

FORM 10-Q
UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended **SEPTEMBER 30, 2007**

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission file number **1-10816**

MGIC INVESTMENT CORPORATION
(Exact name of registrant as specified in its charter)

WISCONSIN
(State or other jurisdiction of
incorporation or organization)

250 E. KILBOURN AVENUE
MILWAUKEE, WISCONSIN
(Address of principal executive offices)

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

53202
(Zip Code)

(414) 347-6480
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES NO

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

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES NO

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

<u>CLASS OF STOCK</u>	<u>PAR VALUE</u>	<u>DATE</u>	<u>NUMBER OF SHARES</u>
Common stock	\$1.00	10/31/07	81,793,299

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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
September 30, 2007 (Unaudited) and December 31, 2006

	September 30, 2007	December 31, 2006
	(In thousands of dollars)	
ASSETS		
Investment portfolio:		
Securities, available-for-sale, at market value:		
Fixed maturities (amortized cost, 2007-\$5,335,336; 2006-\$5,121,074)	\$ 5,407,021	\$ 5,249,854
Equity securities (cost, 2007-\$2,661; 2006-\$2,594)	2,614	2,568
	<hr/>	<hr/>
Total investment portfolio	5,409,635	5,252,422
Cash and cash equivalents	417,802	293,738
Accrued investment income	68,056	64,646
Reinsurance recoverable on loss reserves	16,204	13,417
Prepaid reinsurance premiums	8,556	9,620
Premiums receivable	102,868	88,071
Home office and equipment, net	34,380	32,603
Deferred insurance policy acquisition costs	11,775	12,769
Investments in joint ventures	145,696	655,884
Note receivable from joint venture	50,000	--
Income taxes recoverable	361,051	--
Other assets	212,366	198,501
	<hr/>	<hr/>
Total assets	\$ 6,838,389	\$ 6,621,671
	<hr/>	<hr/>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Loss reserves	\$ 1,561,611	\$ 1,125,715
Unearned premiums	227,660	189,661
Short- and long-term debt (note 2)	803,191	781,277
Income taxes payable	--	34,480
Other liabilities	213,639	194,661
	<hr/>	<hr/>
Total liabilities	2,806,101	2,325,794
	<hr/>	<hr/>
Contingencies (note 3)		
Shareholders' equity:		
Common stock, \$1 par value, shares authorized		
300,000,000; shares issued, 9/30/07 - 123,067,426		
12/31/06 - 123,028,976;		
shares outstanding, 9/30/07 - 81,793,299		
12/31/06 - 82,799,919	123,067	123,029
Paid-in capital	312,571	310,394

Treasury stock (shares at cost, 9/30/07 - 41,274,127 12/31/06 - 40,229,057)	(2,266,361)	(2,201,966)
Accumulated other comprehensive income, net of tax (note 5)	44,291	65,789
Retained earnings (note 8)	5,818,720	5,998,631
Total shareholders' equity	4,032,288	4,295,877
Total liabilities and shareholders' equity	\$ 6,838,389	\$ 6,621,671

See accompanying notes to consolidated financial statements.

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MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
Three and Nine Month Periods Ended September 30, 2007 and 2006
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
	(In thousands of dollars, except per share data)			
Revenues:				
Premiums written:				
Direct	\$ 384,281	\$ 340,268	\$ 1,084,647	\$ 1,014,751
Assumed	947	597	2,388	1,441
Ceded	(44,984)	(34,995)	(121,769)	(104,570)
Net premiums written	340,244	305,870	965,266	911,622
Increase in unearned premiums, net	(19,278)	(9,663)	(38,828)	(21,245)
Net premiums earned	320,966	296,207	926,438	890,377
Investment income, net of expenses	64,777	61,486	189,674	178,830
Realized investment gains (losses), net	164,995	185	152,156	(1,566)
Other revenue	4,702	11,519	25,853	34,292
Total revenues	555,440	369,397	1,294,121	1,101,933
Losses and expenses:				
Losses incurred, net	602,274	164,997	1,019,258	426,349
Underwriting and other expenses, net	86,325	70,704	236,727	216,461
Interest expense	10,926	9,849	30,479	28,007
Total losses and expenses	699,525	245,550	1,286,464	670,817
(Loss) income before tax and joint ventures	(144,085)	123,847	7,657	431,116
Provision for income tax	(62,235)	29,731	(33,619)	110,376
(Loss) income from joint ventures, net of tax	(290,619)	35,862	(244,667)	122,530
Net (loss) income	\$ (372,469)	\$ 129,978	\$ (203,391)	\$ 443,270
(Loss) earnings per share (note 4):				
Basic	\$ (4.61)	\$ 1.56	\$ (2.50)	\$ 5.21
Diluted	\$ (4.61)	\$ 1.55	\$ (2.50)	\$ 5.17
Weighted average common shares outstanding - diluted (shares in thousands, note 4)	80,786	83,766	81,480	85,762
Dividends per share	\$ 0.2500	\$ 0.2500	\$ 0.7500	\$ 0.7500

See accompanying notes to consolidated financial statements.

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Nine Months Ended September 30, 2007 and 2006
(Unaudited)

	Nine Months Ended September 30,	
	2007	2006
	(In thousands of dollars)	
Cash flows from operating activities:		
Net (loss) income	\$ (203,391)	\$ 443,270
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Amortization of capitalized deferred insurance policy acquisition costs	8,556	10,523
Deferred insurance policy acquisition costs	(7,562)	(5,979)
Depreciation and amortization	20,801	17,219
(Increase) decrease in accrued investment income	(3,410)	2,117
(Increase) decrease in reinsurance recoverable on loss reserves	(2,787)	1,261
Decrease (increase) in prepaid reinsurance premiums	1,064	(424)
(Increase) decrease in premium receivable	(14,797)	7,746
Increase (decrease) in loss reserves	435,896	(28,882)
Increase in unearned premiums	37,999	21,667
Decrease in income taxes payable	(309,971)	(24,181)
Equity losses (earnings) from joint ventures	384,158	(180,393)
Distributions from joint ventures	51,512	138,874
Realized (gain)/loss	(152,156)	1,566
Other	8,212	(10,198)
	254,124	394,186
Net cash provided by operating activities		
Cash flows from investing activities:		
Purchase of equity securities	(67)	(212)
Purchase of fixed maturities	(1,934,503)	(1,476,014)
Additional investment in joint ventures	(4,098)	(68,552)
Sale of investment in joint ventures	240,800	--
Note receivable from joint ventures	(50,000)	--
Proceeds from sale of fixed maturities	1,452,200	1,291,036
Proceeds from maturity of fixed maturities	261,162	229,113
Other	20,713	15,183
	(13,793)	(9,446)
Net cash provided (used in) by investing activities		
Cash flows from financing activities:		
Dividends paid to shareholders	(62,041)	(64,741)
Proceeds from note payable	300,000	--
Repayment of long-term debt	(200,000)	--
Proceeds from issuance of long-term debt	--	199,958
Net repayment of short-term debt	(82,110)	(108,841)
Reissuance of treasury stock	1,484	3,856
Repurchase of common stock	(75,659)	(373,049)
Common stock issued	2,098	15,912
Excess tax benefits from share-based payment arrangements	(39)	4,323
	(116,267)	(322,582)
Net cash used in financing activities		
Net increase in cash and cash equivalents	124,064	62,158
Cash and cash equivalents at beginning of period	293,738	195,256
	417,802	257,414
Cash and cash equivalents at end of period	\$	\$

See accompanying notes to consolidated financial statements.

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2007
(Unaudited)

Note 1 — Basis of presentation and summary of certain significant accounting policies

The accompanying unaudited consolidated financial statements of MGIC Investment Corporation (the "Company") and its wholly-owned subsidiaries have been prepared in accordance with the instructions to Form 10-Q as prescribed by the Securities and Exchange Commission ("SEC") for interim reporting and do not include all of the other information and disclosures required by accounting principles generally accepted in the United States of America. These statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2006 included in the Company's Annual Report on Form 10-K.

In the opinion of management such financial statements include all adjustments, consisting primarily of normal recurring accruals, necessary to fairly present the Company's financial position and results of operations for the periods indicated. The results of operations for the nine months ended September 30, 2007 may not be indicative of the results that may be expected for the year ending December 31, 2007.

Business Combination

In February 2007 the Company agreed to merge with Radian Group Inc. ("Radian"). On September 5, 2007 the Company and Radian jointly announced that they had entered into an agreement that effectively terminated their pending merger due to current market conditions which made combining the companies significantly more challenging. Except to reimburse certain third party expenses, neither party made payment to the other in connection with the termination.

Securities Lending

Periodically, the Company participates in securities lending, primarily as an investment yield enhancement, through a program administered by the Company's investment custodian. The program obtains collateral in an amount generally equal to 102% and 105% of the fair market value of domestic and foreign securities lent, respectively, and monitors the market value of the securities pledged as collateral on a daily basis and obtains additional collateral as necessary. The collateral received for securities loaned is included in the investment portfolio, and the offsetting obligation to return the collateral is reported as a liability, on the consolidated balance sheet. At September 30, 2007, the Company had no securities on loan under this program.

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New Accounting Standards

In February 2007, the FASB issued SFAS No. 159 "The Fair Value Option for Financial Assets and Financial Liabilities". This statement provides companies with an option to report selected financial assets and liabilities at fair value. The objective of this statement is to reduce both complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. The statement also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. The statement is effective for a company's first fiscal year beginning after November 15, 2007. The Company is currently evaluating the provisions of this statement and the impact, if any, this statement will have on the Company's results of operations and financial position.

In September 2006, the FASB issued SFAS No. 157 "Fair Value Measurements". This statement provides enhanced guidance for using fair value to measure assets and liabilities. This statement also provides expanded disclosure about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. This statement applies whenever other standards require or permit assets or liabilities to be measured at fair value. The statement does not expand the use of fair value in any new circumstances. The statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company is currently evaluating the provisions of this statement and the impact, if any, this statement will have on the Company's results of operations and financial position.

Reclassifications

Certain reclassifications have been made in the accompanying financial statements to 2006 amounts to conform to 2007 presentation.

Note 2 — Short- and long-term debt

The Company has a \$300 million commercial paper program, which is rated "A-1" by Standard and Poors ("S&P") and "P-1" by Moody's. At September 30, 2007 and December 31, 2006, the Company had \$5.0 million and \$84.1 million in commercial paper outstanding with a weighted average interest rate of 5.35% and 5.35%, respectively.

The Company has a \$300 million, five year revolving credit facility, expiring in March 2010. Under the terms of the credit facility, the Company must maintain shareholders' equity of at least \$2.25 billion and Mortgage Guaranty Insurance Corporation ("MGIC") must maintain a risk-to-capital ratio of not more than 22:1 and maintain policyholders' position (which includes MGIC's statutory surplus and its contingency reserve) of not less than the amount required by Wisconsin insurance regulation. At September 30, 2007, these requirements were met. The facility had been used as a liquidity back up facility for the outstanding commercial paper. On August 7, 2007 the Company drew the entire \$300 million on the revolving credit facility. These funds, in part, were utilized to repay the outstanding commercial paper, which approximated \$177 million at the time of the credit facility draw. The Company drew the portion of the revolving credit facility equal to the outstanding commercial paper because the Company believed that funding with a long-term maturity was superior to funding that required frequent renewal on a short-term basis. The Company drew the remainder of the credit facility to provide the Company with greater financial flexibility at the holding company level. At September 30, 2007 the Company continued to have the entire \$300 million outstanding under this facility.

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At December 31, 2006, the remaining credit available under the facility after reduction for the amount necessary to support the commercial paper was \$215.9 million.

At September 30, 2007 the Company had \$200 million, 5.625% Senior Notes due in September 2011 and \$300 million, 5.375% Senior Notes due in November 2015, as well as \$300 million outstanding under the credit facility. At December 31, 2006 the Company had \$300 million, 5.375% Senior Notes due in November 2015, \$200 million 5.625% Senior Notes due in September 2011 and \$200 million, 6% Senior Notes due in March 2007. In March 2007 the Company repaid the

\$200 million, 6% Senior Notes that came due with funds raised from the September 2006 public debt offering. At September 30, 2007 and December 31, 2006, the market value of the outstanding debt (which also includes commercial paper) was \$779.9 million and \$783.2 million, respectively.

Interest payments on all long-term and short-term debt were \$29.9 million and \$27.3 million for the nine months ended September 30, 2007 and 2006, respectively.

Note 3 — Litigation and contingencies

The Company is involved in litigation in the ordinary course of business. In the opinion of management, the ultimate resolution of this pending litigation will not have a material adverse effect on the financial position or results of operations of the Company.

Consumers are bringing a growing number of lawsuits against home mortgage lenders and settlement service providers. In recent years, seven 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 late December 2004 following denial of class certification in June 2004. Since December 2006, class action litigation was separately brought against a number of large lenders alleging that their captive mortgage reinsurance arrangements violated RESPA. While the Company is not a defendant in any of these cases, there can be no assurance that MGIC will not be subject to future litigation under RESPA or FCRA or that the outcome of any such litigation would not have a material adverse effect on the Company.

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In June 2005, in response to a letter from the New York Insurance Department (the "NYID"), the Company provided information regarding captive mortgage reinsurance arrangements and other types of arrangements in which lenders receive compensation. In February 2006, the NYID requested MGIC to review its premium rates in New York and to file adjusted rates based on recent years' experience or to explain why such experience would not alter rates. In March 2006, MGIC advised the NYID that it believes its premium rates are reasonable and that, given the nature of mortgage insurance risk, premium rates should not be determined only by the experience of recent years. In February 2006, in response to an administrative subpoena from the Minnesota Department of Commerce (the "MDC"), which regulates insurance, the Company provided the MDC with information about captive mortgage reinsurance and certain other matters. The Company subsequently provided additional information to the MDC. Other insurance departments or other officials, including attorneys general, may also seek information about or investigate captive mortgage reinsurance.

The anti-referral fee provisions of RESPA provide that the Department of Housing and Urban Development ("HUD") as well as the insurance commissioner or attorney general of any state may bring an action to enjoin violations of these provisions 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 the Company believes its captive reinsurance arrangements are in conformity with applicable laws and regulations, it is not possible to predict the outcome of any such reviews or investigations nor is it possible to predict their effect on the Company or the mortgage insurance industry.

