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 MARCH 31, 2007

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

For the transition period from __________ to

Commission file number 1-10816

MGIC INVESTMENT CORPORATION

(Exact name of registrant as specified in its charter)

WISCONSIN (State or other jurisdiction of incorporation or organization)	**39-1486475** (I.R.S. Employer Identification No.)
250 E. KILBOURN AVENUE **MILWAUKEE, WISCONSIN** (Address of principal executive offices)	**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** o

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 o Non-accelerated filer o

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

YES o **NO** ☑

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

CLASS OF STOCK	PAR VALUE	DATE	NUMBER OF SHARES
Common stock	$1.00	04/30/07	83,067,157

MGIC INVESTMENT CORPORATION
TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

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

	March 31, 2007	December 31, 2006
	(In thousands of dollars)	
ASSETS		
Investment portfolio:		
Securities, available-for-sale, at market value:		
Fixed maturities (amortized cost, 2007-$5,355,893; 2006-$5,121,074)	$ 5,267,073	$ 5,249,854
Equity securities (cost, 2007-$2,616; 2006-$2,594)	2,583	2,568
Collateral held under securities lending (cost, 2007-$58,215)	58,215	—
Total investment portfolio	5,327,871	5,252,422
Cash and cash equivalents	255,043	293,738
Accrued investment income	65,604	64,646
Reinsurance recoverable on loss reserves	13,621	13,417
Prepaid reinsurance premiums	9,122	9,620
Premiums receivable	87,870	88,071
Home office and equipment, net	32,126	32,603
Deferred insurance policy acquisition costs	11,925	12,769
Investments in joint ventures	622,090	655,884
Income taxes recoverable	19,012	—
Other assets	203,406	198,501
Total assets	$ 6,647,690	$ 6,621,671
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Loss reserves	$ 1,141,566	$ 1,125,715
Unearned premiums	194,175	189,661
Short- and long-term debt (note 2)	607,886	781,277
Obligations under securities lending	58,215	—
Income taxes payable	—	34,480
Other liabilities	190,432	194,661
Total liabilities	2,192,274	2,325,794
Contingencies (note 3)		
Shareholders' equity:		
Common stock, $1 par value, shares authorized 300,000,000; shares issued, 3/31/07 - 123,064,226 12/31/06 - 123,028,976; shares outstanding, 3/31/07 - 83,067,337 12/31/06 - 82,799,919	123,064	123,029
Paid-in capital	305,512	310,394
Treasury stock (shares at cost, 3/31/07 - 39,996,889 12/31/06 - 40,229,057)	(2,190,036)	(2,201,966)
Accumulated other comprehensive income, net of tax (note 5)	61,121	65,789
Retained earnings (note 7)	6,155,755	5,998,631
Total shareholders' equity	4,455,416	4,295,877
Total liabilities and shareholders' equity	$ 6,647,690	$ 6,621,671

See accompanying notes to consolidated financial statements.

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
Three Months Ended March 31, 2007 and 2006
(Unaudited)

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
	(In thousands of dollars, except per share data)	
Revenues:		
Premiums written:		
Direct	$ 341,838	$ 333,576
Assumed	684	397
Ceded	(38,488)	(33,501)
Net premiums written	304,034	300,472
Increase in unearned premiums, net	(5,013)	(805)
Net premiums earned	299,021	299,667
Investment income, net of expenses	62,970	57,964
Realized investment (losses) gains, net	(3,010)	87
Other revenue	10,661	11,314
Total revenues	369,642	369,032
Losses and expenses:		
Losses incurred, net	181,758	114,885
Underwriting and other expenses, net	75,072	74,265
Interest expense	10,959	9,315
Total losses and expenses	267,789	198,465
Income before tax and joint ventures	101,853	170,567
Provision for income tax	23,543	46,166
Income from joint ventures, net of tax	14,053	39,052
Net income	$ 92,363	$ 163,453
Earnings per share (note 4):		
Basic	$ 1.13	$ 1.89
Diluted	$ 1.12	$ 1.87
Weighted average common shares outstanding — diluted (shares in thousands, note 4)	82,354	87,227
Dividends per share	$ 0.25	$ 0.25

See accompanying notes to consolidated financial statements.

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Three Months Ended March 31, 2007 and 2006
(Unaudited)

	Three Months Ended March 31,	
	2007	2006
	(In thousands of dollars)	
Cash flows from operating activities:		
Net income	$ 92,363	$ 163,453
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of deferred insurance policy acquisition costs	2,660	3,521
Increase in deferred insurance policy acquisition costs	(1,816)	(2,039)
Depreciation and amortization	4,708	6,854
(Increase) decrease in accrued investment income	(958)	104
(Increase) decrease in reinsurance recoverable on loss reserves	(204)	748
Decrease in prepaid reinsurance premiums	498	498
Decrease (increase) premium receivable	201	(1,237)
Increase (decrease) in loss reserves	15,851	(20,897)
Increase in unearned premiums	4,514	307
Increase in income taxes payable	32,074	50,006
Equity earnings in joint ventures	(19,338)	(57,251)
Distributions from joint ventures	51,512	67,862
Other	(3,077)	(19,910)
Net cash provided by operating activities	178,988	192,019
Cash flows from investing activities:		
Purchase of fixed maturities	(466,702)	(386,062)
Purchase of equity securities	(22)	—
Increase in collateral under securities lending	(58,215)	—
Additional investment in joint ventures	(210)	(984)
Proceeds from sale of fixed maturities	294,516	350,525
Proceeds from maturity of fixed maturities	142,880	40,125
Other	4,087	9,114
Net cash (used in) provided by investing activities	(83,666)	12,718
Cash flows from financing activities:		
Dividends paid to shareholders	(20,760)	(21,954)
Repayment of long-term debt	(200,000)	—
Net proceeds from (repayment of) short-term debt	25,376	(89,583)
Increase in obligations under securities lending	58,215	—
Reissuance of treasury stock	1,255	1,275
Repurchase of common stock	—	(91,534)
Common stock issued	1,942	5,532
Excess tax benefits from share-based payment arrangements	(45)	2,866
Net cash used in financing activities	(134,017)	(193,398)
Net (decrease) increase in cash and cash equivalents	(38,695)	11,339
Cash and cash equivalents at beginning of period	293,738	195,256
Cash and cash equivalents at end of period	$ 255,043	$ 206,595

See accompanying notes to consolidated financial statements.

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 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 three months ended March 31, 2007 may not be indicative of the results that may be expected for the year ending December 31, 2007.

Business Combination

On February 6, 2007 the Company and Radian Group Inc. (“Radian”) announced that they have agreed to merge. The agreement provides for a merger of Radian into the Company in which 0.9658 shares of the Company’s common stock will be exchanged for each share of Radian common stock. The shares of the Company’s common stock to be issued to effect the merger will be recorded at $66.41 per share. This stock price is based on an average of the closing prices of the Company’s common stock for the two trading days before through the two trading days after the Company and Radian announced their merger. The transaction has been unanimously approved by each company’s board of directors and is expected to be completed late in the third quarter or early in the fourth quarter of 2007, subject to regulatory and shareholder approvals.

