred compensation distributions	—	—	13,789	—	(274)	—	274	—
Balance at June 30, 2016	2,000	$48,163	24,668,833	$ 271	$242,125	$378,094	$(48,141)	$ 620,512

See Notes to Unaudited Condensed Consolidated Financial Statements.

M/I HOMES, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended June 30,	
(Dollars in thousands)	2016	2015
OPERATING ACTIVITIES:		
Net income	$25,105	$22,918
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Equity in income of unconsolidated joint ventures	(389)	(212)
Mortgage loan originations	(404,599)	(333,684)
Proceeds from the sale of mortgage loans	433,406	350,591
Fair value adjustment of mortgage loans held for sale	(2,185)	824
Capitalization of originated mortgage servicing rights	(2,964)	(2,283)
Amortization of mortgage servicing rights	751	552
Depreciation	4,149	3,141
Amortization of debt discount and debt issue costs	1,701	1,594
Stock-based compensation expense	2,126	1,978
Deferred income tax expense	13,832	13,358
Change in assets and liabilities:		
Cash held in escrow	(467)	194
Inventory	(46,856)	(108,165)
Other assets	(7,185)	(6,551)
Accounts payable	18,791	15,305
Customer deposits	7,848	6,679
Accrued compensation	(10,566)	(11,387)
Other liabilities	7,974	(1,062)
Net cash provided by (used in) operating activities	40,472	(46,210)
INVESTING ACTIVITIES:		
Change in restricted cash	1,035	1,583
Purchase of property and equipment	(11,029)	(1,401)
Investment in unconsolidated joint ventures	(5,782)	(4,210)
Net cash used in investing activities	(15,776)	(4,028)
FINANCING ACTIVITIES:		
Proceeds from bank borrowings - homebuilding operations	192,200	220,700
Repayment of bank borrowings - homebuilding operations	(166,000)	(145,100)
Net repayment of bank borrowings - financial services operations	(30,982)	(15,698)
Proceeds from (principal repayment of) notes payable-other and CDD bond obligations	111	(1,288)
Dividends paid on preferred shares	(2,438)	(2,438)
Debt issue costs	(193)	(40)
Proceeds from exercise of stock options	73	340
Net cash (used in) provided by financing activities	(7,229)	56,476
Net increase in cash and cash equivalents	17,467	6,238
Cash and cash equivalents balance at beginning of period	10,205	15,535
Cash and cash equivalents balance at end of period	$27,672	$21,773

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:
Cash paid during the year for:

Interest — net of amount capitalized	$(2,152)	$6,696
Income taxes	$1,801	$1,278
NON-CASH TRANSACTIONS DURING THE PERIOD:		
Community development district infrastructure	$(296)	$(1,075)
Consolidated inventory not owned	$(838)	$13,507
Distribution of single-family lots from unconsolidated joint ventures	$14,978	$3,834

See Notes to Unaudited Condensed Consolidated Financial Statements.

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M/I HOMES, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. Basis of Presentation

The accompanying Unaudited Condensed Consolidated Financial Statements (the "financial statements") of M/I Homes, Inc. and its subsidiaries (the "Company") and notes thereto have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (the "SEC") for interim financial information. The financial statements include the accounts of the Company. All intercompany transactions have been eliminated. Results for the interim period are not necessarily indicative of results for a full year. In the opinion of management, the accompanying financial statements reflect all adjustments (all of which are normal and recurring in nature) necessary for a fair presentation of financial results for the interim periods presented. These financial statements should be read in conjunction with the Consolidated Financial Statements and Notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015 (the "2015 Form 10-K").

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during that period. Actual results could differ from these estimates and have a significant impact on the financial condition and results of operations and cash flows. With regard to the Company, estimates and assumptions are inherent in calculations relating to valuation of inventory and investment in unconsolidated joint ventures, property and equipment depreciation, valuation of derivative financial instruments, accounts payable on inventory, accruals for costs to complete inventory, accruals for warranty claims, accruals for self-insured general liability claims, litigation, accruals for health care and workers' compensation, accruals for guaranteed or indemnified loans, stock-based compensation expense, income taxes, and contingencies. Items that could have a significant impact on these estimates and assumptions include the risks and uncertainties listed in "Item 1A. Risk Factors" in Part I of our 2015 Form 10-K, as the same may be updated from time to time in our subsequent filings with the SEC.

Impact of New Accounting Standards
In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers ("ASU 2014-09"), which provides guidance for revenue recognition. ASU 2014-09 affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets and supersedes the revenue recognition requirements in ASC 605, Revenue Recognition, and most industry-specific guidance. This ASU also supersedes some cost guidance included in Subtopic 605-35, "Revenue Recognition-Construction-Type and Production-Type Contracts." ASU 2014-09's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which a company expects to be entitled in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates than under today's guidance, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers: Deferral of the Effective Date, which delayed the effective date of ASU 2014-09 by one year. ASU 2014-09, as amended, is effective for public companies for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Early adoption is permitted as of the original effective date for annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. Subsequent to the issuance of ASU 2014-09, the FASB has issued several ASUs, such as ASU 2016-08, Revenue from Contracts with Customers: Principal versus Agent Considerations (Reporting Revenue Gross versus Net), ASU 2016-10, Revenue from Contracts with Customers: Identifying Performance Obligations and Licensing, and ASU

2016-12, Revenue from Contracts with Customers: Narrow-Scope Improvements and Practical Expedients. These ASUs do not change the core principle of the guidance stated in ASU 2014-09. Instead, these amendments are intended to clarify and improve the operability of certain topics addressed by ASU 2014-09. These additional ASUs will have the same effective date and transition requirements as ASU 2014-09. The Company is currently evaluating the method of adoption of ASU 2014-09 and these additional ASUs and the impact the adoption of ASU 2014-09 and these additional ASUs will have on the Company's consolidated financial statements and disclosures. See below for additional explanation of each of these additional ASUs.

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments-Overall: Recognition and Measurement of Financial Assets and Financial Liabilities ("ASU 2016-01"), which makes a number of changes to the current GAAP model, including changes to the accounting for equity investments and financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. ASU 2016-01 is effective for our interim and annual reporting periods beginning

January 1, 2018. Early adoption of ASU 2016-01 is not permitted. The Company does not believe the adoption of ASU 2016-01 will have a material impact on the Company's consolidated financial statements and disclosures.

