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

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the quarterly period ended JUNE 30, 2002

[ ] 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	39-1486475
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
250 E. KILBOURN AVENUE MILWAUKEE, WISCONSIN	53202
(Address of principal executive offices)	(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 X 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	7/31/02	102,685,980

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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
June 30, 2002 (Unaudited) and December 31, 2001

	June 30, 2002	December 31, 2001
ASSETS	(In thousands of dollars)	
Investment portfolio:		
Securities, available-for-sale, at market value:		
Fixed maturities	$ 4,025,608	$ 3,888,740
Equity securities	22,191	20,747
Short-term investments	417,022	159,960
Total investment portfolio	4,464,821	4,069,447
Cash	17,109	26,392
Accrued investment income	55,458	59,036
Reinsurance recoverable on loss reserves	22,948	26,888
Reinsurance recoverable on unearned premiums	7,656	8,415
Home office and equipment, net	35,470	34,762
Deferred insurance policy acquisition costs	31,511	32,127
Investments in joint ventures	187,471	161,674
Other assets	141,870	148,271
Total assets	$ 4,964,314	$ 4,567,012
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Loss reserves	$ 626,728	$ 613,664
Unearned premiums	170,879	174,545
Short-and long-term debt (note 2)	613,851	472,102
Other liabilities	308,360	286,514
Total liabilities	1,719,818	1,546,825
Contingencies (note 4) Shareholders' equity:		
Common stock, $1 par value, shares authorized 300,000,000; shares issued, 6/30/02 - 121,411,117 12/31/01 - 121,110,800; shares outstanding, 6/30/02 - 103,907,047 12/31/01 - 106,086,594	121,411	121,111
Paid-in surplus	232,586	214,040
Members' equity	(553)	-
Treasury stock (shares at cost, 6/30/02 - 17,504,070 12/31/01 - 15,024,206)	(849,944)	(671,168)
Accumulated other comprehensive income, net of tax	96,595	46,644
Retained earnings	3,644,401	3,309,560
Total shareholders' equity	3,244,496	3,020,187
Total liabilities and shareholders' equity	$ 4,964,314	$ 4,567,012

See accompanying notes to consolidated financial statements.

MGICINVESTMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF OPERATIONS
Three and Six Month Periods Ended June 30, 2002 and 2001
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
	(In thousands of dollars, except per share data)			
Revenues:				
Premiums written:				
Direct	$ 314,372	$ 271,888	$ 620,549	$ 515,509
Assumed	51	122	137	227
Ceded (note 3)	(27,808)	(15,107)	(50,974)	(29,245)
Net premiums written	286,615	256,903	569,712	486,491
Decrease in unearned premiums	1,554	469	2,906	12,063
Net premiums earned	288,169	257,372	572,618	498,554
Investment income, net of expenses	51,654	51,566	103,604	101,611
Realized investment gains, net	4,975	7,882	13,093	21,575
Other revenue	39,037	22,723	70,088	38,282
Total revenues	383,835	339,543	759,403	660,022
Losses and expenses:				
Losses incurred, net	64,416	36,304	124,130	65,681
Underwriting and other expenses, net	63,049	58,524	127,517	110,178
Interest expense	9,828	7,127	16,452	15,690
Total losses and expenses	137,293	101,955	268,099	191,549
Income before tax	246,542	237,588	491,304	468,473
Provision for income tax	75,606	76,370	151,181	149,331
Net income	$ 170,936	$ 161,218	$ 340,123	$ 319,142
Earnings per share (note 5):				
Basic	$ 1.63	$ 1.51	$ 3.22	$ 2.98
Diluted	$ 1.61	$ 1.49	$ 3.19	$ 2.96
Weighted average common shares outstanding - diluted (shares in thousands, note 5)	105,921	108,102	106,470	107,954
Dividends per share	$ 0.025	$ 0.025	$ 0.050	$ 0.050

See accompanying notes to consolidated financial statements.

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
Six Months Ended June 30, 2002 and 2001
(Unaudited)

	Six Months Ended June 30, 2002	Six Months Ended June 30, 2001
	(In thousands of dollars)	
Cash flows from operating activities:		
Net income	$ 340,123	$ 319,142
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of deferred insurance policy acquisition costs	11,005	8,876
Increase in deferred insurance policy acquisition costs	(10,389)	(11,212)
Depreciation and amortization	6,018	3,123
Decrease (increase) in accrued investment income	3,578	(2,500)
Decrease in reinsurance recoverable on loss reserves	3,940	4,950
Decrease in reinsurance recoverable on unearned premiums	759	386
Increase (decrease) in loss reserves	13,064	(10,294)
Decrease in unearned premiums	(3,666)	(12,447)
Equity earnings in joint ventures	(43,748)	(17,931)
Other	(67)	(5,663)
Net cash provided by operating activities	320,617	276,430
Cash flows from investing activities:		
Purchase of equity securities	(503)	-
Purchase of fixed maturities	(1,310,428)	(1,514,059)
Additional investment in joint ventures	-	(15,000)
Sale of equity securities	1,037	1,535
Proceeds from sale or maturity of fixed maturities	1,255,862	1,238,056
Net cash used in investing activities	(54,032)	(289,468)
Cash flows from financing activities:		
Dividends paid to shareholders	(5,283)	(5,347)
Proceeds from issuance of long-term debt	199,992	108,509
Repayment of short- and long-term debt	(60,801)	(98,184)
Reissuance of treasury stock	16,369	10,682
Repurchase of common stock	(169,383)	-
Common stock issued	300	-
Net cash (used in) provided by financing activities	(18,806)	15,660
Net increase in cash and short-term investments	247,779	2,622
Cash and short-term investments at beginning of period	186,352	157,190
Cash and short-term investments at end of period	$ 434,131	$ 159,812

See accompanying notes to consolidated financial statements.

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2002
(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 and do not include all of the other information and disclosures required by generally accepted accounting principles. These statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2001 included in the Company's Annual Report on Form 10-K for that year.

The accompanying consolidated financial statements have not been audited by independent accountants in accordance with generally accepted auditing standards, but in the opinion of management such financial statements include all adjustments, including normal recurring accruals, necessary to summarize fairly the Company's financial position and results of operations. The results of operations for the six months ended June 30, 2002 may not be indicative of the results that may be expected for the year ending December 31, 2002.

Deferred insurance policy acquisition costs

Costs associated with the acquisition of mortgage insurance business, consisting of employee compensation and other policy issuance and underwriting expenses, are initially deferred and reported as deferred acquisition costs ("DAC"). Because Statement of Financial Accounting Standards ("SFAS") No. 60 specifically excludes mortgage guaranty insurance from its guidance relating to the amortization of DAC, amortization of these costs for each underwriting year book of business are charged against revenue in proportion to estimated gross profits over the life of the policies using the guidance of SFAS No. 97, Accounting and Reporting by Insurance Enterprises For Certain Long Duration Contracts and Realized Gains and Losses From the Sale of Investments. This includes accruing interest on the unamortized balance of DAC. The estimates for each underwriting year are updated annually to reflect actual experience and any changes to key assumptions such as persistency or loss development.