Securities Lending

The Company participates in securities lending, primarily as an investment yield enhancement, through a program administered by the Company’s custodian. The program obtains collateral in an amount generally equal to 102% and 105% of the fair market value of domestic and foreign securities, respectively, and monitors the market value of the securities loaned on a daily basis with additional collateral obtained 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 March 31, 2007, the amount of the securities lending collateral and offsetting obligation was $58.2 million. The fair value of securities on loan at March 31, 2007 was $57.1 million.

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 March 31, 2007, December 31, 2006 and March 31, 2006, the Company had $110.3 million, $84.1 million and $100.0 million in commercial paper outstanding with a weighted average interest rate of 5.34%, 5.35% and 4.74%, respectively.

The Company has a $300 million, five year revolving credit facility, expiring in 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 March 31, 2007, these requirements were met. The facility will continue to be used as a liquidity back up facility for the outstanding commercial paper. The remaining credit available under the facility after reduction for the amount necessary to support the commercial paper was $189.7 million, $215.9 million and $200.0 million at March 31, 2007, December 31, 2006 and March 31, 2006, respectively.

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 March 31, 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. At March 31, 2006 the Company had $300 million, 5.375% Senior Notes due in November 2015 and $200 million, 6% Senior Notes due in March 2007. At March 31, 2007, December 31, 2006 and March 31 2006, the market value of the outstanding debt (which also includes commercial paper) was $609.5 million, $783.2 million and $588.4 million, respectively.

Interest payments on all long-term and short-term debt were $12.5 million and $8.3 million for the three months ended March 31, 2007 and 2006, respectively.

During 2006, an outstanding interest rate swap contract was terminated. This swap was placed into service to coincide with the committed credit facility, used as a backup for the commercial paper program. Under the terms of the swap contract, the Company paid a fixed rate of 5.07% and received a variable interest rate based on the London Inter Bank Offering Rate (“LIBOR”). The swap had an expiration date coinciding with the maturity of the credit facility and was designated as a cash flow hedge for accounting purposes. At March 31, 2007 the Company had no interest rate swaps outstanding.

(Income) expense on the interest rate swaps for the three months ended March 31, 2006 of approximately ($0.1) million was included in interest expense. Gains or losses arising from the amendment or termination of interest rate swaps are deferred and amortized to interest expense over the life of the hedged items.

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. In December 2006, class action litigation was separately brought against three 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 2005, the United States Court of Appeals for the Ninth Circuit decided a case under FCRA to which we were not a party that may make it more likely that we will be subject to litigation regarding when notices to borrowers are required by FCRA. The Supreme Court of the United States is reviewing this case, with a decision expected in the second quarter of 2007.

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.

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 three months ended March 31, 2007 and 2006.

See note 7 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. Diluted EPS is based on the weighted average number of common shares outstanding plus common stock equivalents which include stock awards and stock options. The following is a reconciliation of the weighted average number of shares used for basic EPS and diluted EPS.

Table of Contents

	Three Months Ended March 31,	
	2007	2006
	(in thousands)	
Weighted-average shares – Basic	81,890	86,577
Common stock equivalents	464	650
Weighted-average shares — Diluted	82,354	87,227

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 March 31,	
	2007	2006
	(In thousands of dollars)	
Net income	$92,363	$163,453
Other comprehensive loss	(4,668)	(31,523)
Total comprehensive income	$87,695	$131,930
Other comprehensive income (loss) (net of tax):		
Change in unrealized net derivative gains and losses	$ —	$ 777
Change in unrealized gains and losses on investments	(5,914)	(32,336)
Other	1,246	36
Other comprehensive loss	$ (4,668)	$ (31,523)

At March 31, 2007, accumulated other comprehensive income of $61.1 million included $77.8 million of net unrealized gains on investments, $2.4 million relating to a foreign currency translation adjustment, ($17.8) million relating to defined benefit plans and ($1.3) 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 March 31,			
	Pension and Supplemental Executive Retirement Plans		Other Postretirement Benefits	
	2007	2006	2007	2006
	(In thousands of dollars)			
Service cost	$ 2,504	$ 2,463	$ 890	$ 898
Interest cost	3,016	2,741	1,112	1,024
Expected return on plan assets	(4,370)	(3,709)	(804)	(649)
Recognized net actuarial loss (gain)	63	98	26	111
Amortization of transition obligation	—	—	71	71
Amortization of prior service cost	141	141	—	—
Net periodic benefit cost	$ 1,354	$ 1,734	$ 1,295	$ 1,455

The Company previously disclosed in its financial statements for the year ended December 31, 2006 that it expected to contribute approximately $10.7 million and $3.5 million, respectively, to its pension and postretirement plans in 2007. As of March 31, 2007, no contributions have been made.

Note 7 – 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. The Company as a result of the adoption 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 January 1, 2007 was $81.0 million. Included in that total are $71.3 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 $16.5 million for the payment of interest accrued as of January 1, 2007. It is reasonably possible that the

Company could make a deposit of taxes during the next twelve months to eliminate the further accrual of interest. The occurrence, amount and timing of any deposit are discretionary and cannot be determined at this time.

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 April 30, 2007, as a result of an examination by the Internal Revenue Service (“IRS”) for taxable years 2000 through 2004, the Company received several Notices of Proposed Adjustment. The notices would greatly increase reported taxable income for those years and, if upheld, would require the Company to pay a total of $188 million in taxes and accuracy related penalties, plus applicable interest. The IRS disagrees with the Company’s treatment of the flow through income and loss from an investment in a portfolio of the 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 intends to use appropriate means to appeal these adjustments. Radian holds an interest in a substantially similar portfolio of REMICs that was purchased from the same seller in a transaction that closed at the same time.

Note 8 — 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 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 March 31, 2007
(in thousands of dollars)

	Parent Company	MGIC Consolidated	Other	Eliminations	Total
ASSETS					
Total investments	$ 2,331	$5,023,278	$302,262	$ —	$5,327,871
Cash and cash equivalents	11,279	208,426	35,338	—	255,043
Reinsurance recoverable on loss reserves	—	84,089	19	(70,487)	13,621
Prepaid reinsurance premiums	—	24,088	3	(14,969)	9,122
Deferred insurance policy acquisition costs	—	11,925	—	—	11,925
Investments in subsidiaries/joint ventures	5,007,564	619,273	2,817	(5,007,564)	622,090
Other assets	49,279	397,205	27,064	(65,530)	408,018
Total assets	$5,070,453	$6,368,284	$367,503	$(5,158,550)	$6,647,690
LIABILITIES AND SHAREHOLDERS' EQUITY					
Liabilities:					
Loss reserves	$ —	$1,141,565	$ 70,488	$ (70,487)	$1,141,566
Unearned premiums	—	194,175	14,969	(14,969)	194,175
Short- and long-term debt	607,847	9,364	—	(9,325)	607,886
Other liabilities	7,190	250,784	39,467	(48,794)	248,647
Total liabilities	615,037	1,595,888	124,924	(143,575)	2,192,274
Total shareholders' equity	4,455,416	4,772,396	242,579	(5,014,975)	4,455,416
Total liabilities and shareholders' equity	$5,070,453	$6,368,284	$367,503	$(5,158,550)	$6,647,690

