

MGIC INVESTMENT CORP

Form 10-Q

November 09, 2009

Table of Contents

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

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

For the quarterly period ended SEPTEMBER 30, 2009

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer
(Do not check if a smaller reporting company)

Smaller reporting company

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

YES NO

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
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Common stock	\$ 1.00	10/31/09	125,101,817
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TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

ITEM 4. CONTROLS AND PROCEDURES

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Item 1 A. Risk Factors

ITEM 6. EXHIBITS

SIGNATURES

INDEX TO EXHIBITS

EX-11

EX-31.1

EX-31.2

EX-32

EX-99.1

Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS**

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

September 30, 2009 and December 31, 2008

(Unaudited)

	September 30, 2009	As adjusted (note 1) December 31, 2008
	(In thousands of dollars)	
ASSETS		
Investment portfolio (notes 7 and 8):		
Securities, available-for-sale, at fair value:		
Fixed maturities (amortized cost, 2009-\$7,572,232; 2008-\$7,120,690)	\$ 7,851,897	\$ 7,042,903
Equity securities (cost, 2009-\$2,861; 2008-\$2,778)	2,894	2,633
Total investment portfolio	7,854,791	7,045,536
Cash and cash equivalents	869,722	1,097,334
Accrued investment income	90,447	90,856
Reinsurance recoverable on loss reserves	384,400	232,988
Prepaid reinsurance premiums	3,782	4,416
Premiums receivable	95,312	97,601
Home office and equipment, net	29,425	32,255
Deferred insurance policy acquisition costs	9,303	11,504
Income taxes recoverable		370,473
Other assets	143,809	163,771
Total assets	\$ 9,480,991	\$ 9,146,734
LIABILITIES AND SHAREHOLDERS EQUITY		
Liabilities:		
Loss reserves (note 12)	\$ 6,314,445	\$ 4,775,552
Premium deficiency reserves (note 12)	207,803	454,336
Unearned premiums	299,591	336,098
Short- and long-term debt (note 2)	384,690	698,446
Convertible debentures (note 3)	286,512	272,465
Income taxes payable	13,873	
Other liabilities	324,976	175,604
Total liabilities	7,831,890	6,712,501

Contingencies (note 5)

Shareholders' equity:

Common stock, \$1 par value, shares authorized 460,000,000; shares issued, 09/30/2009 - 130,162,973 12/31/08 - 130,118,744; shares outstanding, 09/30/09 - 125,101,730 12/31/08 - 125,068,350	130,163	130,119
Paid-in capital	439,267	440,542
Treasury stock (shares at cost, 09/30/09 - 5,061,243 12/31/08 - 5,050,394)	(269,698)	(276,873)
Accumulated other comprehensive income (loss), net of tax (note 9)	144,545	(106,789)
Retained earnings	1,204,824	2,247,234
 Total shareholders' equity	 1,649,101	 2,434,233
 Total liabilities and shareholders' equity	 \$ 9,480,991	 \$ 9,146,734

See accompanying notes to consolidated financial statements.

Table of Contents

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
 Three and Nine Months Ended September 30, 2009 and 2008
 (Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	As adjusted (note 1)		As adjusted (note 1)	
	2009	2008	2009	2008
(In thousands of dollars, except per share data)				
Revenues:				
Premiums written:				
Direct	\$ 301,747	\$ 416,094	\$ 1,039,482	\$ 1,260,406
Assumed	826	3,315	3,133	9,317
Ceded	(24,319)	(54,367)	(86,465)	(164,430)
Net premiums written	278,254	365,042	956,150	1,105,293
Decrease (increase) in unearned premiums, net	15,261	(22,730)	40,327	(67,201)
Net premiums earned	293,515	342,312	996,477	1,038,092
Investment income, net of expenses	75,528	78,612	230,737	228,076
Realized investment gains, excluding other-than-temporary impairments (note 7)	33,483	59,582	65,844	56,633
Net investment impairment losses (note 7)		(31,669)	(35,103)	(40,177)
Other revenue	10,811	12,795	45,048	27,416
Total revenues	413,337	461,632	1,303,003	1,310,040
Losses and expenses:				
Losses incurred, net	971,043	788,272	2,498,567	2,168,063
Change in premium deficiency reserves (note 12)	(19,346)	(204,240)	(246,533)	(626,919)
Underwriting and other expenses, net	59,133	62,424	183,403	207,646
Reinsurance fee (note 4)		607	26,407	970
Interest expense	20,586	23,366	68,442	57,385
Total losses and expenses	1,031,416	670,429	2,530,286	1,807,145
Loss before tax and joint ventures	(618,079)	(208,797)	(1,227,283)	(497,105)
Benefit from income taxes (note 11)	(100,311)	(90,060)	(185,120)	(222,852)
Income from joint ventures, net of tax		3,352		24,486

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Net loss	\$ (517,768)	\$ (115,385)	\$ (1,042,163)	\$ (249,767)
Loss per share (note 6):				
Basic	\$ (4.17)	\$ (0.93)	\$ (8.39)	\$ (2.26)
Diluted	\$ (4.17)	\$ (0.93)	\$ (8.39)	\$ (2.26)
Weighted average common shares outstanding diluted (shares in thousands, note 6)	124,296	123,834	124,180	110,647
Dividends per share	\$	\$ 0.025	\$	\$ 0.075

See accompanying notes to consolidated financial statements.

3

Table of Contents

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY
Year Ended December 31, 2008 and Nine Months Ended September 30, 2009 (unaudited)

	Common stock	Paid-in capital	Treasury stock (In thousands of dollars)	Accumulated other comprehensive income (loss)	Retained earnings	Comprehensive (loss) income
Balance, December 31, 2007	\$ 123,067	\$ 316,649	\$ (2,266,364)	\$ 70,675	\$ 4,350,316	
Net loss					(525,356)	\$ (525,356)
Change in unrealized investment gains and losses, net				(116,939)		(116,939)
Dividends declared Common stock shares issued	7,052	68,706			(8,159)	
Reissuance of treasury stock, net		(41,686)	1,989,491		(1,569,567)	
Equity compensation Defined benefit plan adjustments, net		20,562		(44,649)		(44,649)
Unrealized foreign currency translation adjustment				(16,354)		(16,354)
Convertible debentures issued (note 3)		77,300				
Other		(989)		478		478
Comprehensive loss						\$ (702,820)
Balance, December 31, 2008, as adjusted (note 1)	\$ 130,119	\$ 440,542	\$ (276,873)	\$ (106,789)	\$ 2,247,234	
Net loss					(1,042,163)	\$ (1,042,163)
Change in unrealized investment gains and losses, net				230,870		230,870
Common stock shares issued	44	167				
Reissuance of treasury stock, net		(11,652)	7,175		(541)	
Equity compensation		10,210				

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Unrealized foreign currency translation adjustment				20,464			20,464
Other						294	
Comprehensive loss							\$ (790,829)

Balance,
September 30, 2009 \$ 130,163 \$ 439,267 \$ (269,698) \$ 144,545 \$ 1,204,824

See accompanying notes to consolidated financial statements

4

Table of Contents

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Nine Months Ended September 30, 2009 and 2008
(Unaudited)

	Nine Months Ended September 30,	
	2009	As adjusted (note 1) 2008
	(In thousands of dollars)	
Cash flows from operating activities:		
Net loss	\$ (1,042,163)	\$ (249,767)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Amortization of deferred insurance policy acquisition	5,974	7,736
Increase in deferred insurance policy acquisition costs	(3,773)	(9,019)
Depreciation and amortization	47,376	23,058
Decrease (increase) in accrued investment income	409	(20,303)
Increase in reinsurance recoverable on loss reserves	(151,412)	(289,129)
Decrease in prepaid reinsurance premiums	634	1,165
Decrease in premium receivable	2,289	6,625
Decrease in book value of real estate owned	29,595	95,755
Increase in loss reserves	1,538,893	1,370,772
Decrease in premium deficiency reserve	(246,533)	(626,919)
(Decrease) increase in unearned premiums	(36,507)	63,851
Deferred tax provision	146,217	280,621
Decrease in income taxes recoverable (current)	108,785	268,919
Equity earnings in joint ventures		(33,794)
Distributions from joint ventures		22,195
Realized investment gains, excluding other-than-temporary impairments	(65,844)	(56,633)
Net investment impairment losses	35,103	40,177
Other	48,422	(2,341)
Net cash provided by operating activities	417,465	892,969
Cash flows from investing activities:		
Purchase of fixed maturities	(3,362,579)	(2,703,798)
Purchase of equity securities	(1,356)	(65)
Additional investment in joint ventures		(546)
Sale of investment in joint ventures		150,316
Proceeds from sale of equity securities	1,273	
Proceeds from sale of fixed maturities	2,525,731	1,287,236
Proceeds from maturity of fixed maturities	411,445	324,093
Increase in payable for securities	68,334	120,139
Net cash used in investing activities	(357,152)	(822,625)

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Cash flows from financing activities:

Dividends paid to shareholders		(8,159)
Repayment of note payable	(200,000)	(100,000)
Repayment of long-term debt	(87,659)	
(Repayment of) net proceeds from convertible debentures	(477)	377,199
Reissuance of treasury stock		383,959
Common stock issued	211	75,758
Net cash (used in) provided by financing activities	(287,925)	728,757
Net (decrease) increase in cash and cash equivalents	(227,612)	799,101
Cash and cash equivalents at beginning of period	1,097,334	288,933
Cash and cash equivalents at end of period	\$ 869,722	\$ 1,088,034

See accompanying notes to consolidated financial statements.

Table of Contents

**MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2009

(Unaudited)

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

The accompanying unaudited consolidated financial statements of MGIC Investment Corporation 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, 2008 included in our 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 our financial position and results of operations for the periods indicated. We have considered subsequent events through the date of this filing, November 9, 2009. The results of operations for the nine months ended September 30, 2009 may not be indicative of the results that may be expected for the year ending December 31, 2009.

Capital

At September 30, 2009, MGIC's policyholders position exceeded the required regulatory minimum by approximately \$456 million, and we exceeded the required minimum by approximately \$543 million on a combined statutory basis. (The combined figures give effect to reinsurance with subsidiaries of our holding company.) At September 30, 2009 MGIC's risk-to-capital was 17.3:1 and was 19.7:1 on a combined statutory basis.

For some time, we have been working to implement a plan to write new mortgage insurance in MGIC Indemnity Corporation (MIC), a wholly owned subsidiary of MGIC. This plan is driven by our belief that MGIC will not meet regulatory capital requirements in Wisconsin (which would prevent MGIC from writing new business anywhere) or in certain jurisdictions (which would prevent MGIC from writing business in the particular jurisdiction) and may not be able to obtain appropriate waivers of these requirements. This could occur in the first quarter of 2010, or earlier; the timing will primarily depend on the level of new loan default notices and the claim rate associated with loans in default. In addition to Wisconsin, these capital requirements are present in 16 jurisdictions while the remaining jurisdictions in which MGIC does business do not have specific capital requirements applicable to mortgage insurers. Before MIC can begin writing new business, the Office of the Commissioner of Insurance for the State of Wisconsin (OCI) must specifically authorize MIC to do so and MIC must obtain or reactivate licenses in the jurisdictions where it will transact business. In addition, as a practical matter, MIC's ability to write mortgage insurance depends on being approved as an eligible mortgage insurer by Fannie Mae and/or Freddie Mac (together, the GSEs).

Table of Contents

On October 14, 2009, we, MGIC and MIC entered into an agreement (the Agreement) with Fannie Mae under which MGIC agreed to contribute \$200 million to MIC and Fannie Mae approved MIC as an eligible mortgage insurer through December 31, 2011 subject to the terms of the Agreement. The contribution to MIC was made on October 21, 2009. Under the Agreement, MIC will be eligible to write mortgage insurance only if the OCI grants MGIC a waiver from Wisconsin's capital requirements and only in those 16 jurisdictions in which MGIC cannot write new insurance due to MGIC's failure to meet regulatory capital requirements applicable to mortgage insurers and if MGIC fails to obtain relief from those requirements or a specified waiver of them. We expect MGIC will be able to obtain waivers in a number of these jurisdictions such that MGIC, rather than MIC, will write new business there. The Agreement, including certain restrictions imposed on us, MGIC and MIC, is summarized more fully in, and included as an exhibit to, our Form 8-K filed with the Securities and Exchange Commission on October 16, 2009.

Under the Agreement, MIC has been approved as an eligible mortgage insurer by Fannie Mae only through December 31, 2011. Whether MIC will continue as an eligible mortgage insurer after that date will be determined by Fannie Mae's mortgage insurer eligibility requirements then in effect. Further, under the Agreement we cannot capitalize MIC with more than a \$200 million contribution, without prior approval from Fannie Mae, which limits the amount of business MIC can write. We believe that the amount of capital that we have contributed to MIC will be more than sufficient to write business for the term of the Agreement in the jurisdictions in which, giving effect to our expectation that MGIC will obtain waivers of regulatory capital requirements in certain jurisdictions as referred to above, MIC is eligible to do so under the Agreement. There can be no assurances, however, that in fact MIC's capital will be sufficient to permit this level of writings.

We have been working closely with Freddie Mac to approve MIC as an eligible mortgage insurer. Freddie Mac has informed us that they will need additional analysis prior to approving MIC as an eligible mortgage insurer. This analysis could take some time to complete. There can be no assurance that Freddie Mac will approve MIC as an eligible mortgage insurer.

We are also working closely with the OCI to receive the approvals that MIC requires to begin writing new insurance. While in July 2009 the OCI approved a transaction under which we would have contributed more than \$200 million to MIC and MIC would have written mortgage insurance in all jurisdictions in place of MGIC, the OCI has not approved the plan to write mortgage insurance through MIC contemplated by the Agreement nor has it yet granted MGIC a waiver from the regulatory capital requirements in Wisconsin. There can be no assurance that we will be able to obtain, in a timely fashion or at all, the approvals from OCI necessary to allow MGIC to continue to write new insurance or the approvals necessary for MIC to write new insurance in any jurisdiction. Similarly, there can be no assurances that MIC will receive the necessary approvals from any or all of the jurisdictions in which MGIC would be prohibited from doing so due to MGIC's failure to meet applicable regulatory capital requirements.

Depending on the level of losses that MGIC experiences in the future, it is possible that regulatory action by one or more jurisdictions, including those that do not have specific regulatory capital requirements applicable to mortgage insurers, may prevent MGIC from continuing to write new insurance in some or all of the jurisdictions in which MIC

Table of Contents

will not write business. It is also possible that the OCI could take actions that would prohibit MGIC and/or MIC from writing new business in any jurisdiction.

A failure to meet regulatory capital requirements does not mean that MGIC does not have sufficient resources to pay claims on its insurance. Even in scenarios in which losses materially exceed those that would result in not meeting regulatory requirements, we believe that we have claims paying resources at MGIC that exceed our claim obligations on our insurance in force. Our estimates of our claims paying resources and claim obligations are based on various assumptions, including our anticipated rescission activity.

New Accounting Guidance

Beginning with this quarterly filing, our financial statement disclosures have been modified to eliminate references to legacy accounting pronouncements in accordance with the Codification of accounting standards issued by the Financial Accounting Standards Board (FASB). The Codification, which is effective for financial statements issued for interim and annual periods ending after September 15, 2009, is now the source of authoritative U.S. generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants.

In June 2009 new accounting guidance intended to improve financial reporting by companies involved with variable interest entities was issued. The guidance is effective for annual reporting periods beginning after November 15, 2009. We are currently evaluating the provisions of this guidance and the impact, if any, on our financial statements and disclosures.

In May 2009 new accounting guidance regarding subsequent events was issued. The objective of the guidance is to establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. We have applied these requirements beginning with the quarter ended June 30, 2009. Effective January 1, 2009 we adopted new accounting guidance regarding accounting for convertible debt instruments that may be settled in cash upon conversion, including partial cash settlement. The guidance requires the issuer of certain convertible debt instruments that may be settled in cash (or other assets) on conversion to separately account for the liability (debt) and equity (conversion option) components of the instrument in a manner that reflects the issuer's non-convertible debt borrowing rate. The guidance requires retrospective application. As such, amounts relating to 2008 have been retrospectively adjusted to reflect our adoption of this guidance.

The following tables show the impact of our adoption of this guidance on our 2008 financial results:

Table of Contents**CONSOLIDATED BALANCE SHEET**

	As adjusted December 31, 2008 (Unaudited) (in thousand of dollars)	As originally reported December 31, 2008 (Audited)
Income taxes recoverable	\$ 370,473	\$ 406,568
Convertible debentures	272,465	375,593
Shareholders equity	2,434,233	2,367,200

CONSOLIDATED STATEMENT OF OPERATIONS

	Three Months Ended September 30, 2008		Nine Months Ended September 30, 2008	
	As adjusted	As originally reported (Unaudited) (in thousand of dollars, except per share data)	As adjusted	As originally reported
Interest expense	\$ 23,366	\$ 20,119	\$ 57,385	\$ 50,924
Benefit from income taxes	(90,060)	(88,924)	(222,852)	(220,591)
Net loss	(115,385)	(113,274)	(249,767)	(245,567)
Diluted loss per share	(0.93)	(0.91)	(2.26)	(2.22)

In addition the adoption of this guidance will result in an increase to interest expense of \$16.3 million for 2009, \$20.4 million for 2010, \$25.5 million for 2011, \$31.7 million for 2012 and \$9.0 million for 2013. These increases, and those shown in the tables above, result from our Convertible Junior Subordinated Debentures issued in 2008 and discussed in Note 3.

Effective January 1, 2009 we adopted new accounting guidance regarding participating securities. The standard clarifies that share-based payment awards that entitle holders to receive nonforfeitable dividends before vesting should be considered participating securities. As participating securities, these instruments should be included in the calculation of basic earnings per share. The guidance is effective for financial statements issued for fiscal years beginning after December 15, 2008, interim periods within those years, and on a retrospective basis for all historical periods presented. The adoption of this guidance did not have an impact on our calculations of basic and diluted earnings per share due to our current net loss position.

During the second quarter of 2009, we adopted new accounting guidance regarding the recognition and presentation of other-than-temporary impairments. The new guidance revises the recognition and reporting requirements for other-than-temporary impairments on our fixed income securities. In the second quarter of 2009, we also adopted additional application guidance on measuring fair value in less active markets.

Table of Contents

The adoption of this guidance did not have a material impact on our financial condition or results of operations. (See Note 7.)

In December 2008, new guidance that provides additional information on an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan was issued. The guidance is effective for fiscal years ending after December 15, 2009. We are currently evaluating the provisions of this statement and the impact this statement will have on our disclosures.

Reclassifications

Certain reclassifications have been made in the accompanying financial statements to 2008 amounts to conform to 2009 presentation.

Note 2 Short- and long-term debt, excluding convertible debentures discussed in Note 3

In June 2009 we repaid the \$200 million that was then outstanding under our bank revolving credit facility and terminated the facility. At December 31, 2008 we had \$200 million outstanding under that facility, which was scheduled to expire in March 2010.

