

MGIC

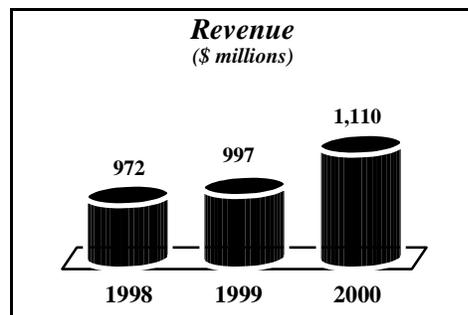
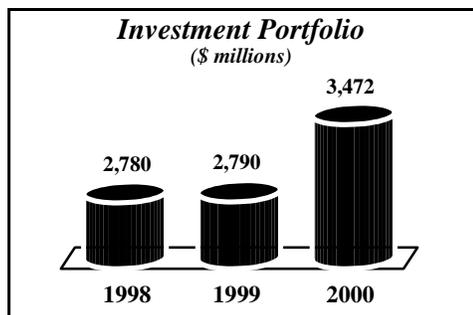
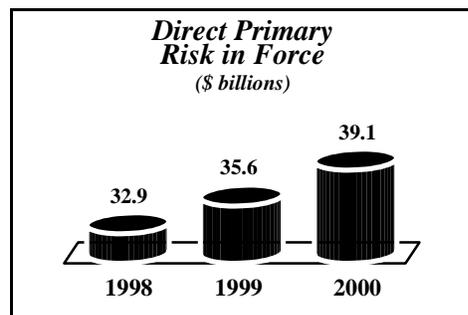
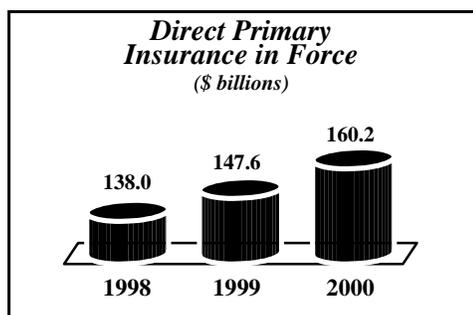
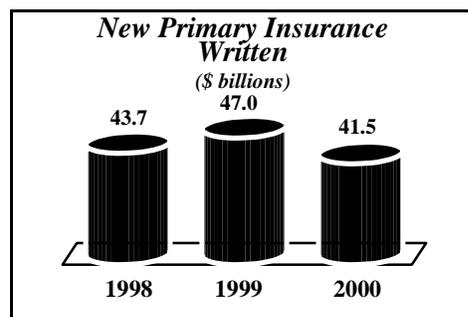
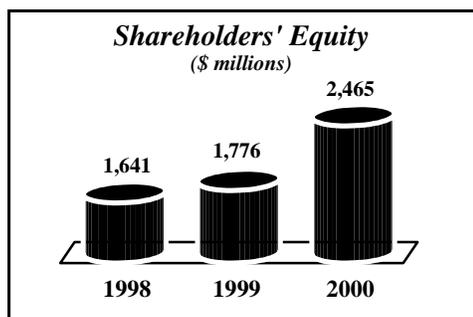


MGIC Investment Corporation

ANNUAL REPORT
2000

Financial Highlights

	<u>1998</u>	<u>1999</u>	<u>2000</u>
Net income (\$ millions)	385.5	470.2	542.0
Diluted earnings per share (\$)	3.39	4.30	5.05
Return on equity (%)	24.2	26.8	25.7



Fellow Shareholders

"MGIC is people committed to providing the strongest possible financial guarantees to policyholders and to facilitating homeownership in America."

Those were the first words in our 1986 financial summary report to policyholders. MGIC Investment Corporation had just completed its first full year of operation following its March 1985 purchase from its former owners and was not yet publicly traded. Given that this is our first annual report of the new millennium, I felt it appropriate to begin with those very same words.



Here's why: 15 years have passed and much has changed in the mortgage market, yet the importance of MGIC to housing and mortgage finance remains constant. Our core product — private mortgage insurance (PrivateMI) — is vitally important to helping families attain homeownership with low down payments.