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

Condensed Consolidating Statements of Operations
Three Months Ended March 31, 2007
(in thousands of dollars)

	Parent Company	MGIC Consolidated	Other	Eliminations	Total
Revenues:					
Net premiums written	$ —	$ 285,998	$18,074	$ (38)	$304,034
Net premiums earned	—	280,792	18,267	(38)	299,021
Equity in undistributed net income of subsidiaries	42,623	—	—	(42,623)	—
Dividends received from subsidiaries	55,000	—	—	(55,000)	—
Investment income, net of expenses	2,368	56,328	4,274	—	62,970
Realized investment losses, net	—	(377)	(2,633)	—	(3,010)
Other revenue	—	2,598	8,063	—	10,661
Total revenues	99,991	339,341	27,971	(97,661)	369,642
Losses and expenses:					
Losses incurred, net	—	166,787	14,971	—	181,758
Underwriting and other expenses	70	54,756	20,295	(49)	75,072
Interest expense	10,959	—	—	—	10,959
Total losses and expenses	11,029	221,543	35,266	(49)	267,789
Income before tax and joint ventures	88,962	117,798	(7,295)	(97,612)	101,853
Provision (credit) for income tax	(3,401)	29,742	(2,241)	(557)	23,543
Income from joint ventures, net of tax	—	14,049	4	—	14,053
Net income	$92,363	$ 102,105	$ (5,050)	$ (97,055)	$ 92,363

Condensed Consolidating Statements of Operations
Three Months Ended March 31, 2006
(in thousands of dollars)

	Parent Company	MGIC Consolidated	Other	Eliminations	Total
Revenues:					
Net premiums written	$ —	$ 282,653	$17,841	$ (22)	$300,472
Net premiums earned	—	283,202	16,487	(22)	299,667
Equity in undistributed net income of subsidiaries	(35,515)	—	—	35,515	—
Dividends received from subsidiaries	205,000			(205,000)	—
Investment income, net of expenses	99	55,072	2,793	—	57,964
Realized investment gains, net	—	57	30	—	87
Other revenue	—	2,665	8,649	—	11,314
Total revenues	169,584	340,996	27,959	(169,507)	369,032
Losses and expenses:					
Losses incurred, net	—	110,599	4,286	—	114,885
Underwriting and other expenses	64	54,108	20,126	(33)	74,265
Interest expense	9,315	—	—	—	9,315
Total losses and expenses	9,379	164,707	24,412	(33)	198,465
Income before tax and joint ventures	160,205	176,289	3,547	(169,474)	170,567
Provision (credit) for income tax	(3,248)	48,738	659	17	46,166
Income from joint ventures, net of tax	—	39,052	—	—	39,052
Net income	$163,453	$ 166,603	$ 2,888	$(169,491)	$163,453

Condensed Consolidating Statements of Cash Flows
For the Three Months Ended March 31, 2007
(in thousands of dollars)

	Parent Company	MGIC Consolidated	Other	Eliminations	Total
Net cash from operating activities:	$ 23,725(1)	$ 204,214	$ 13,504	$ (62,455)	$ 178,988
Net cash from (used in) investing activities:	17,543	(98,289)	(10,420)	7,500	(83,666)
Net cash (used in) financing activities:	(192,187)	3,215	—	54,955	(134,017)
Net (decrease) increase in Cash	$(150,919)	$ 109,140	$ 3,084	$ —	$ (38,695)

(1) Includes dividends received from subsidiaries of $55,000.

Condensed Consolidating Statements of Cash Flows
For the Three Months Ended March 31, 2006
(in thousands of dollars)

	Parent Company	MGIC Consolidated	Other	Eliminations	Total
Net cash from operating activities:	$ 199,443(1)	$ 194,629	$ 5,813	$(207,866)	$ 192,019
Net cash from (used in) investing activities:	44	30,188	(17,514)	—	12,718
Net cash (used in) financing activities:	(196,264)	(205,000)	—	207,866	(193,398)
Net increase (decrease) in Cash	$ 3,223	$ 19,817	$(11,701)	$ —	$ 11,339

(1) Includes dividends received from subsidiaries of $205,000.

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

MGIC Investment Corporation and Radian Group Inc. have filed a joint proxy statement/prospectus and other relevant documents concerning the MGIC/Radian merger transaction with the United States Securities and Exchange Commission (the "SEC"). STOCKHOLDERS ARE URGED TO READ THE JOINT PROXY STATEMENT/PROSPECTUS AND ANY OTHER DOCUMENTS FILED WITH THE SEC IN CONNECTION WITH THE MERGER TRANSACTION OR INCORPORATED BY REFERENCE IN THE PROXY STATEMENT/PROSPECTUS BECAUSE THEY CONTAIN IMPORTANT INFORMATION. Investors may obtain these documents free of charge at the SEC's website (http://www.sec.gov). In addition, documents filed with the SEC by MGIC are available free of charge by contacting Investor Relations at MGIC Investment Corporation, 250 East Kilbourn Avenue, Milwaukee, WI 53202. Documents filed with the SEC by Radian are available free of charge by calling Investor Relations at (215) 231-1486.

Radian and MGIC and their respective directors and executive officers, certain members of management and other employees may be deemed to be participants in the solicitation of proxies from Radian stockholders and MGIC stockholders with respect to the proposed merger transaction. Information regarding the directors and executive officers of Radian and MGIC and the interests of such participants are included in the joint proxy statement/prospectus filed with the SEC (which relates to the merger transaction, Radian's 2007 annual meeting of stockholders and MGIC's 2007 annual meeting of stockholders) and in the other relevant documents filed with the SEC.

Overview

Proposed Merger with Radian Group

In early February 2007 we announced that we agreed to merge (the "Merger") with Radian Group Inc. ("Radian"). The agreement provides for a merger of Radian into us in which 0.9658 shares of our common stock will be exchanged for each share of Radian common stock. Radian has publicly reported that at March 19, 2007 it had 80.3 million shares of common stock outstanding and eligible to vote at its shareholder meeting. The transaction has been unanimously approved by each company's board of directors and is expected to be completed late in the third quarter or early in the fourth quarter of 2007, subject to regulatory and shareholder approvals. At our 2007 annual meeting, which will be held on May 10, 2007, we will ask our shareholders to approve the Merger Agreement. Radian will ask the same of their shareholders at their annual meeting on May 9, 2007. The results of the shareholder votes were not known at the time we finalized this Quarterly Report.