In 2009, through September 30, 2009, we repurchased approximately \$113.9 million in par value of our 5.625% Senior Notes due in September 2011. We recognized a gain on the repurchases of approximately \$26.3 million, which is included in other revenue on the Consolidated Statement of Operations for the nine months ended September 30, 2009. At September 30, 2009 we had approximately \$86.1 million, 5.625% Senior Notes due in September 2011 and \$300 million, 5.375% Senior Notes due in November 2015 outstanding. At December 31, 2008 we had \$200 million, 5.625% Senior Notes due in September 2011 and \$300 million, 5.375% Senior Notes due in November 2015 outstanding. Covenants in the Senior Notes include the requirement that there be no liens on the stock of the designated subsidiaries unless the Senior Notes are equally and ratably secured; that there be no disposition of the stock of designated subsidiaries unless all of the stock is disposed of for consideration equal to the fair market value of the stock; and that we and the designated subsidiaries preserve our corporate existence, rights and franchises unless we or such subsidiary determines that such preservation is no longer necessary in the conduct of its business and that the loss thereof is not disadvantageous to the Senior Notes. A designated subsidiary is any of our consolidated subsidiaries which has shareholder's equity of at least 15% of our consolidated shareholders equity. We believe we were in compliance with all covenants at September 30, 2009.

If (i) we fail to meet any of the covenants of the Senior Notes discussed above or (ii) we fail to make a payment of principal of the Senior Notes when due or a payment of interest on the Senior Notes within thirty days after due and we are not successful in obtaining an agreement from holders of a majority of the applicable series of Senior Notes to change (or waive) the applicable requirement or payment default, then the holders of 25% or more of either series of our Senior Notes each would have the right to accelerate the maturity of that debt. In addition, the Trustee of these two issues of

Table of Contents

Senior Notes could, independent of any action by holders of Senior Notes, accelerate the maturity of the Senior Notes. At September 30, 2009 and December 31, 2008, the fair value of the amount outstanding under our Senior Notes was \$288.9 million and \$338.3 million, respectively. The fair value of amounts outstanding under our credit facility at December 31, 2008 was \$200 million. The fair value of our credit facility was approximated at par and the fair value of our Senior Notes was determined using publicly available trade information.

Interest payments on all long-term and short-term debt, excluding the convertible debentures, were \$22.7 million and \$29.8 million for the nine months ended September 30, 2009 and 2008, respectively.

Note 3 Convertible debentures and related derivatives

In March and April 2008 we completed the sale of \$390 million principal amount of 9% Convertible Junior Subordinated Debentures due in 2063. The debentures have an effective interest rate of 19% that reflects our non-convertible debt borrowing rate at the time of issuance. For more information about the effective interest rate and related effect on interest expense, see the discussion of convertible debt instruments in Note 1 New Accounting Guidance. At September 30, 2009 and December 31, 2008 we had \$389.5 million and \$390.0 million, respectively, of principal amount outstanding on the convertible debentures with the amortized value reflected as a liability on our consolidated balance sheet of \$286.5 million and \$272.5 million, respectively, with the unamortized discount reflected in equity. At September 30, 2009 we also had \$18.3 million of deferred interest outstanding on the convertible debentures which is included in other liabilities on the consolidated balance sheet.

The debentures were sold in private placements to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended. Interest on the debentures is payable semi-annually in arrears on April 1 and October 1 of each year. As long as no event of default with respect to the debentures has occurred and is continuing, we may defer interest, under an optional deferral provision, for one or more consecutive interest periods up to ten years without giving rise to an event of default. Deferred interest will accrue additional interest at the rate then applicable to the debentures. Violations of the covenants under the Indenture governing the debentures, including covenants to provide certain documents to the trustee, are not events of default under the Indenture and would not allow the acceleration of amounts that we owe under the debentures. Similarly, events of default under, or acceleration of, any of our other obligations, including those described in Note 2 Short- and long-term debt, excluding convertible debentures discussed in Note 3 would not allow the acceleration of amounts that we owe under the debentures. However, violations of the events of default under the Indenture, including a failure to pay principal when due under the debentures and certain events of bankruptcy, insolvency or receivership involving our holding company would allow acceleration of amounts that we owe under the debentures.

Interest on the debentures that would have been payable on the scheduled interest payment dates has been deferred for 10 years past the scheduled payment date. During this 10-year deferral period the deferred interest will continue to accrue and

Table of Contents

compound semi-annually to the extent permitted by applicable law at an annual rate of 9%. We also have the right to defer interest that is payable on subsequent scheduled interest payment dates if we give notice as required by the debentures. Any deferral of such interest would be on terms equivalent to those described above.

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

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

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

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

The provisions of the Alternative Payment Mechanism are complex. The description above is not intended to be complete in all respects. Moreover, that description is qualified in its entirety by the terms of the debentures, which are contained in the Indenture, dated as of March 28, 2008, between us and U.S. Bank National Association. The Indenture is filed as Exhibit 4.6 to our Quarterly Report on Form 10-Q for the quarter ended March 31, 2008.

The debentures rank junior to all of our existing and future senior indebtedness. The net proceeds of the debentures were approximately \$377 million. A portion of the net proceeds of the debentures and a concurrent offering of common stock was used to increase the capital of MGIC and a portion was used for our general corporate purposes. Debt issuance costs are being amortized over the expected life of five years to interest expense.

Table of Contents

We may redeem the debentures prior to April 6, 2013, in whole but not in part, only in the event of a specified tax or rating agency event, as defined in the Indenture. In any such event, the redemption price will be equal to the greater of (1) 100% of the principal amount of the debentures being redeemed and (2) the applicable make-whole amount, as defined in the Indenture, in each case plus any accrued but unpaid interest. On or after April 6, 2013, we may redeem the debentures in whole or in part from time to time, at our option, at a redemption price equal to 100% of the principal amount of the debentures being redeemed plus any accrued and unpaid interest if the closing sale price of our common stock exceeds 130% of the then prevailing conversion price of the debentures for at least 20 of the 30 trading days preceding notice of the redemption. We will not be able to redeem the debentures, other than in the event of a specified tax event or rating agency event, during an optional deferral period.

The debentures are currently convertible, at the holder's option, at an initial conversion rate, which is subject to adjustment, of 74.0741 common shares per \$1,000 principal amount of debentures at any time prior to the maturity date. This represents an initial conversion price of approximately \$13.50 per share. If a holder elects to convert their debentures, deferred interest owed on the debentures being converted is also converted into shares of our common stock. The conversion rate for the deferred interest is based on the average price that our shares traded at during a 5-day period immediately prior to the election to convert. In the second quarter of 2009, we issued 44,220 shares of our common stock on conversion of \$477,000 principal amount of our convertible debentures.

In lieu of issuing shares of common stock upon conversion of the debentures occurring after April 6, 2013, we may, at our option, make a cash payment to converting holders equal to the value of all or some of the shares of our common stock otherwise issuable upon conversion.

The fair value of the convertible debentures was approximately \$290.2 million and \$145.7 million, respectively, at September 30, 2009 and December 31, 2008, as determined using available pricing for these debentures or similar instruments.

Note 4 Reinsurance

Effective January 1, 2009, we are no longer ceding new business under excess of loss reinsurance treaties with lender captive reinsurers. Loans reinsured on an excess of loss basis through December 31, 2008 will run off pursuant to the terms of the particular captive arrangement. New business remains eligible to be ceded under quota share reinsurance arrangements, limited to a 25% cede rate.

The reinsurance recoverable on loss reserves related to captive agreements was approximately \$354 million at September 30, 2009. The total fair value of the trust fund assets under our captive agreements at September 30, 2009 was approximately \$604 million. During the first nine months of 2009, \$41 million of trust fund assets were transferred to us as a result of captive terminations. The transferred funds resulted in an increase in our investment portfolio (including cash and cash equivalents) and there was a corresponding decrease in our reinsurance recoverable on loss reserves, which is offset by a decrease in our net losses paid. Subsequent to the third quarter of 2009, through the date that this quarterly report was finalized, an additional \$74 million of trust fund assets were transferred to us as a result of captive terminations.

Table of Contents

In June 2008 we entered into a reinsurance agreement that was effective on the risk associated with up to \$50 billion of qualifying new insurance written each calendar year. The term of the reinsurance agreement began April 1, 2008 and was scheduled to end on December 31, 2010, subject to two one-year extensions that could have been exercised by the reinsurer. Effective March 20, 2009, we terminated this reinsurance agreement. The termination resulted in a reinsurance fee of \$26.4 million as reflected in our results of operations for the nine months ended September 30, 2009. There are no further obligations under this reinsurance agreement.

Note 5 Litigation and contingencies

In addition to the matters described below, we are involved in other litigation in the ordinary course of business. In our opinion, the ultimate resolution of this ordinary course litigation will not have a material adverse effect on our financial position or results of operations.

Consumers are bringing a growing number of lawsuits against home mortgage lenders and settlement service providers. Seven mortgage insurers, including MGIC, have been involved in litigation alleging violations of the anti-referral fee provisions of the Real Estate Settlement Procedures Act, which is commonly known as RESPA, and the notice provisions of the Fair Credit Reporting Act, which is commonly known as FCRA. MGIC's settlement of class action litigation against it under RESPA became final in October 2003. MGIC settled the named plaintiffs' claims in litigation against it under FCRA in late December 2004 following denial of class certification in June 2004. Since December 2006, class action litigation was separately brought against a number of large lenders alleging that their captive mortgage reinsurance arrangements violated RESPA. While we are not a defendant in any of these cases, there can be no assurance that we 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.

We are subject to comprehensive, detailed regulation by state insurance departments. These regulations are principally designed for the protection of our insured policyholders, rather than for the benefit of investors. Although their scope varies, state insurance laws generally grant broad supervisory powers to agencies or officials to examine insurance companies and enforce rules or exercise discretion affecting almost every significant aspect of the insurance business. Given the recent significant losses incurred by many insurers in the mortgage and financial guaranty industries, our insurance subsidiaries have been subject to heightened scrutiny by insurance regulators. State insurance regulatory authorities could take actions, including changes in capital requirements or termination of waivers of capital requirements, that could have a material adverse effect on us.

In June 2005, in response to a letter from the New York Insurance Department, we provided information regarding captive mortgage reinsurance arrangements and other types of arrangements in which lenders receive compensation. In February 2006, the New York Insurance Department 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 New York Insurance Department 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

Table of Contents

experience of recent years. In February 2006, in response to an administrative subpoena from the Minnesota Department of Commerce, which regulates insurance, we provided the Department with information about captive mortgage reinsurance and certain other matters. We subsequently provided additional information to the Minnesota Department of Commerce, and beginning in March 2008 that Department has sought additional information as well as answers to questions regarding captive mortgage reinsurance on several occasions. In June 2008, we received a subpoena from the Department of Housing and Urban Development, commonly referred to as HUD, seeking information about captive mortgage reinsurance similar to that requested by the Minnesota Department of Commerce, but not limited in scope to the state of Minnesota. 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 HUD as well as the insurance commissioner or attorney general of any state may bring an action to enjoin violations of these provisions of RESPA. The insurance law provisions of many states prohibit paying for the referral of insurance business and provide various mechanisms to enforce this prohibition. While we believe our captive reinsurance arrangements are in conformity with applicable laws and regulations, it is not possible to predict the outcome of any such reviews or investigations nor is it possible to predict their effect on us or the mortgage insurance industry.

In October 2007, the Division of Enforcement of the Securities and Exchange Commission requested that we voluntarily furnish documents and information primarily relating to C-BASS, the now-terminated merger with Radian and the subprime mortgage assets in the Company's various lines of business. We have provided responsive documents and/or other information to the Securities and Exchange Commission and understand this matter is ongoing.

Five previously-filed purported class action complaints filed against us and several of our executive officers were consolidated in March 2009 in the United States District Court for the Eastern District of Wisconsin and Fulton County Employees Retirement System was appointed as the lead plaintiff. The lead plaintiff filed a Consolidated Class Action Complaint (the Complaint) on June 22, 2009. Due in part to its length and structure, it is difficult to summarize briefly the allegations in the Complaint but it appears the allegations are that we and our officers named in the Complaint violated the federal securities laws by misrepresenting or failing to disclose material information about (i) loss development in our insurance in force, and (ii) C-BASS, including its liquidity. The Complaint also names two officers of C-BASS with respect to the Complaint's allegations regarding C-BASS. The purported class period covered by the Complaint begins on October 12, 2006 and ends on February 12, 2008. The Complaint seeks damages based on purchases of our stock during this time period at prices that were allegedly inflated as a result of the purported misstatements and omissions. With limited exceptions, our bylaws provide that our officers are entitled to indemnification from us for claims against them of the type alleged in the Complaint. We filed a motion to dismiss the Complaint in August 2009 and briefing is expected to be completed in November 2009. We are unable to predict the outcome of these consolidated cases or estimate our associated expenses or possible losses. Other lawsuits alleging violations of the securities laws could be brought against us.

Table of Contents

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

Historically, claims submitted to us on policies we rescinded were not a material portion of our claims resolved during a year. However, beginning in 2008 rescissions have materially mitigated our paid losses. If an insured disputes our right to rescind coverage, whether the requirements to rescind are met ultimately would be determined by arbitration or judicial proceedings. Objections to rescission may be made several years after we have rescinded an insurance policy. We are not involved in arbitration or judicial proceedings regarding a material amount of our rescissions. However, we continue to have discussions with lenders regarding their objections to rescissions that in the aggregate are material.

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

The IRS is presently examining our federal income tax returns for 2005 through 2007. We have not received any proposed adjustments to taxable income or assessments from the IRS related to these years. We believe that income taxes related to these years have been properly provided for in our financial statements.

Under our contract underwriting agreements, we may be required to provide certain remedies to our customers if certain standards relating to the quality of our underwriting work are not met. The cost of remedies provided by us to customers for failing to meet these standards has not been material to our financial position or results of operations for the nine months ended September 30, 2009 and 2008. However, a generally positive economic environment for residential real estate that continued until

Table of Contents

approximately 2007 may have mitigated the effect of some of these costs, and claims for remedies may be made a number of years after the underwriting work was performed. A material portion of our new insurance written through the flow channel in recent years involved loans for which we provided contract underwriting services. We believe the rescission of mortgage insurance coverage on loans on which we also provided contract underwriting services makes a claim for a contract underwriting remedy more likely to occur. In the third quarter of 2009, we experienced an increase in claims for contract underwriting remedies, which may continue. Hence, there can be no assurance that contract underwriting remedies will not be material in the future.

Note 6 Earnings (loss) per share

Our basic EPS is based on the weighted average number of common shares outstanding, which excludes participating securities with non-forfeitable rights to dividends of 1.8 million and 1.6 million, respectively, for the three months ended September 30, 2009 and 2008 and 1.9 million and 1.4 million, respectively for the nine months ended September 30, 2009 and 2008 because they were anti-dilutive due to our reported net loss. Typically, diluted EPS is based on the weighted average number of common shares outstanding plus common stock equivalents which include certain stock awards, stock options and the dilutive effect of our convertible debentures (issued in March 2008). In accordance with accounting guidance, if we report a net loss from continuing operations then our diluted EPS is computed in the same manner as the basic EPS. The following is a reconciliation of the weighted average number of shares; however for the three months ended September 30, 2009 and 2008 common stock equivalents of 32.1 million and 27.3 million, respectively, and for the nine months ended September 30, 2009 and 2008 common stock equivalents of 33.5 million and 20.8 million, respectively, were not included because they were anti-dilutive.

		Three Months Ended September 30,		Nine Months Ended September 30,	
		2009	2008	2009	2008
		(in thousands)			
Weighted-average shares	Basic	124,296	123,834	124,180	110,647
	Common stock equivalents				
Weighted-average shares	Diluted	124,296	123,834	124,180	110,647

Note 7 Investments

The amortized cost, gross unrealized gains and losses and fair value of the investment portfolio at September 30, 2009 and December 31, 2008 are shown below. Debt securities consist of fixed maturities and short-term investments.

Table of Contents

September 30, 2009	Amortized Cost	Gross Unrealized Gains (In thousands of dollars)	Gross Unrealized Losses (1)	Fair Value
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 569,285	\$ 9,364	\$ (1,333)	\$ 577,316
Obligations of U.S. states and political subdivisions	5,165,290	268,570	(36,179)	5,397,681
Corporate debt securities	1,599,410	45,135	(5,243)	1,639,302
Residential mortgage-backed securities	126,566	4,485	(6,731)	124,320
Debt securities issued by foreign sovereign governments	111,681	2,180	(583)	113,278
Total debt securities	7,572,232	329,734	(50,069)	7,851,897
Equity securities	2,861	34	(1)	2,894
Total investment portfolio	\$ 7,575,093	\$ 329,768	\$ (50,070)	\$ 7,854,791

(1) There were no other-than-temporary losses included in other comprehensive income at September 30, 2009.

December 31, 2008:	Amortized Cost	Gross Unrealized Gains (In thousands of dollars)	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 168,917	\$ 21,297	\$ (405)	\$ 189,809
Obligations of U.S. states and political subdivisions	6,401,903	141,612	(237,575)	6,305,940
Corporate debt securities	314,648	6,278	(4,253)	316,673
Residential mortgage-backed securities	151,774	3,307	(14,251)	140,830
Debt securities issued by foreign sovereign governments	83,448	6,203		89,651
Total debt securities	7,120,690	178,697	(256,484)	7,042,903
Equity securities	2,778		(145)	2,633
Total investment portfolio	\$ 7,123,468	\$ 178,697	\$ (256,629)	\$ 7,045,536

The amortized cost and fair values of debt securities at September 30, 2009 and December 31, 2008, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have

the right to call or prepay obligations with or without call or prepayment penalties. Because most auction rate and mortgage-backed securities provide for periodic payments throughout their lives, they are listed below in separate categories.

Table of Contents

September 30, 2009	Amortized Cost	Fair Value
	(In thousands of dollars)	
Due in one year or less	\$ 48,591	\$ 49,009
Due after one year through five years	2,297,023	2,361,658
Due after five years through ten years	1,658,842	1,737,149
Due after ten years	2,925,260	3,079,805
	6,929,716	7,227,621
Auction rate securities (1)	515,950	499,956
Residential mortgage-backed securities	126,566	124,320
Total at September 30, 2009	\$ 7,572,232	\$ 7,851,897
December 31, 2008	Amortized Cost	Fair Value
	(In thousands of dollars)	
Due in one year or less	\$ 432,727	\$ 435,045
Due after one year through five years	1,606,915	1,630,086
Due after five years through ten years	1,230,379	1,283,317
Due after ten years	3,174,995	3,029,725
	6,445,016	6,378,173
Auction rate securities (1)	523,900	523,900
Residential mortgage-backed securities	151,774	140,830
Total at December 31, 2008	\$ 7,120,690	\$ 7,042,903

(1) At September 30, 2009 and December 31, 2008, 98% of auction rate securities had a contractual maturity greater than 10 years.

At September 30, 2009 and December 31, 2008, the investment portfolio had gross unrealized losses of \$50.1 million and \$256.6 million, respectively. For those securities in an unrealized loss position, the length of time the securities were in such a position, as measured by their month-end fair values, is as follows:

Table of Contents

September 30, 2009	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(In thousands of dollars)			
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 150,178	\$ 1,161	\$ 1,459	\$ 172	\$ 151,637	\$ 1,333
Obligations of U.S. states and political subdivisions	460,684	12,638	484,067	23,541	944,751	36,179
Corporate debt securities	260,662	5,189	1,540	54	262,202	5,243
Residential mortgage-backed securities			33,479	6,731	33,479	6,731
Debt issued by foreign sovereign governments	30,542	583			30,542	583
Equity securities	1,285	1			1,285	1
Total investment portfolio	\$ 903,351	\$ 19,572	\$ 520,545	\$ 30,498	\$ 1,423,896	\$ 50,070

December 31, 2008	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(In thousands of dollars)			
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 13,106	\$ 245	\$ 1,242	\$ 160	\$ 14,348	\$ 405
Obligations of U.S. states and political subdivisions	1,640,406	102,437	552,191	135,138	2,192,597	237,575
Corporate debt securities	72,711	4,127	1,677	126	74,388	4,253
Residential mortgage-backed securities	41,867	14,251			41,867	14,251
Debt issued by foreign sovereign governments						
Equity securities	227	10	2,062	135	2,289	145
Total investment portfolio	\$ 1,768,317	\$ 121,070	\$ 557,172	\$ 135,559	\$ 2,325,489	\$ 256,629

There were 261 securities in an unrealized loss position at September 30, 2009. The unrealized losses in all categories of our investments were primarily caused by the difference in interest rates at September 30, 2009 and December 31, 2008, compared to the interest rates at the time of purchase. Of those securities in an unrealized loss position greater than 12 months at September 30, 2009, 109 securities had a fair value greater than 80% of amortized cost and 7 securities had a fair value less than 80% of amortized cost.