In October 2007, the Division of Enforcement of the SEC requested that the Company voluntarily furnish documents and information primarily relating to Credit-Based Asset Servicing and Securitization, LLC ("C-BASS"), the now-terminated merger with Radian and subprime mortgage assets "in the Company's various lines of business." The Company is in the process of providing responsive documents and information to the SEC.

Under its contract underwriting agreements, the Company may be required to provide certain remedies to its customers if certain standards relating to the quality of the Company's underwriting work are not met. The cost of remedies provided by the Company to customers for failing to meet these standards has not been material to the Company's financial position or results of operations for the nine months ended September 30, 2007 and 2006.

See note 8 for a description of federal income tax contingencies.

Note 4 — Earnings per share

The Company's basic and diluted earnings per share ("EPS") have been calculated in accordance with SFAS No. 128, Earnings Per Share. The Company's net income is the same for both basic and diluted EPS. Basic EPS is based on the weighted average number of common shares outstanding. Typically, diluted EPS is based on the weighted average number of common shares outstanding plus common stock equivalents which include stock awards and stock options. In accordance with SFAS 128, if the Company reports a net loss from continuing operations the diluted EPS should be computed in the same manner as the basic EPS. The following is a reconciliation of the weighted average number of shares; note that for the three and nine months ended September 30, 2007 the diluted weighted-average shares are equivalent to the basic weighted-average shares due to a net loss from continuing operations.

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
	(in thousands)			
Weighted-average shares - Basic	80,786	83,238	81,480	85,161
Common stock equivalents	--	528	--	601
Weighted-average shares - Diluted	80,786	83,766	81,480	85,762

Note 5 — Comprehensive income

The Company's total comprehensive income, as calculated per SFAS No. 130, Reporting Comprehensive Income, was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
	(in thousands of dollars)			
Net (loss) income	\$ (372,469)	\$ 129,978	\$ (203,391)	\$ 443,270
Other comprehensive income (loss)	33,216	72,140	(21,498)	7,900
Total comprehensive (loss) income	\$ (339,253)	\$ 202,118	\$ (224,889)	\$ 451,170
Other comprehensive income (loss) (net of tax):				
Change in unrealized net derivative gains and losses	\$ --	\$ --	\$ --	\$ 777
Change in unrealized gains and losses on investments	30,325	72,138	(29,253)	7,085
Other	2,891	2	7,755	38
Other comprehensive income (loss)	\$ 33,216	\$ 72,140	\$ (21,498)	\$ 7,900

At September 30, 2007, accumulated other comprehensive income of \$44.3 million included \$54.4 million of net unrealized gains on investments, \$8.3 million relating to a foreign currency translation adjustment, (\$17.8) million relating to defined benefit plans and (\$0.6) million relating to the accumulated other comprehensive loss of the Company's joint venture investments, all net of tax. At December 31, 2006, accumulated other comprehensive income of \$65.8 million included \$83.7 million of net unrealized gains on investments, (\$17.8) million relating to defined benefit plans and (\$0.1) million relating to the accumulated other comprehensive loss of the Company's joint venture investments.

Note 6 — Benefit Plans

The following table provides the components of net periodic benefit cost for the pension, supplemental executive retirement and other postretirement benefit plans:

	Three Months Ended September 30,			
	Pension and Supplemental Executive Retirement Plans		Other Postretirement Benefits	
	2007	2006	2007	2006
	(In thousands of dollars)			
Service cost	\$ 2,527	\$ 2,348	\$ 753	\$ 907
Interest cost	3,137	2,607	683	1,020
Expected return on plan assets	(4,479)	(3,724)	(844)	(649)
Recognized net actuarial loss (gain)	288	35	(52)	105
Amortization of transition obligation	--	--	70	71
Amortization of prior service cost	141	216	--	--
Net periodic benefit cost	\$ 1,614	\$ 1,482	\$ 610	\$ 1,454

	Nine Months Ended September 30,			
	Pension and Supplemental Executive Retirement Plans		Other Postretirement Benefits	
	2007	2006	2007	2006
	(In thousands of dollars)			
Service cost	\$ 7,535	\$ 7,044	\$ 2,533	\$ 2,721

Interest cost	9,169	7,820	2,907	3,058
Expected return on plan assets	(13,219)	(11,172)	(2,452)	(1,946)
Recognized net actuarial loss (gain)	414	106	--	316
Amortization of transition obligation	--	--	212	213
Amortization of prior service cost	423	648	--	--
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net periodic benefit cost	\$ 4,322	\$ 4,446	\$ 3,200	\$ 4,362
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

In early October 2007 the Company contributed approximately \$8.0 million and \$2.0 million, respectively, to its pension and postretirement plans. The Company anticipates additional contributions of \$2.0 million and \$1.3 million, respectively, in the fourth quarter of 2007. As of September 30, 2007, no contributions had been made in 2007.

Note 7 – Investments in joint ventures

C-BASS

C-BASS, a limited liability company, is an unconsolidated, less than 50%-owned investment of the Company that is not controlled by the Company. The interests in C-BASS are owned by the Company and Radian in equal amounts, with the remaining interests owned by the management of C-BASS. Historically, C-BASS has been principally engaged in the business of investing in the credit risk of subprime single-family residential mortgages. Beginning in February 2007 and continuing through approximately the end of March 2007, the subprime mortgage market experienced significant turmoil. After a period of relative stability that persisted during April, May and through approximately late June, market dislocations recurred and then accelerated to unprecedented levels beginning in approximately mid-July 2007. As a result of margin calls from lenders that C-BASS has not been able to meet, C-BASS's purchases of mortgages and mortgage securities and its securitization activities ceased. The Company's investment in C-BASS (which is included in "Investments in Joint Ventures" on the consolidated balance sheet) consisted of approximately \$466 million of equity as of June 30, 2007.

On July 30, 2007, the Company announced that it had concluded that the value of its investment in C-BASS had been materially impaired. Beginning in early August and continuing through November 13, 2007, C-BASS and the holders of its debt have been parties to a series of agreements under which, among other things, these creditors agreed to forbear exercising their remedies resulting from defaults in their debt. These agreements were intended to give the parties time to determine whether a consensual, non-bankruptcy restructuring of C-BASS could be achieved.

In connection with the determination of the Company's results of operations for the quarter ended September 30, 2007, the Company determined that its investment in C-BASS would be written down through an impairment charge of \$466 million (the Company's entire equity investment). This impairment charge is reflected in the Company's results of operations for the third quarter.

The Company measured the value of its investment based upon the potential market for its equity interest in C-BASS and expected future cash flows of C-BASS. The expected future cash flows were determined through the Company's analysis of different scenarios, including a consensual, non-bankruptcy restructuring, which, in fact occurred on November 16, 2007 through an override agreement with C-BASS's creditors. The override agreement provides that C-BASS's assets are to be paid out over time to its secured and unsecured creditors. There are certain agreements and covenants contained in the override agreement and to the extent C-BASS were to breach one of those agreements or covenants, C-BASS may have to seek bankruptcy protection. The information in the scenarios was provided by C-BASS. The Company believes there is a high degree of uncertainty surrounding the amounts and timing of the cash flows in the scenarios and its analysis of them involved significant management judgment based upon currently available facts and circumstances, which are subject to change. The market analysis as well as the Company's analysis of the cash flow projections reflected little or no value for the Company's equity interest in C-BASS. Based on these analyses the Company's entire equity interest in C-BASS was written down through an impairment charge under the guidance of APB 18.

In late July 2007 the Company lent C-BASS \$50 million under a \$50 million unsecured credit facility provided to C-BASS on July 17, 2007. This note receivable is shown separately on the Company's consolidated balance sheet. If C-BASS were to incur additional losses in future periods, the Company may be required to reduce the value of the note in such periods under equity method accounting. Additionally, the Company used its analysis of the cash flow projection scenarios to arrive at its expectation that it will ultimately be paid full principal and stated interest on the \$50 million note receivable from C-BASS and as such no impairment amount has been recorded per SFAS 114. This conclusion was based upon the ultimate cash flows the Company expects C-BASS to have in relation to the relative priority of the note receivable compared to other creditors and equity holders. The Company may conclude, at a future date, that the entire value of its \$50 million note is impaired.

Summary C-BASS balance sheets and income statements at the dates and for the periods indicated appear below.

C-BASS Summary Balance Sheet:

	September 30, <u>2007</u>	December 31, <u>2006</u>
	(\$ millions)	
Total Assets	\$ 8,539	\$ 8,801
Total Liabilities	\$ 8,551	\$ 7,875
Debt	\$ 3,042	\$ 6,140
Owners' Equity	\$ (12)	\$ 926

Included in total assets and total liabilities at September 30, 2007 and December 31, 2006 were approximately \$4.6 billion and \$741 million, respectively, of assets and \$4.4 billion and \$720 million, respectively, of liabilities from securitizations that did not qualify for off-balance sheet treatment. The liabilities from these securitizations are not included in Debt in the table above. The increases from December 31, 2006 are the result of the acquisition of Fieldstone Investment Corporation in July 2007 which necessitated the consolidation of various Fieldstone securitization trusts which did not qualify for off-balance sheet treatment.

C-BASS Summary Income Statement:

	Three Months Ended September 30, 2007		Nine Months Ended September 30, 2007	
	2007	2006	2007	2006
	(\$ millions)			
Portfolio	\$ (888.9)	\$ 73.3	\$ (867.8)	\$ 270.7
Net servicing	38.0	47.1	148.0	136.8
Money management and other	1.4	8.0	10.4	24.1
Total revenue	(849.5)	128.4	(709.4)	431.6
Total expense	85.4	68.7	190.1	209.0
(Loss) Income before tax	\$ (934.9)	\$ 59.7	\$ (899.5)	\$ 222.6
Company's (loss) income from C-BASS	\$ (466.0)	\$ 27.5	\$ (449.6)	\$ 102.7

Sherman

Summary Sherman balance sheets and income statements at the dates and for the periods indicated appear below.

Sherman Summary Balance Sheet:

	September 30, 2007	December 31, 2006
	(\$ millions)	
Total Assets	\$ 2,093	\$ 1,204
Total Liabilities	\$ 1,725	\$ 923
Debt	\$ 1,511	\$ 761
Members' Equity	\$ 368	\$ 281

Sherman Summary Income Statement:

	Three Months Ended September 30, 2007		Nine Months Ended September 30, 2007	
	2007	2006	2007	2006
	(\$ millions)		(\$ millions)	
Revenues from receivable portfolios	\$ 273.8	\$ 247.5	\$ 832.9	\$ 794.7
Portfolio amortization	135.5	84.6	398.0	289.5

Revenues, net of amortization	138.3	162.9	434.9	505.2
Credit card interest income and fees	161.5	93.9	422.7	255.0
Other revenue	(1.4)	4.0	29.7	30.5
	<u>298.4</u>	<u>260.8</u>	<u>887.3</u>	<u>790.7</u>
Total revenues				
Total expenses	<u>238.2</u>	<u>179.5</u>	<u>674.3</u>	<u>548.9</u>
Income before tax	<u>\$ 60.2</u>	<u>\$ 81.3</u>	<u>\$ 213.0</u>	<u>\$ 241.8</u>
Company's share of pre-tax income	<u>\$ 18.1</u>	<u>\$ 26.7</u>	<u>\$ 70.5</u>	<u>\$ 82.2</u>

In September 2007, the Company sold a portion of its interest in Sherman Financial Group LLC ("Sherman") to an entity owned by Sherman's senior management. The interest sold by the Company represented approximately 16% of Sherman's equity. The Company received a cash payment of \$240.8 million in the sale and is entitled to a contingent payment if the management entity's after-tax return on the interests it purchased exceeds approximately 16% annually over a period that can end as late as December 31, 2013. The Company recorded a \$162.9 million pre-tax gain on this sale, which is reflected in the Company's results of operations for the third quarter of 2007 as a realized gain. After the sale, the Company owns approximately 24.25% of Sherman's interests, and Sherman's management owns approximately 54.0%. Radian, which also sold interests in Sherman to the management entity, owns the balance of Sherman. The Company will continue to account for this investment under the equity method of accounting.

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Note 8 – Income Taxes

Effective January 1, 2007, the Company has adopted FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes." The Interpretation seeks to reduce the significant diversity in practice associated with recognition and measurement in the accounting for income taxes. The interpretation applies to all tax positions accounted for in accordance with SFAS No. 109, "Accounting for Income Taxes." 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. As a result of the adoption, the Company recognized a decrease of \$85.5 million in the liability for unrecognized tax benefits, which was accounted for as an increase to the January 1, 2007 balance of retained earnings.

The total liability for unrecognized tax benefits as of September 30, 2007 was \$85.7 million. Included in that total are \$74.4 million in benefits that would affect the Company's effective tax rate. The Company recognizes interest accrued and penalties related to unrecognized tax benefits in income taxes. The Company has \$19.9 million for the payment of interest accrued as of September 30, 2007.

The establishment of this liability requires estimates of potential outcomes of various issues and requires significant judgment. Although the resolutions of these issues are uncertain, the Company believes that sufficient provisions for income taxes have been made for potential liabilities that may result. If the resolutions of these matters differ materially from the Company's estimates, it could have a material impact on the Company's effective tax rate, results of operations and cash flows.

On June 1, 2007, as a result of an examination by the Internal Revenue Service ("IRS") for taxable years 2000 through 2004, the Company received a Revenue Agent Report ("RAR"). The adjustments reported on the RAR substantially increase taxable income for those tax years and resulted in the issuance of an assessment for unpaid taxes totaling \$189.5 million in taxes and accuracy-related penalties, plus applicable interest. The Company has agreed with the IRS on certain issues and paid \$10.5 million in additional taxes and interest. The remaining open issue relates to the Company's 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 has indicated that it does not believe that, for various reasons, the Company has established sufficient tax basis in the REMIC residual interests to deduct the losses from taxable income. The Company disagrees with this conclusion and believes that the flow through income and loss from these investments was properly reported on its federal income tax returns in accordance with applicable tax laws and regulations in effect during the periods involved and has appealed these adjustments. The appeals process may take some time and a final resolution may not be reached until a date many months or years into the future. On July 2, 2007, the Company made a payment of \$65.2 million with the United States Department of the Treasury to eliminate the further accrual of interest.