We would almost double in size if the Merger occurs. See Note 16 to our consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2006. We would also be engaged in the financial guaranty business and intend to dispose of certain of the interests that the combined company would have held in the Credit-Based Asset Servicing and Securitization LLC ("C-BASS") and Sherman Financial Group LLC ("Sherman") joint ventures to avoid the potentially adverse impact that owning more than 50% may have on the combined company's financial ratings. The business description, financial results and any forward looking statements that follow apply only to our business, and do not reflect the effects of the Merger. For further information regarding the Merger, you should read our Current Reports on Form 8-K filed on February 6 and 12, 2007, as well as our S-4/A filed on April 5, 2007 and our Joint Proxy Statement/Prospectus on Form 424B3 filed on April 9, 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.

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

The 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 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 is affected by the coupon rate of the security compared to the yield of comparable securities.

- 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, 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.
- 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 housing values, which 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 and the condition of the economy can affect this pattern.

- Underwriting and other expenses

Our operating expenses generally vary with the level of mortgage origination activity, contract underwriting volume and expansion into international markets. 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. Joint venture income principally consists of the aggregate results of our investment in two less than majority owned joint ventures, C-BASS and Sherman.

C-BASS: C-BASS is primarily an investor in the credit risk of credit-sensitive single-family residential mortgages. It finances these activities through borrowings included on its balance sheet and by securitization activities generally conducted through off-balance sheet entities. C-BASS generally retains the first-loss and other subordinate securities created in the securitization. The mortgage loans owned by C-BASS and underlying C-BASS’s mortgage securities investments are generally serviced by Litton Loan Servicing LP, a subsidiary of C-BASS (“Litton”). Litton’s servicing operations primarily support C-BASS’s investment in credit risk, and investments made by funds managed or co-managed by C-BASS, rather than generating fees for servicing loans owned by third-parties.

C-BASS’s consolidated results of operations are affected by:

- Portfolio revenue, which in turn is primarily affected by net interest income, gain on sale and liquidation, gain on securitization and hedging gains and losses related to portfolio assets and securitization, net of mark-to-market and whole loan reserve changes.
  - Net interest income

    Net interest income is principally a function of the size of C-BASS’s portfolio of whole loans and mortgages and other securities, and the spread between the interest income generated by these assets and the interest expense of funding them. Interest income from a particular security is recognized based on the expected yield for the security.
  - Gain on sale and liquidation

    Gain on sale and liquidation results from sales of mortgage and other securities, and liquidation of mortgage loans. Securities may be sold in the normal course of business or because of the exercise of call rights by third parties. Mortgage loan liquidations result from loan payoffs, from foreclosure or from sales of real estate acquired through foreclosure.
  - Gain on securitization

    Gain on securitization is a function of the face amount of the collateral in the securitization and the margin realized in the securitization. This margin depends on the difference between the proceeds realized in the securitization and the purchase price paid by C-BASS for the collateral. The proceeds realized in a securitization include the value of securities created in the securitization that are retained by C-BASS.

- Hedging gains and losses, net of mark-to-market and whole loan reserve changes

  Hedging gains and losses primarily consist of changes in the value of derivative instruments (including interest rate swaps, interest rate caps and futures) and short positions, as well as realized gains and losses from the closing of hedging positions. C-BASS uses derivative instruments and short sales in a strategy to reduce the impact of changes in interest rates on the value of its mortgage loans and securities. Changes in value of derivative instruments are subject to current recognition through the income statement because C-BASS does not account for the derivatives as "hedges" under SFAS No. 133. Mortgage and other securities are classified by C-BASS as trading securities and are carried at fair value, as estimated by C-BASS. Changes in fair value between period ends (a "mark-to-market") are reflected in C-BASS's statement of operations as unrealized gains or losses. Changes in fair value of mortgage and other securities may relate to changes in credit spreads or to changes in the level of interest rates or the slope of the yield curve. Mortgage loans are not marked-to-market and are carried at the lower of cost or fair value on a portfolio basis, as estimated by C-BASS. During a period in which short-term interest rates decline, in general, C-BASS's hedging positions will decline in value and the change in value, to the extent that the hedges related to whole loans, will be reflected in C-BASS's earnings for the period as an unrealized loss. The related increase, if any, in the value of mortgage loans will not be reflected in earnings but, absent any countervailing factors, when mortgage loans owned during the period are securitized, the proceeds realized in the securitization should increase to reflect the increased value of the collateral.

- Servicing revenue

  Servicing revenue is a function of the unpaid principal balance of mortgage loans serviced and servicing fees and charges. The unpaid principal balance of mortgage loans serviced by Litton is affected by mortgages acquired by C-BASS because servicing on subprime and other mortgages acquired is generally transferred to Litton. Litton also services or provides special servicing on loans in mortgage securities owned by funds managed or co-managed by C-BASS. Litton also may obtain servicing on loans in third party mortgage securities acquired by C-BASS or when the loans become delinquent by a specified number of payments (known as "special servicing").

- Revenues from money management activities

These revenues include management fees from C-BASS issued collateralized bond obligations ("CBOs"), equity in earnings from C-BASS investments in investment funds managed or co-managed by C-BASS and management fees and incentive income from investment funds managed or co-managed by 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.

Sherman's consolidated results of operations are 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.

2007 First Quarter Results

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

- Losses incurred

  Losses incurred for the first quarter of 2007 increased compared to the same period in 2006 primarily due to a smaller decrease in the default inventory and a larger increase in the estimates regarding how much will be paid on claims (severity), when each are compared to the same period in 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.

- Premiums written and earned

Premiums written and earned during the first quarter of 2007 were flat when compared to the same period in 2006. The average insurance in force continues to increase, but has been 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 first quarter of 2007 increased slightly when compared to the same period in 2006. The increase was primarily due to international expansion.

- Investment income

Investment income in the first quarter of 2007 was higher when compared to the same period 2006 due to an increase in the pre-tax yield.

- Income from joint ventures

Income from joint ventures decreased in the first quarter of 2007 compared to the same period in 2006. This decrease was primarily due to an operating loss at C-BASS in the first quarter of 2007, our portion of which was $6.6 million, compared to operating income in the first quarter of 2006, our portion of which was $30.1 million. C-BASS's loss during the first quarter of 2007 was primarily due to a write down in their securities portfolio due to spread widening and an increase in loss assumptions, securitization losses, negative mark-to-market adjustments on their whole loan portfolio and write-offs of claims against certain counterparties whose creditworthiness became impaired.

Table of Contents

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 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 were made.

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 months ended March 31, 2007 and 2006 was as follows:

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
	($ billions)	
NIW-Flow Channel	$ 10.4	$ 7.9
NIW-Bulk Channel	2.3	2.1
Total NIW	$ 12.7	$ 10.0
Refinance volume as a % of primary flow NIW	27%	28%

The increase in NIW on a flow basis in the first quarter of 2007, compared to the same period in 2006, was primarily due to a renewed interest in credit quality protection, along with changes in interest rates, slowing property appreciation and mortgage insurance tax deductibility. For a discussion of NIW written through the bulk channel, see “Bulk transactions” below.