The Company amortized $11.0 million and $8.9 million of deferred insurance policy acquisition costs during the six months ended June 30, 2002 and 2001, respectively.

Loss reserves

Reserves are established for reported insurance losses and loss adjustment expenses based on when notices of default on insured mortgage loans are received. Reserves are also established for estimated losses incurred on notices of default not yet reported by the lender. Consistent with industry practices, the Company does not establish loss reserves for future claims on insured loans which are not currently in default. Reserves are established by management using estimated claims rates and claims amounts in estimating the ultimate loss. Amounts for salvage recoverable are considered in the determination of the reserve estimates. Adjustments to reserve estimates are reflected in the financial statements in the years in which the adjustments are made. The liability for reinsurance assumed is based on information provided by the ceding companies.

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

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

Income recognition

The insurance subsidiaries write policies which are guaranteed renewable contracts at the insured's option on a single, annual or monthly premium basis. The insurance subsidiaries have no ability to reunderwrite or reprice these contracts. Premiums written on a single premium basis and an annual premium basis are initially deferred as unearned premium reserve and earned over the policy term. Premiums written on policies covering more than one year are amortized over the policy life in accordance with the expiration of risk, which is the anticipated claim payment pattern based on historical experience. Premiums written on annual policies are earned on a monthly pro rata basis. Premiums written on monthly policies are earned as coverage is provided.

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

Note 2 - Short- and long-term debt

During the second quarter of 2001, the Company established a $200 million commercial paper program, which was rated "A-1" by Standard and Poors ("S&P") and "P-1" by Moody's. At June 30, 2002, the Company had $113.0 million in commercial paper outstanding with a weighted average interest rate of 1.87%.

The Company had a $285 million credit facility available at June 30, 2002, expiring in 2006. This facility was entered into during the second quarter of 2002 and replaced two separate $100 million facilities. Under the terms of the credit facility, as amended in July 2002, 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 surplus and its contingency reserve) of not less than the amount required by Wisconsin insurance regulation. At June 30, 2002, the Company met these tests. The facility is currently being 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 $172 million at June 30, 2002.

In March of 2002, the Company issued, in a public offering, $200 million 6% Senior Notes due in 2007. The notes are unsecured and were rated "A1" by Moody's, "A+" by S&P and "AA-" by Fitch. The Company had Senior Notes outstanding of $500 million at June 30, 2002 and $300 million at June 30, 2001.

Interest payments on all long-term debt (commercial paper is classified as short-term debt) were $11.3 million and $12.8 million for the six months ended June 30, 2002 and 2001, respectively. At June 30, 2002, the market value of the short- and long-term debt is $643 million.

The Company uses interest rate swaps to hedge interest rate exposure associated with its short- and long-term debt. During 1999, the Company utilized three interest rate swaps, each with a notional amount of $100 million, to reduce and manage interest rate risk on a portion of the variable rate debt under the credit facilities. The notional amount of $100 million represents the stated principal balance used for calculating payments. The Company received and paid amounts based on rates that were both fixed and variable.

In 2000, two of the swaps were amended and designated as fair-value hedges which qualified for short cut accounting. The Company paid an interest rate based on LIBOR and received a fixed rate of 7.5% to hedge the 5 year Senior Notes issued in the fourth quarter of 2000. These swaps were terminated in September 2001. In January 2002, the Company initiated a new swap which was designated as a fair value hedge of the 7.5% Senior Notes. This swap was terminated in June 2002. The remaining swap was also amended during 2000 and designated as a cash flow hedge. In June 2002, this swap was amended to coincide with the new credit facility. Under the terms of the swap contract, the Company pays a fixed rate of 5.43% and receives an interest rate based on LIBOR. The swap has an expiration date coinciding with the maturity of the credit facility and is designated as a hedge. 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. Expenses on the swaps for the six months ended June 30, 2002 and 2001 of approximately $0.3 million and $2.0 million, respectively, were included in interest expense. The cash flow swap outstanding at June 30, 2002 and December 31, 2001 is evaluated quarterly using regression analysis with any ineffectiveness being recorded as an expense. To date this evaluation has not resulted in any hedge ineffectiveness. The swaps are subject to credit risk to the extent the counterparty would be unable to discharge its obligations under the swap agreements.

Note 3 - Reinsurance

The Company cedes a portion of its business to reinsurers and records assets for reinsurance recoverable on estimated reserves for unpaid losses and unearned premiums. Business written between 1985 and 1993 is ceded under various quota share reinsurance agreements with several reinsurers. The Company receives a ceding commission in connection with this reinsurance. Beginning in 1997, the Company has ceded business to captive reinsurance subsidiaries of certain mortgage lenders primarily under excess of loss reinsurance agreements.

The reinsurance recoverable on loss reserves and the reinsurance recoverable on unearned premiums primarily represent amounts recoverable from large international reinsurers. The Company monitors the financial strength of its reinsurers, including their claims paying ability rating, and does not currently anticipate any collection problems. Generally, reinsurance recoverables on loss reserves and unearned premiums are backed by trust funds or letters of credit. No reinsurer represents more than $10 million of the aggregate amount recoverable.

Note 4 - Contingencies and litigation settlement

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.

In addition, in June 2001, the Federal District Court for the Southern District of Georgia, before which Downey et. al. v. MGIC was pending, issued a final order approving a settlement agreement and certified a nationwide class of borrowers. In the fourth quarter of 2000, the Company recorded a $23.2 million charge to cover the estimated costs of the settlement, including payments to borrowers. Due to appeals by certain class members and members of classes in two related cases, payments to borrowers in the settlement are delayed pending the outcome of the appeals. The settlement includes an injunction that prohibits certain practices and specifies the basis on which agency pool insurance, captive mortgage reinsurance, contract underwriting and other products may be provided in compliance with the Real Estate Settlement Procedures Act.

The complaint in the case alleges that MGIC violated the Real Estate Settlement Procedures Act by providing agency pool insurance, captive mortgage reinsurance, contract underwriting and other products that were not properly priced, in return for the referral of mortgage insurance. The complaint seeks damages of three times the amount of the mortgage insurance premiums that have been paid and that will be paid at the time of judgment for the mortgage insurance found to be involved in a violation of the Real Estate Settlement Procedures Act. The complaint also seeks injunctive relief, including prohibiting MGIC from receiving future premium payments. If the settlement is not fully implemented, the litigation will continue. In these circumstances, there can be no assurance that the ultimate outcome of the litigation will not materially affect the Company's financial position or results of operations.

Note 5 - 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 following is a reconciliation of the weighted-average number of shares used for basic EPS and diluted EPS.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
	(Shares in thousands)			
Weighted-average shares - Basic EPS	105,181	107,111	105,733	106,997
Common stock equivalents	740	991	737	957
Weighted-average shares - Diluted EPS	105,921	108,102	106,470	107,954

Note 6 - New accounting standards

The Company adopted Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities ("SFAS 133"), effective January 1, 2001. The statement establishes accounting and reporting standards for derivative instruments and for hedging activities. The adoption of SFAS 133 did not have a significant effect on the Company's results of operations or its financial position due to its limited use of derivative instruments.