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Note 9 — Condensed consolidating financial statements

The following condensed financial information sets forth, on a consolidating basis, the balance sheet, statement of operations, and statement of cash flows for MGIC Investment Corporation ("Parent Company"), which represents the Parent Company's investments in all of its subsidiaries under the equity method, Mortgage Guaranty Insurance Corporation and its subsidiaries ("MGIC Consolidated"), and all other subsidiaries of the Company ("Other") on a combined basis. The eliminations column represents entries eliminating investments in subsidiaries, intercompany balances, and intercompany revenues and expenses.

Condensed Consolidating Balance Sheets
At September 30, 2007
(in thousands of dollars)

	Parent Company	MGIC Consolidated	Other	Eliminations	Total
ASSETS					
Total investments	\$ 112,448	\$ 4,984,595	\$ 312,592	\$ --	\$ 5,409,635
Cash and cash equivalents	122,318	244,698	50,786	--	417,802
Reinsurance recoverable on loss reserves	--	124,913	12	(108,721)	16,204
Prepaid reinsurance premiums	--	21,644	1	(13,089)	8,556
Deferred insurance policy acquisition costs	--	11,775	--	--	11,775
Investments in subsidiaries/joint ventures	4,535,471	143,074	2,622	(4,535,471)	145,696
Other assets	74,774	815,716	48,360	(110,129)	828,721
Total assets	\$ 4,845,011	\$ 6,346,415	\$ 414,373	\$ (4,767,410)	\$ 6,838,389
LIABILITIES AND SHAREHOLDERS' EQUITY					
Liabilities:					
Loss reserves	\$ --	\$ 1,561,611	\$ 108,721	\$ (108,721)	\$ 1,561,611
Unearned premiums	--	227,660	13,089	(13,089)	227,660
Short- and long-term debt	803,152	9,364	--	(9,325)	803,191
Other liabilities	9,571	255,449	43,857	(95,238)	213,639
Total liabilities	812,723	2,054,084	165,667	(226,373)	2,806,101
Total shareholders' equity	4,032,288	4,292,331	248,706	(4,541,037)	4,032,288
Total liabilities and shareholders' equity	\$ 4,845,011	\$ 6,346,415	\$ 414,373	\$ (4,767,410)	\$ 6,838,389

Condensed Consolidating Balance Sheets
At December 31, 2006
(in thousands of dollars)

	Parent Company	MGIC Consolidated	Other	Eliminations	Total
ASSETS					
Total investments	\$ 27,374	\$ 4,935,881	\$ 289,167	\$ --	\$ 5,252,422
Cash and cash equivalents	162,198	99,286	32,254	--	293,738
Reinsurance recoverable on loss reserves	--	78,114	21	(64,718)	13,417
Prepaid reinsurance premiums	--	24,779	4	(15,163)	9,620
Deferred insurance policy acquisition costs	--	12,769	--	--	12,769
Investments in subsidiaries/joint ventures	4,882,408	652,910	2,974	(4,882,408)	655,884
Other assets	15,228	391,247	27,598	(50,252)	383,821
Total assets	\$ 5,087,208	\$ 6,194,986	\$ 352,018	\$ (5,012,541)	\$ 6,621,671
LIABILITIES AND SHAREHOLDERS' EQUITY					
Liabilities:					
Loss reserves	\$ --	\$ 1,125,715	\$ 64,718	\$ (64,718)	\$ 1,125,715
Unearned premiums	--	189,661	15,163	(15,163)	189,661
Short- and long-term debt	781,238	9,364	--	(9,325)	781,277
Other liabilities	10,093	219,105	31,651	(31,708)	229,141
Total liabilities	791,331	1,543,845	111,532	(120,914)	2,325,794

Total shareholders' equity	4,295,877	4,651,141	240,486	(4,891,627)	4,295,877
Total liabilities and shareholders' equity	\$ 5,087,208	\$ 6,194,986	\$ 352,018	\$ (5,012,541)	\$ 6,621,671

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Condensed Consolidating Statements of Operations
Three months ended September 30, 2007
(in thousands of dollars)

	Parent Company	MGIC Consolidated	Other	Eliminations	Total
Revenues:					
Net premiums written	\$ --	\$ 319,992	\$ 20,304	\$ (52)	\$ 340,244
Net premiums earned	--	299,663	21,355	(52)	320,966
Equity in undistributed net income of subsidiaries	(521,335)	--	--	521,335	--
Dividends received from subsidiaries	155,000	--	--	(155,000)	--
Investment income, net of expenses	1,771	58,052	4,954	--	64,777
Realized investment gains, net	--	161,741	3,254	--	164,995
Other revenue	--	2,472	2,230	--	4,702
Total revenues	(364,564)	521,928	31,793	366,283	555,440
Losses and expenses:					
Losses incurred, net	--	559,274	43,000	--	602,274
Underwriting and other expenses	68	65,778	20,543	(64)	86,325
Interest expense	10,926	--	--	--	10,926
Total losses and expenses	10,994	625,052	63,543	(64)	699,525
Loss before tax and joint ventures	(375,558)	(103,124)	(31,750)	366,347	(144,085)
Credit for income tax	(3,089)	(47,316)	(11,504)	(326)	(62,235)
Loss from joint ventures, net of tax	--	(290,614)	(5)	--	(290,619)
Net loss	\$ (372,469)	\$ (346,422)	\$ (20,251)	\$ 366,673	\$ (372,469)

Condensed Consolidating Statements of Operations
Three months ended September 30, 2006
(in thousands of dollars)

	Parent Company	MGIC Consolidated	Other	Eliminations	Total
Revenues:					
Net premiums written	\$ --	\$ 287,209	\$ 18,696	\$ (35)	\$ 305,870
Net premiums earned	--	276,908	19,334	(35)	296,207
Equity in undistributed net income of subsidiaries	(18,635)	--	--	18,635	--
Dividends received from subsidiaries	155,000	--	--	(155,000)	--
Investment income, net of expenses	87	57,119	4,280	--	61,486
Realized investment gains, net	--	(100)	34	251	185
Other revenue	--	2,724	8,795	--	11,519
Total revenues	136,452	336,651	32,443	(136,149)	369,397

Losses and expenses:					
Losses incurred, net	--	154,632	10,365	--	164,997
Underwriting and other expenses	65	50,788	19,897	(46)	70,704
Interest expense	9,849	--	--	--	9,849
Total losses and expenses	9,914	205,420	30,262	(46)	245,550
Income before tax and joint ventures	126,538	131,231	2,181	(136,103)	123,847
Provision (credit) for income tax	(3,440)	32,957	(123)	337	29,731
Income from joint ventures, net of tax	--	35,862	--	--	35,862
Net income	\$ 129,978	\$ 134,136	\$ 2,304	\$ (136,440)	\$ 129,978

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Condensed Consolidating Statements of Operations
Nine months ended September 30, 2007
(in thousands of dollars)

	Parent Company	MGIC Consolidated	Other	Eliminations	Total
Revenues:					
Net premiums written	\$ --	\$ 908,328	\$ 57,063	\$ (125)	\$ 965,266
Net premiums earned	--	867,430	59,133	(125)	926,438
Equity in undistributed net income of subsidiaries	(451,404)	--	--	451,404	--
Dividends received from subsidiaries	265,000	--	--	(265,000)	--
Investment income, net of expenses	4,223	171,681	13,770	--	189,674
Realized investment gains, net	--	159,220	(7,064)	--	152,156
Other revenue	--	7,652	18,201	--	25,853
Total revenues	(182,181)	1,205,983	84,040	186,279	1,294,121
Losses and expenses:					
Losses incurred, net	--	942,124	77,134	--	1,019,258
Underwriting and other expenses	233	174,595	62,058	(159)	236,727
Interest expense	30,479	--	--	--	30,479
Total losses and expenses	30,712	1,116,719	139,192	(159)	1,286,464
(Loss) income before tax and joint venture	(212,893)	89,264	(55,152)	186,438	7,657
Credit for income tax	(9,502)	(3,187)	(17,827)	(3,103)	(33,619)
(Loss) income from joint ventures, net of tax	--	(244,757)	90	--	(244,667)
Net loss	\$ (203,391)	\$ (152,306)	\$ (37,235)	\$ 189,541	\$ (203,391)

Condensed Consolidating Statements of Operations
Nine months ended September 30, 2006
(in thousands of dollars)

	Parent Company	MGIC Consolidated	Other	Eliminations	Total
Revenues:					
Net premiums written	\$ --	\$ 850,926	\$ 60,793	\$ (97)	\$ 911,622
	--	837,010	53,464	(97)	890,377

Net premiums earned					
Equity in undistributed net income of subsidiaries	(53,555)	--	--	53,555	--
Dividends received from subsidiaries	515,000	--	--	(515,000)	--
Investment income, net of expenses	237	168,519	10,074	--	178,830
Realized investment gains, net	--	(1,948)	131	251	(1,566)
Other revenue	--	8,081	26,211	--	34,292
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total revenues	461,682	1,011,662	89,880	(461,291)	1,101,933
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Losses and expenses:					
Losses incurred, net	--	405,984	20,365	--	426,349
Underwriting and other expenses	192	156,067	60,332	(130)	216,461
Interest expense	28,007	--	--	--	28,007
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total losses and expenses	28,199	562,051	80,697	(130)	670,817
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Income before tax and joint ventures	433,483	449,611	9,183	(461,161)	431,116
Provision (credit) for income tax	(9,787)	118,653	1,118	392	110,376
Income from joint ventures, net of tax	--	122,530	--	--	122,530
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net income	\$ 443,270	\$ 453,488	\$ 8,065	\$ (461,553)	\$ 443,270
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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**Condensed Consolidating Statements of Cash Flows
For the Nine Months Ended September 30, 2007
(in thousands of dollars)**

	Parent Company	MGIC Consolidated	Other	Eliminations	Total
Net cash from operating activities:	\$ 208,420	\$ 306,903	\$ 50,762	\$ (311,961)	\$ 254,124
Net cash (used in) from investing activities:	(132,072)	103,509	(32,230)	47,000	(13,793)
Net cash used in financing activities:	(116,228)	(265,000)	--	264,961	(116,267)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net (decrease) increase in Cash	\$ (39,880)	\$ 145,412	\$ 18,532	\$ --	\$ 124,064
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

(1) Includes dividends received from subsidiaries of \$265,000.

**Condensed Consolidating Statements of Cash Flows
For the Nine Months Ended September 30, 2006
(in thousands of dollars)**

	Parent Company	MGIC Consolidated	Other	Eliminations	Total
Net cash from operating activities:	\$ 524,365	\$ 346,733	\$ 60,911	\$ (537,823)	\$ 394,186
Net cash (used in) from investing activities:	(18,350)	47,027	(56,623)	18,500	(9,446)
Net cash used in financing activities:	(326,905)	(515,000)	--	519,323	(322,582)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net increase (decrease) in Cash	\$ 179,110	\$ (121,240)	\$ 4,288	\$ --	\$ 62,158
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

(1) Includes dividends received from subsidiaries of \$515,000.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

Termination of Proposed Merger with Radian Group

In February 2007 we agreed to merge with Radian. On September 5, 2007 we announced, along with Radian, that we had entered into an agreement that effectively terminated our pending merger due to current market conditions which made combining the companies significantly more challenging. Except to reimburse certain third party expenses, neither party made payment to the other in connection with the termination.

C-BASS Impairment

On July 30, 2007, we announced that we had concluded that the value of our investment in C-BASS had been materially impaired. C-BASS, a limited liability company, is an unconsolidated, less than 50%-owned investment of ours that is not controlled by us. The interests in C-BASS are owned by us and Radian in equal amounts, with the remaining interests owned by the management of C-BASS. Historically, C-BASS has been principally engaged in the business of investing in the credit risk of subprime single-family residential mortgages. Beginning in February 2007 and continuing through approximately the end of March 2007, the subprime mortgage market experienced significant turmoil. After a period of relative stability that persisted during April, May and through approximately late June, market dislocations recurred and then accelerated to unprecedented levels beginning in approximately mid-July 2007. As a result of margin calls from lenders that C-BASS has not been able to meet, C-BASS's purchases of mortgages and mortgage securities and its securitization activities ceased. Beginning in early August and continuing through November 13, 2007, C-BASS and the holders of its debt have been parties to a series of agreements under which, among other things, these creditors agreed to forbear exercising their remedies resulting from defaults in their debt. These agreements were intended to give the parties time to determine whether a consensual, non-bankruptcy restructuring of C-BASS could be achieved.

In connection with the determination of our results of operations for the quarter ended September 30, 2007, we determined that our investment in C-BASS would be written down through an impairment charge of \$466 million (our entire equity investment). This impairment charge is reflected in our results of operations for the third quarter.

We measured the value of our investment based upon the potential market for the equity interest in C-BASS and expected future cash flows of C-BASS. The expected future cash flows were determined through our analysis of different scenarios, including a consensual, non-bankruptcy restructuring, which, in fact occurred on November 16, 2007 through an override agreement with C-BASS's creditors. The override agreement provides that C-BASS's assets are to be paid out over time to its secured and unsecured creditors. There are certain agreements and covenants contained in the override agreement and to the extent C-BASS were to breach one of those agreements or covenants, C-BASS may have to seek bankruptcy protection. The information in the scenarios was provided by C-BASS. We believe there is a high degree of uncertainty surrounding the amounts and timing of the cash flows in the scenarios and our analysis of them involved significant management judgment based upon currently available facts and circumstances, which are subject to change. The market analysis as well as our analysis of the cash flow projections reflected little or no value for our equity interest in C-BASS. Based on these analyses our entire equity interest in C-BASS was written down through an impairment charge under the guidance of APB 18.

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In late July 2007 we lent C-BASS \$50 million under a \$50 million unsecured credit facility provided to C-BASS on July 17, 2007. This note receivable is shown separately on our consolidated balance sheet. If C-BASS were to incur additional losses in future periods, we may be required to reduce the value of the note in such periods under equity method accounting. Additionally, we used our analysis of the cash flow projection scenarios to arrive at our expectation that we will ultimately be paid full principal and stated interest on the \$50 million note receivable from C-BASS and as such no impairment amount has been recorded per SFAS 114. This conclusion was based upon the ultimate cash flows we expect C-BASS to have in relation to the relative priority of the note receivable compared to other creditors and equity holders. We may conclude, at a future date, that the entire value of our \$50 million note is impaired.