Cancellations and insurance in force

NIW and cancellations of primary insurance in force during the three months ended March 31, 2007 and 2006 were as follows:

	Three Months Ended March 31, 2007	2006
	(in billions)	
NIW	$ 12.7	$ 10.0
Cancellations	(10.9)	(13.1)
Change in primary insurance in force	$ 1.8	$ (3.1)
Direct primary insurance in force as of March 31,	$ 178.3	$ 166.9

In the first quarter of 2007 insurance in force increased $1.8 billion. This was the fourth consecutive quarter of growth in the in force book.

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 70.3% at March 31, 2007, an increase from 69.6% at December 31, 2006 and 62.0% at March 31, 2006. These persistency rate improvements and the related decline in cancellations reflect the general upward trend in mortgage interest rates and declining rate of home price appreciation over these periods. We continue to expect modest improvement in the persistency rate in 2007, although this expectation assumes the absence of significant declines in the level of mortgage interest rates from their level in late April 2007.

Bulk transactions

Our writings of bulk insurance are in part sensitive to the volume of securitization transactions involving non-conforming loans. 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 $2.3 billion in the first quarter of 2007 compared to $2.1 billion in the first quarter of 2006. We price our bulk business to generate acceptable returns; there can be no assurance, however, that the assumptions underlying the premium rates will achieve this objective.

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 March 31, 2007 and 2006 was $39 million and $68 million, respectively. Our direct pool risk in force was $3.0 billion, $3.1 billion and $3.0 billion at March 31, 2007, December 31, 2006 and March 31, 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 March 31, 2007, December 31, 2006 and March 31, 2006, for $4.3 billion, $4.4 billion and $4.8 billion, respectively, of risk without such limits, risk in force is calculated at $473 million, $473 million and $470 million, respectively. For the three months ended March 31, 2007 and 2006 for $13 million and $21 million, respectively, of risk without contractual aggregate loss limits, new risk written under this model was $0.5 million and $1.2 million, respectively.

Net premiums written and earned

Net premiums written and earned during the first quarter of 2007 were flat when compared to the same period in 2006. The average insurance in force continues to increase, but has been 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 April 2007, we expect the average insurance in force during 2007 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 in 2007.

Risk sharing arrangements

For the quarter ended December 31, 2006, approximately 48.3% of our new insurance written on a flow basis was subject to arrangements with reinsurance subsidiaries of certain mortgage lenders or risk sharing arrangements with the GSEs compared to 48.0% for the quarter ended March 31, 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.

Investment income

Investment income for the first quarter of 2007 increased when compared to the same period in 2006 due to an increase in the average investment yield. The portfolio's average pre-tax investment yield was 4.54% at March 31, 2007 and 4.35% at March 31, 2006. The portfolio's average after-tax investment yield was 4.06% at March 31, 2007 and 3.87% at March 31, 2006.

Other revenue

Other revenue for the first quarter of 2007 decreased when compared to the same period in 2006. The decrease in other revenue is primarily the result of 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 first quarter of 2007 increased compared to the same period in 2006 primarily due to a smaller decrease in the default inventory and a larger increase in the estimates regarding how much will be paid on claims (severity), when each are compared to the same period in 2006. Our estimates are determined based upon historical experience. 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. Although the total default inventory has decreased we have experienced increases in certain markets. In California we have experienced an increase in delinquencies, from 1,900 as of March 31, 2006 to 3,400 as of March 31, 2007. Also the average claim paid on California loans is twice as high as the average claim paid for the remainder of the country. We have also experienced an increase in delinquencies in Arizona, Florida and Massachusetts and those delinquencies also have above average loan balances.

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

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

	March 31, 2007	December 31, 2006	March 31, 2006
Total loans delinquent	76,122	78,628	76,362
Percentage of loans delinquent (default rate)	5.92%	6.13%	6.00%
Prime loans delinquent*	35,436	36,727	36,114
Percentage of prime loans delinquent (default rate)	3.56%	3.71%	3.65%
A-minus loans delinquent*	17,047	18,182	18,109
Percentage of A-minus loans delinquent (default rate)	15.77%	16.81%	16.04%
Subprime credit loans delinquent*	11,246	12,227	12,297
Percentage of subprime credit loans delinquent (default rate)	25.86%	26.79%	24.03%
Reduced documentation loans delinquent	12,393	11,492	9,842
Percentage of reduced doc loans delinquent (default rate)	8.92%	8.19%	8.19%

* 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 three months ended March 31, 2007 was $30,841 compared to $26,857 for the same period in 2006. We expect increases in the average primary claim paid throughout 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 slightly from 20,458 at December 31, 2006 to 20,665 at March 31, 2007; the pool notice inventory was 21,127 at March 31, 2006.

Information about net losses paid during the three months ended March 31, 2007 and 2006 appears in the table below.

	Three Months Ended March 31,	
Net paid claims ($ millions)	2007	2006
Prime (FICO 620 & >)	$ 67	$ 57
A-Minus (FICO 575-619)	34	28
Subprime (FICO < 575)	19	13
Reduced doc (All FICOs)	26	17
Other	20	20
	$ 166	$ 135

We anticipate that net paid claims in the remainder of 2007 will exceed their 2006 level.

As of March 31, 2007, 72% of our primary insurance in force was written subsequent to December 31, 2003. 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 first quarter of 2007 increased slightly when compared to the same period in 2006. We anticipate that expenses for the remainder of 2007 will increase compared to 2006, due primarily to international expansion.

Consolidated ratios

The table below presents our consolidated loss, expense and combined ratios for the three months ended March 31, 2007 and 2006.

	Three Months Ended March 31,	
Consolidated Insurance Operations:	2007	2006
Loss ratio	60.8%	38.3%
Expense ratio	17.8%	17.5%
Combined ratio	78.6%	55.8%

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 first quarter of 2007, compared to the same period in 2006, is due to an increase in losses incurred. The expense ratio (expressed as a percentage) is the ratio of underwriting expenses to net premiums written. The increase in the expense ratio in the first quarter of 2007, compared to the same period in 2006, is due to an increase in our expenses. The combined ratio is the sum of the loss ratio and the expense ratio.

Income taxes

The effective tax rate was 23.1% in the first quarter of 2007, compared to 27.1% in the first quarter of 2006. During those periods, the effective tax rate was below the statutory rate of 35%, reflecting 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. Changes in the effective tax rate principally result from a higher or lower percentage of total income before tax being generated from tax-preferenced investments. The lower effective tax rate in the first quarter of 2007 resulted from a higher percentage of total income before tax being generated from tax-preferenced investments, which resulted from lower levels of 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. Income from joint ventures decreased in the first quarter of 2007 compared to the same period in 2006. This decrease was primarily due to an operating loss at C-BASS in the first quarter of 2007, our portion of which was $6.6 million, compared to operating income in the first quarter of 2006, our portion of which was $30.1 million. C-BASS's loss during the first quarter of 2007 was primarily due to a write down in their securities portfolio due to spread widening and an increase in loss assumptions, securitization losses, negative mark-to-market adjustments on their whole loan portfolio and write-offs of claims against certain counterparties whose creditworthiness became impaired.