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 141 ("SFAS 141"), Business Combinations, and No. 142 ("SFAS 142"), Goodwill and Other Intangible Assets. SFAS 141 is effective for all business combinations initiated after June 30, 2001 and SFAS 142 is effective for fiscal years beginning after December 15, 2001. In August 2001, the FASB issued Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-lived Assets, which is effective for fiscal years beginning after December 15, 2001.

The adoption of these pronouncements did not have a significant effect on the Company's results of operations or its financial position. The Company has an immaterial amount of goodwill.

Note 7 - Comprehensive income

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

	Three Months Ended June 30, 2002	Three Months Ended June 30, 2001	Six Months Ended June 30, 2002	Six Months Ended June 30, 2001
	(In thousands of dollars)			
Net income	$170,936	$161,218	$340,123	$319,142
Other comprehensive income	70,153	(24,087)	49,951	(19,205)
Total comprehensive income	$241,089	$137,131	$390,074	$299,937
Other comprehensive income (loss) (net of tax):				
Cumulative effect - FAS 133	$ N/A	$ N/A	$ N/A	$ (5,982)
Net derivative gains (losses)	950	645	1,622	(1,165)
Amortization of deferred losses	270	270	540	540
FAS 115	68,933	(25,002)	47,789	(12,598)
Comprehensive gain (loss)	$ 70,153	$(24,087)	$ 49,951	$(19,205)

The difference between the Company's net income and total comprehensive income for the six months ended June 30, 2002 and 2001 is due to the change in unrealized appreciation/depreciation on investments, and the market value adjustment of the hedges, both net of tax.

Note 8 - Accounting for Derivatives and Hedging Activities

Generally, the Company's use of derivatives is limited to entering into interest rate swap agreements intended to hedge its debt financing terms. All derivatives subject to SFAS 133 are recognized on the balance sheet at their fair value. On the date the derivative contract is entered into, the Company designates the derivative as a hedge of the fair value of a recognized asset or liability ("fair value" hedge), or as a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow" hedge). Changes in the fair value of a derivative that is highly effective as, and that is designated and qualifies as, a fair-value hedge, along with the loss or gain on the hedged asset or liability that is attributable to the hedged risk, are recorded in current-period earnings. Changes in the fair value of a derivative that is highly effective as, and that is designated and qualifies as, a cash-flow hedge are recorded in other comprehensive income, until earnings are affected by the variability of cash flows (e.g. when periodic settlements on a variable-rate asset or liability are recorded in earnings).

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as fair-value or cash-flow hedges to specific assets and liabilities on the balance sheet or forecasted transactions. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. If and when it is determined that a derivative is not highly effective as a hedge or that it has ceased to be a highly effective hedge, the Company discontinues hedge accounting prospectively.

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

Results of Consolidated Operations

Three Months Ended June 30, 2002 Compared With Three Months Ended June 30, 2001

Net income for the three months ended June 30, 2002 was $170.9 million, compared to $161.2 million for the same period of 2001, an increase of 6%. Diluted earnings per share for the three months ended June 30, 2002 was $1.61 compared with $1.49 in the same period last year, an increase of 8%. Included in diluted earnings per share for the quarter ended June 30, 2002 and 2001 were $0.03 and $0.05, respectively, for realized gains. As used in this report, the term "Company" means the Company and its consolidated subsidiaries, which do not include joint ventures in which the Company has an equity interest.

Total revenues for the second quarter 2002 were $383.8 million, an increase of 13% from the $339.5 million for the second quarter 2001. This increase was primarily attributed to an increase in insurance in force. Also contributing to the increase in revenues was an increase in other revenue offset by a decrease in realized gains. See below for a further discussion of premiums and other revenue.

Losses and expenses for the second quarter were $137.3 million, an increase of 35% from $102.0 million for the same period of 2001. The increase from last year can be attributed to an increase in losses related to an increase in notice inventories and an increase in expenses related to increases in insured volume. See below for a further discussion of losses incurred and underwriting expenses.

The amount of new primary insurance written by MGIC during the three months ended June 30, 2002 was $21.8 billion, compared to $22.4 billion in the same period of 2001. Refinancing activity decreased to 35% of new primary insurance written in 2002 on a flow basis (or $5.6 billion), compared to 43% in 2001 (or $3.1 billion).

The $21.8 billion of new primary insurance written during the second quarter of 2002 was offset by the cancellation of $17.9 billion of insurance in force, and resulted in a net increase of $3.9 billion in primary insurance in force, compared to new primary insurance written of $22.4 billion, the cancellation of $15.6 billion of insurance in force and a net increase of $6.8 billion in primary insurance in force during the second quarter of 2001. Direct primary insurance in force was $194.5 billion at June 30, 2002 compared to $183.9 billion at December 31, 2001 and $171.6 billion at June 30, 2001.

In addition to providing primary insurance coverage, the Company also insures pools of mortgage loans. New pool risk written during the three months ended June 30, 2002 and June 30, 2001 was $83 million and $110 million, respectively. The Company's direct pool risk in force was $2.1 billion at June 30, 2002, $2.0 billion at December 31, 2001, and was $1.8 billion at June 30, 2001.

Cancellation activity has historically been affected by the level of mortgage interest rates, with cancellations generally moving inversely to the change in the direction of interest rates. Cancellations increased during the second quarter of 2002 compared to the cancellation levels of 2001 which resulted in a decrease in the MGIC persistency rate (percentage of insurance remaining in force from one year prior) to 59.5% at June 30, 2002 from 61.0% at December 31, 2001 and 71.7% at June 30, 2001. In view of continued strong refinance activity, the persistency rate at September 30, 2002 could decline from the rate at June 30, 2002. Cancellation activity could also increase as more of the Company's bulk loans season. The Company anticipates that the bulk loans in general will have lower persistency than the Company's flow business.

New insurance written for bulk transactions was $5.7 billion during the second quarter of 2002 compared to $6.3 billion for the same period a year ago and average quarterly writings of $6.4 billion for the three quarters subsequent to the second quarter of 2001. The Company's writings of bulk insurance are in part sensitive to the volume of securitization transactions involving non-conforming loans. A securitization involves the sale of whole loans held by the securitizer. The Company believes that the relatively high historical spread between the cost of funding mortgages and mortgage coupon rates, as well as other factors currently present in the whole loan market, have resulted in increased prices for whole loans which have had the effect of reducing the supply of mortgages available for current securitization. The Company's writings of bulk insurance are also sensitive to competition from other methods of providing credit enhancement in a securitization, including the willingness of investors to purchase tranches of the securitization that involve a higher degree of credit risk. The Company believes that the relatively low historical yield levels currently prevailing in the bond market have resulted in more investors purchasing such tranches. As a result of these factors, the Company expects the volume of insurance written on bulk transactions during the third quarter of 2002 will decline materially from the volume in the second quarter. The Company is not undertaking any obligation to provide an update of this expectation should it subsequently change.