In February 2016, the FASB issued ASU No. 2016-02, Leases ("ASU 2016-02"). ASU 2016-02 will require organizations that lease assets - referred to as "lessees" - to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. Under ASU 2016-02, a lessee will be required to recognize assets and liabilities for leases with lease terms of more than 12 months. Lessor accounting remains substantially similar to current GAAP. In addition, disclosures of leasing activities will be expanded to include qualitative and specific quantitative information. For public entities, ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. ASU 2016-02 mandates a modified retrospective transition method. The Company is currently evaluating the potential impact the adoption of ASU 2016-02 will have on the Company's consolidated financial statements and disclosures.

In March 2016, the FASB issued ASU No. 2016-06, Contingent Put and Call Options in Debt Instruments ("ASU 2016-06"), which requires that embedded derivatives be separated from the host contract and accounted for separately as derivatives if certain criteria are met. One of those criteria is that the economic characteristics and risks of the embedded derivatives are not clearly and closely related to the economic characteristics and risks of the host contract (the "clearly and closely related" criterion). ASU 2016-06 clarifies the required steps for assessing whether the economic characteristics and risks of call (put) options are clearly and closely related to the economic characteristics and risks of their debt hosts, which is one of the criteria for bifurcating an embedded derivative. Consequently, when a call (put) option is contingently exercisable, an entity does not have to assess whether the event that triggers the ability to exercise a call (put) option is related to interest rates or credit risks. ASU 2016-06 is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. Early adoption is permitted for all entities. The Company does not believe the adoption of ASU 2016-06 will have a material impact on the Company's consolidated financial statements and disclosures.

In March 2016, the FASB issued ASU No. 2016-08, Revenue from Contracts with Customers: Principal versus Agent Considerations (Reporting Revenue Gross versus Net) ("ASU 2016-08"). The amendments in this ASU are intended to improve the operability and understandability of the implementation guidance stated in ASU 2014-09 on principal versus agent considerations and whether an entity reports revenue on a gross or net basis.

In March 2016, the FASB issued ASU No. 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting ("ASU 2016-09"). ASU 2016-09 simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. For public entities, ASU 2016-09 is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. Early adoption is permitted. The Company does not believe the adoption of ASU 2016-09 will have a material impact on the Company's consolidated financial statements and disclosures.

In April 2016, the FASB issued ASU No. 2016-10, Revenue from Contracts with Customers: Identifying Performance Obligations and Licensing ("ASU 2016-10"). ASU 2016-10 provides guidance on identifying performance obligations and licensing. This update clarifies the guidance in ASU 2014-09 relating to identifying performance obligations and licensing. The new standard will be effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years.

In May 2016, the FASB issued ASU No. 2016-12, Revenue from Contracts with Customers: Narrow Scope Improvements and Practical Expedients ("ASU 2016-12"). ASU 2016-12 provides for amendments to ASU 2014-09 regarding transition, collectability, noncash consideration, and presentation of sales tax and other similar taxes. Specifically, ASU 2016-12 clarifies that, for a contract to be considered completed at transition, all or substantially all of the revenue must have been recognized under legacy GAAP. In addition, ASU 2016-12 clarifies how an entity should evaluate the collectability threshold and when an entity can recognize nonrefundable consideration received as revenue if an arrangement does not meet the standard's contract criteria.

NOTE 2. Inventory and Capitalized Interest

Inventory

Inventory is recorded at cost, unless events and circumstances indicate that the carrying value of the land is impaired, at which point the inventory is written down to fair value (see Note 4 for additional details relating to our procedures for evaluating our inventories for impairment). Inventory includes the costs of land acquisition, land development and home construction, capitalized interest, real estate taxes, direct overhead costs incurred during development and home construction, and common costs that benefit the entire community, less impairments, if any.

A summary of the Company's inventory as of June 30, 2016 and December 31, 2015 is as follows:

(In thousands)	June 30, 2016	December 31, 2015
Single-family lots, land and land development costs	$563,112	$ 584,542
Land held for sale	11,597	12,630
Homes under construction	487,895	420,206
Model homes and furnishings - at cost (less accumulated depreciation: June 30, 2016 - $10,470; December 31, 2015 - $8,296)	72,015	63,929
Community development district infrastructure	722	1,018
Land purchase deposits	29,815	23,710
Consolidated inventory not owned	5,169	6,007
Total inventory	$1,170,325	$ 1,112,042

Single-family lots, land and land development costs include raw land that the Company has purchased to develop into lots, costs incurred to develop the raw land into lots, and lots for which development has been completed, but which have not yet been used to start construction of a home.

Homes under construction include homes that are in various stages of construction. As of June 30, 2016 and December 31, 2015, we had 877 homes (with a carrying value of $142.6 million) and 872 homes (with a carrying value of $184.3 million), respectively, included in homes under construction that were not subject to a sales contract.

Model homes and furnishings include homes that are under construction or have been completed and are being used as sales models. The amount also includes the net book value of furnishings included in our model homes. Depreciation on model home furnishings is recorded using an accelerated method over the estimated useful life of the assets, typically three years.

Land purchase deposits include both refundable and non-refundable amounts paid to third party sellers relating to the purchase of land. On an ongoing basis, the Company evaluates the land option agreements relating to the land purchase deposits. In the period during which the Company makes the decision not to proceed with the purchase of land under an agreement, the Company expenses any deposits and accumulated pre-acquisition costs relating to such agreement.

Capitalized Interest

The Company capitalizes interest during land development and home construction. Capitalized interest is charged to land and housing costs and expensed as the related inventory is delivered to a third party. The summary of capitalized interest for the three and six months ended June 30, 2016 and 2015 is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	2016	2015	2016	2015
Capitalized interest, beginning of period	$16,952	$15,542	$16,740	$15,296
Interest capitalized to inventory	4,497	4,675	8,253	8,460
Capitalized interest charged to land and housing costs and expenses	(4,631)	(3,780)	(8,175)	(7,319)
Capitalized interest, end of period	$16,818	$16,437	$16,818	$16,437
Interest incurred	$8,805	$8,425	$17,826	$16,672

NOTE 3. Investment in Unconsolidated Joint Ventures

Investment in Unconsolidated Joint Ventures

In order to minimize our investment and risk of land exposure in a single location, we have periodically partnered with other land developers or homebuilders to share in the land investment and development of a property through joint ownership and development agreements, joint ventures, and other similar arrangements. During the six month period ended June 30, 2016, we decreased our total investment in such joint venture arrangements by $8.8 million from $37.0 million at December 31, 2015 to $28.2 million at June 30, 2016, which was driven primarily by our

increased lot distributions from unconsolidated joint ventures of $15.0 million, offset, in part, by our increased cash contributions to our unconsolidated joint ventures during the first half of 2016 of $5.8 million.
We use the equity method of accounting for investments in unconsolidated joint ventures over which we exercise significant influence but do not have a controlling interest. Under the equity method, our share of the unconsolidated joint ventures' earnings or loss, if any, is included in our statement of income. The Company assesses its investments in unconsolidated joint ventures for

recoverability on a quarterly basis. Refer to Note 4 for additional details relating to our procedures for evaluating our investments for impairment.