For further information regarding our determination that our interests in C-BASS are impaired, including margin calls that led to C-BASS's liquidity problems, you should read our Current Report on Form 8-K filed on August 1, 2007, as amended by the Form 8-K/A we filed on October 17, 2007.

Business and General Environment

Through our subsidiary Mortgage Guaranty Insurance Corporation ("MGIC"), we are the leading provider of private mortgage insurance in the United States to the home mortgage lending industry. Our principal products are primary mortgage insurance and pool mortgage insurance. Primary mortgage insurance may be written through the flow market channel, in which loans are insured in individual, loan-by-loan transactions. Primary mortgage insurance may also be written through the bulk market channel, in which portfolios of loans are individually insured in single, bulk transactions.

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As used below, "we" and "our" refer to MGIC Investment Corporation's consolidated operations. The discussion below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the year ended December 31, 2006. We refer to this Discussion as the "10-K MD&A."

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 the size of the in force book of insurance. New insurance written is the aggregate principal amount of the mortgages that are insured during a period and is referred to as "NIW". NIW is affected by many factors, including the

volume of low down payment home mortgage originations and competition to provide credit enhancement on those mortgages, including competition from other mortgage insurers and alternatives to mortgage insurance, such as piggyback loans.

- Cancellations, which reduce the size of the in force book of insurance that generates premiums. 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, as well as by home price appreciation.
- Premium rates, which are affected by the risk characteristics of the loans insured and the percentage of coverage on the loans.
- Premiums ceded to reinsurance subsidiaries of certain mortgage lenders and risk sharing arrangements with the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation (government sponsored entities or "GSEs").

Premiums are generated by the insurance that is in force during all or a portion of the period. Hence, lower average insurance in force in one period compared to another is a factor that will reduce premiums written and earned, although this effect may be mitigated (or enhanced) by differences in the average premium rate between the two periods as well as by premium that is ceded. Also, NIW 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 highly rated, 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, including investment earnings, less cash used for non-investment purposes, such as share repurchases. Realized gains and losses are a function of the difference between the amount received on sale of a security and the security's amortized cost. The amount received on sale of fixed income securities is affected by the coupon rate of the security compared to the yield of comparable securities.

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- Losses incurred

Losses incurred are the expense that results from a payment delinquency on an insured loan. As explained under "Critical Accounting Policies" in the 10-K MD&A, this expense is recognized only when a loan is delinquent. Losses incurred are generally affected by:

- The state of the economy 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 delinquencies has historically followed a seasonal pattern, with a reduction in delinquencies in the first part of the year, followed by an increase in the latter part of the year. However, this pattern did not continue during the second quarter of 2007, when delinquencies increased sequentially over the first quarter of the year.
- The product mix of the in force book, with loans having higher risk characteristics generally resulting in higher delinquencies and claims.
- The average claim payment, which is affected by the size of loans insured (higher average loan amounts tend to increase losses incurred), the percentage coverage on insured loans (deeper average coverage tends to increase incurred losses), and changes in housing values, which in this regard affect our ability to mitigate our losses through sales of properties with delinquent mortgages.
- The distribution of claims over the life of a book. Historically, the first two years after a loan is originated are a period of relatively low claims, with claims increasing substantially for several years subsequent and then declining, although persistency, the condition of the economy and other factors can affect this pattern.

- Underwriting and other expenses

Historically, our operating expenses generally vary with the level of mortgage origination activity, contract underwriting volume. Recently, our expansion into international markets has also affected our operating expenses. Contract underwriting generates fee income included in "Other revenue."

- Income from joint ventures

Our results of operations are also affected by income from joint ventures. Historically, joint venture income principally consisted of the aggregate results of our investment in two less than majority owned joint ventures, C-BASS and Sherman. As noted in the section titled "C-BASS Impairment" above, in the third quarter of 2007, joint venture income included an impairment charge equal to our entire equity interest in C-BASS. As a result, in future periods our joint venture income will principally consist of income from Sherman.

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C-BASS: As noted in the section titled "C-BASS Impairment" above, C-BASS's purchases of mortgages and mortgage securities and its securitization activities have ceased and C-BASS has reached an out-of-court restructuring with its lenders. Please refer to our Quarterly Report on Form 10-Q for the Quarter Ended June 30, 2007 for a description of the historical business activities of C-BASS.

Sherman: Sherman is principally engaged in purchasing and collecting for its own account delinquent consumer receivables, which are primarily unsecured, and in originating and servicing subprime credit card receivables. The borrowings used to finance these activities are included in Sherman's balance sheet. During the second and third quarters of 2007 Sherman acquired several portfolios of subprime second mortgages for an approximate

aggregate purchase price of \$415 million. The portfolios are being accounted for on a non-accrual basis. Over the years Sherman has periodically acquired portfolios of non-performing second mortgages as well as mortgage securities in which the collateral is second mortgages.

Sherman's consolidated results of operations are primarily affected by:

- Revenues from delinquent receivable portfolios

These revenues are the cash collections on such portfolios, and depend on the aggregate amount of delinquent receivables owned by Sherman, the type of receivable and the length of time that the receivable has been owned by Sherman.

- Amortization of delinquent receivable portfolios

Amortization is the recovery of the cost to purchase the receivable portfolios. Amortization expense is a function of estimated collections from the portfolios over their estimated lives. If estimated collections cannot be reasonably predicted, cost is fully recovered before any net revenue (the difference between revenues from a receivable portfolio and that portfolio's amortization) is recognized.

- Credit card interest and fees, along with the coincident provision for losses for uncollectible amounts.
- Costs of collection, which include servicing fees paid to third parties to collect receivables.

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2007 Third Quarter Results

Our results of operations in the third quarter of 2007 were principally affected by:

- Losses incurred

Losses incurred for the third quarter of 2007 significantly increased compared to the same period in 2006 primarily due to significant increases in the default inventory and estimates regarding how much will be paid on claims (severity), as well as an increase in the estimates regarding how many delinquencies will result in a claim (claim rate), when each are compared to the same period in 2006. The default inventory increased by approximately 10,200 delinquencies in the third quarter of 2007, compared to an increase of approximately 3,000 in the third quarter of 2006. The increase in estimated severity is primarily the result of the default inventory containing higher loan exposures with expected higher average claim payments as well as a decrease in our ability to mitigate losses through the sale of properties in some geographical areas due to slowing home price appreciation in such areas or declines in home values. The increase in estimated claim rate is due to decreased cure rates in certain markets, particularly California and Florida, and continued weakness in the Midwest.

- Premiums written and earned

Premiums written and earned during the third quarter of 2007 increased compared to the same period in 2006. The average insurance in force continues to increase, but has been somewhat offset by lower average premium yields due to a higher proportion of insurance in force written through the flow channel compared to the same period a year ago.

- Underwriting and other expenses

Underwriting and other expenses for the third quarter of 2007 increased when compared to the same period in 2006. The increase was primarily due to \$11.3 million in one-time expenses associated with the terminated merger with Radian, as well as international expansion.

- Investment income

Investment income in the third quarter of 2007 was higher when compared to the same period 2006 due to an increase in the pre-tax yield as well as an increase in the average amortized cost of invested assets.

- Realized gains

Realized gains in the third quarter of 2007 were significantly higher than gains reported in third quarter of 2006, primarily due to a \$162.9 million pre-tax gain on the sale of a portion our interest in Sherman.

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- Income from joint ventures

In the third quarter of 2007 we recorded an after-tax loss from joint ventures of \$291 million, compared to \$36 million in after-tax income in the third quarter of 2006. The loss was primarily due to the after-tax impairment of C-BASS of \$303 million, offset by equity earnings from Sherman.

RESULTS OF CONSOLIDATED OPERATIONS

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

NIW

The amount of our NIW (this term is defined under “Premiums written and earned” in the “Overview—Business and General Environment” section) during the three and nine months ended September 30, 2007 and 2006 was as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
	(\$ billions)			
NIW - Flow Channel	\$ 19.7	\$ 10.9	\$ 47.3	\$ 28.9
NIW - Bulk Channel	1.4	5.8	5.5	13.9
Total NIW	\$ 21.1	\$ 16.7	\$ 52.8	\$ 42.8
Refinance volume as a % of primary flow NIW	21%	20%	23%	23%

The increase in NIW on a flow basis in the third quarter and first nine months of 2007, compared to the same periods in 2006, was primarily due to renewed interest among customers in credit quality protection, which we believe was affected by slowing property appreciation and declines in property values, along with changes in interest rates, and mortgage insurance tax deductibility. For a discussion of NIW written through the bulk channel, see “Bulk transactions” below.

We anticipate that 2008 total mortgage originations will approximate \$1.8 to \$2.0 trillion with flow mortgage insurance penetration approximating 16% to 17%. We anticipate our NIW for 2008 to approximate \$60 to \$64 billion, which is slightly below our expectation for 2007. NIW for 2006 was \$58.2 billion.

As we have disclosed for some time in our Risk Factors (which are an integral part of this Management’s Discussion and Analysis), in recent years, the percentage of our volume written on a flow basis that includes segments we view as having a higher probability of claim has continued to increase. In particular, the percentage of our flow NIW with LTV ratios greater than 95% continues to grow. For the nine months ended September 30, 2007 43% of our flow NIW had LTV ratios greater than 95%, compared to 32% for the same period in 2006.

Effective November 1, 2007 we have implemented new underwriting guidelines that are intended to allow us to better manage our risk, particularly on loans with multiple high risk factors. We are also in the process of implementing a number of premium rate increases on these loan programs. In general the premium rate increases will be implemented on loans with LTV ratios greater than 95%, on loans categorized as A minus and on loans categorized as Alt-A, or loans that have reduced documentation.

In June 2007 we wrote our first insurance policies in Australia and we anticipate writing policies in Canada in 2008, although the results of these international operations are not expected to be material to us for some time.

Cancellations and insurance in force

NIW and cancellations of primary insurance in force during the three and nine months ended September 30, 2007 and 2006 were as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
	(\$ billions)			
	\$ 21.1	\$ 16.7	\$ 52.8	\$ 42.8

NIW				
Cancellations	(10.6)	(13.1)	(32.7)	(39.4)
Change in primary insurance in force	\$ 10.5	\$ 3.6	\$ 20.1	\$ 3.4

Direct primary insurance in force was \$196.6 billion at September 30, 2007 compared to \$176.5 billion at December 31, 2006 and \$173.4 billion at September 30, 2006.

In the third quarter of 2007 insurance in force increased \$10.5 billion. This was the sixth consecutive quarter of growth in the in force book, as well as our largest quarter of growth in the past ten years. We anticipate 8% to 10% growth in the insurance in force during 2008.

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. Our persistency rate (percentage of insurance remaining in force from one year prior) was 74.0% at September 30, 2007, an increase from 69.6% at December 31, 2006 and 67.8% at September 30, 2006. These persistency rate improvements and the related decline in cancellations reflect the general upward trend in mortgage interest rates and the declining rate of home price appreciation in some markets and declines in housing values in other markets. We continue to expect modest improvement in the persistency rate for the remainder of 2007, although this expectation assumes the absence of significant declines in the level of mortgage interest rates from their level in late October 2007.

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Bulk transactions

Our writings of bulk insurance are in part sensitive to the volume of securitization transactions involving loans not sold to the GSEs and more recently to purchases by the GSEs of loans having higher credit risk than their standard business. Our writings of bulk insurance are, in part, also sensitive to competition from other methods of providing credit enhancement in a securitization, including an execution in which the subordinate tranches in the securitization rather than mortgage insurance bear the first loss from mortgage defaults. Competition from such an execution depends on, among other factors, the yield at which investors are willing to purchase tranches of the securitization that involve a higher degree of credit risk compared to the yield for tranches involving the lowest credit risk (the difference in such yields is referred to as the spread), the amount of higher risk tranches that investors are willing to purchase, and the amount of credit for losses that a rating agency will give to mortgage insurance. As the spread narrows, competition from an execution in which the subordinate tranches bear the first loss increases. The competitiveness of the mortgage insurance execution in the bulk channel may also be impacted by changes in our view of the risk of the business, which is affected by the historical performance of previously insured pools and our expectations for regional and local real estate values. As a result of the sensitivities discussed above, bulk volume can vary materially from period to period.

NIW for bulk transactions was \$1.4 billion in the third quarter of 2007 compared to \$5.8 billion in the third quarter of 2006. The decrease in bulk writings was primarily due to a decrease in non-conforming originations and securitizations, as well as an increase in our view of the risk relative to the market's view of that risk. We expect NIW for bulk transaction during the fourth quarter of 2007 to approximate the volume in the third quarter.

Pool insurance

In addition to providing primary insurance coverage, we also insure pools of mortgage loans. New pool risk written during the three months ended September 30, 2007 and 2006 was \$64 million and \$43 million, respectively. Our direct pool risk in force was \$3.0 billion, \$3.1 billion and \$3.1 billion at September 30, 2007, December 31, 2006 and September 30, 2006, respectively. These risk amounts represent pools of loans with contractual aggregate loss limits and those without such limits. For pools of loans without such limits, risk is estimated based on the amount that would credit enhance the loans in the pool to a 'AA' level based on a rating agency model. Under this model, at September 30, 2007, December 31, 2006 and September 30, 2006, for \$4.2 billion, \$4.4 billion and \$4.5 billion, respectively, of risk without such limits, risk in force is calculated at \$474 million, \$473 million and \$472 million, respectively. For the three months ended September 30, 2007 and 2006 for \$9 million and \$15 million, respectively, of risk without contractual aggregate loss limits, new risk written under this model was \$0.5 million and \$1 million, respectively.

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New pool risk written during the nine months ended September 30, 2007 and 2006 was \$151 million and \$200 million, respectively. Under the model described above, for the nine months ended September 30, 2007 and 2006 for \$24 million and \$45 million, respectively, of risk without contractual aggregate loss limits, new risk written during those periods was calculated at \$1 million and \$3 million, respectively.

Net premiums written and earned

Net premiums written and earned during the third quarter and first nine months of 2007 increased compared to the same period in 2006. The average insurance in force continues to increase, but has been somewhat offset by lower average premium yields due to a higher proportion of insurance in force written through the flow channel compared to the same period a year ago. Assuming no significant decline in interest rates from their level at the end of October 2007, we expect the average insurance in force during the remainder of 2007 and 2008 to continue to be higher than in 2006 based on our expectation that private mortgage insurance will be used on a greater percentage of mortgage originations.