In April 2009, new accounting guidance regarding the recognition and presentation of other-than-temporary impairments were issued. The new guidance require us to separate an other-than-temporary impairment (OTTI) of a debt security into two components when there are credit related losses associated with the impaired debt security for

which we assert that we do not have the intent to sell the security, and it is more likely than not that we will not be required to sell the security before recovery of

Table of Contents

our cost basis. Under this guidance the amount of the OTTI related to a credit loss is recognized in earnings, and the amount of the OTTI related to other factors (such as changes in interest rates or market conditions) is recorded as a component of other comprehensive income (loss). In instances where no credit loss exists but it is more likely than not that we will have to sell the debt security prior to the anticipated recovery, the decline in fair value below amortized cost is recognized as an OTTI in earnings. In periods after recognition of an OTTI on debt securities, we account for such securities as if they had been purchased on the measurement date of the OTTI at an amortized cost basis equal to the previous amortized cost basis less the OTTI recognized in earnings. For debt securities for which OTTI were recognized in earnings, the difference between the new amortized cost basis and the cash flows expected to be collected will be accreted or amortized into net investment income. This guidance was effective beginning with the quarter ending June 30, 2009.

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

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

extent and duration of the decline;

failure of the issuer to make scheduled interest or principal payments;

change in rating below investment grade; and

adverse conditions specifically related to the security, an industry, or a geographic area.

Under the current guidance a debt security impairment is deemed other than temporary if (1) we either intend to sell the security, or it is more likely than not that we will be required to sell the security before recovery or (2) we do not expect to collect cash flows sufficient to recover the amortized cost basis of the security. During the third quarter of 2009 we had no OTTI recognized in earnings. During the first nine months of 2009 we recognized OTTI in earnings of \$35.1 million.

The net realized investment gains (losses) are as follows:

21

Table of Contents

	Three months ended September 30,		Nine months Ended September 30,	
	2009	2008	2009	2008
	(In thousands of dollars)			
Net realized investment gains (losses) and OTTI on investments:				
Fixed maturities	\$ 33,074	\$ (34,209)	\$ 30,035	(45,097)
Equity securities	40	58	181	51
Joint ventures		62,769		62,495
Other	369	(705)	525	(993)
	\$ 33,483	\$ 27,913	\$ 30,741	16,456

In the third quarter of 2009, there were gross realized gains on the sale of fixed income investments of \$34.8 million offset by gross realized losses on the sale of fixed income securities of \$1.3 million. In the first nine months of 2009, there were gross realized gains on the sale of fixed income investments of \$82.2 million offset by gross realized losses on the sale of fixed income securities of \$16.4 million and OTTI impairments of \$35.1 million. The net realized gains on investments during 2009 was primarily the result of reducing the proportion of our investment portfolio in tax exempt municipal securities while increasing the proportion of taxable securities principally since the tax benefits of holding tax exempt municipal securities are no longer available based on our current net loss position. The majority of the gross realized losses on sales during 2009 were due to credit concerns related to these securities which became more pronounced in the first half of 2009.

Note 8 Fair value measurements

We adopted fair value accounting guidance that became effective January 1, 2008. This guidance address aspects of the expanding application of fair-value accounting. The guidance defines fair value, establishes a consistent framework for measuring fair value and expands disclosure requirements regarding fair-value measurements and provides companies with an option to report selected financial assets and liabilities at fair value with changes in fair value reported in earnings. The option to account for selected financial assets and liabilities at fair value is made on an instrument-by-instrument basis at the time of acquisition. For the nine months ended September 30, 2009 and 2008, we did not elect the fair value option for any financial instruments acquired for which the primary basis of accounting is not fair value.

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

Level 1 Quoted prices for identical instruments in active markets that we have the ability to access. Financial assets utilizing Level 1 inputs include certain U.S. Treasury securities and obligations of the U.S. government.

Level 2 Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and inputs,

Table of Contents

other than quoted prices, that are observable in the marketplace for the financial instrument. The observable inputs are used in valuation models to calculate the fair value of the financial instruments. Financial assets utilizing Level 2 inputs include certain municipal and corporate bonds.

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

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

Assets and liabilities classified as Level 3 are as follows:

Securities available-for-sale classified in Level 3 are not readily marketable and are valued using internally developed models based on the present value of expected cash flows. Our Level 3 securities primarily consist of auction rate securities as observable inputs or value drivers are unavailable due to events described in Note 4 of our Notes to Financial Statements for the year ended December 31, 2008 included in our Annual Report on Form 10-K. Due to limited market information, we utilized a discounted cash flow (DCF) model to derive an estimate of fair value of these assets at December 31, 2008 and September 30, 2009. The assumptions used in preparing the DCF model included estimates with respect to the amount and timing of future interest and principal payments, the probability of full repayment of the principal considering the credit quality and guarantees in place, and the rate of return required by investors to own such

Table of Contents

securities given the current liquidity risk associated with them. The DCF model is based on the following key assumptions.

Nominal credit risk as securities are ultimately guaranteed by the United States Department of Education;

Liquidity by December 31, 2012;

Continued receipt of contractual interest; and

Discount rates incorporating at least a 2.00% spread for liquidity risk.

The remainder of our level 3 securities are valued based on the present value of expected cash flows utilizing data provided by the trustees.

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

Fair value measurements for items measured at fair value included the following as of September 30, 2009 and December 31, 2008:

Table of Contents

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1) (in thousand of dollars)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2009				
Assets				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 577,316	\$ 577,316	\$	\$
Obligations of U.S. states and political subdivisions	5,397,681		5,019,180	378,501
Corporate debt securities	1,639,302	2,329	1,505,141	131,832
Residential mortgage-backed securities	124,320	26,698	97,622	
Debt securities issued by foreign sovereign governments	113,278	102,147	11,131	
Total debt securities	7,851,897	708,490	6,633,074	510,333
Equity securities	2,894	2,573		321
Total investments	\$ 7,854,791	\$ 711,063	\$ 6,633,074	\$ 510,654
Real estate acquired (1)	3,263			3,263
December 31, 2008				
Assets				
Total investments	\$ 7,045,536	\$ 281,248	\$ 6,218,338	\$ 545,950
Real estate acquired (1)	32,858			32,858

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

For assets and liabilities measured at fair value using significant unobservable inputs (Level 3), a reconciliation of the beginning and ending balances for the three and nine months ended September 30, 2009 and 2008 is as follows:

Table of Contents

	Obligations of U.S. States and Political Subdivisions	Corporate Debt Securities	Equity Securities	Total Investments	Real Estate Acquired
	(in thousand of dollars)				
Balance at June 30, 2009	\$ 386,338	\$ 134,070	\$ 321	\$ 520,729	\$ 7,858
Total realized/unrealized losses: Included in earnings and reported as realized investment losses, net					
Included in earnings and reported as losses incurred, net					585
Included in other comprehensive income	(5,674)	(2,038)		(7,712)	
Purchases, issuances and settlements Transfers in and/or out of Level 3	(2,163)	(200)		(2,363)	(5,180)
Balance at September 30, 2009	\$ 378,501	\$ 131,832	\$ 321	\$ 510,654	\$ 3,263
Amount of total losses included in earnings for the three month period ended September 30, 2009 attributable to the change in unrealized losses on assets still held at September 30, 2009	\$	\$	\$	\$	\$ (122)

	Obligations of U.S. States and Political Subdivisions	Corporate Debt Securities	Equity Securities	Total Investments	Real Estate Acquired
	(in thousands of dollars)				
Balance at December 31, 2008	\$ 395,388	\$ 150,241	\$ 321	\$ 545,950	\$ 32,858
Total realized/unrealized losses: Included in earnings and reported as realized investment losses, net		(10,107)		(10,107)	
Included in earnings and reported as losses incurred, net					(1,304)
Included in other comprehensive income	(11,777)	(3,467)		(15,244)	
Purchases, issuances and settlements Transfers in and/or out of Level 3	(5,110)	(4,835)		(9,945)	(28,291)

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Balance at September 30, 2009	\$	378,501	\$ 131,832	\$	321	\$ 510,654	\$	3,263
Amount of total losses included in earnings for the nine month period ended September 30, 2009 attributable to the change in unrealized losses on assets still held at September 30, 2009	\$		\$ (10,107)	\$		\$ (10,107)	\$	(413)

Table of Contents

	Total Investments	Real Estate Acquired (in thousands of dollars)	Other Liabilities
Balance at June 30, 2008	\$ 37,348	\$ 64,619	\$ (22,157)
Total realized/unrealized gains (losses):			
Included in earnings and reported as realized investment losses, net	(8,157)		
Included in earnings and reported as other revenue			
Included in earnings and reported as losses incurred, net		(837)	
Included in other comprehensive income	(750)		
Purchases, issuances and settlements	323	(14,339)	22,157
Transfers in and/or out of Level 3			
Balance at September 30, 2008	\$ 28,764	\$ 49,443	\$
Amount of total losses included in earnings for the three month period ended September 30, 2008 attributable to the change in unrealized gains (losses) on assets (liabilities) still held at September 30, 2008	\$ (6,278)	\$ (4,230)	\$

	Total Investments	Real Estate Acquired (in thousands of dollars)	Other Liabilities
Balance at January 1, 2008	\$ 37,195	\$ 145,198	\$ (12,132)
Total realized/unrealized gains (losses):			
Included in earnings and reported as realized investment losses, net	(14,211)		
Included in earnings and reported as other revenue			(6,823)
Included in earnings and reported as losses incurred, net		(18,595)	
Included in other comprehensive income	2,793		
Purchases, issuances and settlements	2,987	(77,160)	18,955
Transfers in and/or out of Level 3			
Balance at September 30, 2008	\$ 28,764	\$ 49,443	\$
Amount of total losses included in earnings for the nine month period ended September 30, 2008 attributable to the change in unrealized gains (losses) on assets (liabilities) still held at September 30, 2008	\$ (12,156)	\$ (12,388)	\$

Note 9 Comprehensive income

Our total comprehensive income was as follows:

Table of Contents

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
	(In thousands of dollars)			
Net loss	\$ (517,768)	\$ (115,385)	\$ (1,042,163)	\$ (249,767)
Other comprehensive income (loss)	146,004	(126,219)	251,334	(185,967)
Total comprehensive loss	\$ (371,764)	\$ (241,604)	\$ (790,829)	\$ (435,734)
Other comprehensive income (loss) (net of tax):				
Change in unrealized gains and losses on investments	\$ 140,193	\$ (110,989)	230,870	(178,293)
Unrealized foreign currency translation adjustment	5,811	(15,607)	20,464	(7,761)
Other		377		87
Other comprehensive income (loss)	\$ 146,004	\$ (126,219)	\$ 251,334	\$ (185,967)

At September 30, 2009, accumulated other comprehensive loss of \$144.5 million included \$179.8 million of net unrealized gains on investments and \$12.6 million related to foreign currency translation adjustment, offset by (\$47.9) million relating to defined benefit plans. At December 31, 2008, accumulated other comprehensive loss of (\$106.8) million included (\$51.0) million of net unrealized losses on investments, (\$47.9) million relating to defined benefit plans and (\$7.9) million related to foreign currency translation adjustment.

Note 10 Benefit Plans

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

	Three Months Ended September 30,			
	Pension and Supplemental Executive Retirement Plans		Other Postretirement Benefits	
	2009	2008	2009	2008
	(In thousands of dollars)			
Service cost	\$ 2,039	\$ 2,303	\$ 320	\$ 1,055
Interest cost	3,575	3,643	366	1,304
Expected return on plan assets	(3,835)	(4,869)	(558)	(942)
Recognized net actuarial loss	1,583	141	426	
Amortization of transition obligation				70
Amortization of prior service cost	180	170	(1,515)	
Net periodic benefit cost	\$ 3,542	\$ 1,388	\$ (961)	\$ 1,487

Table of Contents

	Nine Months Ended September 30,			
	Pension and Supplemental Executive Retirement Plans		Other Postretirement Benefits	
	2009	2008	2009	2008
	(In thousands of dollars)			
Service cost	\$ 6,116	\$ 6,375	\$ 960	\$ 2,831
Interest cost	10,725	10,307	1,098	3,662
Expected return on plan assets	(11,505)	(14,479)	(1,673)	(2,824)
Recognized net actuarial loss	4,748	369	1,278	
Amortization of transition obligation				212
Amortization of prior service cost	539	512	(4,545)	
 Net periodic benefit cost	 \$ 10,623	 \$ 3,084	 \$ (2,882)	 \$ 3,881

In October 2008 we amended our postretirement benefit plan under which we provide both medical and dental benefits for our retired employees and their spouses. Under this plan retirees pay a premium for these benefits. The amendment, which was effective January 1, 2009, includes the termination of benefits provided to retirees once they reach the age of 65. This amendment significantly reduced our accumulated postretirement benefit obligation. The amendment also reduces our net periodic benefit cost in future periods beginning in 2009. The 2008 net periodic benefits costs in the table above are not affected by the amendment.

We previously disclosed in our financial statements for the year ended December 31, 2008 that we expected to contribute approximately \$10.0 million and zero, respectively, to our pension and postretirement plans in 2009. We contributed \$10.0 million to the pension plan in the third quarter of 2009.

In May 2009 we amended our profit sharing and 401(k) savings plan such that no new investments can be made in company stock.

Note 11 Income Taxes*Valuation Allowance*

We review the need to establish a deferred tax asset valuation allowance on a quarterly basis. We include an analysis of several factors, among which are the severity and frequency of operating losses, our capacity for the carryback or carryforward of any losses, the expected occurrence of future income or loss and available tax planning alternatives. As discussed below, we have reduced our benefit from income tax by establishing a valuation allowance in the first nine months of 2009.

In periods prior to 2008, we deducted significant amounts of statutory contingency reserves on our federal income tax returns. The reserves were deducted to the extent we purchased tax and loss bonds in an amount equal to the tax benefit of the deduction. The reserves are included in taxable income in future years when they are released for statutory accounting purposes (see Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Risk-to-Capital) or when the taxpayer elects to redeem the tax and loss bonds that

Table of Contents

were purchased in connection with the deduction for the reserves. Since the tax effect on these reserves exceeded the gross deferred tax assets less deferred tax liabilities, we believe that all gross deferred tax assets recorded in periods prior to the quarter ended March 31, 2009 were fully realizable. Therefore, we established no valuation reserve. In the first quarter of 2009, we redeemed the remaining balance of our tax and loss bonds of \$432 million. Therefore, the remaining contingency reserves will be released and are no longer available to support any net deferred tax assets. Beginning with the first quarter of 2009, any benefit from income taxes, relating to operating losses, has been reduced or eliminated by the establishment of a valuation allowance. The valuation allowance, established in the first nine months of 2009, reduced our benefit from income taxes by \$297.6 million, as shown in the table below. In the third quarter of 2009, our deferred tax asset valuation allowance decreased by the deferred tax liability related to \$279.7 million of unrealized gains that were recorded to equity. This decrease in the valuation allowance resulted in a tax benefit of \$100.3 million in the third quarter of 2009. In the event of future operating losses, it is likely that a tax provision (benefit) will be recorded as an offset to any taxes recorded to equity for changes in unrealized gains or other items in other comprehensive income.

	Three months ended September 30, 2009	Nine months ended September 30, 2009
	(\$ in millions)	
Benefit from income taxes	\$ (233.8)	\$ (482.7)
Valuation allowance	133.5	297.6
Tax provision (benefit)	\$ (100.3)	\$ (185.1)

Recently enacted legislation will expand the carryback period for certain net operating losses from 2 years to 5 years. Based on results through September 2009, we estimate that approximately \$178 million will be recovered due to this change. The exact amount of the recovery will be determined by results for the remainder of this year, with any tax benefit being recorded in the fourth quarter of 2009. Since the carryback period includes years where we have not reached final agreements on the amount of taxes due with the IRS, the receipt of any taxes recoverable may be delayed and subject to any final settlement.

Giving full effect to the carryback of net operating losses under the new legislation described above, for federal income tax purposes, we have approximately \$136 million of net operating loss carryforwards as of September 30, 2009. Any unutilized carryforwards are scheduled to expire at the end of tax year 2029.

Note 12 Loss Reserves and Premium Deficiency Reserve**Loss Reserves**

Losses incurred for the third quarter of 2009 increased compared to the third quarter of 2008. The default inventory increased by 23,373 delinquencies in the third quarter of 2009, compared to an increase of 23,677 in the third quarter of 2008. We believe that the default inventory will continue to increase in the fourth quarter of 2009. The

Table of Contents

estimated severity remained relatively stable in the third quarter of 2009 and increased in the third quarter of 2008, but the estimated severity was higher at September 30, 2009 than at September 30, 2008. The estimated claim rate remained flat in the third quarter of 2009 and decreased in the third quarter of 2008.

Losses incurred for the first nine months of 2009 increased compared to the same periods in 2008 primarily due to a larger increase in the default inventory. The default inventory increased by 53,422 delinquencies in the first nine months of 2009, compared to an increase of 44,788 in the first nine months of 2008. The estimated severity continued to increase slightly in the first nine months of 2009 primarily as a result of the default inventory containing higher loan exposures with expected higher average claim payments. The increase in estimated severity was less substantial than the increase experienced during the first nine months of 2008. The estimated claim rate remained flat for the first nine months of 2009 and 2008.

Our loss estimates are established based upon historical experience. We continue to experience increases in delinquencies in certain markets with higher than average loan balances, such as Florida and California. In California we have experienced an increase in delinquencies, from 14,960 as of December 31, 2008 to 17,892 as of June 30, 2009 and 19,083 as of September 30, 2009. Our Florida delinquencies increased from 29,380 as of December 31, 2008 to 34,901 as of June 30, 2009 and 37,503 as of September 30, 2009. The average claim paid on California loans in 2008 and 2009 was more than twice as high as the average claim paid for the remainder of the country.

Historically, claim rescissions and denials, which we collectively refer to as rescissions, were not a material portion of our claims resolved during a year. However, beginning in 2008 rescissions have materially mitigated our paid and incurred losses. While we have a substantial pipeline of claims investigations that we expect will eventually result in rescissions during the remainder of 2009, we can give no assurance that rescissions will continue to mitigate paid and incurred losses at the same level we have recently experienced. In addition, if an insured disputes our right to rescind coverage, whether the requirements to rescind are met ultimately would be determined by arbitration or judicial proceedings. Rescissions mitigated our paid losses by approximately \$390 million and \$839 million, respectively, during the third quarter and first nine months of 2009, compared to \$45 million and \$97 million, respectively during the third quarter and first nine months of 2008. These figures include amounts that would have resulted in either a claim payment or been charged to a deductible under a bulk or pool policy, and may have been charged to a captive reinsurer. Our loss reserving methodology incorporates the effects rescission activity are expected to have on the losses we will pay on our delinquent inventory. Variances between our ultimate actual rescission rates and these estimates could materially affect our losses incurred. The liability associated with our estimate of premiums to be refunded on expected future rescissions is accrued for separately and included in *Other liabilities* on our consolidated balance sheet.