The Company expects that the loans that are included in bulk transactions will have delinquency and claim rates in excess of those on the Company's flow business. While the Company believes it has priced its bulk business to generate acceptable returns, there can be no assurance that the assumptions underlying the premium rates adequately address the risk of this business. New insurance written in 2002 through the bulk channel on Alt A, subprime and certain other loans will be subject to quota share reinsurance of approximately 15% provided by a third party reinsurer. The reinsurance transaction is contingent on the Company receiving credit for the reinsurance under insurance regulation.

Net premiums written increased 12% to $286.6 million during the second quarter of 2002, from $256.9 million during the second quarter of 2001. Net premiums earned increased 12% to $288.2 million for the second quarter of 2002 from $257.4 million for the same period in 2001. The increases were primarily a result of the growth in insurance in force and a higher percentage of renewal premiums on products with higher premium rates offset in part by an increase in ceded premiums.

Premiums ceded in captive mortgage reinsurance arrangements and in risk sharing arrangements with the GSEs were $23.5 million in the second quarter of 2002, compared to $15.5 million in the same period of 2001. The amount of premiums ceded under such arrangements is expected to continue to increase due in part to increases in the rate at which premiums are ceded. During the first quarter of 2002, approximately 51% of the Company's new insurance written on a flow basis was subject to such arrangements compared to 50% for the year ended December 31, 2001. (New insurance written through the bulk channel is not subject to such arrangements.) Because the transfer of a loan in the secondary market can result in a mortgage insured during a quarter becoming part of such an arrangement in a subsequent quarter, the percentage of new insurance written during a quarter covered by such arrangements normally increases after the end of the quarter. Therefore, the percentage of new insurance written covered by such arrangements is not shown for the current quarter. Premiums ceded in such arrangements are reported as ceded in the quarter in which they are ceded regardless of when the mortgage was insured.

Investment income for the second quarter of 2002 was $51.7 million, a slight increase over the $51.6 million in the second quarter of 2001. This increase was the result of increases in the amortized cost of average invested assets to $4.3 billion for the second quarter of 2002 from $3.6 billion for the second quarter of 2001, an increase of 20%, offset by a decrease in the investment yield. The portfolio's average pre-tax investment yield was 4.9% for the second quarter of 2002 and 5.7% for the same period in 2001. The portfolio's average after-tax investment yield was 4.3% for the second quarter of 2002 and 4.7% for the same period in 2001. The Company's net realized gains were $5.0 million for the three months ended June 30, 2002 compared to net realized gains of $7.9 million during the same period in 2001, resulting primarily from the sale of fixed maturities.

Other revenue, which is composed of various components, was $39.0 million for the second quarter of 2002, compared with $22.7 million for the same period in 2001. The increase is primarily the result of increased equity earnings from Credit-Based Asset Servicing and Securitization LLC ("C-BASS") and Sherman Financial Group LLC ("Sherman"), joint ventures with Radian Group Inc.

C-BASS engages in the acquisition and resolution of delinquent single-family residential mortgage loans ("mortgage loans"). C-BASS also purchases and sells mortgage-backed securities ("mortgage securities"), interests in real estate mortgage investment conduit residuals and performs mortgage loan servicing. In addition, C-BASS issues mortgage-backed debt securities collateralized by mortgage loans and mortgage securities. C-BASS's results of operations are affected by the timing of these securitization transactions. Substantially all of C-BASS's mortgage-related assets do not have readily ascertainable market values and, as a result, their value for financial statement purposes is estimated by the management of C-BASS. This valuation is made by C-BASS management in connection with each release of financial statements. In the case of assets that are residual interests in securitizations, these estimates reflect the net present value of the future cash flows from the assets, which in turn depend on, among other things, estimates of the level of losses on the underlying mortgages and prepayment activity by the mortgage borrowers. Market value adjustments could impact C-BASS's results of operations and the Company's share of those results.

Total combined assets of C-BASS at June 30, 2002 and December 31, 2001 were approximately $1.6 billion and $1.3 billion, respectively, of which approximately $1.3 billion and $0.9 billion, respectively, were mortgage-related assets, including open trades. Total liabilities at June 30, 2002 and December 31, 2001 were approximately $1.3 billion and $1.0 billion, respectively, of which approximately $1.1 billion and $0.9 billion, respectively, were funding arrangements, including accrued interest, virtually all of which were short-term. For the three months ended June 30, 2002 and 2001, revenues of approximately $88 million and $66 million, respectively, and expenses of approximately $41 million and $37 million, respectively, resulted in income before tax of approximately $47 million and $29 million, respectively. C-BASS had income before tax for the first six months of 2002 of approximately $82 million. C-BASS has advised the Company that due in part to higher prices prevailing in the market for subprime whole loans, it expects its income before tax for the third quarter and second six months of 2002 will be lower than its income before tax for the second quarter and the first six months of 2002, respectively. The Company is not undertaking any obligation to provide an update of this expectation should it subsequently change.

Sherman is engaged in the business of purchasing, servicing and securitizing delinquent unsecured consumer assets such as credit card loans and Chapter 13 bankruptcy debt. A substantial portion of Sherman's consolidated assets are investments in receivable portfolios that do not have readily ascertainable market values. Initially the portfolios are valued at cost. Subsequently their value for financial statement purposes is estimated by the management of Sherman based on the estimated future cash flow from the portfolios. The assets are valued by Sherman's management each time financial statements are released. Market value adjustments could impact Sherman's results of operations and the Company's share of those results.

Because C-BASS and Sherman are accounted for by the equity method, they are not consolidated with the Company and their assets and liabilities do not appear in the Company's balance sheet. The "investments in joint ventures" item in the Company's balance sheet reflects the amount of capital contributed by the Company to the joint ventures plus the Company's share of their net income (or minus its share of their net loss) and minus capital distributed to the Company by the joint ventures.

As discussed in "Note 1 - Loss Reserves" to the Company's consolidated financial statements, consistent with industry practice, loss reserves for future claims are established only for loans that are currently delinquent. (The terms "delinquent" and "default" are used interchangeably by the Company.) Loss reserves are established by management's estimating the number of loans in the Company's inventory of delinquent loans that will not cure their delinquency (historically, a substantial majority of delinquent loans have cured), which is referred to as the claim rate, and further estimating the amount that the Company will pay in claims on the loans that do not cure, which is referred to as claim severity. Estimation of losses that the Company 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.

Net losses incurred increased 77% to $64.4 million in the second quarter of 2002, from $36.3 million in the same period of 2001. The increase was due to an increase in losses paid, an increase in the primary notice inventory related to bulk default activity, defaults arising from the early development of the 2000 book of business and defaults arising from the seasoning of other books. The average claim paid for the quarter ended June 30, 2002 was $19,603 compared to $19,100 for the same period in 2001.