For joint venture arrangements where a special purpose entity is established to own the property, we generally enter into limited liability company or similar arrangements ("LLCs") with the other partners. The Company's ownership in these LLCs as of both June 30, 2016 and December 31, 2015 ranged from 25% to 74%. These entities typically engage in land development activities for the purpose of distributing or selling developed lots to the Company and its partners in the LLC.

We believe that the Company's maximum exposure related to its investment in these unconsolidated joint ventures as of June 30, 2016 is the amount invested of $28.2 million, which is reported as Investment in Unconsolidated Joint Ventures on our Unaudited Condensed Consolidated Balance Sheets, although we expect to invest further amounts in these unconsolidated joint ventures as development of the properties progresses. Included in the Company's investment in unconsolidated joint ventures at June 30, 2016 and December 31, 2015 were $0.3 million and $0.4 million, respectively, of capitalized interest and other costs.

Variable Interest Entities

With respect to our investments in these LLCs, we are required, under ASC 810-10, Consolidation ("ASC 810"), to evaluate whether or not such entities should be consolidated into our financial statements. We initially perform these evaluations when each new entity is created and upon any events that require reconsideration of the entity. See Note 1, "Summary of Significant Accounting Policies - Variable Interest Entities" in the Company's 2015 Form 10-K for additional information regarding the Company's methodology for evaluating entities for consolidation.

As of June 30, 2016 and December 31, 2015, we have determined that one of the LLCs in which we have an interest meets the requirements of a variable interest entity ("VIE") due to a lack of equity at risk in the entity. However, we have determined that we do not have substantive control over that VIE as we do not have the ability to control the activities that most significantly impact its economic performance. As a result, we are not required to consolidate the VIE into our financial statements, and we instead record the VIE in Investment in Unconsolidated Joint Ventures on our Unaudited Condensed Consolidated Balance Sheets.

Land Option Agreements

In the ordinary course of business, the Company enters into land option or purchase agreements for which we generally pay non-refundable deposits. Pursuant to these land option agreements, the Company provides a deposit to the seller as consideration for the right to purchase land at different times in the future, usually at predetermined prices. In accordance with ASC 810, we analyze our land option or purchase agreements to determine whether the corresponding land sellers are VIEs and, if so, whether we are the primary beneficiary, as further described in Note 1, "Summary of Significant Accounting Policies - Land Option Agreements" in the Company's 2015 Form 10-K. If we are deemed to be the primary beneficiary of the VIE, we will consolidate the VIE in our consolidated financial statements and reflect such assets and liabilities in our Consolidated Inventory not Owned in our Unaudited Condensed Consolidated Balance Sheets. At both June 30, 2016 and December 31, 2015, we concluded that we were not the primary beneficiary of any VIEs from which we are purchasing land under option or purchase agreements.

NOTE 4. Fair Value Measurements

There are three measurement input levels for determining fair value: Level 1, Level 2, and Level 3. Fair values determined by Level 1 inputs utilize quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. Fair values determined by Level 2 inputs utilize inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability.

Assets Measured on a Recurring Basis

The Company measures both mortgage loans held for sale and interest rate lock commitments ("IRLCs") at fair value. Fair value measurement results in a better presentation of the changes in fair values of the loans and the derivative instruments used to economically hedge them.

In the normal course of business, our financial services segment enters into contractual commitments to extend credit to buyers of single-family homes with fixed expiration dates. The commitments become effective when the borrowers "lock-in" a specified interest rate within established time frames. Market risk arises if interest rates move adversely between the time of the "lock-in" of rates by the borrower and the sale date of the loan to an investor. To mitigate the effect of the interest rate risk inherent in providing rate lock commitments to borrowers, the Company enters into optional or mandatory delivery forward sale contracts to sell whole loans and mortgage-backed securities to broker/dealers. The forward sale contracts lock in an interest rate and price for the sale of loans similar to the specific rate lock commitments. The Company does not engage in speculative trading or derivative activities. Both the rate lock commitments to borrowers and the forward sale contracts to broker/dealers or investors are undesignated derivatives, and accordingly, are marked to fair value through earnings. Changes in fair value measurements are included in earnings in the accompanying statements of income.

The fair value of mortgage loans held for sale is estimated based primarily on published prices for mortgage-backed securities with similar characteristics. To calculate the effects of interest rate movements, the Company utilizes applicable published mortgage-backed security prices, and multiplies the price movement between the rate lock date and the balance sheet date by the notional loan commitment amount. The Company sells loans on a servicing released or servicing retained basis, and receives servicing compensation. Thus, the value of the servicing rights included in the fair value measurement is based upon contractual terms with investors and depends on the loan type. The Company applies a fallout rate to IRLCs when measuring the fair value of rate lock commitments. Fallout is defined as locked loan commitments for which the Company does not close a mortgage loan and is based on management's judgment and company experience.

The fair value of the Company's forward sales contracts to broker/dealers solely considers the market price movement of the same type of security between the trade date and the balance sheet date. The market price changes are multiplied by the notional amount of the forward sales contracts to measure the fair value.

Interest Rate Lock Commitments. IRLCs are extended to certain home-buying customers who have applied for a mortgage loan and meet certain defined credit and underwriting criteria. Typically, the IRLCs will have a duration of less than six months; however, in certain markets, the duration could extend to twelve months.

Some IRLCs are committed to a specific third party investor through the use of best-efforts whole loan delivery commitments matching the exact terms of the IRLC loan. Uncommitted IRLCs are considered derivative instruments and are fair value adjusted, with the resulting gain or loss recorded in current earnings.

Forward Sales of Mortgage-Backed Securities. Forward sales of mortgage-backed securities ("FMBSs") are used to protect uncommitted IRLC loans against the risk of changes in interest rates between the lock date and the funding date. FMBSs related to uncommitted IRLCs are classified and accounted for as non-designated derivative instruments and are recorded at fair value, with gains and losses recorded in current earnings.