Risk sharing arrangements

For the quarter ended June 30, 2007, approximately 49.7% of our new insurance written on a flow basis was subject to arrangements with reinsurance subsidiaries of certain mortgage lenders ("captives") or risk sharing arrangements with the GSEs compared to 46.5% for the quarter ended September 30, 2006. The percentage of new insurance written during a period covered by such arrangements normally increases after the end of the period because, among other reasons, the transfer of a loan in the secondary market can result in a mortgage insured during a period becoming part of such an arrangement in a subsequent period. Therefore, the percentage of new insurance written covered by such arrangements is not shown for the most recently ended quarter. Premiums ceded in such arrangements are reported in the period in which they are ceded regardless of when the mortgage was insured.

See discussion under "Losses" below regarding losses assumed by captives.

Investment income

Investment income for the third quarter and first nine months of 2007 increased when compared to the same periods in 2006 due to an increase in the average investment yield, as well as an increase in the average amortized cost of invested assets. The portfolio's average pre-tax investment yield was 4.70% at September 30, 2007 and 4.54% at September 30, 2006. The portfolio's average after-tax investment yield was 4.15% at September 30, 2007 and 4.01% at September 30, 2006.

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Other revenue

Other revenue for the third quarter and first nine months of 2007 decreased when compared to the same periods in 2006. The decrease in other revenue is primarily the result of other non-insurance operations and a decrease in revenue from contract underwriting.

Losses

As discussed in "Critical Accounting Policies" in the 10-K MD&A, consistent with industry practices, loss reserves for future claims are established only for loans that are currently delinquent. (The terms "delinquent" and "default" are used interchangeably by us and are defined as an insured loan with a mortgage payment that is 45 days or more past due.) Loss reserves are established by management's estimation of the number of loans in our inventory of delinquent loans that will not cure their delinquency and thus result in a claim (historically, a substantial majority of delinquent loans have cured), which is referred to as the claim rate, and further estimating the amount that we will pay in claims on the loans that do not cure, which is referred to as claim severity. Estimation of losses that we will pay in the future is inherently judgmental. The conditions that affect the claim rate and claim severity include the current and future state of the domestic economy and the current and future strength of local housing markets.

Losses incurred for the third quarter and first nine months of 2007 significantly increased compared to the same periods in 2006 primarily due to significant increases in the default inventory and estimates regarding how much will be paid on claims (severity), as well as an increase in the estimates regarding how many delinquencies will result in a claim (claim rate), when each are compared to the same periods in 2006. The default inventory increased by approximately 10,200 delinquencies in the third quarter of 2007, compared to an increase of approximately 3,000 in the third quarter of 2006. During the first nine months of 2007 the default inventory increased by approximately 12,200 delinquencies compared to a decrease in the default inventory for the first nine months of 2006.

Our loss estimates are determined based upon historical experience. The significant increase in estimated severity is primarily the result of the default inventory containing higher loan exposures with expected higher average claim payments as well as a decrease in our ability to mitigate losses through the sale of properties in some geographical areas due to slowing home price appreciation in such areas or declines in home values. The increase in estimated claim rate is due to significant deterioration in cure rates in certain markets, particularly California and Florida, and continued weakness in the Midwest.

The loss performance experienced in the third quarter of 2007 was more substantial and occurred more quickly than we anticipated. The deterioration in loss performance, particularly in California and Florida, has been at a rate not previously experienced.

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We have experienced increases in delinquencies in certain markets with higher than average loan balances, such as Florida and California. In California we have experienced an increase in delinquencies, from 3,000 as of December 31, 2006 to 4,150 as of June 30, 2007 and to 5,300 as of September 30, 2007. The Florida delinquencies increased from 4,500 as of December 31, 2006 to 6,300 as of June 30, 2007, to 8,700 as of September 30, 2007. The average claim paid on California loans is more than twice as high as the average claim paid for the remainder of the country.

In addition, our expectation entering the second and third quarters of 2007 was that claim rates in the Midwest had stabilized, however, the recent claim rates we have experienced in Michigan continue to increase, most likely resulting from rising unemployment, declining home sales and falling home prices. On October 5, 2007 the Bureau of Labor reported that all states, except Michigan, had an annual increase in employment from September 2006 to September 2007.

We anticipate that losses incurred during the remainder of 2007 will exceed net paid claims during this period and significantly exceed the corresponding 2006 level of losses incurred.

As discussed under "Risk Sharing Arrangements" above a portion of our new insurance written on a flow basis is subject to reinsurance arrangements with captives. The majority of these reinsurance arrangements are aggregate excess of loss reinsurance agreements, and the remainder are quota share agreements. Under the aggregate excess of loss agreements, we are responsible for the first aggregate layer of loss (typically 4% or 5%), the captives are responsible for the second aggregate layer of loss (typically 5% or 10%) and we are responsible for any remaining loss. The layers are typically expressed as a percentage of the original risk on an annual book of business reinsured by the captive. The premium cessions on these agreements typically range from 25% to 40% of the direct premium. Under a quota share arrangement premiums and losses are shared on a pro-rata basis between us and the captives.

Under these agreements the captives are required to maintain a separate trust account, of which we are the sole beneficiary. Premiums ceded to the captives are deposited in the applicable trust account to support the captive's layer of insured risk. Such amounts are held in the trust account and are available to pay reinsured losses. The captive's ultimate liability is limited to the assets in the trust account. When specific time periods are met and the individual trust account balance has reached a required level, then authorized withdrawals from the respective trust account are available to the individual captive. The total trust fund assets under these agreements at September 30, 2007 exceeded \$600 million.

We believe that the excess of loss captive arrangements will begin providing reductions in our losses incurred in 2008, with more significant reductions occurring in 2009.

Information about the composition of the primary insurance default inventory at September 30, 2007, December 31, 2006 and September 30, 2006 appears in the table below.

	September 30, 2007	December 31, 2006	September 30, 2006
Total loans delinquent	90,829	78,628	76,301
Percentage of loans delinquent (default rate)	6.63%	6.13%	5.98%
Prime loans delinquent*	41,412	36,727	35,838
Percentage of prime loans delinquent (default rate)	3.86%	3.71%	3.64%
A-minus loans delinquent*	19,918	18,182	18,063
Percentage of A-minus loans delinquent (default rate)	17.35%	16.81%	16.92%
Subprime credit loans delinquent*	12,186	12,227	12,150
Percentage of subprime credit loans delinquent (default rate)	30.65%	26.79%	26.17%
Reduced documentation loans delinquent	17,313	11,492	10,250
Percentage of reduced doc loans delinquent (default rate)	12.14%	8.19%	7.38%

*Prime loans have FICO credit scores of 620 or greater, as reported to us at the time a commitment to insure is issued. A-minus loans have FICO credit scores of 575-619, and subprime credit loans have FICO credit scores of less than 575. Most A-minus and subprime credit loans are written through the bulk channel.

The average primary claim paid for the third quarter of 2007 was \$39,021 compared to \$33,229 for the second quarter of 2007 and \$29,606 for the third quarter of 2006. The average primary claim paid for the nine months ended September 30, 2007 was \$34,541 compared to \$27,874 for the same period in 2006. We expect increases in the average primary claim paid for the remainder of 2007 and beyond. These increases are expected to be driven by our higher average insured loan sizes as well as decreases in our ability to mitigate losses through the sale of properties in some geographical regions, as certain housing markets, like California and Florida, become less favorable. The average loan size on our bulk business has grown from \$147,000 in 2003 to \$236,000 in 2006 and the flow average loan size has increased from \$144,000 in 2003 to \$161,000 in 2006.

The pool notice inventory increased from 20,458 at December 31, 2006 to 22,031 at September 30, 2007; the pool notice inventory was 20,244 at September 30, 2006.

Information about net losses paid during the three and nine months ended September 30, 2007 and 2006 appears in the table below.

Net paid claims (\$ millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Prime (FICO 620 & >)	\$ 87	\$ 62	\$ 229	\$ 186
A-Minus (FICO 575-619)	43	33	113	93
Subprime (FICO < 575)	26	20	68	51
Reduced doc (All FICOs)	54	21	112	58
Other	22	21	64	66
	<u>\$ 232</u>	<u>\$ 157</u>	<u>\$ 586</u>	<u>\$ 454</u>

Information regarding the 15 states for which we paid the most losses during the nine months ended September 30, 2007 appears in the table below.

Paid claims by state (\$ millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Michigan	\$ 25.7	\$ 19.8	\$ 71.8	\$ 54.6
Ohio	18.6	17.4	55.1	52.5

California	26.1	0.5	38.6	0.9
Texas	12.1	11.7	37.8	34.7
Georgia	8.0	10.1	25.3	30.5
Indiana	8.8	9.1	25.1	25.4
Illinois	10.1	5.0	24.6	15.3
Colorado	7.9	9.1	23.2	22.6
Minnesota	9.7	5.2	23.2	11.0
Florida	10.0	1.7	16.9	3.1
Massachusetts	8.0	2.1	15.5	4.0
Pennsylvania	5.0	4.3	13.4	11.9
North Carolina	4.6	5.8	13.0	17.4
Missouri	4.0	3.1	12.3	11.8
Wisconsin	3.2	2.4	10.0	8.1
Other states	48.0	29.3	116.4	84.3
	<u>209.8</u>	<u>136.6</u>	<u>522.2</u>	<u>388.1</u>
Other (Pool, LAE, other)	22.5	20.5	64.0	65.9
	<u>\$ 232.3</u>	<u>\$ 157.1</u>	<u>\$ 586.2</u>	<u>\$ 454.0</u>

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The default inventory in those same states, at the dates indicated, appears in the table below.

Default inventory by state	September 30, 2007	December 31, 2006	September 30, 2006
Michigan	6,755	6,522	6,408
Ohio	6,289	6,395	6,558
California	5,314	3,000	2,447
Texas	6,287	6,490	6,616
Georgia	3,883	3,492	3,386
Indiana	3,483	3,392	3,408
Illinois	4,593	4,092	3,937
Colorado	1,392	1,355	1,330
Minnesota	2,183	1,820	1,738
Florida	8,733	4,526	3,916
Massachusetts	1,381	1,026	977
Pennsylvania	4,263	4,276	4,266
North Carolina	2,700	2,723	2,635
Missouri	1,906	1,789	1,706
Wisconsin	1,878	1,682	1,650
Other states	29,789	26,048	25,323
	<u>90,829</u>	<u>78,628</u>	<u>76,301</u>

We anticipate that net paid claims in the fourth quarter of 2007 will approximate \$270 to \$290 million, and that net paid claims for all of 2008 will approximate \$1.2 to 1.5 billion.

As of September 30, 2007, 67% of our primary insurance in force was written subsequent to December 31, 2004. On our flow business, the highest claim frequency years have typically been the third and fourth year after the year of loan origination. However, the pattern of claims frequency can be affected by many factors, including low persistency (which can have the effect of accelerating the period in the life of a book during which the highest claim frequency occurs) and deteriorating economic conditions (which can result in increasing claims following a period of declining claims). On our bulk business, the period of highest claims frequency has generally occurred earlier than in the historical pattern on our flow business.

Underwriting and other expenses

Underwriting and other expenses for the third quarter and first nine months of 2007 increased when compared to the same periods in 2006 primarily due to \$11.3 million in one-time expenses associated with the terminated merger with Radian, as well as international expansion.

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Consolidated ratios

The table below presents our consolidated loss, expense and combined ratios for the three and nine months ended September 30, 2007 and 2006.

Three Months Ended September 30,	Nine Months Ended September 30,
-------------------------------------	------------------------------------

Consolidated Insurance Operations:

	2007	2006	2007	2006
Loss ratio	187.6%	55.7%	110.0%	47.9%
Expense ratio	15.4%	16.4%	16.6%	16.9%
Combined ratio	203.0%	72.1%	126.6%	64.8%

The loss ratio (expressed as a percentage) is the ratio of the sum of incurred losses and loss adjustment expenses to net premiums earned. The increase in the loss ratio in the third quarter and first nine months of 2007, compared to the same periods in 2006, is due to an increase in losses incurred, partially offset by an increase in premiums earned. The expense ratio (expressed as a percentage) is the ratio of underwriting expenses to net premiums written. The decrease in the expense ratio in the third quarter and first nine months of 2007, compared to the same periods in 2006, is due to an increase in premiums written, partially offset by an increase in underwriting and other expenses. The combined ratio is the sum of the loss ratio and the expense ratio.

Income taxes

The effective tax rate on the pre-tax loss was 43.2% in the third quarter of 2007, compared to an effective tax rate on the pre-tax income of 24.0% in the third quarter of 2006. During those periods, the rate reflected the benefits recognized from tax-preferenced investments. Our tax-preferenced investments that impact the effective tax rate consist almost entirely of tax-exempt municipal bonds. The difference in the rate was primarily the result of a pre-tax loss during the third quarter of 2007, compared to pre-tax income during the third quarter of 2006.

The effective tax rate on the pre-tax income was (439.1%) in the first nine months of 2007, compared to an effective tax rate on the pre-tax income of 25.6% for the first nine months of 2006. The difference in the rate was the result of taxable losses during the first nine months of 2007, compared to taxable income during the first nine months of 2006, which was primarily the result of a decrease in underwriting income.

Joint ventures

Our equity in the earnings from the C-BASS and Sherman joint ventures with Radian and certain other joint ventures and investments, accounted for in accordance with the equity method of accounting, is shown separately, net of tax, on our consolidated statement of operations. The decrease in income from joint ventures for the third quarter and first nine months of 2007 compared to the third quarter and first nine months of 2006 is primarily the result of the \$303 million after-tax impairment of C-BASS. As noted in the section titled "C-BASS Impairment" above, we have determined that our total equity interest in C-BASS is impaired. The impairment charge is included in our results of operations for the third quarter of 2007.

C-BASS

Subprime Market: Beginning in February 2007 and continuing through approximately the end of March 2007, the subprime mortgage market experienced significant turmoil. After a period of relative stability that persisted during April, May and through approximately late June, market dislocations recurred and then accelerated to unprecedented levels beginning in approximately mid-July 2007. As noted in the section titled "C-BASS Impairment" above, in the third quarter of 2007, we concluded that our total equity interest in C-BASS was impaired. We continue to carry at face value our \$50 million note from C-BASS (see discussion under "C-BASS Impairment" above).