Information regarding the ever-to-date rescission rates by the quarter in which the claim was received appears in the table below. No information is presented for claims received two quarters or less before the end of our most recently completed quarter to allow sufficient time for a substantial percentage of the claims received in those two quarters to reach resolution.

Table of Contents

As of September 30, 2009
 Ever to Date Rescission Rates on Claims Received
 (based on count)

Quarter in Which the Claim was Received	ETD Rescission Rate (1)	ETD Claims Resolution Percentage (2)
Q1 2008	12.7%	100.0%
Q2 2008	15.9%	99.8%
Q3 2008	20.8%	98.9%
Q4 2008	22.0%	94.9%
Q1 2009	20.0%	84.6%

(1) This percentage is claims received during the quarter shown that have been rescinded as of our most recently completed quarter divided by the total claims received during the quarter shown.

(2) This percentage is claims received during the quarter shown that have been resolved as of our most recently completed quarter divided by the total claims received during the quarter shown. Claims resolved principally consist of claims paid plus claims rescinded.

We anticipate that the ever-to-date rescission rate in the more recent quarters will increase as the ever-to-date resolution percentage approaches 100%.

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Information about the composition of the primary insurance default inventory at September 30, 2009, December 31, 2008 and September 30, 2008 appears in the table below. Reduced documentation loans only appear in the reduced documentation category and do not appear in any of the other categories.

	September 30, 2009	December 31, 2008	September 30, 2008
Total loans delinquent (1)	235,610	182,188	151,908
Percentage of loans delinquent (default rate)	16.92%	12.37%	10.20%
Prime loans delinquent (2)	137,789	95,672	76,110
Percentage of prime loans delinquent (default rate)	11.91%	7.90%	6.25%
A-minus loans delinquent (2)	36,335	31,907	28,384
Percentage of A-minus loans delinquent (default rate)	37.95%	30.19%	25.93%
Subprime credit loans delinquent (2)	13,432	13,300	12,705
Percentage of subprime credit loans delinquent (default rate)	48.26%	43.30%	39.62%
Reduced documentation loans delinquent (3)	48,054	41,309	34,709
Percentage of reduced doc loans delinquent (default rate)	42.85%	32.88%	26.75%

(1) At September 30, 2009, December 31, 2008 and September 30, 2008, 46,167, 45,482 and 42,899 loans in default, respectively, related to Wall Street bulk transactions and 16,802, 13,275 and 9,923 loans in default, respectively, were in our claims received inventory.

(2) We define prime loans as those having FICO credit scores of 620 or greater, A-minus loans as those having

FICO credit
scores of
575-619, and
subprime credit
loans as those
having FICO
credit scores of

32

Table of Contents

less than 575,
all as reported to
us at the time a
commitment to
insure is issued.
Most A-minus
and subprime
credit loans
were written
through the bulk
channel.

- (3) In accordance
with industry
practice, loans
approved by
GSE and other
automated
underwriting
(AU) systems
under doc
waiver
programs that
do not require
verification of
borrower
income are
classified by us
as full
documentation.
Based in part on
information
provided by the
GSEs, we
estimate full
documentation
loans of this
type were
approximately
4% of 2007 new
insurance
written.
Information for
other periods is
not available.
We understand
these AU
systems grant
such doc

waivers for
loans they judge
to have higher
credit quality.

We also
understand that
the GSEs
terminated their
doc waiver
programs, with
respect to new
commitments,
in the second
half of 2008.

Premium Deficiency Reserve

The components of the premium deficiency reserve at September 30, 2009, June 30, 2009 and December 31, 2008 appears in the table below.

	September 30, 2009	June 30, 2009 (\$ millions)	December 31, 2008
Present value of expected future premium	\$ 489	\$ 595	\$ 712
Present value of expected future paid losses and expenses	(2,341)	(2,491)	(3,063)
Net present value of future cash flows	(1,852)	(1,896)	(2,351)
Established loss reserves	1,644	1,669	1,897
Net deficiency	\$ (208)	\$ (227)	\$ (454)

The decrease in the premium deficiency reserve for the three and nine months ended September 30, 2009 was \$19 million and \$246 million, respectively, as shown in the chart below, which represents the net result of actual premiums, losses and expenses as well as a net change in assumptions for these periods. The change in assumptions for the third quarter is primarily related to lower estimated ultimate premiums and the change in assumptions for the nine months ended September 30, 2009 is primarily related to lower estimated ultimate losses, offset by lower estimated ultimate premiums. The lower estimated ultimate losses and lower estimated ultimate premiums were primarily due to higher expected rates of rescissions.

Table of Contents

	(\$ millions)
Premium Deficiency Reserve at June 30, 2009	\$ (227)
Paid claims and LAE	136
Decrease in loss reserves	(25)
Premium earned	(35)
Effects of present valuing on future premiums, losses and expenses	31
Change in premium deficiency reserve to reflect actual premium, losses and expenses recognized	107
Change in premium deficiency reserve to reflect change in assumptions relating to future premiums, losses and expenses and discount rate (1)	(88)
Premium Deficiency Reserve at September 30, 2009	\$ (208)
(1) A negative number for changes in assumptions relating to premiums, losses, expenses and discount rate indicates a deficiency of prior premium deficiency reserves.	
	(\$ millions)
Premium Deficiency Reserve at December 31, 2008	\$ (454)
Paid claims and LAE	441
Decrease in loss reserves	(253)
Premium earned	(122)
Effects of present valuing on future premiums, losses and expenses	29
Change in premium deficiency reserve to reflect actual premium, losses and expenses recognized	95
Change in premium deficiency reserve to reflect change in assumptions relating to future premiums, losses and expenses and discount rate (2)	151
Premium Deficiency Reserve at September 30, 2009	\$ (208)
Table of Contents	48

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

Table of Contents

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

Overview

Through our subsidiary MGIC, we are the leading provider of private mortgage insurance in the United States to the home mortgage lending industry.

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, 2008. We refer to this Discussion as the 10-K MD&A. In the discussion below, we classify, in accordance with industry practice, as full documentation loans approved by GSE and other automated underwriting systems under doc waiver programs that do not require verification of borrower income. For additional information about such loans, see footnote (3) to the delinquency table under Results of Consolidated Operations-Losses-Losses Incurred. The discussion of our business in this document generally does not apply to our international operations which are immaterial. The results of our operations in Australia are included in the consolidated results disclosed. For additional information about our Australian operations, see Overview Australia in our 10-K MD&A.

Forward Looking Statements

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

Outlook

At this time, we are facing two particularly significant challenges, which we believe are shared by the other participants in our industry:

Whether we will have access to sufficient capital to continue to write new business. This challenge is discussed under Capital below.

Whether private mortgage insurance will remain a significant credit enhancement alternative for low down payment single family mortgages. This challenge is discussed under Fannie Mae and Freddie Mac below.

Table of Contents

For additional information about these challenges, see the portions of our 10-K MD&A titled *Overview Future of the Domestic Housing Finance System*, *Overview Debt at our Holding Company and Holding Company Capital Resources* and *Overview Private and Public Efforts to Modify Mortgage Loans and Reduce Foreclosure*.

Capital

At September 30, 2009, MGIC's policyholders position exceeded the required regulatory minimum by approximately \$456 million, and we exceeded the required minimum by approximately \$543 million on a combined statutory basis. (The combined figures give effect to reinsurance with subsidiaries of our holding company.) At September 30, 2009 MGIC's risk-to-capital was 17.3:1 and was 19.7:1 on a combined statutory basis. Beginning with our June 30, 2009 risk-to-capital calculations we have deducted risk in force on policies currently in default and for which loss reserves have been established. For additional information about how we calculate risk-to-capital, see *Liquidity and Capital Resources Risk to Capital* below.

For some time, we have been working to implement a plan to write new mortgage insurance in MGIC Indemnity Corporation (MIC), a wholly owned subsidiary of MGIC. This plan is driven by our belief that MGIC will not meet regulatory capital requirements in Wisconsin (which would prevent MGIC from writing new business anywhere) or in certain jurisdictions (which would prevent MGIC from writing business in the particular jurisdiction) and may not be able to obtain appropriate waivers of these requirements. This could occur in the first quarter of 2010, or earlier; the timing will primarily depend on the level of new loan default notices and the claim rate associated with loans in default. In addition to Wisconsin, these capital requirements are present in 16 jurisdictions while the remaining jurisdictions in which MGIC does business do not have specific capital requirements applicable to mortgage insurers. Before MIC can begin writing new business, the Office of the Commissioner of Insurance for the State of Wisconsin (OCI) must specifically authorize MIC to do so and MIC must obtain or reactivate licenses in the jurisdictions where it will transact business. In addition, as a practical matter, MIC's ability to write mortgage insurance depends on being approved as an eligible mortgage insurer by Fannie Mae and/or Freddie Mac (together, the GSEs).

On October 14, 2009, we, MGIC and MIC entered into an agreement (the Agreement) with Fannie Mae under which MGIC agreed to contribute \$200 million to MIC and Fannie Mae approved MIC as an eligible mortgage insurer through December 31, 2011 subject to the terms of the Agreement. The contribution to MIC was made on October 21, 2009. Under the Agreement, MIC will be eligible to write mortgage insurance only if the OCI grants MGIC a waiver from Wisconsin's capital requirements and only in those 16 jurisdictions in which MGIC cannot write new insurance due to MGIC's failure to meet regulatory capital requirements applicable to mortgage insurers and if MGIC fails to obtain relief from those requirements or a specified waiver of them. We expect MGIC will be able to obtain waivers in a number of these jurisdictions such that MGIC, rather than MIC, will write new business there. The Agreement, including certain restrictions imposed on us, MGIC and MIC, is summarized more fully in, and included as an exhibit to, our Form 8-K filed with the Securities and Exchange Commission on October 16, 2009.

Table of Contents

Under the Agreement, MIC has been approved as an eligible mortgage insurer by Fannie Mae only through December 31, 2011. Whether MIC will continue as an eligible mortgage insurer after that date will be determined by Fannie Mae's mortgage insurer eligibility requirements then in effect. Further, under the Agreement we cannot capitalize MIC with more than a \$200 million contribution, without prior approval from Fannie Mae, which limits the amount of business MIC can write. We believe that the amount of capital that we have contributed to MIC will be more than sufficient to write business for the term of the Agreement in the jurisdictions in which, giving effect to our expectation that MGIC will obtain waivers of regulatory capital requirements in certain jurisdictions as referred to above, MIC is eligible to do so under the Agreement. There can be no assurance, however, that in fact MIC's capital will be sufficient to permit this level of writings.

We have been working closely with Freddie Mac to approve MIC as an eligible mortgage insurer. Freddie Mac has informed us that they will need additional analysis prior to approving MIC as an eligible mortgage insurer. This analysis could take some time to complete. There can be no assurance that Freddie Mac will approve MIC as an eligible mortgage insurer.

We are also working closely with the OCI to receive the approvals that MIC requires to begin writing new insurance. While in July 2009 the OCI approved a transaction under which we would have contributed more than \$200 million to MIC and MIC would have written mortgage insurance in all jurisdictions in place of MGIC, the OCI has not approved the plan to write mortgage insurance through MIC contemplated by the Agreement nor has it yet granted MGIC a waiver from the regulatory capital requirements in Wisconsin. There can be no assurance that we will be able to obtain, in a timely fashion or at all, the approvals from OCI necessary to allow MGIC to continue to write new insurance or the approvals necessary for MIC to write new insurance in any jurisdiction. Similarly, there can be no assurances that MIC will receive the necessary approvals from any or all of the jurisdictions in which MGIC would be prohibited from doing so due to MGIC's failure to meet applicable regulatory capital requirements.

Depending on the level of losses that MGIC experiences in the future, it is possible that regulatory action by one or more jurisdictions, including those that do not have specific regulatory capital requirements applicable to mortgage insurers, may prevent MGIC from continuing to write new insurance in some or all of the jurisdictions in which MIC will not write business. It is also possible that the OCI could take actions that would prohibit MGIC and/or MIC from writing new business in any jurisdiction.

A failure to meet regulatory capital requirements does not mean that MGIC does not have sufficient resources to pay claims on its insurance. Even in scenarios in which losses materially exceed those that would result in not meeting regulatory requirements, we believe that we have claims paying resources at MGIC that exceed our claim obligations on our insurance in force. Our estimates of our claims paying resources and claim obligations are based on various assumptions, including our anticipated rescission activity.

Table of Contents

Fannie Mae and Freddie Mac

In September 2008, the Federal Housing Finance Agency (FHFA) was appointed as the conservator of the GSEs. As their conservator, FHFA controls and directs the operations of the GSEs. The appointment of FHFA as conservator, the increasing role that the federal government has assumed in the residential mortgage market, our industry's inability, due to capital constraints, to write sufficient business to meet the needs of the GSEs or other factors may increase the likelihood that the business practices of the GSEs change in ways that may have a material adverse effect on us. In addition, these factors may increase the likelihood that the charters of the GSEs are changed by new federal legislation. Such changes may allow the GSEs to reduce or eliminate the level of private mortgage insurance coverage that they use as credit enhancement. The Obama administration has announced that it will announce its plans regarding the future of the GSEs in early 2010.

For a number of years, the GSEs have had programs under which on certain loans lenders could choose a mortgage insurance coverage percentage that was only the minimum required by their charters, with the GSEs paying a lower price for these loans (charter coverage). The GSEs have also had programs under which on certain loans they would accept a level of mortgage insurance above the requirements of their charters but below their standard coverage without any decrease in the purchase price they would pay for these loans (reduced coverage). In September 2009, Fannie Mae announced that, effective January 1, 2010, it would expand broadly the types of loans eligible for charter coverage. Fannie Mae's announcement also said it would eliminate its reduced coverage program in the second quarter of 2010. During the third quarter of 2009, a majority of our volume has been on loans with GSE standard coverage, a substantial portion of our volume has been on loans with reduced coverage, and a minor portion of our volume has been on loans with charter coverage. We charge higher premium rates for higher coverages. To the extent lenders selling loans to Fannie Mae chose charter coverage for loans that we insure, our revenues would be reduced and we could experience other adverse effects.

Factors Affecting Our Results

Our results of operations are affected by:

Premiums written and earned

Premiums written and earned in a year are influenced by:

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

Table of Contents

Cancellations, which reduce insurance in force. Cancellations due to refinancings are affected by the level of current mortgage interest rates compared to the mortgage coupon rates throughout the in force book. Refinancings are also affected by current home values compared to values when the loans in the in force book became insured and the terms on which mortgage credit is available. Cancellations also include rescissions, which require us to return any premiums received related to the rescinded policy, and policies canceled due to claim payment.

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 (captives) and risk sharing arrangements with the GSEs.

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

Investment income

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

Losses incurred

Losses incurred are the current expense that reflects estimated payments that will ultimately be made as a result of delinquencies on insured loans. As explained under Critical Accounting Policies in the 10-K MD&A, except in the case of premium deficiency reserves, we recognize an estimate of this expense only for delinquent loans. Losses incurred are generally affected by:

Table of Contents

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

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

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

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

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

The rates at which we rescind policies. Our estimated loss reserves reflect mitigation from rescissions and denials, which we collectively refer to as rescissions, of coverage using the rate at which we have rescinded claims during recent periods.

The distribution of claims over the life of a book. Historically, the first two years after loans are originated are a period of relatively low claims, with claims increasing substantially for several years subsequent and then declining, although persistency, the condition of the economy, including unemployment, and other factors can affect this pattern. For example, a weak economy can lead to claims from older books increasing, continuing at stable levels or experiencing a lower rate of decline. We are currently seeing such performance as it relates to delinquencies from our older books. See Mortgage Insurance Earnings and Cash Flow Cycle and Losses Incurred below.

Changes in premium deficiency reserves

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

Table of Contents

remaining Wall Street bulk insurance in force change. Changes to these assumptions also have an effect on that period's results.

Underwriting and other expenses

The majority of our operating expenses are fixed, with some variability due to contract underwriting volume. Contract underwriting generates fee income included in Other revenue.

Interest expense

Interest expense reflects the interest associated with our outstanding debt obligations. Our long-term debt obligations at September 30, 2009 include approximately \$86.1 million of 5.625% Senior Notes due in September 2011, \$300 million of 5.375% Senior Notes due in November 2015, and \$390 million in convertible debentures due in 2063 (interest on these debentures accrues even if we defer the payment of interest and compounds), as discussed in Notes 2 and 3 of our Notes to Consolidated Financial Statements and under Liquidity and Capital Resources below. Also as discussed in Note 1 of the Consolidated Financial Statements, we adopted new guidance regarding the accounting for convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement), on a retrospective basis, and our interest expense now reflects our non-convertible debt borrowing rate on the convertible debentures of approximately 19% at the time of issuance. At September 30, 2009, the convertible debentures are reflected as a liability on our consolidated balance sheet at the current amortized value of \$286.5 million, with the unamortized discount reflected in equity.

Income from joint ventures

During the period in which we held an equity interest in Sherman Financial Group, Sherman was 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 factors that affect Sherman's consolidated results of operations are discussed in our Quarterly Report on Form 10-Q for the Quarter Ended June 30, 2008, to which you should refer.

Beginning in the first quarter of 2008, our joint venture income principally consisted of income from Sherman. In the third quarter of 2008, we sold our entire interest in Sherman to Sherman. As a result, beginning in the fourth quarter of 2008, our results of operations are no longer affected by any joint venture results. See Results of Consolidated Operations Joint Ventures Sherman for discussion of our sale of interest in Sherman and related note receivable.

Mortgage Insurance Earnings and Cash Flow Cycle

In our industry, a book is the group of loans insured in a particular calendar year. In general, the majority of any underwriting profit (premium revenue minus losses) that a book generates occurs in the early years of the book, with the largest portion of any underwriting profit realized in the first year. Subsequent years of a book generally result

Table of Contents

in modest underwriting profit or underwriting losses. This pattern of results typically occurs because relatively few of the claims that a book will ultimately experience typically occur in the first few years of the book, when premium revenue is highest, while subsequent years are affected by declining premium revenues, as the number of insured loans decreases (primarily due to loan prepayments), and losses increase.

2009 Third Quarter Results

Our results of operations in the third quarter of 2009 were principally affected by:

Net premiums written and earned

Net premiums written and earned during the third quarter of 2009 decreased when compared to the third quarter of 2008 due to a lower average insurance in force, due to reduced levels of new insurance written, and lower average premium yields which are a result of the shift in the mix of newer writings to loans with lower loan-to-value ratios, higher FICO scores and full documentation, which carry lower premium rates, offset by lower ceded premiums due to captive terminations and run-offs. Our net premiums written and earned during the third quarter of 2009 were also negatively impacted as a result of higher levels of rescissions in the quarter as well as an increase in our estimate for expected premium refunds due to an increase in our expected rescission levels.

Investment income

Investment income in the third quarter of 2009 was lower when compared to the third quarter of 2008 due to a decrease in the pre-tax yield, offset by an increase in the average amortized cost of invested assets.