Mortgage Loans Held for Sale. Mortgage loans held for sale consists primarily of single-family residential loans collateralized by the underlying property. Generally, all of the mortgage loans and related servicing rights are sold to third-party investors shortly after origination. During the period between when a loan is closed and when it is sold to an investor, the interest rate risk is covered through the use of a best-efforts contract or by FMBSs. The FMBSs are classified and accounted for as non-designated derivative instruments, with gains and losses recorded in current earnings.

The table below shows the notional amounts of our financial instruments at June 30, 2016 and December 31, 2015:

Description of Financial Instrument (in thousands)	June 30, 2016	December 31, 2015
Best efforts contracts and related committed IRLCs	$ 3,800	$ 2,625
Uncommitted IRLCs	88,267	46,339
FMBSs related to uncommitted IRLCs	87,000	46,000
Best efforts contracts and related mortgage loans held for sale	9,660	100,152
FMBSs related to mortgage loans held for sale	85,000	27,000
Mortgage loans held for sale covered by FMBSs	86,941	26,690

The table below shows the level and measurement of assets and liabilities measured on a recurring basis at June 30, 2016 and December 31, 2015:

Description of Financial Instrument (in thousands)	Fair Value Measurements June 30, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mortgage loans held for sale	$ 100,379	$ —	$ 100,379	$ —
Forward sales of mortgage-backed securities	(1,781)	—	(1,781)	—
Interest rate lock commitments	1,240	—	1,240	—
Best-efforts contracts	(190)	—	(190)	—
Total	$ 99,648	$ —	$ 99,648	$ —

Description of Financial Instrument (in thousands)	Fair Value Measurements December 31, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mortgage loans held for sale	$ 127,001	$ —	$ 127,001	$ —
Forward sales of mortgage-backed securities	(93)	—	(93)	—
Interest rate lock commitments	321	—	321	—
Best-efforts contracts	(206)	—	(206)	—
Total	$ 127,023	$ —	$ 127,023	$ —

The following table sets forth the amount of gain (loss) recognized, within our revenue in the Unaudited Condensed Consolidated Statements of Income, on assets and liabilities measured on a recurring basis for the three and six months ended June 30, 2016 and 2015:

	Three Months Ended June 30,		Six Months Ended June 30,	
Description (in thousands)	2016	2015	2016	2015
Mortgage loans held for sale	$ 826	$ (1,182)	$ 2,186	$ (824)
Forward sales of mortgage-backed securities	(922)	1,812	(1,688)	1,432
Interest rate lock commitments	350	(573)	919	(228)
Best-efforts contracts	(53)	31	16	(128)
Total gain recognized	$ 201	$ 88	$ 1,433	$ 252

The following tables set forth the fair value of the Company's derivative instruments and their location within the Unaudited Condensed Consolidated Balance Sheets for the periods indicated (except for mortgage loans held for sale which is disclosed as a separate line item):

	Asset Derivatives June 30, 2016		Liability Derivatives June 30, 2016	
Description of Derivatives	Balance Sheet Location	Fair Value (in thousands)	Balance Sheet Location	Fair Value (in thousands)

Forward sales of mortgage-backed securities	Other assets	$ —	Other liabilities	$ 1,781
Interest rate lock commitments	Other assets	1,240	Other liabilities	—
Best-efforts contracts	Other assets	—	Other liabilities	190
Total fair value measurements		$ 1,240		$ 1,971

	Asset Derivatives December 31, 2015		Liability Derivatives December 31, 2015	
Description of Derivatives	Balance Sheet Location	Fair Value (in thousands)	Balance Sheet Location	Fair Value (in thousands)
Forward sales of mortgage-backed securities	Other assets	$ —	Other liabilities	$ 93
Interest rate lock commitments	Other assets	321	Other liabilities	—
Best-efforts contracts	Other assets	—	Other liabilities	206
Total fair value measurements		$ 321		$ 299

Assets Measured on a Non-Recurring Basis

Inventory. The Company assesses inventory for recoverability on a quarterly basis based on the difference in the carrying value of the inventory and its fair value at the time of the evaluation. Determining the fair value of a community’s inventory involves a number of variables, estimates and projections, which are Level 3 measurement inputs. See Note 1, “Summary of Significant

Accounting Policies - Inventory" in the Company's 2015 Form 10-K for additional information regarding the Company's methodology for determining fair value.

The Company uses significant assumptions to evaluate the recoverability of its inventory, such as estimated average selling price, construction and development costs, absorption pace (reflecting any product mix change strategies implemented or to be implemented), selling strategies, alternative land uses (including disposition of all or a portion of the land owned), or discount rates. Changes in these assumptions could materially impact future cash flow and fair value estimates and may lead the Company to incur additional impairment charges in the future. Our analysis is conducted only if indicators of a decline in value of our inventory exist, which include, among other things, declines in gross margin on sales contracts in backlog or homes that have been delivered, slower than anticipated absorption pace, declines in average sales price or high incentive offers by management to improve absorptions, declines in margins regarding future land sales, or declines in the value of the land itself as a result of third party appraisals. If communities are not recoverable based on the estimated future undiscounted cash flows, the impairment to be recognized is measured as the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. During the three and six months ended June 30, 2016 and 2015, the Company did not record any impairment charges on its inventory.

Investment In Unconsolidated Joint Ventures. We evaluate our investments in unconsolidated joint ventures for impairment on a quarterly basis based on the difference in the investment's carrying value and its fair value at the time of the evaluation. If the Company has determined that the decline in value is other than temporary, the Company would write down the value of the investment to its estimated fair value. Determining the fair value of investments in unconsolidated joint ventures involves a number of variables, estimates and assumptions, which are Level 3 measurement inputs. See Note 1, "Summary of Significant Accounting Policies - Investment in Unconsolidated Joint Ventures," in the Company's 2015 Form 10-K for additional information regarding the Company's methodology for determining fair value. Because of the high degree of judgment involved in developing these assumptions, it is possible that changes in these assumptions could materially impact future cash flow and fair value estimates of the investments which may lead the Company to incur additional impairment charges in the future. During the three and six months ended June 30, 2016 and 2015, the Company did not record any impairment charges on its investments in unconsolidated joint ventures.

Financial Instruments

Counterparty Credit Risk. To reduce the risk associated with losses that would be recognized if counterparties failed to perform as contracted, the Company limits the entities with whom management can enter into commitments. This risk of accounting loss is the difference between the market rate at the time of non-performance by the counterparty and the rate to which the Company committed.

The following table presents the carrying amounts and fair values of the Company's financial instruments at June 30, 2016 and December 31, 2015. The objective of the fair value measurement is to estimate the price at which an orderly transaction to sell the asset or transfer the liability would take place between market participants at the measurement date under current market conditions.