Results of Operations and Financial Condition

Summary C-BASS balance sheets and income statements at the dates and for the periods indicated appear below. C-BASS is not consolidated with us for financial reporting purposes and is not controlled by us. C-BASS's internal controls over its financial reporting are not part of our internal controls over our financial reporting. However, our internal controls over our financial reporting include processes to assess the effectiveness of our financial reporting as it pertains to C-BASS. We believe those processes are effective in the context of our overall internal controls.

C-BASS Summary Balance Sheet:

	September 30, <u>2007</u>	December 31, <u>2006</u>
	(\$ millions)	
Total Assets	\$ 8,539	\$ 8,801
Total Liabilities	\$ 8,551	\$ 7,875
Debt	\$ 3,042	\$ 6,140
Owners' Equity	\$ (12)	\$ 926

Included in total assets and total liabilities at September 30, 2007 and December 31, 2006 were approximately \$4.6 billion and \$741 million, respectively, of assets and \$4.4 billion and \$720 million, respectively, of liabilities from securitizations that did not qualify for off-balance sheet treatment. The liabilities from these securitizations are not included in Debt in the table above. The increases from December 31, 2006 are the result of the acquisition of Fieldstone Investment Corporation in July 2007 which necessitated the consolidation of various Fieldstone securitization trusts which did not qualify for off-balance sheet treatment.

C-BASS Summary Income Statement:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
	(\$ millions)			
Portfolio	\$ (888.9)	\$ 73.3	\$ (867.8)	\$ 270.7
Net servicing	38.0	47.1	148.0	136.8
Money management and other	1.4	8.0	10.4	24.1
Total revenue	(849.5)	128.4	(709.4)	431.6
Total expense	85.4	68.7	190.1	209.0
(Loss) Income before tax	\$ (934.9)	\$ 59.7	\$ (899.5)	\$ 222.6
Company's (loss) income from C-BASS	\$ (466.0)	\$ 27.5	\$ (449.6)	\$ 102.7

The decrease in pre-tax income in the third quarter and first nine months of 2007, compared to the same periods in 2006, was primarily due to a write down in C-BASS's securities portfolio to reflect deteriorating credit conditions which caused significant disruptions in the secondary mortgage market, and write downs of whole loans to reflect realizable values.

There were no distributions from C-BASS since November 2006.

Sherman

Summary Sherman balance sheets and income statements at the dates and for the periods indicated appear below. Sherman is not consolidated with us for financial reporting purposes and is not controlled by us. Sherman's initial controls over its financial reporting are not part of our internal controls over our financial reporting. However, our internal controls over our financial reporting include processes to assess the effectiveness of our financial reporting as it pertains to Sherman. We believe those processes are effective in the context of our overall internal controls.

Sherman Summary Balance Sheet:

	September 30, 2007	December 31, 2006
	(\$ millions)	
Total Assets	\$ 2,093	\$ 1,204
Total Liabilities	\$ 1,725	\$ 923
Debt	\$ 1,511	\$ 761
Members' Equity	\$ 368	\$ 281

The increase in total assets was primarily due to growth in both portfolio acquisitions (approximately \$450 million) and credit originations (approximately \$290 million), as well as the consolidation of a majority-owned international joint venture (approximately \$130 million). The increase in debt corresponds to the growth in these assets.

Sherman Summary Income Statement:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
	(\$ millions)		(\$ millions)	
Revenues from receivable portfolios	\$ 273.8	\$ 247.5	\$ 832.9	\$ 794.7
Portfolio amortization	135.5	84.6	398.0	289.5

Revenues, net of amortization	138.3	162.9	434.9	505.2
Credit card interest income and fees	161.5	93.9	422.7	255.0
Other revenue	(1.4)	4.0	29.7	30.5
Total revenues	298.4	260.8	887.3	790.7
Total expenses	238.2	179.5	674.3	548.9
Income before tax	\$ 60.2	\$ 81.3	\$ 213.0	\$ 241.8
Company's share of pre-tax income	\$ 18.1	\$ 26.7	\$ 70.5	\$ 82.2

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For the third quarter and first nine months of 2007, compared to the same periods in 2006, Sherman experienced increased collection revenues from portfolios owned and continued growth in the banking segment. These increases were offset by higher amortization and interest expense, as well as expenses related to majority-owned ventures.

In September 2007 we sold a portion of our interest in Sherman to an entity owned by Sherman's senior management. The interest sold by us represented approximately 16% of Sherman's equity. We received a cash payment of \$240.8 million in the sale and are entitled to a contingent payment if the management entity's after-tax return on the interests it purchased exceeds approximately 16% annually over a period that can end as late as December 31, 2013. We recorded a \$162.9 million pre-tax gain on this sale, which is reflected in our results of operations for the third quarter of 2007 as a realized gain. After the sale, we own approximately 24.25% of Sherman's interest and Sherman's management owns approximately 54.0%. Radian, which also sold interests in Sherman to the management entity, owns the balance of Sherman. We will continue to account for this investment under the equity method of accounting.

Our investment in Sherman on an equity basis at September 30, 2007 was \$104.1 million. We received \$51.5 million of distributions from Sherman during the first nine months of 2007 and received \$103.7 million of distributions from Sherman in 2006. Management of Sherman has advised us that it believes in the current environment it would be prudent to maintain a higher level of cash resources than Sherman has maintained in the past, with the result that the amount of distributions from Sherman are expected to decrease.

The "Company's share of pre-tax income" line item in the table above includes \$3.6 million and \$13.9 million of additional amortization expense for the third quarter and first nine months of 2007, respectively, and \$6.6 million of additional amortization expense for the third quarter and first nine months of 2006, above Sherman's actual amortization expense, related to additional interests in Sherman that we purchased during the third quarter of 2006 at a price in excess of book value. Due to the additional interest purchased in 2006, we held a greater equity interest in Sherman during the first nine months of 2007, compared to the first nine months of 2006. As noted above, after the sale of equity interest in September 2007 we now own approximately 24.25% interest in Sherman, which is the lowest interest held since the original investment.

Financial Condition

In March 2007 we repaid the \$200 million, 6% Senior Notes that came due with funds raised from the September 2006 public debt offering. In August 2007 we drew \$300 million on a revolving credit facility discussed under "Liquidity and Capital Resources" below. At September 30, 2007 we had \$200 million, 5.625% Senior Notes due in September 2011 and \$300 million, 5.375% Senior Notes due in November 2015, as well as \$300 million outstanding under the credit facility. At December 31, 2006 we had \$300 million, 5.375% Senior Notes due in November 2015, \$200 million 5.625% Senior Notes due in September 2011 and \$200 million, 6% Senior Notes due in March 2007. At September 30, 2007 and December 31, 2006, the market value of the outstanding debt (which also includes commercial paper) was \$779.9 million and \$783.2 million, respectively.

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See "C-BASS Impairment" and "Results of Operations—Joint ventures" above for information about the financial condition of C-BASS and Sherman.

As of September 30, 2007, 80% of our investment portfolio was invested in tax-preferenced securities. In addition, at September 30, 2007, based on book value, approximately 95% of our fixed income securities were invested in 'A' rated and above, readily marketable securities, concentrated in maturities of less than 15 years.

At September 30, 2007, derivative financial instruments in our investment portfolio were immaterial. We primarily place our investments in instruments that meet high credit quality standards, as specified in our investment policy guidelines; the policy also limits the amount of credit exposure to any one issue, issuer and type of instrument. At September 30, 2007, the effective duration of our fixed income investment portfolio was 4.8 years. This means that for an instantaneous parallel shift in the yield curve of 100 basis points there would be an approximate 4.8% change in the market value of our fixed income portfolio.

Liquidity and Capital Resources

Our consolidated sources of funds consist primarily of premiums written and investment income. Positive cash flows are invested pending future payments of claims and other expenses. Management believes that, generally, future cash inflows from premiums will be sufficient to meet future claim payments. Cash flow shortfalls can be funded 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. Substantially all of the investment portfolio securities are held by our insurance subsidiaries.

We have a \$300 million commercial paper program, which is rated "A-1" by S&P and "P-1" by Moody's. At September 30, 2007 and December 31, 2006, we had \$5.0 million and \$84.1 million in commercial paper outstanding with a weighted average interest rate of 5.35% and 5.35%, respectively.

We have a \$300 million, five year revolving credit facility expiring in March 2010 which had been used as a liquidity back up facility for the outstanding commercial paper. Under the terms of the credit facility, we must maintain shareholders' equity of at least \$2.25 billion and MGIC must maintain a risk-to-capital ratio of not more than 22:1 and maintain policyholders' position (which includes MGIC's statutory surplus and its contingency reserve) of not less than the amount required by Wisconsin insurance regulation. At September 30, 2007, these requirements were met. On August 7, 2007 we drew \$300 million on the revolving credit facility discussed above. These funds, in part, were utilized to repay the outstanding commercial paper, which approximated \$177 million at the time of the credit facility draw. We drew the portion of the revolving credit facility equal to our outstanding commercial paper because we believed that funding with a long-term maturity was superior to funding that required frequent renewal on a short-term basis. We drew the remainder of the credit facility to provide us with greater financial flexibility at the holding company level. At September 30, 2007 we continued to have the entire \$300 million outstanding under this facility.

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The remaining credit available under the facility after reduction for the amount necessary to support the commercial paper was \$215.9 million at December 31, 2006.

The credit facility discussed above has a provision whereby we can increase the capacity by \$200 million under the same terms and conditions, if agreed upon by us and the lenders.

The commercial paper, credit facility and the Senior Notes are obligations of MGIC Investment Corporation and not of its subsidiaries. We are a holding company and the payment of dividends from our insurance subsidiaries is restricted by insurance regulation. MGIC is the principal source of dividend-paying capacity. In 2007, through October, MGIC paid dividends of \$265 million. In early November 2007 MGIC received regulatory approval to pay a quarterly dividend of \$55 million in the fourth quarter of 2007. As has been the case for the past several years, as a result of extraordinary dividends paid, MGIC cannot currently pay any dividends without regulatory approval. For additional information about our financial condition, results of operations and cash flows on a parent company basis, and MGIC, on a consolidated basis, see Note 9 to our consolidated financial statements in Item 1.

Effective January 1, 2007, we adopted FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes." As a result of the adoption we recognized a decrease of \$85.5 million in the liability for unrecognized tax benefits, which was accounted for as an increase to the January 1, 2007 balance of retained earnings. The total amount of unrecognized tax benefits as of September 30, 2007 is \$85.7 million. Included in that total are \$74.4 million in benefits that would affect the effective tax rate. We recognize interest accrued and penalties related to unrecognized tax benefits in income taxes. We have \$19.9 million for the payment of interest accrued as of September 30, 2007.

The establishment of this liability requires estimates of potential outcomes of various issues and requires significant judgment. Although the resolutions of these issues are uncertain, we believe that sufficient provisions for income taxes have been made for potential liabilities that may result. If the resolutions of these matters differ materially from these estimates, it could have a material impact on our effective tax rate, results of operations and cash flows.

On June 1, 2007, as a result of an examination by the Internal Revenue Service ("IRS") for taxable years 2000 through 2004, we received a Revenue Agent Report ("RAR"). The adjustments reported on the RAR substantially increase taxable income for those tax years and resulted in the issuance of an assessment for unpaid taxes totaling \$189.5 million in taxes and accuracy related penalties, plus applicable interest. We have agreed with the IRS on certain issues and paid \$10.5 million in additional taxes and interest. The remaining open issue relates 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 has indicated that it does not believe that, for various reasons, we have established sufficient tax basis in the REMIC residual interests to deduct the losses from taxable income. We disagree with this conclusion and believe that the flow through income and loss from these investments was properly reported on our federal income tax returns in accordance with applicable tax laws and regulations in effect during the periods involved and have appealed these adjustments. The appeals process may take some time and a final resolution may not be reached until a date many months or years into the future. On July 2, 2007, we made a payment of \$65.2 million with the United States Department of the Treasury to eliminate the further accrual of interest.

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During the first nine months of 2007, we repurchased 1.3 million shares of our Common Stock under publicly announced programs at a cost of \$75.7 million (150,000 shares were repurchased in the third quarter at a cost of approximately \$8.0 million).

For additional information regarding stock repurchases, see Item 2(c) of Part II of this Quarterly Report on Form 10-Q. From mid-1997 through September 30, 2007, we repurchased 42.9 million shares under publicly announced programs at a cost of \$2.4 billion. Funds for the shares repurchased by us since mid-1997 have been provided through a combination of debt, including the Senior Notes and the commercial paper, and internally generated funds.

Our principal exposure to loss is our obligation to pay claims under MGIC's mortgage guaranty insurance policies. At September 30, 2007, 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 \$58.5 billion. In addition, as part of our contract underwriting activities, we are responsible for the quality of our underwriting decisions in accordance with the terms of the contract underwriting agreements with customers. Through September 30, 2007, the cost of remedies provided by us to customers for failing to meet the standards of the contracts has not been material. However, a generally positive economic environment for residential real estate over the last several years may have mitigated the effect of some of these costs. There can be no assurance that contract underwriting remedies will not be material in the future.

Other Matters

Risk-to-Capital

Our consolidated risk-to-capital ratio was 9.1:1 at September 30, 2007 and 7.5:1 at December 31, 2006. The increase in the risk-to-capital is due to an increase in risk in force as well as a decrease in policyholders' position. Policyholders' position consist primarily of statutory policyholders' surplus (which increases as a result of statutory net income) plus the statutory contingency reserve. The statutory contingency reserve is the reserve established for the protection of policyholders against the effect of losses resulting from adverse economic cycles, and 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 be maintained for a period of ten years. 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.

Our risk-to-capital calculation appears in the table below.

Risk-to-capital:

	September 30, 2007	December 31, 2006
	(\$ in millions)	
Risk in force - net of reinsurance	\$ 53,529	\$ 48,488
Policyholders' surplus	\$ 1,190	\$ 1,591
Contingency reserve	4,684	4,849
	<hr/>	<hr/>
Policyholders' position	\$ 5,874	\$ 6,440
Risk-to-capital:	9.1:1	7.5:1

Based on our expectation that our insurance in force will continue to grow, our risk in force will also grow. To the extent our statutory policyholders' position does not increase at the same rate as our growth in risk in force, our risk-to-capital ratio will increase. An increase in this ratio resulting from declining statutory net income and increasing risk in force may be viewed negatively by the rating agencies and insurance regulators.