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

Realized gains for the third quarter of 2009 included \$33.5 million in net realized gains on the sale of fixed income investments. Realized gains for the third quarter of 2008 included \$62.8 million from the sale of our interest in Sherman, which was offset by realized losses on sales of investments of \$3.2 million and other-than-temporary impairments on our investment portfolio of \$31.7 million.

Losses incurred

Losses incurred for the third quarter of 2009 increased compared to the third quarter of 2008. The default inventory increased by 23,373 delinquencies in the third quarter of 2009, compared to an increase of 23,677 in the third quarter of 2008. The estimated severity remained relatively stable in the third quarter of 2009, but was higher than the comparable period in 2008. The estimated claim rate remained flat in the third quarter of 2009 and decreased in the third quarter of 2008.

Table of Contents

Premium deficiency

During the third quarter of 2009 the premium deficiency reserve on Wall Street bulk transactions declined by \$19 million from \$227 million, as of June 30, 2009, to \$208 million as of September 30, 2009. The decrease in the premium deficiency represents the net result of actual premiums, losses and expenses as well as a net change in assumptions primarily related to lower estimated premiums. The \$208 million premium deficiency reserve as of September 30, 2009 reflects the present value of expected future losses and expenses that exceeded the present value of expected future premium and already established loss reserves.

Underwriting and other expenses

Underwriting and other expenses for the third quarter of 2009 decreased when compared to the same period in 2008. The decrease reflects our lower contract underwriting volume as well as a reduction in headcount and a focus on expenses in difficult market conditions.

Interest expense

Interest expense for the third quarter of 2009 decreased when compared to the third quarter of 2008. The decrease is primarily the result of repaying the \$200 million credit facility in the second quarter of 2009 as well as the repurchase, during 2009, of approximately \$113.9 million of our Senior Notes due in September 2011. These reductions were somewhat offset by an increase in interest on our convertible debentures (interest on these debentures accrues even if we defer the payment of interest). As discussed in Note 1 of the Consolidated Financial Statements, we adopted new guidance regarding accounting for convertible debt instruments, on a retrospective basis, and our interest expense now reflects our non-convertible debt borrowing rate on the convertible debentures of approximately 19%.

Income from joint ventures

We had no income from joint ventures in the third quarter of 2009. Income from joint ventures, net of tax, was \$3.3 million in the third quarter of 2008. The income from joint ventures in 2008 was related to our interest in Sherman that was sold in the third quarter of 2008.

Provision for (benefit) from income tax

We had a benefit from income taxes of \$100.3 million in the third quarter of 2009, compared to a benefit from income taxes of \$90.1 million in the third quarter of 2008. In the third quarter of 2009, our deferred tax asset valuation allowance decreased by the deferred tax liability related to \$279.7 million of unrealized gains that were recorded to equity. This decrease in the valuation allowance resulted in a tax benefit of \$100.3 million in the third quarter of 2009. Any tax credit on our operating losses is reduced due to the establishment of a valuation allowance for deferred taxes of \$133.5 million.

Table of Contents**Results of Consolidated Operations***New insurance written*

The amount of our primary new insurance written during the three and nine months ended September 30, 2009 and 2008 was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
	(\$ billions)			
NIW Flow Channel	\$ 4.6	\$ 9.7	\$ 17.0	\$ 41.2
NIW Bulk Channel				1.6
Total Primary NIW	\$ 4.6	\$ 9.7	\$ 17.0	\$ 42.8
Refinance volume as a % of primary flow NIW	23%	12%	43%	27%

The decrease in new insurance written on a flow basis in the third quarter and first nine months of 2009, compared to the same periods in 2008, was primarily due to changes in our underwriting guidelines as well as premium rate increases discussed below. We believe our changes in guidelines and premium rates have led to greater usage of FHA insurance programs as an alternative to private mortgage insurance. Additionally, both GSEs have implemented adverse market charges on all loans and credit risk-based loan level price adjustments on loans with certain risk characteristics which include loans that qualify for private mortgage insurance. The application of these loan level price adjustments results in a materially higher monthly payment for the borrower, which we also believe has led to greater usage of FHA insurance programs as an alternative to private mortgage insurance. For a discussion of new insurance written through the bulk channel, see [Bulk transactions](#) below.

We anticipate our flow new insurance written for the remainder of 2009 will continue to be significantly below the level written in the corresponding period in 2008 due to the reasons noted in the preceding paragraph. Our level of new insurance written could also be affected by other items, including those noted in our Risk Factors.

Beginning in late 2007 and continuing through the first quarter of 2009, we implemented a series of changes to our underwriting guidelines that are designed to improve the credit risk profile of our new insurance written. The changes primarily affect borrowers who have multiple risk factors such as a high loan-to-value ratio, a lower FICO score and limited documentation or are financing a home in a market we categorize as higher risk. We also implemented premium rate increases during 2008.

As shown in the table below, the percentage of our volume written on a flow basis that includes certain segments that we view as having a higher probability of claim

Table of Contents

declined significantly in 2008 and 2009 as a result of the changes we made in our underwriting guidelines.

	Nine months ended September 30, 2009	Year ended December 31, 2008	Year ended December 31, 2007
Product mix as a % of flow NIW			
> 95% LTVs	1%	18%	42%
ARMs (1)	1%	1%	3%
FICO < 620	0%	2%	8%
Reduced documentation (2)	0%	2%	10%

(1) Consists of adjustable rate mortgages in which the initial interest rate may be adjusted during the five years after the mortgage closing (ARMs).

(2) In accordance with industry practice, loans approved by GSE and other automated underwriting (AU) systems under doc waiver programs that do not require verification of borrower income are classified by us as full documentation. Based in part on information provided by the GSEs, we estimate full documentation

loans of this type were approximately 4% of 2007 new insurance written.

Information for other periods is not available.

We understand these AU systems grant such doc waivers for loans they judge to have higher credit quality.

We also understand that the GSEs terminated their doc waiver programs, with respect to new commitments, in the second half of 2008.

We believe that given the various changes in our underwriting guidelines noted above, our business written beginning in the second quarter of 2008 will generate underwriting profit.

Cancellations and insurance in force

New insurance written and cancellations of primary insurance in force during the three and nine months ended September 30, 2009 and 2008 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
	(\$ billions)			
NIW	\$ 4.6	\$ 9.7	\$ 17.0	\$ 42.8
Cancellations	(7.9)	(7.9)	(27.2)	(26.3)
Change in primary insurance in force	\$ (3.3)	\$ 1.8	\$ (10.2)	\$ 16.5

Direct primary insurance in force was \$216.8 billion at September 30, 2009 compared to \$227.0 billion at December 31, 2008 and \$228.2 billion at September 30, 2008.

Cancellation activity has historically been affected by the level of mortgage interest rates and the level of home price appreciation. Cancellations generally move inversely to the change in the direction of interest rates, although they generally lag a change in

Table of Contents

direction. Cancellations also include rescissions and policies cancelled due to claim payment.

Our persistency rate (percentage of insurance remaining in force from one year prior) was 85.2% at September 30, 2009, an increase from 84.4% at December 31, 2008 and 82.1% at September 30, 2008. These persistency rate improvements reflect the more restrictive credit policies of lenders (which make it more difficult for homeowners to refinance loans), as well as declines in housing values.

Bulk transactions

We ceased writing Wall Street bulk business in the fourth quarter of 2007. In addition, we wrote no new business through the bulk channel since the second quarter of 2008. We expect the volume of any future business written through the bulk channel will be insignificant. Wall Street bulk transactions, as of September 30, 2009, included approximately 104,000 loans with insurance in force of approximately \$17.2 billion and risk in force of approximately \$5.1 billion, which is approximately 63% of our bulk risk in force.

Pool insurance

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

Our direct pool risk in force was \$1.7 billion, \$1.9 billion and \$2.2 billion at September 30, 2009, December 31, 2008 and September 30, 2008, respectively. These risk amounts represent pools of loans with contractual aggregate loss limits and in some cases those without these limits. For pools of loans without these limits, risk is estimated based on the amount that would credit enhance the loans in the pool to a AA level based on a rating agency model. Under this model, at September 30, 2009, December 31, 2008 and September 30, 2008, for \$2.1 billion, \$2.5 billion and \$2.7 billion, respectively, of risk without these limits, risk in force is calculated at \$142 million, \$150 million and \$306 million, respectively.

Net premiums written and earned

Net premiums written during the third quarter and first nine months of 2009 decreased when compared to the comparable periods in 2008 due to a lower average insurance in force, due to reduced levels of new insurance written, and lower average premium yields which are a result of the shift in the mix of newer writings to loans with lower loan-to-value ratios, higher FICO scores and full documentation, which carry lower premium rates, offset by increases, in 2008, of our premium rates and lower ceded premiums due to captive terminations and run-offs. In a captive termination, the arrangement is cancelled, with no future premium ceded and funds for any incurred but unpaid losses transferred to us. In a run-off, no new loans are reinsured by the captive but loans previously reinsured continue to be covered, with premium and losses continuing to be ceded on those loans. Net premiums written and earned have also decreased in the third quarter and first nine months of 2009 compared to the same

Table of Contents

periods in 2008 due to higher levels of rescissions and expected rescissions, which result in a return of premium.

We expect our average insurance in force in the fourth quarter of 2009 to be below our average insurance in force for the comparable period in 2008 and the third quarter of 2009. We expect our premium yields (net premiums written or earned, expressed on an annual basis, divided by the average insurance in force) in the fourth quarter of 2009 to continue at approximately the level experienced during the first nine months of 2009 and to be higher than the level experienced during the third quarter of 2009. We anticipate that the increase in our expected premium refunds related to expected rescissions in the fourth quarter of 2009 will be smaller than the increase experienced during the third quarter of 2009.

Risk sharing arrangements

For the six months ended June 30, 2009, approximately 5.5% of our flow new insurance written was subject to arrangements with captives or risk sharing arrangements with the GSEs compared to 34.4% for the year ended December 31, 2008. We expect the percentage of new insurance written subject to risk sharing arrangements to continue to decline in 2009 for the reasons discussed below. The percentage of new insurance written covered by these arrangements is shown only for the six months ended June 30, 2009 because this percentage normally increases after the end of a quarter. Such increases can be caused by, among other things, the transfer of a loan in the secondary market, which can result in a mortgage insured during a quarter becoming part of a risk sharing arrangement in a subsequent quarter. Premiums ceded in these arrangements are reported in the period in which they are ceded regardless of when the mortgage was insured.

Effective January 1, 2009, we are no longer ceding new business under excess of loss reinsurance treaties with lender captive reinsurers. Loans reinsured through December 31, 2008 under excess of loss agreements will run off pursuant to the terms of the particular captive arrangement. New business will continue to be ceded under quota share reinsurance arrangements, limited to a 25% cede rate. Beginning in 2008, many of our captive arrangements were either terminated or placed into run-off.

We anticipate that our ceded premiums related to risk sharing agreements will be significantly less in the fourth quarter of 2009 compared to amounts ceded in fourth quarter of 2008 for the reasons discussed above.

See discussion under *Losses* regarding losses assumed by captives.

In June 2008 we entered into a reinsurance agreement that was effective on the risk associated with up to \$50 billion of qualifying new insurance written each calendar year. The term of the reinsurance agreement began on April 1, 2008 and was scheduled to end on December 31, 2010, subject to two one-year extensions that could have been exercised by the reinsurer. Due to our rating agency downgrades in the first quarter of 2009, under the terms of the reinsurance agreement we ceased being entitled to a profit commission, making the agreement less favorable to us. Effective March 20, 2009, we terminated this reinsurance agreement. The termination resulted in a reinsurance fee of

Table of Contents

\$26.4 million as reflected in our results of operations for the nine months ended September 30, 2009. There are no further obligations under this reinsurance agreement.

Investment income

Investment income for the third quarter of 2009 decreased when compared to the same period in 2008 due to a decrease in the average investment yield, offset by an increase in the average amortized cost of invested assets. The decrease in the average investment yield was caused both by decreases in prevailing interest rates and a decrease in the average maturity of our investments. The portfolio's average pre-tax investment yield was 3.76% at September 30, 2009 and 4.05% at September 30, 2008. We expect a decline in investment income as the average amortized cost of invested assets decreases due to claims payments exceeding premiums received in future periods. See further discussion under "Liquidity and Capital Resources" below.

Investment income for the first nine months of 2009 increased when compared to the same period in 2008 due to an increase in the average amortized cost of invested assets, offset by a decrease in the average investment yield.

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

Realized gains for the third quarter of 2009 were primarily the result of \$33.5 million of net realized gains on the sales of fixed income investments. The net realized gains on investments are primarily the result of the sale of fixed income securities. We are in the process of reducing the proportion of our investment portfolio in tax exempt municipal securities while increasing the proportion of taxable securities. We are shifting the portfolio to corporate securities since the tax benefits of holding tax exempt municipal securities are no longer available based on our current net loss position. Realized gains for the third quarter of 2008 included \$62.8 million from the sale of our interest in Sherman, which was offset by other-than-temporary impairments on our investment portfolio of \$31.7 million and realized losses on sales of investments of \$3.2 million.

Realized losses for the first nine months of 2009 included \$65.8 million of net realized gains on the sale of fixed income investments, offset by \$35.1 million in other than temporary impairments on our investment portfolio. Realized gains for the first nine months of 2008 included \$62.8 million from the sale of our interest in Sherman, which was offset by \$40.2 million in other than temporary impairment losses and realized losses on the sale of investments.

Other revenue

Other revenue for the third quarter of 2009 decreased when compared to the third quarter of 2008 due to decreases in contract underwriting and other non-insurance revenues, offset by gains recognized in the third quarter of 2009 from the repurchases of \$42.3 million in par value of our September 2011 Senior Notes.

Table of Contents

Other revenue for the first nine months of 2009 increased when compared to the same period in 2008. The increase in other revenue was primarily the result of \$26.3 million in gains recognized from the repurchases of \$113.9 million in par value of our Senior Notes due in September 2011, offset by decreases in contract underwriting and other non-insurance revenues.

Losses

As discussed in *Critical Accounting Policies* in our 10-K MD&A, and consistent with industry practices, we establish loss reserves for future claims only for loans that are currently delinquent. The terms *delinquent* and *default* are used interchangeably by us and are defined as an insured loan with a mortgage payment that is 45 days or more past due. Loss reserves are established based on our estimate of the number of loans in our default inventory that will result in a claim payment, which is referred to as the claim rate, and further estimating the amount of the claim payment, which is referred to as claim severity. Historically, a substantial majority of borrowers have eventually cured their delinquent loans by making their overdue payments, but this percentage has decreased significantly.

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, including unemployment, and the current and future strength of local housing markets. Current conditions in the housing and mortgage industries make these assumptions more volatile than they would otherwise be. The actual amount of the claim payments may be substantially different than our loss reserve estimates. Our estimates could be adversely affected by several factors, including a further deterioration of regional or national economic conditions, including unemployment, leading to a reduction in borrowers' income and thus their ability to make mortgage payments, and a further drop in housing values, which expose us to greater losses on resale of properties obtained through the claim settlement process and may affect borrower willingness to continue to make mortgage payments when the value of the home is below the mortgage balance. Changes to our estimates could result in a material impact to our results of operations, even in a stable economic environment.

Our estimates could also be positively affected by government efforts to assist current borrowers in refinancing to new loans, assisting delinquent borrowers and lenders in reducing their mortgage payments, and forestalling foreclosures. In addition, private company efforts may have a positive impact on our loss development.

One such program is the Home Affordable Modification Program (*HAMP*), which was announced by the US Treasury early this year. Some of *HAMP*'s eligibility criteria require current information about borrowers, such as his or her current income and non-mortgage debt payments. Because the GSEs and servicers do not share such information with us, we cannot determine with certainty the number of loans in our delinquent inventory that are eligible to participate in *HAMP*. We believe that it could take several months from the time a borrower has made all of the payments during *HAMP*'s three month *trial modification* period for the loan to be reported to us as a cured delinquency. We are aware of approximately 14,500 loans in our delinquent

Table of Contents

inventory at September 30, 2009 for which the HAMP trial period has begun and that an immaterial number of loans have successfully completed the trial period. We rely on information provided to us by the GSEs and servicers. We do not receive all of the information from such sources that is required to determine with certainty the number of loans that are participating in, or have successfully completed, HAMP.

Under HAMP, a net present value test (the NPV Test) is used to determine if loan modifications will be offered. For loans owned or guaranteed by the GSEs, servicers may, depending on the results of the NPV Test and other factors, be required to offer loan modifications, as defined by HAMP, to borrowers. The GSEs have announced that beginning December 1, 2009 they will change how the NPV Test is used. These changes will make it more difficult for some loans to be modified under HAMP. While we lack sufficient data to determine the impact of these changes, we believe that they may materially decrease the number of our loans that will participate in HAMP.

All of the programs, including HAMP, designed to assist current borrowers in refinancing to new loans, assist delinquent borrowers and lenders in reducing their mortgage payments, and forestall foreclosures are in their early stages and therefore we are unsure of their magnitude or the benefit to us or our industry, and as a result are not factored into our current reserving. For additional information about the potential impact that any plans and programs enacted by legislation may have on us, see the risk factor titled Loan modification and other similar programs may not provide material benefits to us.

Losses incurred

Losses incurred for the third quarter of 2009 increased compared to the third quarter of 2008. The default inventory increased by 23,373 delinquencies in the third quarter of 2009, compared to an increase of 23,677 in the third quarter of 2008. The estimated severity remained relatively stable in the third quarter of 2009 and increased during the third quarter of 2008, but the estimated severity was higher at September 30, 2009 than at September 30, 2008. The estimated claim rate remained flat in the third quarter of 2009 and decreased in the third quarter of 2008.

Losses incurred for the first nine months of 2009 increased compared to the same periods in 2008 primarily due to a larger increase in the default inventory. The default inventory increased by 53,422 delinquencies in the first nine months of 2009, compared to an increase of 44,788 in the first nine months of 2008. The estimated severity continued to increase slightly in the first nine months of 2009 primarily as a result of the default inventory containing higher loan exposures with expected higher average claim payments. The increase in estimated severity was less substantial than the increase experienced during the first nine months of 2008. The estimated claim rate remained flat for the first nine months of 2009 and 2008.

Our loss estimates are established based upon historical experience. We continue to experience increases in delinquencies in certain markets with higher than average loan balances, such as Florida and California. In California we have experienced an increase in delinquencies, from 14,960 as of December 31, 2008 to 17,892 as of June 30, 2009 and 19,083 as of September 30, 2009. Our Florida delinquencies increased from 29,380 as of December 31, 2008 to 34,901 as of June 30, 2009 and 37,503 as of September

Table of Contents

30, 2009. The average claim paid on California loans in 2008 and 2009 was more than twice as high as the average claim paid for the remainder of the country.

Historically, claim rescissions and denials, which we collectively refer to as rescissions, were not a material portion of our claims resolved during a year. However, beginning in 2008 rescissions have materially mitigated our paid and incurred losses. While we have a substantial pipeline of claims investigations that we expect will eventually result in rescissions during the remainder of 2009, we can give no assurance that rescissions will continue to mitigate paid and incurred losses at the same level we have recently experienced. In addition, if an insured disputes our right to rescind coverage, whether the requirements to rescind are met ultimately would be determined by arbitration or judicial proceedings. See our risk factor titled "We may not continue to realize benefits from rescissions at the level we have recently experienced." Rescissions mitigated our paid losses by approximately \$390 million and \$839 million, respectively, during the third quarter and first nine months of 2009, compared to \$45 million and \$97 million, respectively, during the third quarter and first nine months of 2008. These figures include amounts that would have resulted either in a claim payment or been charged to a deductible under a bulk or pool policy, and may have been charged to a captive reinsurer. Our loss reserving methodology incorporates the effects rescission activity are expected to have on the losses we will pay on our delinquent inventory. Variances between our ultimate actual rescission rates and these estimates could materially affect our losses incurred. The liability associated with our estimate of premiums to be refunded on expected future rescissions is accrued for separately and included in "Other liabilities" on our consolidated balance sheet.