C-BASS

Fieldstone: On February 15, 2007, C-BASS and Fieldstone Investment Corporation ("Fieldstone") entered into a merger agreement, which was subsequently amended to reduce the purchase price on March 13, 2007. The reduction in purchase price reflects the cost to provide Fieldstone with needed additional liquidity, pending the closing of the merger. This additional liquidity will be provided through the sale to C-BASS, at Fieldstone's option, of securities and mortgage loans owned by Fieldstone. Under the terms of the amended agreement, C-BASS will acquire all of the outstanding common stock of Fieldstone for approximately $188 million in cash. Completion of the transaction, which is currently expected to occur in the second quarter of 2007, is contingent on various closing conditions, including regulatory approvals and the approval of Fieldstone's stockholders. At the close of the transaction, Fieldstone will become a wholly owned subsidiary of C-BASS. At December 31, 2006, Fieldstone owned and managed a portfolio of over $5.7 billion of non-conforming mortgage loans originated primarily by a Fieldstone subsidiary. These mortgage loans are financed through securitizations that are structured as debt with the result that both the mortgage loans and the related debt appear on Fieldstone's balance sheet. The closing of the acquisition will not change this balance sheet treatment. At December 31, 2006, according to information filed by Fieldstone with the Securities and Exchange Commission, Fieldstone's assets were $6.4 billion; its liabilities were $6.0 billion; and its shareholder's equity was $0.4 billion. At the closing, Fieldstone's assets and liabilities will be adjusted to reflect the purchase price, as required by generally accepted accounting principles.

Subprime Market: Significant dislocation occurred in the subprime mortgage market during the first quarter of 2007. This was primarily due to the poor performance of subprime mortgage loans originated in 2006, as demonstrated by a significant increase in early pay/first pay defaults. Spreads on non-investment grade and non-rated subprime mortgage securities, which are the bulk of C-BASS's mortgage securities portfolio, increased dramatically during the latter part of February and through March 2007. This created liquidity issues in the subprime industry, resulting in a significant decline in the volume of originations, and impairment of the financial strength of many subprime originators.

Table of Contents

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 Summary Balance Sheet: (March 31, 2007 — unaudited December 31, 2006 — audited)	March 31, 2007	December 31, 2006
	($ millions)	
Assets:		
Whole loans	$ 3,066	$ 4,596
Securities	2,331	2,422
Servicing	671	656
Other	800	1,127
Total Assets	$ 6,868	$ 8,801
Total Liabilities	$ 5,956	$ 7,875
Debt (1)	$ 4,778	$ 6,140
Owners' Equity	$ 912	$ 926

(1) Most of which is scheduled to mature within one year or less.

Included in whole loans and total liabilities at March 31, 2007 and December 31, 2006 were approximately $530 million and $741 million, respectively, of assets and $511 million and $720 million, respectively, of liabilities from third party securitizations that did not qualify for off-balance sheet treatment. The liabilities from these securitizations are not included in Debt in the table above.

C-BASS Summary Income Statement: (unaudited)	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
	(in millions)	
Portfolio	$ (16.1)	$ 76.3
Net servicing	52.0	44.9
Money management and other	3.1	8.1
Total revenue	39.0	129.3
Total expense	53.7	63.8
Income (loss) before tax	$ (14.7)	$ 65.5
Company's share of pre-tax income (loss)	$ (6.6)	$ 30.1

Table of Contents

See “Overview—Business and General Environment—Income from Joint Ventures—C-BASS” for a description of the components of the revenue lines.

The $14.7 million pre-tax loss in the first quarter of 2007 was primarily due to a write down in their securities portfolio due to spread widening and an increase in loss assumptions, securitization losses, negative mark-to-market adjustments on their whole loan portfolio and write-offs of claims against certain counterparties whose creditworthiness became impaired. These losses were offset by an operating profit, loan servicing, interest income on portfolios and reduced compensation expenses.

Our investment in C-BASS on an equity basis at March 31, 2007 was $442.9 million. There were no distributions from C-BASS during the first quarter of 2007.

Sherman

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

Sherman Summary Balance Sheet: (March 31, 2007 — unaudited December 31, 2006 — audited)	March 31, 2007	December 31, 2006
	($ millions)	
Total Assets	$1,234	$1,204
Total Liabilities	$1,001	$ 923
Debt	$ 845	$ 761
Members’ Equity	$ 233	$ 281

Sherman Summary Income Statement: (unaudited)	Three Months Ended March 31, ($ millions) 2007	2006
Revenues from receivable portfolios	$ 281.0	$ 284.9
Portfolio amortization	122.1	101.2
Revenues, net of amortization	158.9	183.7
Credit card interest income and fees	118.5	72.3
Other revenue	8.0	4.8
Total revenues	285.4	260.8
Total expenses	204.3	178.9
Income before tax	$ 81.1	$ 81.9
Company's share of pre-tax income	$ 27.7	$ 28.3

Sherman's increased revenues in the first quarter of 2007, compared to the same period in 2006, was primarily due to increased credit card income and fees generated by Credit One Bank ("Credit One"). The increase in expenses from the first quarter of 2006 to the first quarter of 2007 was also related to Credit One.

Our investment in Sherman on an equity basis at March 31, 2007 was $138.2 million. We received $51.5 million of distributions from Sherman during the first quarter of 2007.

The "Company's share of pre-tax income" line item in the table above includes $5.4 million of additional amortization expense for the three months ended March 31, 2007, 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 hold a greater equity interest in Sherman during the first quarter of 2007, compared to the first quarter of 2006.

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. At March 31, 2007 we had $200 million, 5.625% Senior Notes due in September 2011 and $300 million, 5.375% Senior Notes due in November 2015. At March 31, 2006 we had $300 million, 5.375% Senior Notes due in November 2015 and $200 million, 6% Senior Notes due in March 2007. At

March 31, 2007, December 31, 2006 and March 31, 2006, the market value of the outstanding debt (which also includes commercial paper) was $609.5 million, $783.2 million and $588.4 million, respectively.

See “Results of Operations–Joint ventures” above for information about the financial condition of C-BASS and Sherman.

As of March 31, 2007, 85% of our investment portfolio was invested in tax-preferenced securities. In addition, at March 31, 2007, based on book value, approximately 96% of our fixed income securities were invested in ‘A’ rated and above, readily marketable securities, concentrated in maturities of less than 15 years.

At March 31, 2007, our 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 March 31, 2007, the effective duration of our fixed income investment portfolio was 4.7 years. This means that for an instantaneous parallel shift in the yield curve of 100 basis points there would be an approximate 4.7% 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 future cash inflows from premiums will be sufficient to meet future claim payments. Cash flow shortfalls, if any, could 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 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 March 31, 2007, December 31, 2006 and March 31, 2006, we had $110.3 million, $84.1 million and $100.0 million in commercial paper outstanding with a weighted average interest rate of 5.34%, 5.35% and 4.74%, respectively.