The primary insurance notice inventory increased from 54,653 at December 31, 2001 to 59,314 at June 30, 2002 and the pool notice inventory decreased from 23,623 at December 31, 2001 to 23,542 at June 30, 2002. Included in the primary notice inventory was the bulk notice inventory of 24,063 at June 30, 2002 and 18,460 at December 31, 2001. The primary default rate at June 30, 2002 was 3.60% compared to 3.46% at December 31, 2001. Excluding bulk defaults, the default rate was 2.55% and 2.65% at June 30, 2002 and December 31, 2001, respectively, and is expected to increase. The default rate on bulk loans was 8.97% and 8.59% at June 30, 2002 and December 31, 2001, respectively, and the default rate on subprime loans, most of which are written through the bulk channel, was 11.11% and 11.60% at June 30, 2002 and December 31, 2001, respectively. Because the default rate is the number of loans in default divided by the number of policies in force, and there are relatively few defaults in a book during the year in which the book was written, lower volume in a quarter has the effect of increasing the default rate. As discussed above, the Company expects that it will write materially less bulk business in the third quarter of 2002 than in the second quarter of 2002. As a result of this anticipated bulk volume decline and also due to anticipated cancellations of bulk insurance and continued seasoning of this business, the Company expects the default rate on bulk loans and subprime loans to increase materially.

At June 30, 2002, 76% of MGIC's insurance in force was written subsequent to December 31, 1998. Based on the Company's flow business, the highest claim frequency years have typically been the third through fifth year after the year of loan origination. However, the pattern of claims frequency for refinance loans may be different from this historical pattern and the Company expects the period of highest claims frequency on bulk loans will occur earlier than in this historical pattern.

Underwriting and other expenses increased to $63.0 million in the second quarter of 2002 from $58.5 million in the same period of 2001, an increase of 8%. The increase can be attributed to increases in expenses related to increased volume. In view of continued strong refinance activity, the Company expects underwriting and other expenses in the third quarter of 2002 will increase over the level of the second quarter of 2002. The Company is not undertaking any obligation to provide an update of this expectation should it subsequently change.

Interest expense increased to $9.8 million in the second quarter of 2002 from $7.1 million during the same period in 2001 primarily due to an increase in debt outstanding offset by lower weighted-average interest rates during the three months ended June 30, 2002 compared to the comparable period in 2001.

The consolidated insurance operations loss ratio was 22.3% for the second quarter of 2002 compared to 14.1% for the second quarter of 2001. The consolidated insurance operations expense and combined ratios were 14.5% and 36.8%, respectively, for the second quarter of 2002 compared to 16.1% and 30.2% for the second quarter of 2001.

The effective tax rate was 30.7% in the second quarter of 2002, compared to 32.1% in the second quarter of 2001. During both periods, the effective tax rate was below the statutory rate of 35%, reflecting the benefits of tax-preferenced investments. The lower effective tax rate in 2002 resulted from a higher percentage of total income before tax being generated from the tax-preferenced investments.

Six Months Ended June 30, 2002 Compared With Six Months Ended June 30, 2001

Net income for the six months ended June 30, 2002 was $340.1 million, compared to $319.1 million for the same period of 2001, an increase of 7%. Diluted earnings per share for the six months ended June 30, 2002 was $3.19 compared with $2.96 in the same period last year, an increase of 8%. Included in diluted earnings per share for the six months ended June 30, 2002 and 2001 were $0.08 and $0.13, respectively, for realized gains.

Total revenues for the first half of 2002 were $759.4 million, an increase of 15% from the $660.0 million through the second quarter of 2001. This increase was primarily attributed to an increase in insurance in force. Also contributing to the increase in revenues was an increase in other revenue offset by a decrease in realized gains. See below for a further discussion of premiums and other revenue.

Losses and expenses for the first half of 2002 were $268.1 million, an increase of 40% from $191.5 million for the same period of 2001. The increase from last year can be attributed to an increase in losses related to an increase in notice inventories and an increase in expenses related to increases in insured volume and in contract underwriting. See below for a further discussion of losses incurred and underwriting expenses.

The amount of new primary insurance written by MGIC during the six months ended June 30, 2002 was $45.4 billion, compared to $39.1 billion in the same period of 2001. Refinancing activity increased to 42% of new primary insurance written in 2002 on a flow basis (or $14.0 billion), compared to 41% in 2001 (or $6.9 billion). New insurance written for bulk transactions was $12.3 billion during the first half of 2002 compared to $13.0 billion for the same period a year ago. See "Three Months Ended June 30, 2002 compared with Three Months Ended June 30, 2001" for a discussion of the Company's expectation for bulk transactions volume in the third quarter of 2002.

The $45.4 billion of new primary insurance written during the second half of 2002 was offset by the cancellation of $34.8 billion of insurance in force, and resulted in a net increase of $10.6 billion in primary insurance in force, compared to new primary insurance written of $39.1 billion, the cancellation of $27.7 billion of insurance in force and a net increase of $11.4 billion in primary insurance in force through the second quarter of 2001.

New pool risk written during the six months ended June 30, 2002 and June 30, 2001 was $190 million and $158 million, respectively. The Company's direct pool risk in force was $2.1 billion at June 30, 2002, $2.0 billion at December 31, 2001, and was $1.8 billion at June 30, 2001.

Cancellations increased during the first half of 2002 compared to the cancellation levels of 2001 which resulted in a decrease in the MGIC persistency rate to 59.5% at June 30, 2002 from 61.0% at December 31, 2001 and 71.7% at June 30, 2001.

Net premiums written increased 17% to $569.7 million during the first half of 2002, from $486.5 million during the first half of 2001. Net premiums earned increased 15% to $572.6 million for the first half of 2002 from $498.6 million for the same period in 2001. The increases were primarily a result of the growth in insurance in force and a higher percentage of renewal premiums on products with higher premium rates offset in part by an increase in ceded premiums. Premiums ceded in captive mortgage reinsurance arrangements and in risk sharing arrangements with the GSEs were $45.0 million in the first half of 2002 compared to $29.4 in the same period of 2001.

Investment income for the first half of 2002 was $103.6 million, an increase of 2% over the $101.6 million in the first half of 2001. This increase was the result of increases in the amortized cost of average invested assets to $4.1 billion for the first half of 2002 from $3.5 billion for the first half of 2001, an increase of 18% offset by a decrease in the investment yield. The portfolio's average pre-tax investment yield was 4.9% for the first half of 2002 and 5.7% for the same period in 2001. The portfolio's average after-tax investment yield was 4.3% for the first half of 2002 and 4.8% for the same period in 2001. The Company's net realized gains were $13.1 million for the six months ended June 30, 2002 compared to net realized gains of $21.6 million during the same period in 2001, resulting primarily from the sale of fixed maturities.

Other revenue was $70.1 million for the first half of 2002, compared with $38.3 million for the same period in 2001. The increase is primarily the result of increases in equity earnings from C-BASS and Sherman and an increase in contract underwriting revenue.

For the six months ended June 30, 2002 and 2001, C-BASS had revenues of approximately $160 million and $121 million, respectively, and expenses of approximately $78 million and $63 million, respectively, which resulted in income before tax of approximately $82 million and $58 million, respectively. See "Three Months Ended June

30, 2002 Compared With Three Months Ended June 30, 2001" for a discussion of C-BASS's expectation of their results for the remainder of 2002.