Information regarding the ever-to-date rescission rates by the quarter in which the claim was received appears in the table below. No information is presented for claims received two quarters or less before the end of our most recently completed quarter to allow sufficient time for a substantial percentage of the claims received in those two quarters to reach resolution.

As of September 30, 2009

Ever-to-Date Rescission Rates on Claims Received
(based on count)

Quarter in Which the Claim was Received	ETD Rescission Rate (1)	ETD Claims Resolution Percentage (2)
Q1 2008	12.7%	100.0%
Q2 2008	15.9%	99.8%
Q3 2008	20.8%	98.9%
Q4 2008	22.0%	94.9%
Q1 2009	20.0%	84.6%

(1) This percentage is claims received during the quarter shown that have been rescinded as of our most recently completed quarter divided by the total claims received during the quarter shown.

(2) This percentage is claims received during the quarter shown that have been resolved as of our most recently completed quarter divided by the total claims received during the quarter shown. Claims resolved principally consist of claims paid plus claims rescinded.

We anticipate that the ever-to-date rescission rate in the more recent quarters will increase as the ever-to-date resolution percentage approaches 100%.

Table of Contents

As discussed under Risk Sharing Arrangements, a portion of our flow new insurance written is subject to reinsurance arrangements with lender captives. The majority of these reinsurance arrangements have, historically, been aggregate excess of loss reinsurance agreements, and the remainder were quota share agreements. As discussed under Risk Sharing Arrangements effective January 1, 2009 we are no longer ceding new business under excess of loss reinsurance treaties with lender captives. Loans reinsured through December 31, 2008 under excess of loss agreements will run off pursuant to the terms of the particular captive arrangement. Under the aggregate excess of loss agreements, we are responsible for the first aggregate layer of loss, which is typically between 4% and 5%, the captives are responsible for the second aggregate layer of loss, which is typically 5% or 10%, and we are responsible for any remaining loss. The layers are typically expressed as a percentage of the original risk on an annual book of business reinsured by the captive. The premium cessions on these agreements typically ranged from 25% to 40% of the direct premium. Under a quota share arrangement premiums and losses are shared on a pro-rata basis between us and the captives, with the captives' portion of both premiums and losses typically ranging from 25% to 50%. Beginning June 1, 2008 new loans insured through quota share captive arrangements are limited to a 25% cede rate.

Under these agreements the captives are required to maintain a separate trust account, of which we are the sole beneficiary. Premiums ceded to a captive are deposited into the applicable trust account to support the captive's layer of insured risk. These amounts are held in the trust account and are available to pay reinsured losses. The captive's ultimate liability is limited to the assets in the trust account. When specific time periods are met and the individual trust account balance has reached a required level, then the individual captive may make authorized withdrawals from its applicable trust account. In most cases, the captives are also allowed to withdraw funds from the trust account to pay verifiable federal income taxes and operational expenses. Conversely, if the account balance falls below certain thresholds, the individual captive may be required to contribute funds to the trust account. However, in most cases, our sole remedy if a captive does not contribute such funds is to put the captive into run-off, in which case no new business would be ceded to the captive. In the event that the captives' incurred but unpaid losses exceed the funds in the trust account, and the captive does not deposit adequate funds, we may also be allowed to terminate the captive agreement, assume the captives obligations, transfer the assets in the trust accounts to us, and retain all future premium payments. We intend to exercise this additional remedy when it is available to us. However, if the captive would challenge our right to do so, the matter would be determined by arbitration. The reinsurance recoverable on loss reserves related to captive agreements was approximately \$354 million at September 30, 2009. The total fair value of the trust fund assets under these agreements at September 30, 2009 was approximately \$604 million. During 2008, \$265 million of trust fund assets were transferred to us as a result of captive terminations. During the first nine months of 2009, \$41 million of trust fund assets were transferred to us. The transferred funds resulted in an increase in our investment portfolio (including cash and cash equivalents) and there was a corresponding decrease in our reinsurance recoverable on loss reserves, which is offset by a decrease in our net losses paid. Subsequent to the third quarter of 2009, through the date this quarterly report was finalized, an additional \$74 million of trust fund assets were transferred to us as a result of captive terminations.

Table of Contents

In the third quarter and first nine months of 2009 the captive arrangements reduced our losses incurred by approximately \$64 million and \$203 million, respectively, compared to \$157 million and \$306 million, respectively, during the third quarter and first nine months of 2008. We anticipate that the reduction in losses incurred will continue to be lower in fourth quarter of 2009, compared to the same period in 2008, as some of our captive arrangements were terminated in 2008 and 2009.

Information about the composition of the primary insurance default inventory at September 30, 2009, December 31, 2008 and September 30, 2008 appears in the table below. Within the tables below, reduced documentation loans only appear in the reduced documentation category and do not appear in any of the other categories.

	September 30, 2009	December 31, 2008	September 30, 2008
Total loans delinquent (1)	235,610	182,188	151,908
Percentage of loans delinquent (default rate)	16.92%	12.37%	10.20%
Prime loans delinquent (2)	137,789	95,672	76,110
Percentage of prime loans delinquent (default rate)	11.91%	7.90%	6.25%
A-minus loans delinquent (2)	36,335	31,907	28,384
Percentage of A-minus loans delinquent (default rate)	37.95%	30.19%	25.93%
Subprime credit loans delinquent (2)	13,432	13,300	12,705
Percentage of subprime credit loans delinquent (default rate)	48.26%	43.30%	39.62%
Reduced documentation loans delinquent (3)	48,054	41,309	34,709
Percentage of reduced doc loans delinquent (default rate)	42.85%	32.88%	26.75%

(1) At September 30, 2009, December 31, 2008 and September 30, 2008, 46,167, 45,482 and 42,899 loans in default, respectively, related to Wall Street bulk transactions and 16,802, 13,275 and 9,923 loans in default, respectively, were in our claims received

inventory.

- (2) We define prime loans as those having FICO credit scores of 620 or greater, A-minus loans as those having FICO credit scores of 575-619, and subprime credit loans as those having FICO credit scores of less than 575, all as reported to us at the time a commitment to insure is issued. Most A-minus and subprime credit loans were written through the bulk channel.
- (3) In accordance with industry practice, loans approved by GSE and other automated underwriting (AU) systems under doc waiver programs that do not require verification of borrower income are classified by us as full documentation. Based in part on information provided by the GSEs, we

estimate full
documentation
loans of this
type were
approximately
4% of 2007 new
insurance
written.

Information for
other periods is
not available.

We understand
these AU
systems grant
such doc
waivers for
loans they judge
to have higher
credit quality.

We also
understand that
the GSEs
terminated their
doc waiver
programs, with
respect to new
commitments,
in the second
half of 2008.

The pool notice inventory increased from 33,884 at December 31, 2008 to 40,820 at September 30, 2009; the pool notice inventory was 29,916 at September 30, 2008.

Table of Contents

The average primary claim paid for the third quarter and first nine months of 2009 was \$53,016 and \$52,636, respectively, compared to \$53,930 and \$52,737, respectively, for the third quarter and first nine months of 2008. The average claim paid can vary materially from period to period based upon a variety of factors, on both a national and state basis, including the geographic mix, average loan amount and average coverage percentage of loans for which claims are paid.

The average claim paid for the top 5 states (based on 2009 paid claims) for the three and nine months ended September 30, 2009 and 2008 appears in the table below.

Average claim paid

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2009	2008	2009	2008
California	\$ 105,317	\$ 116,058	\$ 110,072	\$ 116,641
Florida	65,706	68,810	66,386	69,886
Michigan	38,995	36,067	38,116	36,918
Arizona	62,839	64,170	61,860	69,900
Nevada	76,141	84,472	76,744	85,231
Other states	43,671	40,816	43,477	40,562
All states	\$ 53,016	\$ 53,930	\$ 52,636	\$ 52,737

The average loan size of our insurance in force at September 30, 2009, December 31, 2008 and September 30, 2008 appears in the table below.

	September	December	September
	30,	31,	30,
	2009	2008	2008
Average loan size			
Total insurance in force	\$ 155,740	\$ 154,100	\$153,290
Prime (FICO 620 & >)	153,930	151,240	150,040
A-Minus (FICO 575-619)	130,850	132,380	133,090
Subprime (FICO < 575)	119,100	121,230	121,990
Reduced doc (All FICOs)	204,700	208,020	208,660

The average loan size of our insurance in force at September 30, 2009, December 31, 2008 and September 30, 2008 for the top 5 states (based on 2009 paid claims) appears in the table below.

Table of Contents

	September 30, 2009	December 31, 2008	September 30, 2008
Average loan size			
California	\$ 290,085	\$ 293,442	\$ 293,425
Florida	178,905	180,261	180,475
Michigan	121,249	121,001	120,982
Arizona	189,215	190,339	190,673
Nevada	221,217	223,861	224,511
All other states	147,286	145,201	143,650

Information about net paid claims during the three and nine months ended September 30, 2009 and 2008 appears in the table below.

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Net paid claims (\$ millions)				
Prime (FICO 620 & >)	\$ 204	\$ 131	\$ 552	\$ 412
A-Minus (FICO 575-619)	57	54	173	195
Subprime (FICO < 575)	21	32	71	108
Reduced doc (All FICOs)	100	94	271	317
Other	30	12	75	36
Direct losses paid	412	323	1,142	1,068
Reinsurance	(12)	(4)	(31)	(13)
Net losses paid	400	319	1,111	1,055
LAE	17	11	42	36
Net losses and LAE paid before terminations	417	330	1,153	1,091
Reinsurance terminations	(41)		(41)	(5)
Net losses and LAE paid	\$ 376	\$ 330	\$ 1,112	\$ 1,086

Primary claims paid for the top 15 states (based on 2009 paid claims) and all other states for the three and nine months ended September 30, 2009 and 2008 appear in the table below.

Table of Contents

Paid Claims by state (\$ millions)	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
California	\$ 59.6	\$ 81.9	\$ 180.3	\$ 256.1
Florida	52.3	32.6	125.9	98.6
Michigan	26.6	20.8	83.4	77.3
Arizona	28.6	15.9	76.8	45.3
Nevada	21.8	12.0	50.8	34.8
Georgia	12.6	8.9	43.7	38.3
Illinois	13.0	11.9	40.1	39.3
Ohio	13.4	12.2	39.5	47.6
Texas	13.0	10.9	36.2	37.6
Minnesota	13.0	8.6	35.9	34.4
Virginia	11.4	7.9	29.6	24.9
Indiana	8.3	5.7	21.7	19.9
Massachusetts	7.7	5.9	18.6	23.0
New York	6.5	5.3	18.2	17.5
Colorado	5.4	6.4	17.7	26.0
Other states	88.6	64.0	248.5	211.3
	381.8	310.9	1,066.9	1,031.9
Other (Pool, LAE, Reinsurance)	(6.0)	19.0	45.0	54.0
	\$ 375.8	\$ 329.9	\$ 1,111.9	\$ 1,085.9

Table of Contents

The default inventory in those same states at September 30, 2009, December 31, 2008 and September 30, 2008 appears in the table below.

Default inventory by state

	September 30, 2009	December 31, 2008	September 30, 2008
California	19,083	14,960	12,037
Florida	37,503	29,384	23,799
Michigan	12,145	9,853	8,672
Arizona	8,474	6,338	4,776
Nevada	5,664	3,916	2,865
Georgia	10,021	7,622	6,283
Illinois	12,715	9,130	7,586
Ohio	10,434	8,555	7,637
Texas	12,600	10,540	8,634
Minnesota	4,558	3,642	3,205
Virginia	4,304	3,360	2,782
Indiana	6,756	5,497	4,832
Massachusetts	3,460	2,634	2,260
New York	5,849	4,493	3,909
Colorado	3,283	2,328	1,996
Other states	78,761	59,936	50,635
	235,610	182,188	151,908

The default inventory at September 30, 2009, December 31, 2008 and September 30, 2008 separated between our flow and bulk business appears in the table below.

Default inventory

	September 30, 2009	December 31, 2008	September 30, 2008
Flow	171,584	122,693	98,023
Bulk	64,026	59,495	53,885
	235,610	182,188	151,908

The flow default inventory by policy year at September 30, 2009, December 31, 2008 and September 30, 2008 appears in the table below.

Flow Default inventory by Policy Year

	September 30, 2009	December 31, 2008	September 30, 2008
Policy year:			
2003 and prior	26,565	24,042	21,769
2004	12,932	10,266	8,875
2005	19,941	15,462	12,998
2006	31,529	24,315	20,005

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2007	67,485	43,211	31,494
2008	13,044	5,397	2,882
2009	88		
	171,584	122,693	98,023

Table of Contents

Our 2008 paid claims were lower than we anticipated at the beginning of 2008 due to a combination of reasons that have slowed the rate at which claims are received and paid, including foreclosure moratoriums, servicing delays, court delays, loan modifications and our claims investigations. These factors continue to affect our paid claims in 2009, however, we believe that paid claims in each of 2009 and 2010 will exceed the \$1.4 billion paid in 2008.

As of September 30, 2009, 70% of our primary insurance in force was written subsequent to December 31, 2005. On our flow business, the highest claim frequency years have typically been the third and fourth year after the year of loan origination. On our bulk business, the period of highest claims frequency has generally occurred earlier than in the historical pattern on our flow business. However, the pattern of claims frequency can be affected by many factors, including persistency and deteriorating economic conditions. Low persistency can have the effect of accelerating the period in the life of a book during which the highest claim frequency occurs. Deteriorating economic conditions can result in increasing claims following a period of declining claims. We are currently experiencing such performance as it relates to delinquencies from our older books.

Premium deficiency

During the third quarter of 2009 the premium deficiency reserve on Wall Street bulk transactions declined by \$19 million from \$227 million, as of June 30, 2009, to \$208 million as of September 30, 2009. During the first nine months of 2009 the premium deficiency reserve on Wall Street bulk transaction declined by \$246 million from \$454 million as of December 31, 2008. During the third quarter of 2008 the premium deficiency reserve on Wall Street bulk transactions declined by \$204 million from \$788 million, as of June 30, 2008, to \$584 million as of September 30, 2008. During the first nine months of 2008 the premium deficiency reserve on Wall Street bulk transaction declined by \$627 million from \$1,211 million as of December 31, 2007. The premium deficiency reserve as of each date reflects the present value of expected future losses and expenses that exceeded the present value of expected future premium and already established loss reserves.

The components of the premium deficiency reserve at September 30, 2009, June 30, 2009 and December 31, 2008 appear in the table below.

Table of Contents

	September 30, 2009	June 30, 2009 (\$ millions)	December 31, 2008
Present value of expected future premium	\$ 489	\$ 595	\$ 712
Present value of expected future paid losses and expenses	(2,341)	(2,491)	(3,063)
Net present value of future cash flows	(1,852)	(1,896)	(2,351)
Established loss reserves	1,644	1,669	1,897
Net deficiency	\$ (208)	\$ (227)	\$ (454)

Each quarter, we re-estimate the premium deficiency reserve on the remaining Wall Street bulk insurance in force. The premium deficiency reserve primarily changes from quarter to quarter as a result of two factors. First, it changes as the actual premiums, losses and expenses that were previously estimated are recognized. Each period such items are reflected in our financial statements as earned premium, losses incurred and expenses. The difference between the amount and timing of actual earned premiums, losses incurred and expenses and our previous estimates used to establish the premium deficiency reserves has an effect (either positive or negative) on that period's results. Second, the premium deficiency reserve changes as our assumptions relating to the present value of expected future premiums, losses and expenses on the remaining Wall Street bulk insurance in force change. Changes to these assumptions also have an effect on that period's results. The decrease in the premium deficiency reserve for the three and nine months ended September 30, 2009 was \$19 million and \$246 million, respectively, as shown in the chart below, which represents the net result of actual premiums, losses and expenses as well as a net change in assumptions for these periods. The change in assumptions for the third quarter is primarily related to lower estimated ultimate premiums and the change in assumptions for the nine months ended September 30, 2009 is primarily related to lower estimated ultimate losses, offset by lower estimated ultimate premiums. The lower estimated ultimate losses and lower estimated ultimate premiums were primarily due to higher expected rates of rescissions.

Table of Contents

	(\$ millions)
Premium Deficiency Reserve at June 30, 2009	\$ (227)
Paid Claims and LAE	136
Decrease in loss reserves	(25)
Premium earned	(35)
Effects of present valuing on future premiums, losses and expenses	31
 Change in premium deficiency reserve to reflect actual premium, losses and expenses recognized	 107
 Change in premium deficiency reserve to reflect change in assumptions relating to future premiums, losses and expenses and discount rate (1)	 (88)
 Premium Deficiency Reserve at September 30, 2009	 \$ (208)
 (1) A negative number for changes in assumptions relating to premiums, losses, expenses and discount rate indicates a deficiency of prior premium deficiency reserves.	
	(\$ millions)
Premium Deficiency Reserve at December 31, 2008	\$ (454)
Paid Claims and LAE	441
Decrease in loss reserves	(253)
Premium earned	(122)
Effects of present valuing on future premiums, losses and expenses	29
 Change in premium deficiency reserve to reflect actual premium, losses and expenses recognized	 95
 Change in premium deficiency reserve to reflect change in assumptions relating to future premiums, losses and expenses and discount rate (2)	 151
 Table of Contents	 80

Premium Deficiency Reserve at September 30, 2009

\$ (208)

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

At the end of the third quarter of 2009, we performed a premium deficiency analysis on the portion of our book of business not covered by the premium deficiency described above. That analysis concluded that, as September 30, 2009, there was no premium deficiency on such portion of our book of business. For the reasons discussed below, our analysis of any potential deficiency reserve is subject to inherent uncertainty and requires significant judgment by management. To the extent, in a future period, expected losses are higher or expected premiums are lower than the assumptions we

Table of Contents

used in our analysis, we could be required to record a premium deficiency reserve on this portion of our book of business in such period.

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

Underwriting and other expenses

Underwriting and other expenses for the third quarter and first nine months of 2009 decreased when compared to the same periods in 2008. The decrease reflects our lower contract underwriting volume as well as reductions in headcount and a focus on expenses in difficult market conditions.

Ratios

The table below presents our loss, expense and combined ratios for our combined insurance operations for the three and nine months ended September 30, 2009 and 2008.

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2009	2008	2009	2008
Loss ratio	330.8%	230.3%	250.7%	208.8%
Expense ratio	16.4%	13.5%	15.4%	14.5%
Combined ratio	347.2%	243.8%	266.1%	223.3%

The loss ratio is the ratio, expressed as a percentage, of the sum of incurred losses and loss adjustment expenses to net premiums earned. The loss ratio does not reflect any effects due to premium deficiency. The increase in the loss ratio in the third quarter and first nine months of 2009, compared to the same periods in 2008 is primarily due to an increase in losses incurred, as well a decrease in premium earned. The expense ratio is the ratio, expressed as a percentage, of underwriting expenses to net premiums

Table of Contents

written. The increase in the third quarter and first nine months of 2009, compared to the same periods in 2008, is due to a decrease in premiums written, which was partially offset by a decrease in underwriting and other expenses. The combined ratio is the sum of the loss ratio and the expense ratio.