We have a $300 million, five year revolving credit facility expiring in 2010 which will continue to be 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 March 31, 2007, these requirements were met. The remaining credit available under the facility after reduction for the amount necessary to support the commercial paper was $189.7 million, $215.9 million and $200.0 million at March 31, 2007, December 31, 2006 and March 31, 2006, respectively.

During 2006, an outstanding interest rate swap contract was terminated. This swap was placed into service to coincide with our committed credit facility, used as a backup for the commercial paper program. Under the terms of the swap contract, we paid a fixed rate of 5.07% and received a variable interest rate based on LIBOR. The swap had an expiration date coinciding with the maturity of our credit facility and was designated as a cash flow hedge. At March 31, 2007 we had no interest rate swaps outstanding.

(Income) expense on interest rate swaps for the three months ended March 31, 2006 of approximately ($0.1) million was included in interest expense. Gains or losses arising from the amendment or termination of interest rate swaps are deferred and amortized to interest expense over the life of the hedged items.

The commercial paper, back-up 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 February 2007, MGIC paid a quarterly dividend of $55 million. 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 8 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 January 1, 2007 is $81.0 million. Included in that total are $71.3 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 $16.5 million for the payment of interest accrued as of January 1, 2007. It is reasonably possible that we could make a deposit of taxes during the next twelve months to eliminate the further accrual of interest. The occurrence, amount and timing of any deposit are discretionary and cannot be determined at this time.

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 April 30, 2007, as a result of an examination by the Internal Revenue Service (“IRS”) for taxable years 2000 through 2004, we received several Notices of Proposed Adjustment. The notices would greatly increase reported taxable income for those years and, if upheld, would require us to pay a total of $188 million in taxes and accuracy related penalties, plus applicable interest. The IRS disagrees with our treatment of the flow through income and loss from an investment in a portfolio of the 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 intend to use appropriate means to appeal these adjustments.

During the first quarter of 2007, we did not repurchase any shares of Common Stock under publicly announced programs due to our pending merger with Radian. While in discussions with Radian in January, we were unable to buy any of our shares and after the transaction was announced, we were limited by SEC rules to an immaterial level of purchases. At March 31, 2007, we had Board approval to purchase an additional 4.7 million shares under these programs.

In connection with the merger, we agreed not to purchase Radian stock prior to July 13, 2007 without approval from Radian. Radian's board has authorized certain of its officers to allow us to purchase Radian shares, but only in an amount not to exceed two million shares in the aggregate, subject to certain conditions. We expect that Radian's officers will authorize us to begin purchasing shares of Radian stock shortly after our annual meeting of shareholders on May 10, 2007.

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 December 31, 2006, we repurchased 41.6 million shares under publicly announced programs at a cost of $2.3 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 March 31, 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 $54.3 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 March 31, 2007, the cost of remedies provided by us to customers for failing to meet the standards of the contracts has not been material. However, the decreasing trend of home mortgage interest rates over the last several years may have mitigated the effect of some of these costs since the general effect of lower interest rates can be to increase the value of certain loans on which remedies are provided. There can be no assurance that contract underwriting remedies will not be material in the future.

Our consolidated risk-to-capital ratio was 7.5:1 at both March 31, 2007 and December 31, 2006.

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 claims-paying ability 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.

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 C-BASS and 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 this Quarterly Report on Form 10-Q. The risk factors in the 10-K, as supplemented by this 10-Q 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 March 31, 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 March 31, 2007, the effective duration of our fixed income investment portfolio was 4.7 years. This means that for each instantaneous parallel shift in the yield curve of 100 basis points there would be an approximate 4.7% 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. See the fourth and fifth paragraphs under “Management’s Discussion and Analysis of Financial Condition and Results of Operations-Liquidity and Capital Resources” for a discussion of our interest rate swaps.

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 first 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 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 our Annual Report on Form 10-K for the year ended December 31, 2006. The principal changes to the risk factors that are set forth below were also included in Exhibit 99 to our Current Report on Form 8-K dated April 11, 2007. Exhibit 99 sets forth our risk factors as part of our press release announcing earnings for the first quarter of 2007. Some of the information in the risk factors in the 10-K has been updated by information in the same risk factor included in that Exhibit 99.

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 though 2004. The examination is related to 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. On April 30, 2007, we received several Notices of Proposed Adjustment from the IRS for taxable years 2000 through 2004. The notices, if upheld, would greatly increase reported taxable income for those years and require us to pay a total of $188 million in taxes and accuracy related penalties, plus applicable interest. The IRS disagrees with our treatment of the flow through income and loss from an investment in a portfolio of the residual interests of the 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 this investment was properly reported on our federal income tax returns in accordance with applicable tax laws and regulations in effect during the periods involved and intend to use appropriate means to appeal these adjustments. The process to appeal these adjustments may take some time and a final resolution may not be reached until a date many months or years into the future. We believe, after discussions with outside counsel about the issues raised in the notices 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.

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

(c) Repurchase of common stock:

We did not repurchase any shares of Common Stock during the first quarter of 2007. On January 26, 2006 we announced that our Board of Directors authorized the repurchase of up to ten million shares of our Common Stock in the open market or in private transactions. As of March 31, 2007 4.7 million of these 10 million shares remained available to be purchased.

In connection with the merger, we agreed not to purchase Radian stock prior to July 13, 2007 without approval from Radian. Radian's board has authorized certain of its officers to allow us to purchase Radian shares, but only in an amount not to exceed two million shares in the aggregate, subject to certain conditions. We expect that Radian's officers will authorize us to begin purchasing shares of Radian stock shortly after our annual meeting of shareholders on May 10, 2007.

ITEM 6. EXHIBITS

The accompanying Index to Exhibits is incorporated by reference in answer to this portion of this Item, and except as otherwise indicated in the next sentence, the Exhibits listed in such Index are filed as part of this Form 10-Q. Exhibit 32 is not filed as part of this Form 10-Q but accompanies this Form 10-Q.