	June 30, 2016		December 31, 2015	
(In thousands)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:				
Cash, cash equivalents and restricted cash	$30,000	$30,000	$13,101	$13,101
Mortgage loans held for sale	100,379	100,379	127,001	127,001
Split dollar life insurance policies	214	214	199	199
Notes receivable	1,340	1,141	3,153	3,076
Commitments to extend real estate loans	1,240	1,240	321	321
Liabilities:				
Notes payable - homebuilding operations	70,000	70,000	43,800	43,800
Notes payable - financial services operations	92,666	92,666	123,648	123,648
Notes payable - other	8,552	7,789	8,441	8,039
Convertible senior subordinated notes due 2017 [(a)]	57,500	58,363	57,500	61,884
Convertible senior subordinated notes due 2018 [(a)]	86,250	84,741	86,250	84,741
Senior notes due 2021 [(a)]	300,000	298,875	300,000	295,500
Best-efforts contracts for committed IRLCs and mortgage loans held for sale	190	190	206	206
Forward sales of mortgage-backed securities	1,781	1,781	93	93
Off-Balance Sheet Financial Instruments:				
Letters of credit	—	862	—	735

(a) Our senior notes and convertible senior subordinated notes are stated at the principal amount outstanding which does not include the impact of premiums, discounts, and debt issuance costs that are amortized to interest cost over the respective terms of the notes.

The following methods and assumptions were used by the Company in estimating its fair value disclosures of financial instruments at June 30, 2016 and December 31, 2015:

Cash, Cash Equivalents and Restricted Cash. The carrying amounts of these items approximate fair value because they are short-term by nature.

Mortgage Loans Held for Sale, Forward Sales of Mortgage-Backed Securities, Commitments to Extend Real Estate Loans, Best-Efforts Contracts for Committed IRLCs and Mortgage Loans Held for Sale, Convertible Senior Subordinated Notes due 2017, Convertible Senior Subordinated Notes due 2018 and Senior Notes due 2021. The fair value of these financial instruments was determined based upon market quotes at June 30, 2016 and December 31, 2015. The market quotes used were quoted prices for similar assets or liabilities along with inputs taken from observable market data by correlation. The inputs were adjusted to account for the condition of the asset or liability.

Split Dollar Life Insurance Policy and Notes Receivable. The estimated fair value was determined by calculating the present value of the amounts based on the estimated timing of receipts using discount rates that incorporate management's estimate of risk associated with the corresponding note receivable.

Notes Payable - Homebuilding Operations. The interest rate available to the Company during the quarter ended June 30, 2016 fluctuated with the Alternate Base Rate or the Eurodollar Rate for the Company's $400 million unsecured revolving credit facility dated July 18, 2013, as amended (the "Credit Facility"), and thus the carrying value is a reasonable estimate of fair value. Refer to Note 7 for additional information regarding the Credit Facility.

Notes Payable - Financial Services Operations. M/I Financial, LLC ("M/I Financial") is a party to two credit agreements: (1) a $125 million secured mortgage warehousing agreement, dated June 24, 2016 (the "MIF Mortgage Warehousing Agreement"), which replaced the Mortgage Warehousing Agreement dated as of March 29, 2013 (as subsequently amended, the "Prior Agreement"); and (2) a $15 million mortgage repurchase agreement, as amended and restated on November 3, 2015, as further amended (the “MIF Mortgage Repurchase Facility”). For each of these credit facilities, the interest rate is based on a variable rate index, and thus their carrying value is a reasonable estimate of fair value. The interest rate available to M/I Financial during the second quarter of 2016 fluctuated with LIBOR. Refer to Note 7 for additional information regarding the MIF Mortgage Warehousing Agreement and the MIF Mortgage Repurchase Facility.

Notes Payable - Other. The estimated fair value was determined by calculating the present value of the future cash flows using the Company's current incremental borrowing rate.

Letters of Credit. Letters of credit of $37.3 million and $42.5 million represent potential commitments at June 30, 2016 and December 31, 2015, respectively. The letters of credit generally expire within one or two years. The estimated fair value of letters of credit was determined using fees currently charged for similar agreements.

NOTE 5. Guarantees and Indemnifications

In the ordinary course of business, M/I Financial, a 100%-owned subsidiary of M/I Homes, Inc., enters into agreements that guarantee certain purchasers of its mortgage loans that M/I Financial will repurchase a loan if certain conditions occur, primarily if the mortgagor does not meet the terms of the loan within the first six months after the sale of the loan. Loans totaling approximately $33.8 million and $12.2 million were covered under these guarantees as of June 30, 2016 and December 31, 2015, respectively. The increase in loans covered by these guarantees from December 31, 2015 is a result of a change in the mix of investors and their related purchase terms. A portion of the revenue paid to M/I Financial for providing the guarantees on these loans was deferred at June 30, 2016, and will be recognized in income as M/I Financial is released from its obligation under the guarantees. The risk associated with the guarantees above is offset by the value of the underlying assets.

M/I Financial has received inquiries concerning underwriting matters from purchasers of its loans regarding certain loans totaling approximately $1.0 million and $1.3 million at June 30, 2016 and December 31, 2015, respectively. The risk associated with the guarantees above is offset by the value of the underlying assets.

M/I Financial has also guaranteed the collectability of certain loans to third party insurers (U.S. Department of Housing and Urban Development and U.S. Veterans Administration) of those loans for periods ranging from five to thirty years. As of June 30, 2016 and December 31, 2015, the total of all loans indemnified to third party insurers relating to the above agreements was $1.6 million and $2.2 million, respectively. The maximum potential amount of future payments is equal to the outstanding loan value less the value of the underlying asset plus administrative costs incurred related to foreclosure on the loans, should this event occur.

The Company recorded a liability relating to the guarantees described above totaling $0.9 million and $1.2 million at June 30, 2016 and December 31, 2015, respectively, which is management's best estimate of the Company's liability.

NOTE 6. Commitments and Contingencies

Warranty

We use subcontractors for nearly all aspects of home construction. Although our subcontractors are generally required to repair and replace any product or labor defects, we are, during applicable warranty periods, ultimately responsible to the homeowner for making such repairs. As such, we record warranty reserves to cover our exposure to the costs for materials and labor not expected to be covered by our subcontractors to the extent they relate to warranty-type claims. Warranty reserves are established by charging cost of sales and crediting a warranty reserve for each home closed. Warranty reserves are recorded for warranties under our Home Builder's Limited Warranty ("HBLW"), and our 30-year (offered on all homes sold after April 25, 1998 and on or before December 1, 2015 in all of our markets except our Texas markets), 15-year (offered on all homes sold after December 1, 2015 in all of our markets except our Texas markets) or 10-year (offered on all homes sold in our Texas markets) transferable structural warranty in Other Liabilities on the Company's Unaudited Condensed Consolidated Balance Sheets.