Net losses incurred increased 89% to $124.1 million in the first half of 2002, from $65.7 million in the same period of 2001. The increase was due to an increase in losses paid, an increase in the primary notice inventory related to bulk default activity, defaults arising from the early development of the 2000 book of business and defaults arising from the seasoning of other books. The average claim paid for the six months ended June 30, 2002 was $19,727 compared to $18,629 for the same period in 2001. For information about the notice inventory and default rates, see "Three Months Ended June 30, 2002 Compared With Three Months Ended June 30, 2001".

Underwriting and other expenses increased to $127.5 million in the first half of 2002 from $110.2 million in the same period of 2001, an increase of 16%. The increase can be attributed to increases in both insurance and non-insurance expenses related to increased volume and contract underwriting.

Interest expense increased to $16.5 million in the second quarter of 2002 from $15.7 million during the same period in 2001 primarily due to an increase in the debt outstanding offset by lower weighted-average interest rates during the six months ended June 30, 2002 compared to the comparable period in 2001.

The consolidated insurance operations loss ratio was 21.7% for the first half of 2002 compared to 13.2% for the first half of 2001. The consolidated insurance operations expense and combined ratios were 15.0% and 36.7%, respectively, for the first half of 2002 compared to 16.6% and 29.8% for the first half of 2001.

The effective tax rate was 30.8% for the first half of 2002, compared to 31.9% in the same period of 2001. During both periods, the effective tax rate was below the statutory rate of 35%, reflecting the benefits of tax-preferenced investments. The lower effective tax rate in 2002 resulted from a higher percentage of total income before tax being generated from the tax-preferenced investments.

Other Matters

In June 2001, the Federal District Court for the Southern District of Georgia, before which Downey et. al. v. MGIC was pending, issued a final order approving a settlement agreement and certified a nationwide class of borrowers. In the fourth quarter of 2000, the Company recorded a $23.2 million charge to cover the estimated costs of the settlement, including payments to borrowers. Due to appeals by certain class members and members of classes in two related cases, payments to borrowers in the settlement are delayed pending the outcome of the appeals. The settlement includes an injunction that prohibits certain practices and specifies the basis on which agency pool insurance, captive mortgage reinsurance, contract underwriting and other products may be provided in compliance with the Real Estate Settlement Procedures Act. There can be no assurance that the standards established by the injunction will be determinative of compliance with the Real Estate Settlement Procedures Act were additional litigation to be brought in the future.

The complaint in the case alleges that MGIC violated the Real Estate Settlement Procedures Act by providing agency pool insurance, captive mortgage reinsurance, contract underwriting and other products that were not properly priced, in return for the referral of mortgage insurance. The complaint seeks damages of three times the amount of the mortgage insurance premiums that have been paid and that will be paid at the time of judgment for the mortgage insurance found to be involved in a violation of the Real Estate Settlement Procedures Act. The complaint also seeks injunctive relief, including prohibiting MGIC from receiving future premium payments. If the settlement is not fully implemented, the litigation will continue. In these circumstances, there can be no assurance that the ultimate outcome of the litigation will not materially affect the Company's financial position or results of operations.

Under the Office of Federal Housing Enterprise Oversight's ("OFHEO") risk-based capital stress test for the GSEs, claim payments made by a private mortgage insurer on GSE loans are reduced below the amount provided by the mortgage insurance policy to reflect the risk that the insurer will fail to pay. Claim payments from an insurer whose claims-paying ability rating is `AAA' are subject to a 3.5% reduction over the 10-year period of the stress test, while claim payments from a `AA' rated insurer, such as MGIC, are subject to an 8.75% reduction. The effect of the differentiation among insurers is to require the GSEs to have additional capital for coverage on loans provided by a private mortgage insurer whose claims-paying rating is less than `AAA.' As a result, there is an incentive for the GSEs to use private mortgage insurance provided by a `AAA' rated insurer.

The regulations of the Department of Housing and Urban Development under the Real Estate Settlement Procedures Act prohibit paying lenders for the referral of settlement services, including mortgage insurance, and prohibit lenders from receiving such payments. In July 2002, the Department of Housing and Urban Development 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. If mortgage insurance is required on the 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, adoption of this regulation by the Department of Housing and Urban Development could adversely affect the Company's revenues to the extent that lenders offered such packages and received value from the Company in excess of what they could have received were the anti-referral fee provisions of the Real Estate Settlement Procedures Act to apply and if such state regulations were not applied to prohibit such payments.

Financial Condition

Consolidated total investments and cash balances increased approximately $386 million to $4.5 billion at June 30, 2002 from $4.1 billion at December 31, 2001, primarily due to positive net cash flow, including the proceeds of the sale of the 6% Senior Notes discussed under "Liquidity and Capital Resources" below, unrealized gains on securities marked to market of $73 million and offset by a $23 million decrease in payables for securities. The Company generated consolidated cash flows from operating activities of $320.6 million through June 30, 2002, compared to $276.4 million generated during the same period in 2001. The increase in operating cash flows during the first half of 2002 compared to 2001 is due primarily to increases in renewal premiums, investment income and other revenue as discussed above.

As of June 30, 2002, the Company had $417.0 million of short-term investments with maturities of 90 days or less, and 77% of the portfolio was invested in tax-preferenced securities. In addition, at June 30, 2002, based on book value, the Company's fixed income securities were approximately 99% invested in 'A' rated and above, readily marketable securities, concentrated in maturities of less than 15 years. At June 30, 2002, the Company had $22.2 million of investments in equity securities compared to $20.7 million at December 31, 2001.

At June 30, 2002, the Company had no derivative financial instruments in its investment portfolio. The Company places its investments in instruments that meet high credit quality standards, as specified in the Company's investment policy guidelines; the policy also limits the amount of credit exposure to any one issue, issuer and type of instrument. At June 30, 2002, the average duration of the Company's investment portfolio was 5.3 years. The effect of a 1% increase/decrease in market interest rates would result in a 5.3% decrease/increase in the value of the Company's fixed income portfolio.

The Company's investments in joint ventures increased $25.8 million from $161.7 million at December 31, 2001 to $187.5 million at June 30, 2002 primarily as a result of equity earnings of $43.7 million, offset by $20.1 million of dividends received. The joint ventures are reported on the equity method. Only the Company's investment in the joint ventures appears on the Company's balance sheet.

Consolidated loss reserves increased to $626.7 million at June 30, 2002 from $613.7 million at December 31, 2001, reflecting increases in the primary and pool insurance notice inventories, as discussed earlier. Consistent with industry practices, the Company does not establish loss reserves for future claims on insured loans which are not currently in default.

Consolidated unearned premiums decreased $3.6 million from $174.5 million at December 31, 2001, to $170.9 million at June 30, 2002, primarily reflecting the continued high level of monthly premium policies written for which there is no unearned premium.

Consolidated shareholders' equity increased to $3.2 billion at June 30, 2002, from $3.0 billion at December 31, 2001, an increase of 7%. This increase consisted of $340.1 million of net income during the first half of 2002 and other comprehensive income, net of tax, of $50.0 million, offset by $159.9 million from the repurchase of treasury stock (net of reissuances), dividends declared of $5.3 million and $0.6 million from the consolidation of a previously unconsolidated joint venture.