The risk-to-capital ratios set forth above have been computed on a statutory basis. However, the methodology used by the rating agencies to assign financial strength ratings permits less leverage than under statutory requirements. As a result, the amount of capital required under statutory regulations may be lower than the capital required for rating agency purposes. In addition to capital adequacy, the rating agencies consider other factors in determining a mortgage insurer's claims-paying rating, including its historical and projected operating performance, business outlook, competitive position, management and corporate strategy.

Recent Ratings Actions

MGIC's current financial strength rating is 'Aa2' from Moody's Investors Service ("Moody's"), 'AA' from Standard & Poor's ("S&P") and 'AA' from Fitch Ratings ("Fitch").

On August 1, 2007 Moody's placed the 'Aa2' financial strength ratings of MGIC and an affiliate of MGIC, and the A1 senior debt rating of MGIC Investment Corporation under review for possible downgrade.

On October 17, 2007 following our third quarter earnings release, S&P announced that it had placed its 'AA' counterparty credit and financial strength ratings on MGIC and other ratings of affiliates of MGIC on CreditWatch with negative implications. At the same time, S&P also placed its 'A' counterparty credit rating on MGIC Investment Corporation on CreditWatch with negative implications.

Also on October 17, 2007 Fitch announced that it affirmed the 'AA' financial strength ratings of MGIC and an affiliate of MGIC and the 'A' senior debt rating of MGIC Investment Corporation. Fitch revised the Rating Outlook for all entities to Negative from Stable.

As noted in our Risk Factors (which are an integral part of this Management's Discussion and Analysis), we believe a financial strength rating of at least Aa3/AA- is critical to a mortgage insurer's ability to continue to write new business. Any downgrade below such level, which is two notches below our current ratings, could have a material adverse affect on us. For further information about the importance of MGIC's ratings, see our Risk Factor titled "Downgrades in the financial strength ratings of MGIC below Aa3 (or its equivalent) could have a material adverse affect on us" in Part II, Item 1A.

Forward-Looking Statements and Risk Factors

General: Our revenues and losses could be affected by the risk factors referred to under "Location of Risk Factors" below that are applicable to us, and our income from joint ventures could be affected by the risk factors referred to under "Location of Risk Factors" that are applicable to Sherman. These risk factors are an integral part of Management's Discussion and Analysis.

These factors may also cause actual results to differ materially from the results contemplated by forward looking statements that we may make. Forward looking statements consist of statements which relate to matters other than historical fact. Among others, statements that include words such as we "believe", "anticipate" or "expect", or words of similar import, are forward looking statements. We are not undertaking any obligation to update any forward looking statements we may make even though these statements may be affected by events or circumstances occurring after the forward looking statements were made.

Location of Risk Factors: The risk factors are in Item 1 A of our Annual Report on Form 10-K for the year ended December 31, 2006, as supplemented by Part II, Item 1 A of our Quarterly Reports on Form 10-Q for the Quarters Ended March 31, 2007 and June 30, 2007, and in Part II, Item 1 A of this Quarterly Report on Form 10-Q. The risk factors in the 10-K, as supplemented by those 10-Qs and through updating of various statistical and other information, are reproduced in Exhibit 99 to this Quarterly Report on Form 10-Q.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

At September 30, 2007, derivative financial instruments in our investment portfolio were immaterial. We primarily place our investments in instruments that meet investment grade credit quality standards, as specified in our investment policy guidelines; the policy also limits the amount of credit exposure to any one issue, issuer and type of instrument. At September 30, 2007, the effective duration of our fixed income investment portfolio was 4.8 years. This means that for each instantaneous parallel shift in the yield curve of 100 basis points there would be an approximate 4.8% change in the market value of our fixed income investment portfolio.

Our borrowings under our commercial paper program are subject to interest rates that are variable.

ITEM 4. CONTROLS AND PROCEDURES

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended), as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on such evaluation, our principal executive officer and principal financial officer concluded that such controls and procedures were effective as of the end of such period. There was no change in our internal control over financial reporting that occurred during the third quarter of 2007 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

In October 2007, the Division of Enforcement of the SEC requested that we voluntarily furnish documents and information primarily relating to C-BASS, the now-terminated merger with Radian and the subprime mortgage assets "in the Company's various lines of business." We are in the process of providing responsive documents and information to the SEC.

Item 1 A. Risk Factors

With the possible exception of the changes set forth below, there have been no material changes in our risk factors from the risk factors disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2006, as supplemented by Part II, Item 1 A of our Quarterly Reports on Form 10-Q for the Quarters Ended March 31, 2007 and June 30, 2007. The risk factors in the 10-K, as supplemented by the 10-Qs and through updating of various statistical and other information, are reproduced in Exhibit 99 to this Quarterly Report on Form 10-Q.

In the past we have included a risk factor addressing the risks associated with our anticipated merger with Radian. In light of the termination of the merger we have eliminated that risk factor. In addition, in the past we have included a risk factor addressing the risks associated with our equity investments in joint ventures. In light of the impairment of our entire equity investment in C-BASS, the current risk factor only addresses our investment in Sherman, and is included below.

Our income from our Sherman joint venture could be adversely affected by competition or other factors affecting its business.

Sherman Financial Group LLC ("Sherman") is engaged in the business of purchasing and servicing delinquent consumer assets, and in originating and servicing subprime credit card receivables. Sherman's results are sensitive to its ability to purchase receivable portfolios on terms that it projects will meet its return targets. While the volume of charged-off consumer receivables and the portion of these receivables that have been sold to third parties such as Sherman has grown in recent years, there is an increasing amount of competition to purchase such portfolios, including from new entrants to the industry, which has resulted in increases in the prices at which portfolios can be purchased.

The mortgage insurance industry is subject to the risk of private litigation and regulatory proceedings.

Consumers are bringing a growing number of lawsuits against home mortgage lenders and settlement service providers. In recent years, seven 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 late December 2004 following denial of class certification in June 2004. Since December 2006, class action litigation was separately brought against a number of large lenders alleging that their captive mortgage reinsurance arrangements violated RESPA. While we are not a defendant in any of these cases, there can be no assurance that MGIC will not be subject to future litigation under RESPA or FCRA or that the outcome of any such litigation would not have a material adverse effect on us.

In June 2005, in response to a letter from the New York Insurance Department (the "NYID"), we provided information regarding captive mortgage reinsurance arrangements and other types of arrangements in which lenders receive compensation. In February 2006, the NYID requested MGIC to review its premium rates in New York and to file adjusted rates based on recent years' experience or to explain why such experience would not alter rates. In March 2006, MGIC advised the NYID that it believes its premium rates are reasonable and that, given the nature of mortgage insurance risk, premium rates should not be determined only by the experience of recent years. In February 2006, in response to an administrative subpoena from the Minnesota Department of Commerce (the "MDC"), which

regulates insurance, we provided the MDC with information about captive mortgage reinsurance and certain other matters. We subsequently provided additional information to the MDC. Other insurance departments or other officials, including attorneys general, may also seek information about or investigate captive mortgage reinsurance.

The anti-referral fee provisions of RESPA provide that the Department of Housing and Urban Development (“HUD”) as well as the insurance commissioner or attorney general of any state may bring an action to enjoin violations of these provisions 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 captive reinsurance arrangements are in conformity with applicable laws and regulations, it is not possible to predict the outcome of any such reviews or investigations nor is it possible to predict their effect on us or the mortgage insurance industry.

In October 2007, the Division of Enforcement of the SEC requested that we voluntarily furnish documents and information primarily relating to C-BASS, the now-terminated merger with Radian and the subprime mortgage assets “in the Company’s various lines of business.” We are in the process of providing responsive documents and information to the SEC.

Downgrades in the financial strength ratings of MGIC below Aa3 (or its equivalent) could have a material adverse affect on us.

The financial strength ratings of our wholly owned subsidiary Mortgage Guaranty Insurance Corporation (“MGIC”) are ‘AA’ (Standard & Poors Rating Services), ‘Aa2’ (Moody’s Investors Service) and ‘AA’ (Fitch Ratings). One rating agency has announced that its rating is under review with negative implications and other agencies may place our rating under review with negative implications. In assigning financial strength ratings, in addition to considering the adequacy of the mortgage insurer’s capital to withstand extreme loss scenarios under assumptions determined by the rating agency, rating agencies review a mortgage insurer’s historical and projected operating performance, business outlook, competitive position, management, corporate strategy, and other factors. We believe a financial strength rating of at least Aa3/AA- is critical to a mortgage insurer’s ability to continue to write new business. Any downgrade below such level, which would be a downgrade two notches below our current ratings, could have a material adverse affect on us.

ITEM 2. UNREGISTERED SALE OF EQUITY SECURITIES & USE OF PROCEEDS

(c) Repurchase of common stock:

Information about shares of Common Stock repurchased during the third quarter of 2007 appears in the table below.

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (A)
July 1, 2007 through July 31, 2007	150,000	\$53.40	150,000	3,438,485
August 1, 2007 through August 31, 2007	--	--	--	3,438,485
September 1, 2007 through September 30, 2007	--	--	--	3,438,485
Total	150,000	\$53.40	150,000	3,438,485

(A) On January 26, 2006 the Company announced that its Board of Directors authorized the repurchase of up to ten million shares of our Common Stock in the open market or in private transactions.

ITEM 6. EXHIBITS

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized, on November 20, 2007.

MGIC INVESTMENT CORPORATION

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

\s\ Joseph J. Komanecki
Joseph J. Komanecki
Senior Vice President, Controller and
Chief Accounting Officer

INDEX TO EXHIBITS (Part II, Item 6)

<u>Exhibit Number</u>	<u>Description of Exhibit</u>
2.1	Termination and Release Agreement, dated as of September 4, 2007, by and between, MGIC Investment Corporation and Radian Group Inc. (Incorporated by reference to Exhibit 2.1 in the Company's Current Report on Form 8-K filed on September 5, 2007)
2.2	Securities Purchase Agreement, dated as of September 14, 2007, by and among, Mortgage Guaranty Insurance Corporation, Radian Guaranty Inc. and Sherman Capital LLC (Incorporated by reference to Exhibit 2.1 in the Company's Current Report on Form 8-K filed on September 20, 2007)
11	Statement Re Computation of Net Income Per Share
31.1	Certification of CEO under Section 302 of Sarbanes-Oxley Act of 2002
31.2	Certification of CFO under Section 302 of Sarbanes-Oxley Act of 2002
32	Certification of CEO and CFO under Section 906 of Sarbanes-Oxley Act of 2002 (as indicated in Item 6 of Part II, this Exhibit is not being "filed")
99	Risk Factors included in Item 1 A of our Annual Report on Form 10-K for the year ended December 31, 2006, as supplemented by Part II, Item 1A of our Quarterly Reports on Form 10-Q for the quarters ended March 31, June 30, and September 30, 2007 and through updating of various statistical and other information

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
 STATEMENT RE COMPUTATION OF NET (LOSS) INCOME PER SHARE
 Three and Nine Month Periods Ended September 30, 2007 and 2006

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
	(In thousands of dollars, except per share data)			
BASIC EARNINGS PER SHARE				
Average common shares outstanding	80,786	83,238	81,480	85,161
Net (loss) income	\$ (372,469)	\$ 129,978	\$ (203,391)	\$ 443,270
Basic (loss) earnings per share	\$ (4.61)	\$ 1.56	\$ (2.50)	\$ 5.21
DILUTED EARNINGS PER SHARE				
Adjusted weighted average shares outstanding:				
Average common shares outstanding	80,786	83,238	81,480	85,161
Common stock equivalents	--	528	--	601
Adjusted weighted average diluted shares outstanding	80,786	83,766	81,480	85,762
Net (loss) income	\$ (372,469)	\$ 129,978	\$ (203,391)	\$ 443,270
Diluted (loss) earnings per share	\$ (4.61)*	\$ 1.55	\$ (2.50)*	\$ 5.17

* In accordance with SFAS 128 "Earnings per Share", if a company reports a net loss from continuing operations the diluted EPS is computed in the same manner as the basic EPS.

In the Company's Form 8-K filed on October 17, 2007 that furnished its third quarter earnings release, the diluted EPS for the three and nine months ended September 30, 2007 of (\$4.60) and (\$2.48), respectively, was calculated using diluted weighted-average shares outstanding that included common stock equivalents. Due to the net loss for those periods, common stock equivalents should be excluded as their inclusion would have been anti-dilutive. The EPS amounts calculated in accordance with FAS 128 are shown above.

I, Curt S. Culver, certify that:

1. I have reviewed this quarterly report on Form 10-Q of MGIC Investment Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 20, 2007

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

CERTIFICATIONS

I, J. Michael Lauer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of MGIC Investment Corporation;
 2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
 3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
 4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
-
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 20, 2007

\s\ J. Michael Lauer

J. Michael Lauer

Chief Financial Officer

SECTION 1350 CERTIFICATIONS

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

- (1) the Quarterly Report on Form 10-Q of the Company for the nine months ended September 30, 2007 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 20, 2007

\s\ Curt S. Culver

Curt S. Culver

Chief Executive Officer

\s\ J. Michael Lauer

J. Michael Lauer

Chief Financial Officer

Risk Factors included in Item 1 A of our Annual Report on Form 10-K for the year ended December 31, 2006, as supplemented by Part II, Item 1A of our Quarterly Reports on Form 10-Q for the quarters ended March 31, June 30, and September 30, 2007 and through updating of various statistical and other information

Deterioration in home prices in the segment of the market we serve, a downturn in the domestic economy or changes in our mix of business 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. Favorable economic conditions generally 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 generally increases the likelihood that borrowers will not have sufficient income to pay their mortgages and can also adversely affect housing values. 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 mortgage credit due to more stringent underwriting standards or other factors.

The mix of business we write also affects the likelihood of losses occurring. In recent years, the percentage of our volume written on a flow basis that includes segments we view as having a higher probability of claim has continued to increase. These segments include loans with LTV ratios over 95% (including loans with 100% LTV ratios), FICO credit scores below 620, limited underwriting, including limited borrower documentation, or total debt-to-income ratios of 38% or higher, as well as loans having combinations of higher risk factors.