The warranty reserves for the HBLW are established as a percentage of average sales price and adjusted based on historical payment patterns determined, generally, by geographic area and recent trends. Factors that are given consideration in determining the HBLW reserves include: (1) the historical range of amounts paid per average sales price on a home; (2) type and mix of amenity packages added to the home; (3) any warranty expenditures not considered to be normal and recurring; (4) timing of payments; (5) improvements in quality of construction expected to impact future warranty expenditures; and (6) conditions that may affect certain projects and require a different percentage of average sales price for those specific projects. Changes in estimates for warranties occur due to changes in the historical payment experience and differences between the actual payment pattern experienced during the period and the historical payment pattern used in our evaluation of the warranty reserve balance at the end of each quarter. Actual future warranty costs could differ from our current estimated amount.

Our warranty reserves for our transferable structural warranty programs are established on a per-unit basis. While the structural warranty reserve is recorded as each house closes, the sufficiency of the structural warranty per unit charge and total reserve is re-evaluated on an annual basis, with the assistance of an actuary, using our own historical data and trends, industry-wide historical data and trends, and other project specific factors. The reserves are also evaluated quarterly and adjusted if we encounter activity that is inconsistent with the historical experience used in the annual analysis. These reserves are subject to variability due to

uncertainties regarding structural defect claims for products we build, the markets in which we build, claim settlement history, insurance and legal interpretations, among other factors.
While we believe that our warranty reserves are sufficient to cover our projected costs, there can be no assurances that historical data and trends will accurately predict our actual warranty costs.
A summary of warranty activity for the three and six months ended June 30, 2016 and 2015 is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	2016	2015	2016	2015
Warranty reserves, beginning of period	$15,295	$11,551	$14,281	$12,671
Warranty expense on homes delivered during the period	2,482	2,044	4,522	3,583
Changes in estimates for pre-existing warranties	2,108	413	4,946	676
Settlements made during the period	(4,070)	(3,370)	(7,934)	(6,292)
Warranty reserves, end of period	$15,815	$10,638	$15,815	$10,638

We have received claims related to stucco installation from homeowners in certain of our Florida (Tampa and Orlando) communities and have been named as a defendant in legal proceedings initiated by certain of such homeowners. These claims primarily relate to homes built prior to 2014 which have second story elevations with frame construction. The issues are typically limited to stucco installation on the second stories of these homes and generally involve the cracking of stucco beyond normal expansion cracks or the separation of stucco from the exterior sheeting. We attribute the geographic concentration of stucco related claims in our Florida communities primarily to local construction practices employed by independent contractors in these areas.

Through 2015, we repaired certain of the affected homes and accrued for the estimated future cost of repairs for the other identified homes on which repairs had yet to be completed. The aggregate amounts of such repair costs and accruals were not material, and the reserve for identified homes in need of more than minor repair at December 31, 2015 was $0.5 million. During the first quarter of 2016, we received an increased number of stucco related claims in our Florida communities, and we recorded an additional accrual of $2.2 million as a change in estimate to our warranty reserves for homes that we had identified during the quarter as requiring more than minor repairs. At March 31, 2016, the remaining reserve was $1.8 million, covering the estimated repair costs for the approximately 138 identified homes on which repairs had yet to be completed.

During the second quarter of 2016, we continued to receive stucco related claims in certain of our Florida communities. During the second quarter, we identified 130 additional homes that require more than minor stucco repairs, we completed repairs on 90 of the identified homes, and we recorded an additional accrual of $2.8 million as a change in estimate to our warranty reserves (which change is reflected in “Changes in estimates for pre-existing warranties” in the above table) for homes that we identified during the quarter as requiring more than minor repairs. At June 30, 2016, the remaining reserve was $2.9 million, covering the estimated repair costs for the approximately 178 identified homes on which repairs had yet to be completed. This reserve does not include any estimate of the future stucco repair costs for homes for which we have not received claims.

Based on our ongoing receipt of additional claims, we have expanded the scope of our review of the stucco issues in our Florida communities and we are in the process of collecting and analyzing information to enable us to reasonably estimate the number of additional homes in our Florida communities that will require stucco repairs in the future and the nature and cost of those repairs. While, based on our analysis to date, we believe that it is probable that we will identify additional homes in our Florida communities that will require stucco repairs in the future, as of June 30, 2016, we are unable to reasonably estimate: (a) the number of such additional homes; (b) the cost to repair those homes; or (c) the ultimate amount of our liability. As we obtain additional information, we expect to revise our warranty reserves for these estimated future stucco repairs costs, which could be material.

During the second quarter of 2016, we also continued our investigation of the extent to which we may be able to recover a portion of our stucco repair and claims handling costs from other sources, including our direct insurers, the subcontractors involved with the construction of the homes and their insurers. As of June 30, 2016, we are unable to estimate an amount (if any) that we believe is probable that we will recover from these sources and, accordingly, we have not recorded a receivable for estimated recoveries nor included an estimated amount of recoveries in determining our warranty reserves.

Performance Bonds and Letters of Credit

At June 30, 2016, the Company had outstanding approximately $130.2 million of completion bonds and standby letters of credit, some of which were issued to various local governmental entities that expire at various times through May 2024. Included in this total are: (1) $85.5 million of performance and maintenance bonds and $30.2 million of performance letters of credit that serve as completion bonds for land development work in progress; (2) $7.1 million of financial letters of credit, of which $5.2 million represent deposits on land and lot purchase agreements; and (3) $7.4 million of financial bonds.

Land Option Contracts and Other Similar Contracts

At June 30, 2016, the Company also had options and contingent purchase agreements to acquire land and developed lots with an aggregate purchase price of approximately $533.1 million. Purchase of properties under these agreements is contingent upon satisfaction of certain requirements by the Company and the sellers.