Interest expense

Interest expense for the third quarter of 2009 decreased when compared to the third quarter of 2008. The decrease is primarily the result of repaying the \$200 million credit facility in the second quarter of 2009 as well as the repurchase, in the first three quarters of 2009, of approximately \$113.9 million of our Senior Notes due in September 2011. These reductions were somewhat offset by an increase in interest on our convertible debentures (interest on these debentures accrues even if we defer the payment of interest). As discussed in Note 1 of the Consolidated Financial Statements, we adopted new guidance regarding accounting for convertible debt instruments, on a retrospective basis, and our interest expense now reflects our non-convertible debt borrowing rate on the convertible debentures of approximately 19%.

Interest expense for the first nine months of 2009 increased when compared to the same period in 2008. The increase primarily reflects the issuance of our convertible debentures in late March and April of 2008. The increase in interest expense has been partially offset by the repayment of our credit facility and the repurchase of our Senior Notes due in September 2011.

Income taxes

The effective tax rate (benefit) on our pre-tax loss was (16.2%) in the third quarter of 2009, compared to (43.1%) in the third quarter of 2008. The effective tax rate (benefit) in the first nine months of 2009 was (15.1%) compared to (44.8%) for the first nine months of 2008. The difference in the rate was primarily the result of the establishment of a valuation allowance, which reduced the amount of tax benefits provided during the third quarter and first nine months of 2009.

We review the need to establish a deferred tax asset valuation allowance on a quarterly basis. We include an analysis of several factors, among which are the severity and frequency of operating losses, our capacity for the carryback or carryforward of any losses, the expected occurrence of future income or loss and available tax planning alternatives. In periods prior to 2008, we deducted significant amounts of statutory contingency reserves on our federal income tax returns. The reserves were deducted to the extent we purchased tax and loss bonds in an amount equal to the tax benefit of the deduction. The reserves are included in taxable income in future years when they are released for statutory accounting purposes (see *Liquidity and Capital Resources* *Risk-to-Capital*) or when the taxpayer elects to redeem the tax and loss bonds that were purchased in connection with the deduction for the reserves. Since the tax effect on these reserves exceeded the gross deferred tax assets less deferred tax liabilities, we believe that all gross deferred tax assets recorded in periods prior to the quarter ended March 31, 2009 were fully realizable. Therefore, we established no valuation reserve.

Table of Contents

In the first quarter of 2009, we redeemed the remaining balance of our tax and loss bonds of \$432 million. Therefore, the remaining contingency reserves will be released and are no longer available to support any net deferred tax assets. Beginning with the first quarter of 2009, any benefit from income taxes, relating to operating losses, has been reduced or eliminated by the establishment of a valuation allowance. The valuation allowance, established in the first nine months of 2009, reduced our benefit from income taxes by \$297.6 million. In the third quarter of 2009, our deferred tax asset valuation allowance decreased by the deferred tax liability related to \$279.7 million of unrealized gains that were recorded to equity. This decrease in the valuation allowance resulted in a tax benefit of \$100.3 million in the third quarter of 2009. In the event of future operating losses, it is likely that a tax provision (benefit) will be recorded as an offset to any taxes recorded to equity for changes in unrealized gains or other items in other comprehensive income.

Recently enacted legislation will expand the carryback period for certain net operating losses from 2 years to 5 years. Based on results through September 2009, we estimate that approximately \$178 million will be recovered due to this change. The exact amount of the recovery will be determined by results for the remainder of this year, with any tax benefit being recorded in the fourth quarter of 2009. Since the carryback period includes years where we have not reached final agreements on the amount of taxes due with the IRS, the receipt of any taxes recoverable may be delayed and subject to any final settlement.

Giving full effect to the carryback of net operating losses under the new legislation described above, for federal income tax purposes, we have approximately \$136 million of net operating loss carryforwards as of September 30, 2009. Any unutilized carryforwards are scheduled to expire at the end of tax year 2029.

Joint ventures

In the third quarter of 2008, we sold our remaining interest in Sherman to Sherman. As a result, beginning in the fourth quarter of 2008, we no longer have income or loss from joint ventures. Our equity in the earnings from Sherman and certain other joint ventures and investments, accounted for in accordance with the equity method of accounting, was previously shown separately, net of tax, on our consolidated statement of operations. Income from joint ventures, net of tax, was \$3.3 million and \$24.5 million, respectively, in the third quarter and first nine months of 2008.

Our interest in Sherman sold represented approximately 24.25% of Sherman's equity. The sale price was paid \$124.5 million in cash and by delivery of Sherman's unsecured promissory note in the principal amount of \$85 million. The scheduled maturity of the Note is February 13, 2011 and it bears interest, payable monthly, at the annual rate equal to three-month LIBOR plus 500 basis points. The Note is issued under a Credit Agreement, dated August 13, 2008, between Sherman and MGIC. For additional information regarding the sale of our interest please refer to our 10-K MD&A and our Current Report on Form 8-K filed with the Securities and Exchange Commission on August 14, 2008.

A summary Sherman income statement for the period indicated appears below. Prior to the sale of our interest, we did not consolidate Sherman with us for financial reporting purposes, and we did not control Sherman. Sherman's internal controls over its financial reporting were not part of our internal controls over our financial reporting. However, our internal controls over our financial reporting included processes to assess

Table of Contents

the effectiveness of our financial reporting as it pertains to Sherman. We believe those processes were effective in the context of our overall internal controls.

Sherman Summary Income Statement:

	Three months ended September 30, 2008	Nine months ended September 30, 2008 (\$ millions)
Revenues from receivable portfolios	\$ 86.6	\$ 660.3
Portfolio amortization	30.9	264.8
Revenues, net of amortization	55.7	395.5
Credit card interest income and fees	66.7	475.6
Other revenue	1.1	35.3
Total revenues	123.5	906.4
Total expenses	101.3	740.1
Income before tax	\$ 22.2	\$ 166.3
Company's income from Sherman	\$ 4.5	\$ 35.6

Financial Condition

At September 30, 2009, based on fair value, approximately 94% of our fixed income securities were invested in A rated and above, readily marketable securities, concentrated in maturities of less than 15 years. The composition of ratings at September 30, 2009 and December 31, 2008 are shown in the table below. While the percentage of our investment portfolio rated A or better has not changed materially since December 31, 2008, the percentage of our investment portfolio rated AAA has declined and the percentage rated AA and A has increased. Contributing to the changes in ratings is an increase in corporate bond investments (we expect such increases to continue and to lead to the percentage of the investment portfolio rated AAA to continue to decline), and downgrades of municipal investments. The municipal downgrades can be attributed to downgrades of the financial guaranty insurers and downgrades to the underlying credit.

Table of Contents

Investment Portfolio Ratings

	At September 30, 2009	At December 31, 2008
AAA	44%	58%
AA	31%	24%
A	19%	13%
A or better	94%	95%
BBB and below	6%	5%
Total	100%	100%

Approximately 24% of our investment portfolio is covered by the financial guaranty industry. We evaluate the credit risk of securities through analysis of the underlying fundamentals. The extent of our analysis depends on a variety of factors, including the issuer's sector, scale, profitability, debt cover, ratings and the tenor of the investment. A breakdown of the portion of our investment portfolio covered by the financial guaranty industry by credit rating, including the rating without the guarantee is shown below. The ratings are provided by one or more of the following major rating agencies: Moody's, Standard & Poor's and Fitch Ratings.

September 30, 2009

Underlying Rating	Guarantor Rating					All
	AA	Baa1	CC	R	NR	
			(\$ millions)			
AAA	\$ 2	\$	\$ 20	\$	\$	\$ 22
AA	288	454	161	2		905
A	203	392	238	38		871
BBB	6	34	29		15	84
BB		6				6
	\$499	\$886	\$448	\$40	\$15	\$1,888

At September 30, 2009, based on fair value, \$6 million of fixed income securities are relying on financial guaranty insurance to elevate their rating to A and above. Any future downgrades of these financial guarantor ratings would leave the percentage of fixed income securities A and above effectively unchanged.

At September 30, 2009, 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 guidelines also limit the amount of our credit exposure to any one issue, issuer and type of instrument. At September 30, 2009, the modified duration of our fixed income investment portfolio was 3.7 years, which means that an instantaneous parallel shift in the yield curve of 100 basis points would result in a change of 3.7% in the fair value of

Table of Contents

our fixed income portfolio. For an upward shift in the yield curve, the fair value of our portfolio would decrease and for a downward shift in the yield curve, the fair value would increase.

We held approximately \$500 million in auction rate securities (ARS) backed by student loans at September 30, 2009. ARS are intended to behave like short-term debt instruments because their interest rates are reset periodically through an auction process, most commonly at intervals of 7, 28 and 35 days. The same auction process has historically provided a means by which we may rollover the investment or sell these securities at par in order to provide us with liquidity as needed. The ARS we hold are collateralized by portfolios of student loans, all of which are ultimately guaranteed by the United States Department of Education. At September 30, 2009, approximately 90% of our ARS portfolio was AAA/Aaa-rated by one or more of the following major rating agencies: Moody's, Standard & Poor's and Fitch Ratings. See additional discussion of auction rate securities backed by student loans in Notes 4 and 5 of the Notes to the Consolidated Financial Statements contained in Item 8 of Part II of our Annual Report on Form 10-K.

At September 30, 2009, our total assets included \$870 million of cash and cash equivalents as shown on our consolidated balance sheet. In addition, included in Other assets is \$76.6 million of principal and interest receivable related to the sale of our remaining interest in Sherman.

At September 30, 2009 we had \$86.1 million, 5.625% Senior Notes due in September 2011 and \$300 million, 5.375% Senior Notes due in November 2015, with a combined fair value of \$288.9 million, outstanding. At September 30, 2009, we also had \$389.5 million principal amount of 9% Convertible Junior Subordinated Debentures due in 2063 outstanding, which at September 30, 2009 are reflected as a liability on our consolidated balance sheet at the current amortized value of \$286.5 million, with the unamortized discount reflected in equity. The fair value of the convertible debentures was approximately \$290.2 million at September 30, 2009. At September 30, 2009 we also had \$18.3 million of deferred interest outstanding on the convertible debentures which is included in other liabilities on the consolidated balance sheet.

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

Table of Contents

the Treasury to eliminate the further accrual of interest. Although the resolution of this issue is uncertain, we believe that sufficient provisions for income taxes have been made for potential liabilities that may result. If the resolution of this matter differs materially from our estimates, it could have a material impact on our effective tax rate, results of operations and cash flows.

The IRS is presently examining our federal income tax returns for 2005 through 2007. We have not received any proposed adjustments to taxable income or assessments from the IRS related to these years. We believe that income taxes related to these years have been properly provided for in our financial statements.

The total amount of unrecognized tax benefits as of September 30, 2009 is \$90.5 million. All of the benefits would affect our effective tax rate. We recognize interest accrued and penalties related to unrecognized tax benefits in income taxes. We have accrued \$22.4 million for the payment of interest as of September 30, 2009. The establishment of this liability required estimates of potential outcomes of various issues and required 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.

Our principal exposure to loss is our obligation to pay claims under MGIC's mortgage guaranty insurance policies. At September 30, 2009, 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 \$59.4 billion. In addition, as part of our contract underwriting activities, we are responsible for the quality of our underwriting decisions in accordance with the terms of the contract underwriting agreements with customers. Through September 30, 2009, the cost of remedies provided by us to customers for failing to meet the standards of the contracts has not been material. However, a generally positive economic environment for residential real estate that continued until approximately 2007 may have mitigated the effect of some of these costs, and claims for remedies may be made a number of years after the underwriting work was performed. A material portion of our new insurance written through the flow channel in recent years involved loans for which we provided contract underwriting services. We believe the rescission of mortgage insurance coverage on loans on which we also provided contract underwriting services makes a claim for a contract underwriting remedy more likely to occur. In the third quarter of 2009, we experienced an increase in claims for contract underwriting remedies, which may continue. Hence, there can be no assurance that contract underwriting remedies will not be material in the future.

Liquidity and Capital Resources

Overview

Our sources of funds consist primarily of:

Table of Contents

our investment portfolio (which is discussed in Financial Condition above), and interest income on the portfolio,

premiums that we will receive from our existing insurance in force as well as policies that we write in the future and

amounts that we expect to recover from captives (which is discussed in Results of Consolidated Operations Risk-Sharing Arrangements and Results of Consolidated Operations Losses Losses Incurred above). Our obligations at September 30, 2009 consist primarily of:

claim payments under MGIC's mortgage guaranty insurance policies,

\$86.1 million of 5.625% Senior Notes due in September 2011,

\$300 million of 5.375% Senior Notes due in November 2015,

\$389.5 million of convertible debentures due in 2063,

interest on the foregoing debt instruments, including \$18.3 million of deferred interest on our convertible debentures and

the other costs and operating expenses of our business.

For the first time in many years, in 2009, claim payments exceeded premiums received. We expect that this trend will continue. As discussed under Results of Consolidated Operations Losses Losses incurred above, due to the uncertainty regarding how certain factors, such as foreclosure moratoriums, servicing and court delays, loan modifications, claims investigations and rescissions, will affect our future paid claims it has become even more difficult to estimate the amount and timing of future claim payments. When we experience cash shortfalls, we can fund them through sales of short-term investments and other investment portfolio securities, subject to insurance regulatory requirements regarding the payment of dividends to the extent funds were required by an entity other than the seller. Substantially all of the investment portfolio securities are held by our insurance subsidiaries.

During the first quarter of 2009, we redeemed in exchange for cash from the US Treasury approximately \$432 million of tax and loss bonds. We no longer hold any tax and loss bonds. Tax and loss bonds that we purchased were not assets on our balance sheet but were recorded as payments of current federal taxes. For further information about tax and loss bonds, see Note 2, Income taxes, to our consolidated financial statements in Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2008.

We anticipate that any taxes recovered due to the change in the net operating loss carryback period, as discussed under Income Taxes above, will primarily be credited to our operating subsidiaries.

Table of Contents

Debt at Our Holding Company and Holding Company Capital Resources

For information about debt at our holding company, see Notes 2 and 3 of the Notes to the Consolidated Financial Statements.

The senior notes and convertible debentures 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, which historically has been the principal source of our holding company cash inflow, is restricted by insurance regulation. MGIC is the principal source of dividend-paying capacity. During the first three quarters of 2008, MGIC paid three dividends of \$15 million each to our holding company, which increased the cash resources of our holding company. MGIC cannot currently pay any dividends without regulatory approval. In light of the matters discussed under

Overview of this Form 10-Q and our 10-K MD&A, we do not anticipate seeking approval for any additional dividends from MGIC that would increase the cash resources at the holding company in 2009. In addition, under the terms of our Agreement with Fannie Mae, discussed under Overview of this Form 10-Q, MGIC may not pay dividends to our holding company without Fannie Mae's consent, however Fannie Mae has consented to dividends of not more than \$100 million in the aggregate to purchase existing debt obligations of our holding company or to pay such obligations at maturity. Any such dividends would require regulatory approval and may require other approvals.

As of September 30, 2009, we had a total of approximately \$97 million in short-term investments at our holding company (\$92 million as of October 31, 2009). These investments are virtually all of our holding company's liquid assets. As of September 30, 2009, our holding company's obligations included \$86.1 million of debt (\$78.4 million as of October 31, 2009) which is scheduled to mature before the end of 2011 and must be serviced pending scheduled maturity. On an annual basis, as of September 30, 2009 our use of funds at the holding company for interest payments on our Senior Notes approximated \$21 million. See note 3 of the Notes to the Consolidated Financial Statements for a discussion of our election to defer payment of interest on our junior convertible debentures. The annual interest payments on these debentures approximate \$35 million, excluding interest on the interest payments that have been deferred.

In the first nine months of 2009, we repurchased for cash approximately \$113.9 million in par value of our 5.625% Senior Notes due in September 2011. We recognized a gain on the repurchases of approximately \$26.3 million, which is included in other revenue on the Consolidated Statement of Operations for the nine months ended September 30, 2009. We may from time to time continue to seek to acquire our debt obligations through cash purchases and/or exchanges for other securities. We may do this in open market purchases, privately negotiated acquisitions or other transactions. The amounts involved may be material.

Risk-to-Capital

Our risk-to-capital ratio is computed on a statutory basis for our combined insurance operations and is our net risk in force divided by our policyholders' position. Our net risk in force includes both primary and pool risk in force, and excludes risk on policies that are currently in default and for which loss reserves have been established. The risk amount represents pools of loans or bulk deals with contractual aggregate loss limits

Table of Contents

and in some cases without these 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. Policyholders' position consists primarily of statutory policyholders' surplus (which increases as a result of statutory net income and decreases as a result of statutory net loss and dividends paid), plus the statutory contingency reserve. The statutory contingency reserve is reported as a liability on the statutory balance sheet. A mortgage insurance company is required to make annual contributions to the contingency reserve of approximately 50% of net earned premiums. These contributions must generally be maintained for a period of ten years. However, with regulatory approval a mortgage insurance company may make early withdrawals from the contingency reserve when incurred losses exceed 35% of net earned premium in a calendar year.

The premium deficiency reserve discussed under Results of Consolidated Operations - Losses - Premium deficiency above is not recorded as a liability on the statutory balance sheet and is not a component of statutory net income. The present value of expected future premiums and already established loss reserves and statutory contingency reserves, exceeds the present value of expected future losses and expenses, so no deficiency is recorded on a statutory basis.

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

	September 30, 2009	December 31, 2008
	(\$ in millions)	
Risk in force - net (1)	\$ 43,193	\$ 54,496
Statutory policyholders' surplus	\$ 945	\$ 1,613
Statutory contingency reserve	1,246	2,086
Statutory policyholders' position	\$ 2,191	\$ 3,699
Risk-to-capital:	19.7:1	14.7:1

(1) Risk in force net, as shown in the table above, for September 30, 2009 is net of reinsurance and exposure on policies currently in default and for which loss reserves have been established. Risk in force net for December 31, 2008 is net of reinsurance and

*established loss
reserves.*

State insurance regulators have clarified that a mortgage insurer's risk outstanding does not include the company's risk on policies that are currently in default and for which loss reserves have been established. Beginning with our June 30, 2009 risk-to-capital calculations we have deducted risk in force on policies currently in default and for which loss reserves have been established. The risk-to-capital calculation for December 31, 2008 includes a reduction to risk in force for established reserves only and not the full exposure of loans in default.

Table of Contents

Statutory policyholders' position decreased in the third quarter and first nine months of 2009, primarily due to losses incurred. If our statutory policyholders' position decreases at a greater rate than our risk in force, then our risk-to-capital ratio will continue to increase.

For additional information regarding regulatory capital see Overview-Capital above as well as our Risk Factor titled While our plan to write new insurance in an MGIC subsidiary is moving forward, we cannot guarantee that it will allow us to continue to write new insurance in the future .

Financial Strength Ratings

The financial strength of MGIC, our principal mortgage insurance subsidiary, is rated Ba2 by Moody's Investors Service and the rating is under review. Standard & Poor's Rating Services' insurer financial strength rating of MGIC is B+ and the outlook for this rating is negative. The financial strength of MGIC is rated BB- by Fitch Ratings with a negative outlook.

For further information about the importance of MGIC's ratings, see our Risk Factor titled MGIC may not continue to meet the GSEs' mortgage insurer eligibility requirements .