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 May 10, 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)

Exhibit Number	Description of Exhibit
2	Agreement and Plan of Merger, dated as of February 6, 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 February 12, 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 Report on Form 10-Q for the quarter ended March 31, 2007

EXHIBIT 11

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
STATEMENT RE COMPUTATION OF NET INCOME PER SHARE
Three Months Ended March 31,2007 and 2006

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
	(In thousands of dollars)	
BASIC EARNINGS PER SHARE		
Average common shares outstanding	81,890	86,577
Net income	$92,363	$163,453
Basic earnings per share	$ 1.13	$ 1.89
DILUTED EARNINGS PER SHARE		
Adjusted weighted average shares outstanding:		
Average common shares outstanding	81,890	86,577
Common stock equivalents	464	650
Adjusted weighted average diluted shares outstanding	82,354	87,227
Net income	$92,363	$163,453
Diluted earnings per share	$ 1.12	$ 1.87

Exhibit 31.1

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: May 10, 2007

\s\ Curt S. Culver

Curt S. Culver
Chief Executive Officer

Exhibit 31.2

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: May 10, 2007

\s\ J. Michael Lauer

J. Michael Lauer
Chief Financial Officer

Exhibit 32

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 three months ended March 31, 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: May 10, 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 Report on Form 10-Q for the quarter ended March 31, 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 7% 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, although the performance of ARMs has not been tested in such an environment. 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. Because interest-only loans and pay option ARMs are a relatively recent development, we have no 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 piggyback loans are a significant percentage of mortgage originations in which borrowers make down payments of less than 20% and that their use is primarily by borrowers with higher credit scores. During the fourth quarter of 2004, we introduced on a national basis a program designed to recapture business lost to these mortgage insurance avoidance products. This program accounted for 10.4% of flow new insurance written in the first quarter of 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
- CMG Mortgage Insurance Company.

<u>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.</u>

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 March 31, 2007 persistency was at 70.3%, 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.

<u>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.</u>

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.

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

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. In December 2006, class action litigation was separately brought against three 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 2005, the United States Court of Appeals for the Ninth Circuit decided a case under FCRA to which we were not a party that may make it more likely that we will be subject to litigation regarding when notices to borrowers are required by FCRA. The Supreme Court of the United States is reviewing this case, with a decision expected in the second quarter of 2007.

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.

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

The Internal Revenue Service (“IRS”) has been conducting an examination of our federal income tax returns for taxable years 2000 though 2004. The examination is related to 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. On April 30, 2007, we received several Notices of Proposed Adjustment from the IRS for taxable years 2000 through 2004. The notices, if upheld, would greatly increase reported taxable income for those years and require us to pay a total of $188 million in taxes and accuracy related penalties, plus applicable interest. The IRS disagrees with our treatment of the flow through income and loss from an investment in a portfolio of the residual interests of the 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 this investment was properly reported on our federal income tax returns in accordance with applicable tax laws and regulations in effect during the periods involved and intend to use appropriate means to appeal these adjustments. The process to appeal these adjustments may take some time and a final resolution may not be reached until a date many months or years into the future. We believe, after discussions with outside counsel about the issues raised in the notices 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.

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

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.

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

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.

<u>The implementation of the Basel II capital accord may discourage the use of mortgage insurance.</u>

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.

<u>Our international operations will subject us to numerous risks.</u>

We have committed significant resources to begin international operations, initially in Australia, where we expect to start to write business in the second quarter of 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;
- 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.

<u>Our proposed merger with Radian could adversely affect us.</u>

On February 6, 2007, we entered into a definitive agreement under which Radian Group, one of our mortgage insurance competitors, would merge into us. We expect the merger to occur late in the third quarter or early in the fourth quarter of 2007. Completion of the merger is subject to various conditions, including the approval by our and Radian's stockholders, as well as regulatory approvals. There is no assurance that the merger will be approved, and there is no assurance that the other conditions to the completion of the combination will be satisfied. If the merger is not completed, we will be subject to risks such as the following:

- because the current price of our common stock may reflect a market assumption that we will complete the merger, a failure to complete the combination could result in a negative perception of us and a decline in the price of our common stock;
- we will have certain costs relating to the merger that will increase our expenses;
- the merger may distract us from day-to-day operations and require substantial commitments of time and resources by our personnel, which they otherwise could have devoted to other opportunities that could have been beneficial to us; and
- we expect some lenders will reallocate mortgage insurance business to competitors of MGIC and Radian as a result of the merger.

In addition, if the merger is completed, we may not be able to efficiently integrate Radian's businesses with ours or we may incur substantial costs and delays in integrating Radian's businesses with ours. Radian's business includes financial guaranty insurance, a business in which we have not previously engaged and which has characteristics that are different from mortgage guaranty insurance.

Certain rating agencies rate the financial strength rating of Radian's mortgage insurance operations Aa3 (or its equivalent). We expect that upon completion of the merger these rating agencies will downgrade our financial strength rating so that it is the same as Radian's. We do not expect such a downgrade to affect our business. However, our ability to continue to write new mortgage insurance business depends on our maintaining a financial strength rating of at least Aa3 (or its equivalent). Therefore, any further downgrade would have a material adverse affect on us.

Our income from joint ventures could be adversely affected by credit losses, insufficient liquidity or competition affecting those businesses.

C-BASS: Credit-Based Asset Servicing and Securitization LLC ("C-BASS") is principally engaged in the business of investing in the credit risk of credit sensitive single-family residential mortgages. C-BASS is particularly exposed to funding risk and to credit risk through ownership of the higher risk classes of mortgage backed securities from its own securitizations and those of other issuers. In addition, C-BASS's results are sensitive to its ability to purchase mortgage loans and securities on terms that it projects will meet its return targets. C-BASS's mortgage purchases in 2005 and 2006 have primarily been of subprime mortgages, which bear a higher risk of default. Further, a higher proportion of subprime mortgage originations in 2005 and in 2006, as compared to 2004, were interest-only loans, which C-BASS views as having greater credit risk. C-BASS has not purchased any pay option ARMs, which are another type of higher risk mortgage. Credit losses are affected by housing prices. A higher house price at default than at loan origination generally mitigates credit losses while a lower house price at default generally increases losses. Over the last several years, in certain regions home prices have experienced rates of increase greater than historical norms and greater than growth in median incomes. During the period 2003 to the fourth quarter of 2006, according to the Office of Federal Housing Oversight, home prices nationally increased 37%. Since the fourth quarter of 2006, according to published reports, home prices have declined in certain areas and have experienced lower rates of appreciation in others.

With respect to liquidity, the substantial majority of C-BASS's on-balance sheet financing for its mortgage and securities portfolio is dependent on the value of the collateral that secures this debt. C-BASS maintains substantial liquidity to cover margin calls in the event of substantial declines in the value of its mortgages and securities. While C-BASS's policies governing the management of capital at risk are intended to provide sufficient liquidity to cover an instantaneous and substantial decline in value, such policies cannot guaranty that all liquidity required will in fact be available. Further, at March 31, 2007, approximately 60% of C-BASS's financing has a term of less than one year, and is subject to renewal risk. Many of C-BASS's competitors are larger and have a lower cost of capital.

At the end of each financial statement period, the carrying values of C-BASS's mortgage securities are adjusted to fair value as estimated by C-BASS's management. Increases in credit spreads between periods will generally result in declines in fair value that are reflected in C-BASS's results of operations as unrealized losses. Increases in spreads can also result in unrealized losses in C-BASS's whole loans, which are carried at the lower of cost or fair value as estimated by C-BASS's management.

The interest expense on C-BASS's borrowings is primarily tied to short-term rates such as LIBOR. In a period of rising interest rates, the interest expense could increase in different amounts and at different rates and times than the interest that C-BASS earns on the related assets, which could negatively impact C-BASS's earnings.

Sherman: 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. Among other factors. 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.