Legal Matters

In addition to the legal proceedings related to stucco, the Company and certain of its subsidiaries have been named as defendants in certain other legal proceedings which are incidental to our business. While management currently believes that the ultimate resolution of these other legal proceedings, individually and in the aggregate, will not have a material effect on the Company's financial position, results of operations and cash flows, such legal proceedings are subject to inherent uncertainties. The Company has recorded a liability to provide for the anticipated costs, including legal defense costs, associated with the resolution of these other legal proceedings. However, the possibility exists that the costs to resolve these legal proceedings could differ from the recorded estimates and, therefore, have a material effect on the Company's net income for the periods in which they are resolved. At June 30, 2016 and December 31, 2015, we had $0.2 million and $0.6 million reserved for legal expenses, respectively.

NOTE 7. Debt

Notes Payable - Homebuilding

The Credit Facility provides for an aggregate commitment amount of $400 million, including a $125 million sub-facility for letters of credit. The Credit Facility matures on October 20, 2018. For the quarter ended June 30, 2016, interest on amounts borrowed under the Credit Facility was payable at either the Alternate Base Rate plus a margin of 150 basis points, or at the Eurodollar Rate plus a margin of 250 basis points. These interest rates are subject to adjustment in subsequent periods based on the Company's leverage ratio. The Credit Facility also contains certain financial covenants. At June 30, 2016, the Company was in compliance with all financial covenants of the Credit Facility. At June 30, 2016, borrowing availability under the Credit Facility in accordance with the borrowing base calculation was $499.7 million and, as a result, the full amount of the $400 million facility was available. At June 30, 2016, there were $70.0 million of borrowings outstanding and $35.7 million of letters of credit outstanding, leaving net remaining borrowing availability of $294.3 million.

The Company's obligations under the Credit Facility are guaranteed by all of the Company's subsidiaries, with the exception of subsidiaries that are primarily engaged in the business of mortgage financing, title insurance or similar financial businesses relating to the homebuilding and home sales business, certain subsidiaries that are not 100%-owned by the Company or another subsidiary, and other subsidiaries designated by the Company as Unrestricted Subsidiaries (as defined in Note 11), subject to limitations on the aggregate amount invested in such Unrestricted Subsidiaries in accordance with the terms of the Credit Facility and the indenture for the Company's $300.0 million aggregate principal amount of 6.75% Senior Notes due 2021 (the "2021 Senior Notes"). The guarantors for the Credit Facility (the "Guarantor Subsidiaries") are the same subsidiaries that guarantee the 2021 Senior Notes, the Company's $57.5 million aggregate principal amount of 3.25% Convertible Senior Subordinated Notes due 2017 (the "2017 Convertible Senior Subordinated Notes") and the Company's $86.3 million aggregate principal amount of 3.0% Convertible Senior Subordinated Notes due 2018 (the "2018 Convertible Senior Subordinated Notes").

The Company's obligations under the Credit Facility are general, unsecured senior obligations of the Company and the subsidiary guarantors and rank equally in right of payment with all our existing and future unsecured senior indebtedness. Our obligations under the Credit Facility are effectively subordinated to our existing and future secured indebtedness with respect to any assets comprising security or collateral for such indebtedness.

The Company is party to three secured credit agreements for the issuance of letters of credit outside of the Credit Facility (collectively, the "Letter of Credit Facilities"), with maturity dates ranging from August 31, 2016 to June 1,

2017. The agreements governing the Letter of Credit Facilities contain limits for the issuance of letters of credit ranging from $3.0 million to $5.0 million, for a combined letter of credit capacity of $12.0 million, of which $4.9 million was uncommitted at June 30, 2016 and could be withdrawn at any time. At June 30, 2016 and December 31, 2015, there was $1.7 million and $2.7 million of outstanding letters of credit in aggregate under the Company’s Letter of Credit Facilities, respectively, which were collateralized with $1.7 million and $2.7 million of the Company’s cash, respectively.

Notes Payable — Financial Services

The MIF Mortgage Warehousing Agreement is used to finance eligible residential mortgage loans originated by M/I Financial. In June 2016, M/I Financial amended and restated the MIF Mortgage Warehousing Agreement which, among other things, increased the maximum borrowing availability from $110 million to $125 million and extended the expiration date to June 23, 2017. The maximum borrowing availability is further increased to $150 million during certain periods of expected increases in the volume of mortgage originations, specifically from September 25, 2016 to October 15, 2016 and from December 15, 2016 to February 2, 2017. Interest on amounts borrowed under the MIF Mortgage Warehousing Agreement is payable at a per annum rate equal to the greater of (1) the floating LIBOR rate plus 250 basis points and (2) 2.75%. The agreement also contains certain financial covenants. At June 30, 2016, M/I Financial was in compliance with all financial covenants of the MIF Mortgage Warehousing Agreement.

The MIF Mortgage Repurchase Facility is used to finance eligible residential mortgage loans originated by M/I Financial and is structured as a mortgage repurchase facility with a maximum borrowing availability of $15 million and an expiration date of November 1, 2016. In December 2015, the agreement was amended to include a "seasonal increase" provision which increased the maximum borrowing availability to $20 million through January 31, 2016. M/I Financial pays interest on each advance under the MIF Mortgage Repurchase Facility at a per annum rate equal to the floating LIBOR rate plus 250 or 275 basis points depending on the loan type.

At June 30, 2016, M/I Financial's total combined maximum borrowing availability under the two credit facilities was $140.0 million, a decrease from $150.0 million from December 31, 2015 due to the seasonal increases that expired on February 1, 2016. At June 30, 2016 and December 31, 2015, M/I Financial had $92.7 million and $123.6 million outstanding on a combined basis under its credit facilities, respectively, and was in compliance with all financial covenants of those agreements for both periods.

Senior Notes

As of both June 30, 2016 and December 31, 2015, we had $300.0 million of our 2021 Senior Notes outstanding. The 2021 Senior Notes bear interest at a rate of 6.75% per year, payable semiannually in arrears on January 15 and July 15 of each year , and mature on January 15, 2021. The 2021 Senior Notes are general, unsecured senior obligations of the Company and the Guarantor Subsidiaries and rank equally in right of payment with all our existing and future unsecured senior indebtedness. The 2021 Senior Notes are effectively subordinated to our existing and future secured indebtedness with respect to any assets comprising security or collateral for such indebtedness.

The 2021 Senior Notes contain certain covenants, as more fully described and defined in the indenture governing the 2021 Senior Notes, which limit the ability of the Company and the restricted subsidiaries to, among other things: incur additional indebtedness; make certain payments, including dividends, or repurchase any shares, in an aggregate amount exceeding our "restricted payments basket"; make certain investments; and create or incur certain liens, consolidate or merge with or into other companies, or liquidate or sell or transfer all or substantially all of our assets. These covenants are subject to a number of exceptions and qualifications as described in the indenture governing the 2021 Senior Notes. As of June 30, 2016, the Company was in compliance with all terms, conditions, and covenants under the indenture.