Liquidity and Capital Resources

The Company's consolidated sources of funds consist primarily of premiums written and investment income. The Company generated positive cash flows from operating activities of approximately $320.6 million and $276.4 million for the six months ended June 30, 2002 and 2001, respectively, as shown on the Consolidated Statement of Cash Flows. Positive cash flows are invested pending future payments of claims and other expenses. Cash-flow shortfalls, if any, could be funded through sales of short-term investments and other investment portfolio securities. Substantially all of the investment portfolio securities are held by the Company's insurance subsidiaries.

During the second quarter of 2001, the Company established a $200 million commercial paper program, which was rated "A-1" by Standard and Poors ("S&P") and "P-1" by Moody's. At June 30, 2002, the Company had $113.0 million in commercial paper outstanding with a weighted average interest rate of 1.87%. S&P affirmed the "A-1" rating in February 2002 and Moody's affirmed the "P-1" rating in March 2002. If the Company's commercial paper rating were to fall below "A-1" or "P-2", the Company would likely have difficulty selling commercial paper and any commercial paper that could be sold would require an interest rate in excess of the "A-1/P-1" rating.

The Company had a $285 million credit facility available at June 30, 2002 expiring in 2006. This facility was entered into during the second quarter of 2002 and replaced two separate $100 million facilities. Under the terms of the credit facility as amended in July 2002, the Company 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 surplus and its contingency reserve) of not less than the amount required by Wisconsin insurance regulation. At June 30, 2002, the Company met these tests. The facility is currently being 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 $172 million at June 30, 2002.

In March of 2002, the Company issued, in a public offering, $200 million 6% Senior Notes due in 2007. The notes are unsecured and were rated "A1" by Moody's, "A+" by S&P and "AA-" by Fitch. The Company had Senior Notes outstanding of $500 million at June 30, 2002 and $300 million at June 30, 2001.

In January 2002, the Company announced a new share repurchase program covering up to 5.5 million shares in addition to the 800,000 shares remaining from the prior repurchase program. From mid-1997 through June 2002, the Company repurchased 17.7 million shares of Common Stock at a cost of $962.9 million. During the first half of 2002, the Company repurchased 2.7 million shares at a cost of $187.4 million. Funds for the shares repurchased by the Company since mid-1997 have been provided through a combination of debt, including the Senior Notes and the commercial paper, and internally generated funds.

The commercial paper, back-up credit facility and the Senior Notes are obligations of the Company and not of its subsidiaries. The Company is a holding company and the payment of dividends from its insurance subsidiaries is restricted by insurance regulation. MGIC is the principal source of dividend-paying capacity. As a result of a $150 million dividend paid to the Company by MGIC in February 2002, MGIC may not pay additional dividends until February 2003 without the approval of the Office of the Commissioner of Insurance of the State of Wisconsin.

Interest payments on all long-term debt (commercial paper is classified as short-term debt) were $11.3 million and $12.8 million for the six months ended June 30, 2002 and 2001, respectively. At June 30, 2002, the market value of the short- and long-term debt is $643 million.

The Company uses interest rate swaps to hedge interest rate exposure associated with its short- and long-term debt. During 1999, the Company utilized three interest rate swaps, each with a notional amount of $100 million, to reduce and manage interest rate risk on a portion of the variable rate debt under the credit facilities. The notional amount of $100 million represents the stated principal balance used for calculating payments. The Company received and paid amounts based on rates that were both fixed and variable.

In 2000, two of the swaps were amended and designated as fair-value hedges which qualified for short cut accounting. The Company paid an interest rate based on LIBOR and received a fixed rate of 7.5% to hedge the 5 year Senior Notes issued in the fourth quarter of 2000. These swaps were terminated in September 2001. In January 2002, the Company initiated a new swap which was designated as a fair value hedge of the 7.5% Senior Notes. This swap was terminated in June 2002. The remaining swap was also amended during 2000 and designated as a cash flow hedge. In June 2002, this swap was amended to coincide with the new credit facilities. Under the terms of the swap contract, the Company pays a fixed rate of 5.43% and receives an interest rate based on LIBOR. The swap has an expiration date coinciding with the maturity of the credit facilities and is designated as a hedge. 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. Expenses on the swaps for the six months ended June 30, 2002 and 2001 of approximately $0.3 million and $2.0 million, respectively, were included in interest expense. The cash flow swap outstanding at June 30, 2002 and December 31, 2001 is evaluated quarterly using regression analysis with any ineffectiveness being recorded as an expense. To date this evaluation has not resulted in any hedge ineffectiveness. The swaps are subject to credit risk to the extent the counterparty would be unable to discharge its obligations under the swap agreements.

MGIC is the principal insurance subsidiary of the Company. MGIC's risk-to-capital ratio was 9.0:1 at June 30, 2002 compared to 9.1:1 at December 31, 2001. The decrease was due to MGIC's increased policyholders' reserves, partially offset by the net additional risk in force of $1.7 billion, net of reinsurance, during the first half of 2002.

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 competitive position, business outlook, management, corporate strategy, and historical and projected operating performance.

For certain material risks of the Company's business, see "Risk Factors" below.

Risk Factors

Our revenues and losses could be affected by the risk factors discussed below. These factors may also cause actual results to differ materially from the results contemplated by forward looking statements that the Company may make. Forward looking statements consist of statements which relate to matters other than historical fact. Among others, statements that include words such as the Company "believes", "anticipates" or "expects", or words of similar import, are forward looking statements.

<u>If the volume of low down payment home mortgage originations declines, the amount of insurance that we write could also decline which could result in declines in our future 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 loan-to-value ratios that require private mortgage insurance, and
- government housing policy encouraging loans to first-time homebuyers.

Our new insurance written volume increased 16% for the first six months of 2002, compared to the same period in 2001. One of the reasons our volume was higher in 2002 was because many borrowers refinanced their mortgages during the first six months of 2002 due to a lower interest rate environment, which also led to lenders canceling insurance that we wrote in the past. While we have not experienced lower volume in recent years other than as a result of declining refinancing activity, one of the risks we face is that substantially higher interest rates will substantially reduce purchase activity by first time homebuyers and that the decline in cancellations of insurance that in the past have accompanied higher interest rates will not be sufficient to offset the decline in premiums from loans that are not made.

If lenders and investors select alternatives to private mortgage insurance, the amount of insurance that we write could decline, which could result in declines in our future revenues.

These alternatives to private mortgage insurance include:

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

- investors holding mortgages in portfolio and self-insuring,

- investors using credit enhancements other than private mortgage insurance or using other credit enhancements in conjunction with reduced levels of private mortgage insurance coverage, and

- lenders structuring mortgage originations to avoid private mortgage insurance, such as a first mortgage with an 80% loan-to-value ratio and a second mortgage with a 10% loan-to-value ratio (referred to as an 80-10-10 loan) rather than a first mortgage with a 90% loan-to-value ratio.