Approximately 6.0% of our primary risk in force written through the flow channel, and 72% of our primary risk in force written through the bulk channel, consists 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.) We believe that during a prolonged period of rising interest rates, claims on ARMs would be substantially higher than for fixed rate loans. Moreover, even if interest rates remain unchanged, claims on ARMs with a "teaser rate" (an initial interest rate that does not fully reflect the index which determines subsequent rates) may also be substantially higher because of the increase in the mortgage payment that will occur when the fully indexed rate becomes effective. In addition, we believe the volume of "interest-only" loans (which may also be ARMs) and loans with negative amortization features, such as pay option ARMs, increased in 2005 and 2006 and have remained at these levels during the first half of 2007. Because interest-only loans and pay option ARMs are a relatively recent development, we have no meaningful data on their historical performance. We believe claim rates on certain of these loans will be substantially higher than on loans without scheduled payment increases that are made to borrowers of comparable credit quality.

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

These alternatives to private mortgage insurance include:

- lenders originating mortgages using piggyback structures to avoid private mortgage insurance, such as a first mortgage with an 80% loan-to-value ("LTV") ratio and a second mortgage with a 10%, 15% or 20% LTV 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% LTV ratio that has private mortgage insurance,
- lenders and other investors holding mortgages in portfolio and self-insuring,
- investors using credit enhancements other than private mortgage insurance, using other credit enhancements in conjunction with reduced levels of private mortgage insurance coverage, or accepting credit risk without credit enhancement, and
- lenders using government mortgage insurance programs, including those of the Federal Housing Administration and the Veterans Administration.

While no data is publicly available, we believe that in recent years piggyback loans have been a significant percentage of mortgage originations in which borrowers make down payments of less than 20%, although their use has declined in 2007. We also believe that their use is primarily by borrowers with higher credit scores. We have a program designed to recapture business lost to these mortgage insurance avoidance products. This program accounted for 9.5 % of flow new insurance written in 2007 and 9.1% and 6.5% of flow new insurance written in 2006 and 2005, respectively.

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

Competition for private mortgage insurance premiums occurs not only among private mortgage insurers but also with mortgage lenders through captive mortgage reinsurance transactions. In these transactions, a lender's affiliate reinsures a portion of the insurance written by a private mortgage insurer on mortgages originated or serviced by the lender. As discussed under "The mortgage insurance industry is subject to risk from private litigation and regulatory proceedings" below, we provided information to the New York Insurance Department and the Minnesota Department of Commerce about captive mortgage reinsurance arrangements. Other insurance departments or other officials, including attorneys general, may also seek information about or investigate captive mortgage reinsurance.

The level of competition within the private mortgage insurance industry has also increased as many large mortgage lenders have 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.

Our private mortgage insurance competitors include:

- PMI Mortgage Insurance Company,
- Genworth Mortgage Insurance Corporation,
- United Guaranty Residential Insurance Company,

- Radian Guaranty Inc.,
- Republic Mortgage Insurance Company,
- Triad Guaranty Insurance Corporation, and

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- CMG Mortgage Insurance Company.

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 an important determinant of 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 rate of home price appreciation experienced by the homes underlying the mortgages in the insurance in force.

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. At September 30, 2007 persistency was at 74.0%, compared to the record low of 44.9% at September 30, 2003. Over the past several years, refinancing has become easier to accomplish and less costly for many consumers. Hence, even in an interest rate environment favorable to persistency improvement, we do not expect persistency will approach its December 31, 1990 level.

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:

- the level of home mortgage interest rates,
- 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 LTV ratios that require private mortgage insurance, and
- government housing policy encouraging loans to first-time homebuyers.

In general, the majority of the underwriting profit (premium revenue minus losses) that a book of mortgage insurance generates occurs in the early years of the book, with the largest portion of the underwriting profit realized in the first year. Subsequent years of a book generally result in modest underwriting profit or underwriting losses. This pattern of results occurs because relatively few of the claims that a book will ultimately experience occur in the first few years of the book, when premium revenue is highest, while subsequent years are affected by declining premium revenues, as persistency decreases due to loan prepayments, and higher losses. If all other things were equal, a decline in new insurance written in a year that followed a number of years of higher volume could result in a lower contribution to the mortgage insurer's overall results. This effect may occur because the older books will be experiencing declines in revenue and increases in losses with a lower amount of underwriting profit on the new book available to offset these results.

Whether such a lower contribution would in fact occur depends in part on the extent of the volume decline. Even with a substantial decline in volume, there may be offsetting factors that could increase the contribution in the current year. These offsetting factors include higher persistency and a mix of business with higher average premiums, which could have the effect of increasing revenues, and improvements in the economy, which could have the effect of reducing losses. In addition, the effect on the insurer's overall results from such a lower contribution may be offset by decreases in the mortgage insurer's expenses that are unrelated to claim or default activity, including those related to lower volume.

Changes in the business practices of Fannie Mae and Freddie Mac could reduce our revenues or increase our losses.

The business practices of the Federal National Mortgage Association ("Fannie Mae") and the Federal Home Loan Mortgage Corporation ("Freddie Mac"), each of which is a government sponsored entity ("GSE"), affect the entire relationship between them and mortgage insurers and include:

- the level of private mortgage insurance coverage, subject to the limitations of Fannie Mae and Freddie Mac's charters, when private mortgage insurance is used as the required credit enhancement on low down payment mortgages,
- whether Fannie Mae or Freddie Mac influence the mortgage lender's selection of the mortgage insurer providing coverage and, if so, any transactions that are related to that selection,
- whether Fannie Mae or Freddie Mac will give mortgage lenders an incentive, such as a reduced guaranty fee, to select a mortgage insurer that has a "AAA" claims-paying ability rating to benefit from the lower capital requirements for Fannie Mae and Freddie Mac when a mortgage is insured

by a company with that rating,

- the underwriting standards that determine what loans are eligible for purchase by Fannie Mae or Freddie Mac, which thereby 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, and
- the circumstances in which mortgage servicers must perform activities intended to avoid or mitigate loss on insured mortgages that are delinquent.

The mortgage insurance industry is subject to the risk of private litigation and regulatory proceedings.

Consumers are bringing a growing number of lawsuits against home mortgage lenders and settlement service providers. In recent years, seven 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 late December 2004 following denial of class certification in June 2004. Since December 2006, class action litigation was separately brought against a number of large lenders alleging that their captive mortgage reinsurance arrangements violated RESPA. While we are not a defendant in any of these cases, there can be no assurance that MGIC will not be subject to future litigation under RESPA or FCRA or that the outcome of any such litigation would not have a material adverse effect on us.

In June 2005, in response to a letter from the New York Insurance Department (the "NYID"), we provided information regarding captive mortgage reinsurance arrangements and other types of arrangements in which lenders receive compensation. In February 2006, the NYID requested MGIC to review its premium rates in New York and to file adjusted rates based on recent years' experience or to explain why such experience would not alter rates. In March 2006, MGIC advised the NYID that it believes its premium rates are reasonable and that, given the nature of mortgage insurance risk, premium rates should not be determined only by the experience of recent years. In February 2006, in response to an administrative subpoena from the Minnesota Department of Commerce (the "MDC"), which regulates insurance, we provided the MDC with information about captive mortgage reinsurance and certain other matters. We subsequently provided additional information to the MDC. Other insurance departments or other officials, including attorneys general, may also seek information about or investigate captive mortgage reinsurance.

The anti-referral fee provisions of RESPA provide that the Department of Housing and Urban Development ("HUD") as well as the insurance commissioner or attorney general of any state may bring an action to enjoin violations of these provisions 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 captive reinsurance arrangements are in conformity with applicable laws and regulations, it is not possible to predict the outcome of any such reviews or investigations nor is it possible to predict their effect on us or the mortgage insurance industry.

In October 2007, the Division of Enforcement of the SEC requested that we voluntarily furnish documents and information primarily relating to C-BASS, the now-terminated merger with Radian and the subprime mortgage assets "in the Company's various lines of business." We are in the process of providing responsive documents and information to the SEC.

The Internal Revenue Service has proposed significant adjustments to our taxable income for 2000 through 2004.

The Internal Revenue Service ("IRS") has been conducting an examination of our federal income tax returns for taxable years 2000 through 2004. On June 1, 2007, as a result of this examination, we received a Revenue Agent Report ("RAR"). The adjustments reported on the RAR would substantially increase taxable income for those tax years and resulted in the issuance of an assessment for unpaid taxes totaling \$189.5 million in taxes and accuracy related penalties, plus applicable interest. We have agreed with the IRS on certain issues and paid \$10.5 million in additional taxes and interest. The remaining open issue relates to our treatment of the flow through income and loss from a portfolio of investments in the residual interests of Real Estate Mortgage Investment Conduits ("REMICs"). This portfolio has been managed and maintained during years prior to, during and subsequent to the examination period. The IRS has indicated that it does not believe that, for various reasons, that we have established sufficient tax basis in the REMIC residual interests to deduct the losses from taxable income. We disagree with this conclusion and believe that the flow through income and loss from these investments was properly reported on our federal income tax returns in accordance with applicable tax laws and regulations in effect during the periods involved and have appealed these adjustments. The appeals process may take some time and a final resolution may not be reached until a date many months or years into the future. On July 2, 2007, the Company made a payment on account of \$65.2 million with the United States Department of the Treasury to eliminate the further accrual of interest. We believe, after discussions with outside counsel about the issues raised in the RAR and the procedures for resolution of the disputed adjustments, that an adequate provision for income taxes has been made for potential liabilities that may result from these notices. If the outcome of this matter results in payments that differ materially from our expectations, it could have a material impact on our effective tax rate, results of operations and cash flows.

Net premiums written could be adversely affected if the Department of Housing and Urban Development repropose and adopts a regulation under the Real Estate Settlement Procedures Act that is equivalent to a proposed regulation that was withdrawn in 2004.

HUD regulations under RESPA prohibit paying lenders for the referral of settlement services, including mortgage insurance, and prohibit lenders from receiving such payments. In July 2002, HUD proposed a regulation that would exclude from these anti-referral fee provisions settlement services included in a package of settlement services offered to a borrower at a guaranteed price. HUD withdrew this proposed regulation in March 2004. Under the proposed regulation, if mortgage insurance were required on a loan, the package must include any mortgage insurance premium paid at settlement. Although certain state insurance regulations prohibit an insurer's payment of referral fees, had this regulation been adopted in this form, our revenues could have been adversely affected to the extent that lenders offered such packages and received value from us in excess of what they could have received were the anti-referral fee provisions of RESPA to apply and if such state regulations were not applied to prohibit such payments.

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.

The implementation of the Basel II capital accord may discourage the use of mortgage insurance.

In 1988, the Basel Committee on Banking Supervision (BCBS) developed the Basel Capital Accord (the Basel I), which set out international benchmarks for assessing banks' capital adequacy requirements. In June 2005, the BCBS issued an update to Basel I (as revised in November 2005, Basel II). Basel II, which is scheduled to become effective in the United States and many other countries in 2008, affects the capital treatment provided to mortgage insurance by domestic and international banks in both their origination and securitization activities.

The Basel II provisions related to residential mortgages and mortgage insurance may provide incentives to certain of our bank customers not to insure mortgages having a lower risk of claim and to insure mortgages having a higher risk of claim. The Basel II provisions may also alter the competitive positions and financial performance of mortgage insurers in other ways, including reducing our ability to successfully establish or operate our planned international operations.

Our international operations will subject us to numerous risks.

We have committed significant resources to begin international operations, initially in Australia, where we started to write business June 2007. We plan to expand our international activities to other countries. Accordingly, in addition to the general economic and insurance business-related factors discussed above, we are subject to a number of risks associated with our international business activities, including:

- risks of war and civil disturbances or other events that may limit or disrupt markets;
 - dependence on regulatory and third-party approvals;
 - changes in rating or outlooks assigned to our foreign subsidiaries by rating agencies;
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- challenges in attracting and retaining key foreign-based employees, customers and business partners in international markets;
 - foreign governments' monetary policies and regulatory requirements;
 - economic downturns in targeted foreign mortgage origination markets;
 - interest-rate volatility in a variety of countries;
 - the burdens of complying with a wide variety of foreign regulations and laws, some of which may be materially different than the regulatory and statutory requirements we face in our domestic business, and which may change unexpectedly;
 - potentially adverse tax consequences;
 - restrictions on the repatriation of earnings;
 - foreign currency exchange rate fluctuations; and
 - the need to develop and market products appropriate to the various foreign markets.

Any one or more of the risks listed above could limit or prohibit us from developing our international operations profitably. In addition, we may not be able to effectively manage new operations or successfully integrate them into our existing operations.

Downgrades in the financial strength ratings of MGIC below Aa3 (or its equivalent) could have a material adverse affect on us.

The financial strength ratings of our wholly owned subsidiary Mortgage Guaranty Insurance Corporation ("MGIC") are 'AA' (Standard & Poors Rating Services), 'Aa2' (Moody's Investors Service) and 'AA' (Fitch Ratings). One rating agency has announced that its rating is under review with negative implications and other agencies may place our rating under review with negative implications. In assigning financial strength ratings, in addition to considering the adequacy of the mortgage insurer's capital to withstand extreme loss scenarios under assumptions determined by the rating agency, rating agencies review a mortgage insurer's historical and projected operating performance, business outlook, competitive position, management, corporate strategy, and other factors. We believe a financial strength rating of at least Aa3/AA- is critical to a mortgage insurer's ability to continue to write new business. Any downgrade below such level, which would be a downgrade two notches below our current ratings, could have a material adverse affect on us.

Our income from our Sherman joint venture could be adversely affected by competition or other factors affecting its business.

Sherman Financial Group LLC ("Sherman") is engaged in the business of purchasing and servicing delinquent consumer assets, and in originating and servicing subprime credit card receivables. Sherman's results are sensitive to its ability to purchase receivable portfolios on terms that it projects will meet its return targets. While the volume of charged-off consumer receivables and the portion of these receivables that have been sold to third parties such as Sherman has grown in recent years, there is an increasing amount of competition to purchase such portfolios, including from new entrants to the industry, which has resulted in increases in the prices at which portfolios can be purchased.