The 2021 Senior Notes are fully and unconditionally guaranteed jointly and severally on a senior unsecured basis by all of our subsidiaries, with the exception of subsidiaries that are primarily engaged in the business of mortgage financing, title insurance or similar financial businesses relating to the homebuilding and home sales business, certain subsidiaries that are not 100%-owned by the Company or another subsidiary, and other subsidiaries designated by the Company as Unrestricted Subsidiaries (as defined in Note 11), subject to limitations on the aggregate amount invested in such Unrestricted Subsidiaries in accordance with the terms of the Credit Facility and the indenture governing the 2021 Senior Notes. As of June 30, 2016, the guarantors of the 2021 Senior Notes are the same subsidiaries that guarantee the Credit Facility, the 2017 Convertible Senior Subordinated Notes, and the 2018 Convertible Senior Subordinated Notes.

The Company may redeem all or any portion of the 2021 Senior Notes on or after January 15, 2018 at a stated redemption price, together with accrued and unpaid interest thereon. The redemption price will initially be 103.375% of the principal amount outstanding, but will decline to 101.688% of the principal amount outstanding if redeemed during the 12-month period beginning on January 15, 2019, and will further decline to 100.000% of the principal amount outstanding if redeemed on or after January 15, 2020, but prior to maturity.

The indenture governing our 2021 Senior Notes limits our ability to pay dividends on, and repurchase, our common shares and our 9.75% Series A Preferred Shares (the "Series A Preferred Shares") to the amount of the positive balance in our "restricted payments basket," as defined in the indenture. The "restricted payments basket" is equal to $125.0 million plus (1) 50% of our aggregate consolidated net income (or minus 100% of our aggregate consolidated net loss) from October 1, 2015, excluding income or loss from Unrestricted Subsidiaries, plus (2) 100% of the net cash proceeds from either contributions to the common equity of the Company after December 31, 2015 or the sale of qualified equity interests, plus other items and subject to other exceptions. The restricted payments basket was $135.1 million and $128.5 million at June 30, 2016 and December 31, 2015, respectively. The determination to pay future dividends on, or make future repurchases of, our common shares or Series A Preferred Shares will be at the discretion of our board of directors and will depend upon our results of operations, financial condition, capital requirements and compliance with debt covenants and the terms of our Series A Preferred Shares, and other factors deemed relevant by our board of directors.

Convertible Senior Subordinated Notes

As of both June 30, 2016 and December 31, 2015, we had $86.3 million of our 2018 Convertible Senior Subordinated Notes outstanding. The 2018 Convertible Senior Subordinated Notes bear interest at a rate of 3.0% per year, payable semiannually in arrears on March 1 and September 1 of each year. The 2018 Convertible Senior Subordinated Notes mature on March 1, 2018. At any time prior to the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert their 2018 Convertible Senior Subordinated Notes into the Company’s common shares. The conversion rate initially equals 30.9478 shares per $1,000 of principal amount. This corresponds to an initial conversion price of approximately $32.31 per common share, which equates to approximately 2.7 million common shares. The conversion rate is subject to adjustment upon the occurrence of certain events. The 2018 Convertible Senior Subordinated Notes are fully and unconditionally guaranteed jointly and severally on a senior subordinated unsecured basis by those subsidiaries of the Company that are guarantors under the Company’s Credit Facility, 2021 Senior Notes and 2017 Convertible Senior Subordinated Notes. The 2018 Convertible Senior Subordinated Notes are senior subordinated unsecured obligations of the Company and the subsidiary guarantors, are subordinated in right of payment to our existing and future senior indebtedness and are also effectively subordinated to our existing and future secured indebtedness with respect to any assets comprising security or collateral for such indebtedness. The indenture governing the 2018 Convertible Senior Subordinated Notes requires the Company to repurchase the notes (subject to certain exceptions), at a holder’s option, upon the occurrence of a fundamental change (as defined in the indenture).

The Company may redeem for cash any or all of the 2018 Convertible Senior Subordinated Notes (except for any 2018 Convertible Senior Subordinated Notes that the Company is required to repurchase in connection with a fundamental change), but only if the last reported sale price of the Company’s common shares exceeds 130% of the applicable conversion price for the notes on each of at least 20 applicable trading days. The 20 trading days do not need to be consecutive, but must occur during a period of 30 consecutive trading days that ends within 10 trading days immediately prior to the date the Company provides the notice of redemption. The redemption price for the 2018 Convertible Senior Subordinated Notes to be redeemed will equal 100% of the principal amount, plus accrued and unpaid interest, if any.

As of both June 30, 2016 and December 31, 2015, we had $57.5 million of our 2017 Convertible Senior Subordinated Notes outstanding. The 2017 Convertible Senior Subordinated Notes bear interest at a rate of 3.25% per year, payable semiannually in arrears on March 15 and September 15 of each year. The 2017 Convertible Senior Subordinated Notes mature on September 15, 2017. At any time prior to the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert their 2017 Convertible Senior Subordinated Notes into the Company’s common shares. The conversion rate initially equals 42.0159 shares per $1,000 of principal amount. This corresponds to an initial conversion price of approximately $23.80 per common share, which equates to approximately 2.4 million common shares. The conversion rate is subject to adjustment upon the occurrence of certain events. The 2017 Convertible Senior Subordinated Notes are fully and unconditionally guaranteed jointly and severally on a senior subordinated unsecured basis by those subsidiaries of the Company that are guarantors under the Company’s Credit Facility, 2021 Senior Notes and 2018 Convertible Senior Subordinated Notes. The 2017 Convertible Senior Subordinated Notes are senior subordinated unsecured obligations of the Company and the subsidiary guarantors, are subordinated in right of payment to our existing and future senior indebtedness and are also effectively subordinated to our existing and future secured indebtedness with respect to any assets comprising security or collateral for such indebtedness. The indenture governing the 2017 Convertible Senior Subordinated Notes provides that we may not redeem the notes prior to their stated maturity date, but also contains provisions requiring the Company to repurchase the 2017 Convertible Senior Subordinated Notes (subject to certain exceptions), at a holder's option, upon the occurrence of a fundamental change (as defined in the indenture).

Notes Payable - Other

The Company had other borrowings, which are reported in Notes Payable - Other in our Unaudited Condensed Consolidated Balance Sheets, totaling $8.6 million and $8.4 million as of June 30, 2016 and December 31, 2015, respectively. The balance consists primarily of a mortgage note payable with a