Contractual Obligations

At September 30, 2009, the approximate future payments under our contractual obligations of the type described in the table below are as follows:

Contractual Obligations (\$ millions):	Total	Payments due by period			
		Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term debt obligations	\$ 2,812	\$ 38	\$ 193	\$ 102	\$ 2,479
Operating lease obligations	16	6	7	3	
Purchase obligations					
Pension, SERP and other post-retirement benefit plans	141	8	19	25	89
Other long-term liabilities	6,314	2,083	2,968	1,263	
Total	\$ 9,283	\$ 2,135	\$ 3,187	\$ 1,393	\$ 2,568

Our long-term debt obligations at September 30, 2009 include our approximately \$86.1 million of 5.625% Senior Notes due in September 2011, \$300 million of 5.375% Senior Notes due in November 2015 and \$389.5 million in convertible debentures due in 2063, including related interest, as discussed in Notes 2 and 3 to our consolidated financial statements and under Liquidity and Capital Resources above. The interest

Table of Contents

payments on our convertible debentures that were scheduled to be paid on April 1 and October 1, 2009, but which we elected to defer for 10 years as discussed in Note 3 to our consolidated financial statements, is included in the More than 5 years column in the table above. Our operating lease obligations include operating leases on certain office space, data processing equipment and autos, as discussed in Note 14 to our consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2008. See Note 11 to our consolidated financial statement in our Annual Report on Form 10-K for the year ended December 31, 2008 for discussion of expected benefit payments under our benefit plans.

Our other long-term liabilities represent the loss reserves established to recognize the liability for losses and loss adjustment expenses related to defaults on insured mortgage loans. We are including these liabilities because we agreed to do so in 2005 to resolve a comment from the staff of the SEC. The timing of the future claim payments associated with the established loss reserves was determined primarily based on two key assumptions: the length of time it takes for a notice of default to develop into a received claim and the length of time it takes for a received claim to be ultimately paid. The future claim payment periods are estimated based on historical experience, and could emerge significantly different than this estimate. As discussed under Losses incurred above, due to the uncertainty regarding how certain factors, such as foreclosure moratoriums, servicing and court delays, loan modifications, claims investigations and claim rescissions, will affect our future paid claims it has become even more difficult to estimate the amount and timing of future claim payments. Current conditions in the housing and mortgage industries make all of the assumptions discussed in this paragraph more volatile than they would otherwise be. See Note 8 to our consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2008 and -Critical Accounting Policies in our 10-K MD&A. In accordance with GAAP for the mortgage insurance industry, we establish loss reserves only for loans in default. Because our reserving method does not take account of the impact of future losses that could occur from loans that are not delinquent, our obligation for ultimate losses that we expect to occur under our policies in force at any period end is not reflected in our financial statements or in the table above.

The table above does not reflect the liability for unrecognized tax benefits due to uncertainties in the timing of the effective settlement of tax positions. We can not make a reasonably reliable estimate of the timing of payment for the liability for unrecognized tax benefits, net of payments on account, of \$22.4 million. See Note 12 to our consolidated financial statement in our Annual Report on Form 10-K for the year ended December 31, 2008 for additional discussion on unrecognized tax benefits.

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. 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

Table of Contents

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. Therefore no reader of this document should rely on these statements being accurate as of any time other than the time at which this document was filed with the Securities and Exchange Commission.

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, 2008, as supplemented by Part II, Item 1 A of our Quarterly Reports on Form 10-Q for the Quarters Ended March 31 and June 30, 2009 and in Part II, Item 1 A of this Quarterly Report on Form 10-Q. The risk factors in the 10-K, as supplemented by those 10-Qs and through updating of various statistical and other information, are reproduced in Exhibit 99 to this Quarterly Report on Form 10-Q.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

At September 30, 2009, the derivative financial instruments in our investment portfolio were immaterial. We place our investments in instruments that meet high credit quality standards, as specified in our investment policy guidelines; the policy guidelines also limit the amount of credit exposure to any one issue, issuer and type of instrument. At September 30, 2009, the modified duration of our fixed income investment portfolio was 3.7 years, which means that an instantaneous parallel shift in the yield curve of 100 basis points would result in a change of 3.7% in the fair value of our fixed income portfolio. For an upward shift in the yield curve, the fair value of our portfolio would decrease and for a downward shift in the yield curve, the fair value would increase.

ITEM 4. CONTROLS AND PROCEDURES

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended), as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on such evaluation, our principal executive officer and principal financial officer concluded that such controls and procedures were effective as of the end of such period. There was no change in our internal control over financial reporting that occurred during the third quarter of 2009 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Five previously-filed purported class action complaints filed against us and several of our executive officers were consolidated in March 2009 in the United States District Court for the Eastern District of Wisconsin and Fulton County Employees Retirement System was appointed as the lead plaintiff. The lead plaintiff filed a Consolidated Class Action Complaint (the Complaint) on June 22, 2009. Due in part to its length and structure, it is difficult to summarize briefly the allegations in the Complaint but it appears the allegations are that we and our officers named in the Complaint, violated the federal securities laws by misrepresenting or failing to disclose material information about (i) loss development in our insurance in force, and (ii) C-BASS, including its liquidity. The Complaint also names two officers of C-BASS with respect to the Complaint's allegations regarding C-BASS. The purported class period covered by the Complaint begins on October 12, 2006 and ends on February 12, 2008. The Complaint seeks damages based on purchases of our stock during this time period at prices that were allegedly inflated as a result of the purported misstatements and omissions. We filed a motion to dismiss the Complaint in August 2009 and briefing is expected to be completed in November 2009.

With limited exceptions, our bylaws provide that our officers are entitled to indemnification from us for claims against them of the type alleged in the complaint. We believe, among other things, that the allegations in the complaint are not sufficient to prevent their dismissal and intend to defend against them vigorously. However, we are unable to predict the outcome of this case or estimate our associated expenses or possible losses.

In addition to the above litigation, we face other litigation and regulatory risks. For additional information about such other litigation and regulatory risks you should review our Risk Factor titled We are subject to the risk of private litigation and regulatory proceedings.

Item 1 A. Risk Factors

With the exception of changes to the risk factors included below, there have been no material changes in our risk factors from the risk factors disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2008 as supplemented by Part II, Item 1 A of our Quarterly Report on Form 10-Q for the Quarters Ended March 31 and June 30, 2009. The risk factors in the 10-K, as supplemented by these 10-Qs and through updating of various statistical and other information, are reproduced in their entirety in Exhibit 99.1 to this Quarterly Report on Form 10-Q.

While our plan to write new insurance in an MGIC subsidiary is moving forward, we cannot guarantee that even if it is implemented it will allow us to continue to write new insurance in the future.

Table of Contents

For some time, we have been working to implement a plan to write new mortgage insurance in MGIC Indemnity Corporation (MIC), a wholly owned subsidiary of MGIC. This plan is driven by our belief that in the future MGIC will not meet regulatory capital requirements in Wisconsin (which would prevent MGIC from writing new business anywhere) or in certain jurisdictions (which would prevent MGIC from writing business in the particular jurisdiction) and may not be able to obtain appropriate waivers of these requirements. In addition to Wisconsin, these capital requirements are present in 16 jurisdictions while the remaining jurisdictions in which MGIC does business do not have specific capital requirements applicable to mortgage insurers. Before MIC can begin writing new business, the Office of the Commissioner of Insurance for the State of Wisconsin (OCI) must specifically authorize MIC to do so and MIC must obtain or reactivate licenses in the jurisdictions where it will transact business. In addition, as a practical matter, MIC's ability to write mortgage insurance depends on being approved as an eligible mortgage insurer by Fannie Mae and/or Freddie Mac (together, the GSEs).

On October 14, 2009, we, MGIC and MIC entered into an agreement (the Agreement) with Fannie Mae under which MGIC agreed to contribute \$200 million to MIC and Fannie Mae approved MIC as an eligible mortgage insurer through December 31, 2011 subject to the terms of the Agreement. The contribution to MIC was made on October 21, 2009. Under the Agreement, MIC will be eligible to write mortgage insurance only if the OCI grants MGIC a waiver from Wisconsin's capital requirements and only in those 16 jurisdictions in which MGIC cannot write new insurance due to MGIC's failure to meet regulatory capital requirements applicable to mortgage insurers and if MGIC fails to obtain relief from those requirements or a specified waiver of them. We expect MGIC will be able to obtain waivers in a number of these jurisdictions such that MGIC, rather than MIC, will write new business there. The Agreement, including certain restrictions imposed on us, MGIC and MIC, is summarized more fully in, and included as an exhibit to, our Form 8-K filed with the Securities and Exchange Commission on October 16, 2009.

We have been working closely with Freddie Mac to approve MIC as an eligible mortgage insurer. Freddie Mac has informed us that they will need additional analysis prior to approving MIC as an eligible mortgage insurer. This analysis could take some time to complete. There can be no assurance that Freddie Mac will approve MIC as an eligible mortgage insurer.

We are also working closely with the OCI to receive the approvals that MIC requires to begin writing new insurance. While in July 2009 the OCI approved a transaction under which we would have contributed more than \$200 million to MIC and MIC would have written mortgage insurance in all jurisdictions in place of MGIC, the OCI has not approved the plan to write mortgage insurance through MIC contemplated by the Agreement nor has it yet granted MGIC a waiver from the regulatory capital requirements in Wisconsin. There can be no assurance that we will be able to obtain, in a timely fashion or at all, the approvals from OCI necessary to allow MGIC to continue to write new insurance or the approvals necessary for MIC to write new insurance in any jurisdiction. Similarly, there can be no assurances that MIC will receive the necessary approvals from any or all of the jurisdictions in which MGIC would be prohibited from doing so due to MGIC's failure to meet applicable regulatory capital requirements.

Table of Contents

Under the Agreement, MIC has been approved as an eligible mortgage insurer by Fannie Mae only through December 31, 2011. Whether MIC will continue as an eligible mortgage insurer after that date will be determined by Fannie Mae's mortgage insurer eligibility requirements then in effect. Further, under the Agreement we cannot capitalize MIC with more than a \$200 million contribution, without prior approval from Fannie Mae, which limits the amount of business MIC can write. While we believe that the amount of capital that we have contributed to MIC will be more than sufficient to write business for the term of the Agreement in the jurisdictions in which MIC is eligible to do so under the Agreement, depending on the level of losses that MGIC experiences in the future, it is possible that regulatory action by one or more jurisdictions, including those that do not have specific regulatory capital requirements applicable to mortgage insurers, may prevent MGIC from continuing to write new insurance in some or all of the jurisdictions in which MIC will not write business.

A failure to meet regulatory capital requirements does not mean that MGIC does not have sufficient resources to pay claims on its insurance. Even in scenarios in which losses materially exceed those that would result in not meeting regulatory requirements, we believe that we have claims paying resources at MGIC that exceed our claim obligations on our insurance in force. Our estimates of our claims paying resources and claim obligations are based on various assumptions, including our anticipated rescission activity.

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

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

the level of private mortgage insurance coverage, subject to the limitations of the GSEs' charters (which may be changed by federal legislation) when private mortgage insurance is used as the required credit enhancement on low down payment mortgages,

the amount of loan level delivery fees (which result in higher costs to borrowers) that the GSEs assess on loans that require mortgage insurance,

whether the GSEs influence the mortgage lender's selection of the mortgage insurer providing coverage and, if so, any transactions that are related to that selection,

the underwriting standards that determine what loans are eligible for purchase by the GSEs, which can affect the quality of the risk insured by the mortgage insurer and the availability of mortgage loans,

the terms on which mortgage insurance coverage can be canceled before reaching the cancellation thresholds established by law, and

the programs established by the GSEs intended to avoid or mitigate loss on insured mortgages and the circumstances in which mortgage servicers must implement such programs.

In September 2008, the Federal Housing Finance Agency (FHFA) was appointed as the conservator of the GSEs. As their conservator, FHFA controls and directs the

Table of Contents

operations of the GSEs. The appointment of FHFA as conservator, the increasing role that the federal government has assumed in the residential mortgage market, our industry's inability, due to capital constraints, to write sufficient business to meet the needs of the GSEs or other factors may increase the likelihood that the business practices of the GSEs change in ways that may have a material adverse effect on us. In addition, these factors may increase the likelihood that the charters of the GSEs are changed by new federal legislation. Such changes may allow the GSEs to reduce or eliminate the level of private mortgage insurance coverage that they use as credit enhancement. The Obama administration has announced that it will announce its plans regarding the future of the GSEs in early 2010.

For a number of years, the GSEs have had programs under which on certain loans lenders could choose a mortgage insurance coverage percentage that was only the minimum required by their charters, with the GSEs paying a lower price for these loans (charter coverage). The GSEs have also had programs under which on certain loans they would accept a level of mortgage insurance above the requirements of their charters but below their standard coverage without any decrease in the purchase price they would pay for these loans (reduced coverage). In September 2009, Fannie Mae announced that, effective January 1, 2010, it would expand broadly the types of loans eligible for charter coverage. Fannie Mae's announcement also said it would eliminate its reduced coverage program in the second quarter of 2010. During the third quarter of 2009, a majority of our volume has been on loans with GSE standard coverage, a substantial portion of our volume has been on loans with reduced coverage, and a minor portion of our volume has been on loans with charter coverage. We charge higher premium rates for higher coverages. To the extent lenders selling loans to Fannie Mae chose charter coverage for loans that we insure, our revenues would be reduced and we could experience other adverse effects.

Both of the GSEs have policies which provide guidelines on terms under which they can conduct business with mortgage insurers with financial strength ratings below Aa3/AA-. For information about how these policies could affect us, see the risk factor titled MGIC may not continue to meet the GSEs mortgage insurer eligibility requirements. ***We may not be able to repay the amounts that we owe under our Senior Notes due in September 2011.***

As of October 31, 2009, we had a total of approximately \$92 million in short-term investments available at our holding company. These investments are virtually all of our holding company's liquid assets. As of October 31, 2009, our holding company had approximately \$78.4 million of Senior Notes due in September 2011 (during 2009 through October 31, our holding company purchased \$121.6 million principal amount of these Notes) and \$300 million of Senior Notes due in November 2015 outstanding. On an annual basis as of October 31, 2009, our holding company's current use of funds for interest payments on its Senior Notes approximates \$21 million.

While under the Agreement (see the risk factor titled While our plan to write new insurance in an MGIC subsidiary is moving forward, we cannot guarantee that even if it is implemented it will allow us to continue to write new insurance in the future.), MGIC may not pay dividends to our holding company without Fannie Mae's consent, Fannie Mae has consented to dividends of not more than \$100 million in the aggregate to

Table of Contents

purchase existing debt obligations of our holding company or to pay such obligations at maturity. Any dividends from MGIC to our holding company would require the approval of the OCI, and may require other approvals.

Covenants in the Senior Notes include the requirement that there be no liens on the stock of the designated subsidiaries unless the Senior Notes are equally and ratably secured; that there be no disposition of the stock of designated subsidiaries unless all of the stock is disposed of for consideration equal to the fair market value of the stock; and that we and the designated subsidiaries preserve our corporate existence, rights and franchises unless we or such subsidiary determines that such preservation is no longer necessary in the conduct of its business and that the loss thereof is not disadvantageous to the Senior Notes. A designated subsidiary is any of our consolidated subsidiaries which has shareholders' equity of at least 15% of our consolidated shareholders' equity.

See Note 3, Convertible debentures and related derivatives, to our consolidated financial statements for more information regarding our holding company's assets and liabilities as of that date, including information about its junior convertible debentures and its election to defer payment of interest on them that was scheduled to be paid April 1, 2009. As previously announced, our holding company also elected to defer payment of interest on these debentures that was scheduled to be paid October 1, 2009.

Loan modification and other similar programs may not provide material benefits to us.

Beginning in the fourth quarter of 2008, the federal government, including through the FDIC and the GSEs, and several lenders have adopted programs to modify loans to make them more affordable to borrowers with the goal of reducing the number of foreclosures. All of these programs are in their early stages. For the quarter ending September 30, 2009, we modified loans with risk in force of \$244 million.

One such program is the Home Affordable Modification Program (HAMP), which was announced by the US Treasury early this year. Some of HAMP's eligibility criteria require current information about borrowers, such as his or her current income and non-mortgage debt payments. Because the GSEs and servicers do not share such information with us, we cannot determine with certainty the number of loans in our delinquent inventory that are eligible to participate in HAMP. We believe that it could take several months from the time a borrower has made all of the payments during HAMP's three month trial modification period for the loan to be reported to us as a cured delinquency. We are aware of approximately 14,500 loans in our delinquent inventory at September 30, 2009 for which the HAMP trial period has begun and that an immaterial number of loans have successfully completed the trial period. We rely on information provided to us by the GSEs and servicers. We do not receive all of the information from such sources that is required to determine with certainty the number of loans that are participating in, or have successfully completed, HAMP.

Under HAMP, a net present value test (the NPV Test) is used to determine if loan modifications will be offered. For loans owned or guaranteed by the GSEs, servicers may, depending on the results of the NPV Test and other factors, be required to offer loan modifications, as defined by HAMP, to borrowers. The GSEs have announced that

Table of Contents

beginning December 1, 2009 they will change how the NPV Test is used. These changes will make it more difficult for some loans to be modified under HAMP. While we lack sufficient data to determine the impact of these changes, we believe that they may materially decrease the number of our loans that will participate in HAMP.

Even if a loan is modified, the effect on us of loan modifications depends on how many modified loans subsequently re-default, which in turn can be affected by changes in housing values. Re-defaults can result in losses for us that could be greater than we would have paid had the loan not been modified. At this point, we cannot predict with a high degree of confidence what the ultimate re-default rate will be, and therefore we cannot ascertain with confidence whether these programs will provide material benefits to us. In addition, because we do not have information in our database for all of the parameters used to determine which loans are eligible for modification programs, our estimates of the number of loans qualifying for modification programs are inherently uncertain. If legislation is enacted to permit a mortgage balance to be reduced in bankruptcy, we would still be responsible to pay the original balance if the borrower re-defaulted on that mortgage after its balance had been reduced. Various government entities and private parties have enacted foreclosure moratoriums. A moratorium does not affect the accrual of interest and other expenses on a loan. Unless a loan is modified during a moratorium to cure the default, at the expiration of the moratorium additional interest and expenses would be due which could result in our losses on loans subject to the moratorium being higher than if there had been no moratorium.

Table of Contents

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.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized, on November 9, 2009.

**MGIC INVESTMENT
CORPORATION**

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

/s/ Timothy J. Mattke
Timothy J. Mattke
Vice President and Controller
81

Table of Contents

**INDEX TO EXHIBITS
(Part II, Item 6)**

Exhibit

Number	Description of Exhibit
4.1	Amended and Restated Rights Agreement, dated as of July 7, 2009, between MGIC Investment Corporation and Wells Fargo Bank, National Association [Incorporated by reference to Exhibit (4.1) to Amendment No. 3 to the Registration Statement on Form 8-A/A of MGIC Investment Corporation (Commission File No. 1-10816)]
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)
99.1	Risk Factors included in Item 1 A of our Annual Report on Form 10-K for the year ended December 31, 2008, as supplemented by Part II, Item 1A of our Quarterly Reports on Form 10-Q for the quarters ended March 31 and September 30, 2009, and through updating of various statistical and other information
99.2	Letter Agreement dated as of October 14, 2009, by and between MGIC Investment Corporation, Mortgage Guaranty Insurance Corporation and MGIC Indemnity Corporation and Federal National Mortgage Association [Incorporated by reference to Exhibit 99.2 to the company's Current Report on Form 8-K filed with the Securities and Exchange Commission on October 16, 2009]