While no data is publicly available, we believe that due to the current low interest rate environment and favorable economic conditions, lenders and investors are making 80-10-10 loans at a somewhat higher percentage than they did during the past year. Although during 2001 and 2000, the share of the low down payment market held by loans with Federal Housing Administration and Veterans Administration mortgage insurance was lower than in 1999, during three of the prior four years, the Federal Housing Administration and Veterans Administration's collective share of this market increased. Investors are using reduced mortgage insurance coverage on a higher percentage of loans that we insure than they had over the last several years.

Because most of the loans MGIC insures are sold to Fannie Mae and Freddie Mac, changes in their business practices could reduce our revenues or increase our losses.

The business practices of Fannie Mae and Freddie Mac 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.

Because we participate in an industry that is intensely competitive, changes in our competitors' business practices could reduce our revenues or increase our losses.

Competition for private mortgage insurance premiums occurs not only among private mortgage insurers but increasingly 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 by the lender. The low level of losses that has recently prevailed in the private mortgage insurance industry has encouraged competition to assume default risk through captive reinsurance arrangements, self insurance, 80-10-10 loans and other means. In 1996, we shared risk under captive reinsurance and GSE risk sharing arrangements with respect to virtually none of our new insurance written. During the three months ended March 31, 2002, about 51% of our new insurance written on a flow basis was subject to captive reinsurance and GSE risk sharing arrangements. 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 top ten customers generated 27.0% of the new primary insurance that we wrote on a flow basis in 1997 compared to 38.4% in 2001.

Our private mortgage insurance competitors include:

- PMI Mortgage Insurance Company
- GE Capital Mortgage Insurance Corporation
- United Guaranty Residential Insurance Company
- Radian Guaranty Inc.
- Republic Mortgage Insurance Company
- Triad Guaranty Insurance Corporation
- CMG Mortgage Insurance Company

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

In each year, most of MGIC's premiums are from insurance that has been written in prior years. As a result, the length of time insurance remains in force 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.

While it is difficult to measure the extent of the decline, in recent years, the length of time that our policies remain in force has declined somewhat. Due to this decline, our premium revenues were lower than they would have been if the length had not declined.

If the domestic economy deteriorates, more homeowners may default and our losses may increase.

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. In recent years, due in part to the strength of the economy, we have had low losses by historical standards. A significant deterioration in economic conditions would probably increase our losses.

Our industry is subject to litigation risk.

In recent years, consumers have brought a growing number of lawsuits against home mortgage lenders and settlement service providers. As of the end of June 2002, seven mortgage insurers, including our MGIC subsidiary, were involved in litigation alleging violations of the Real Estate Settlement Procedures Act. Our MGIC subsidiary and two other mortgage insurers entered into an agreement to settle the cases against them in December 2000, and another mortgage insurer entered into a comparable settlement agreement in February 2002. In June 2001, the Court entered a final order approving the settlement to which we and the other two insurers are parties, although due to appeals challenging certain aspects of this settlement, the final implementation of the settlement will not occur until the appeals are resolved. We took a $23.2 million pretax charge in 2000 to cover our share of the estimated costs of the settlement. While our settlement includes an injunction that prohibits certain practices and specifies the basis on which other practices may be done in compliance with the Real Estate Settlement Procedures Act, we may still be subject to future litigation under the Real Estate Settlement Procedures Act.

Because we expect the pace of change in our industry and in home mortgage lending to remain high, we will be disadvantaged unless we are able to respond to new ways of doing business.

We expect the processes involved in home mortgage lending will continue to evolve through greater use of technology. This evolution could effect fundamental changes in the way home mortgages are distributed. Affiliates of lenders who are regulated depositary institutions gained expanded insurance powers under financial modernization legislation and the capital markets may emerge as providers of insurance in competition with traditional insurance companies. These trends and others increase the level of uncertainty in our business, demand rapid response to change and place a premium on innovation.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

At June 30, 2002, the Company's derivative financial instruments in its investment portfolio were immaterial. The Company's philosophy is to invest in instruments that meet high credit quality standards, as specified in the Company's investment policy guidelines; the policy also limits the amount of credit exposure to any one issue, issuer and type of instrument. At June 30, 2002, the effective duration of the Company's investment portfolio was 5.3 years. The effect of a 1% increase/decrease in market interest rates would result in a 5.3% decrease/increase in the value of the Company's investment portfolio. The Company's borrowings under the commercial paper program are subject to interest rates that are variable. See "Management's Discussion and Analysis of Financial Condition and Results of Operations-Liquidity and Capital Resources" for a discussion of the Company's interest rate swaps.

PART II. OTHER INFORMATION

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

(a) The Annual Meeting of Shareholders of the Company was held on May 2, 2002.

(b) Not applicable

(c) Matters voted upon at the Annual Meeting and the number of shares voted for, against, withheld, abstaining from voting and broker non-votes were as follows:

(1) Election of four Directors for a term expiring in 2005:

	FOR	WITHHELD
Mary K. Bush	96,645,028	482,923
David S. Engelman	96,641,986	485,965
Kenneth M. Jastrow, II	96,649,158	478,793
Daniel P. Kearney	96,646,193	481,758

(2) Approval of the 2002 Stock Incentive Plan:

For:	82,261,156
Against:	5,848,822
Abstaining from voting	472,510
Broker non-votes:	8,545,463

(3) Ratification of the appointment of PricewaterhouseCoopers LLP ("PwC") as independent accountants for the Company for 2002.

For:	94,846,964
Against:	1,940,382
Abstaining from vote:	340,605

There were no broker non-votes in the Election of Directors or the ratification of the appointment of PwC.

(d) Not applicable

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits - The exhibits listed in the accompanying Index to Exhibits are filed as part of this Form 10-Q. The Company is a party to various agreements regarding long-term debt that are not filed as exhibits pursuant to Reg. S-K Item 602 (b)(4)(iii)(A). The Company hereby agrees to furnish a copy of such agreements to the Commission upon its request.

(b) Reports on Form 8-K - No reports were filed on Form 8-K during the quarter ended June 30, 2002.

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 August 14, 2002.

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
(Item 6)

Exhibit Number	Description of Exhibit
10	2002 Stock Incentive Plan (incorporated by reference to Exhibit A to the Company's Proxy Statement for its May 2, 2002 Annual Meetings of Shareholders)
11	Statement Re Computation of Net Income Per Share

EXHIBIT 11

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
STATEMENT RE COMPUTATION OF NET INCOME PER SHARE
Three and Six Month Periods Ended June 30, 2002 and 2001

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
	(In thousands of dollars, except per share data)			
BASIC EARNINGS PER SHARE				
Average common shares outstanding	105,181	107,111	105,733	106,997
Net income	$ 170,936	$ 161,218	$ 340,123	$ 319,142
Basic earnings per share	$ 1.63	$ 1.51	$ 3.22	$ 2.98
DILUTED EARNINGS PER SHARE				
Adjusted shares outstanding:				
Average common shares outstanding	105,181	107,111	105,733	106,997
Net shares to be issued upon exercise of dilutive stock options after applying treasury stock method	740	991	737	957
Adjusted shares outstanding	105,921	108,102	106,470	107,954
Net income	$ 170,936	$ 161,218	$ 340,123	$ 319,142
Diluted earnings per share	$ 1.61	$ 1.49	$ 3.19	$ 2.96