The proof is in the numbers. In 2000, MGIC wrote insurance on \$41.5 billion in home loans, helping roughly 400,000 families achieve homeownership. Our insurance in force grew to a record \$160.2 billion, covering loans to over 1.4 million families.

From homeownership to the bottom line

While doing our part to boost the national homeownership rate, we improved our bottom line. In 2000, we earned a record \$542 million, a 15% increase from 1999. Diluted earnings per share rose to \$5.05 in 2000 from \$4.30 in the prior year, an increase of 17%. Excluding one-time adjustments and realized gains, earnings per share increased 24% in 2000 from a year earlier.

Our future looks bright — a lot like our recent past. We expect huge mortgage origination years to become commonplace as strong demographics lead to increases in households and homeownership. Credit losses should remain low by historical standards, and our productivity should continue to improve, thanks to our investments in technology. And, given the trend toward consolidation among our customer base, we feel MGIC's position as the market share leader, loss performance leader, and productivity leader put MGIC in an even more favorable position going forward.

The array of strategic products and services we offer lenders to increase their profitability is unrivaled, making MGIC the ideal partner. In particular, our technology-based services — eMagic.com, Defender, and Customers Forever — have the potential to positively impact our lender-customers' business by lowering costs, improving response time, and increasing mortgage originations.

While products and services differentiate MGIC from competitors, it is our financial strength and flexibility that also are keys to MGIC's long-term success. We continue to earn 'AA+' and 'Aa2' financial strength ratings from the leading rating agencies; and our growing capital base, our low risk-to-capital ratio, and our strong reserve position combine to distinguish MGIC from our competitors. It is this financial strength which has enabled MGIC to expand the use of mortgage insurance into new segments of the mortgage market where our customers rely on MGIC's guaranty as they seek capital relief, enhanced secondary market execution, and lower-cost mortgage securitizations.

From our people comes leadership

The first words of the 1986 report were: *"MGIC is people . . ."* MGIC is people — people whose dedication and commitment have made our Company an industry leader in more ways than one. It has always been our culture not to over-emphasize being No. 1 in market share. Rather, being an industry leader entails holding a top position in categories that matter to our primary constituents — our customers, our shareholders, and homebuyers.

Our customers want to do business with a financially strong and sound partner that helps them be more profitable. Our shareholders want a company that focuses on long-term value while delivering strong profitability year after year. And homebuyers, quite simply, want to buy their dream home and keep it for a long, long time. These are the measures we apply to our business — to our everyday jobs — to assure MGIC remains a leader in the categories that truly count.

Sincerely,



Curt S. Culver
President and Chief Executive Officer

Five-Year Summary of Financial Information

	2000	1999	1998	1997	1996
<i>(In thousands of dollars, except per share data)</i>					
Summary of Operations					
Revenues:					
Net premiums written.....	\$ 887,388	\$ 792,345	\$ 749,161	\$ 690,248	\$ 588,927
Net premiums earned	\$ 890,091	\$ 792,581	\$ 763,284	\$ 708,744	\$ 617,043
Investment income, net	178,535	153,071	143,019	123,602	105,355
Realized investment gains, net	1,432	3,406	18,288	3,261	1,220
Other revenue	40,283	47,697	47,075	32,665	22,013
Total revenues	1,110,341	996,755	971,666	868,272	745,631
Losses and expenses:					
Losses incurred, net.....	91,723	97,196	211,354	242,362	234,350
Underwriting and other expenses	177,837	198,147	187,103	154,138	142,460
Interest expense.....	28,759	20,402	18,624	6,399	3,793
Litigation settlement.....	23,221	—	—	—	—
Total losses and expenses	321,540	315,745	417,081	402,899	380,603
Income before tax	788,801	681,010	554,585	465,373	365,028
Provision for income tax	246,802	210,809	169,120	141,623	107,037
Net income	\$ 541,999	\$ 470,201	\$ 385,465	\$ 323,750	\$ 257,991
Weighted average common shares outstanding (in thousands) (1).....	107,260	109,258	113,582	117,924	119,046
Diluted earnings per share (1).....	\$ 5.05	\$ 4.30	\$ 3.39	\$ 2.75	\$ 2.17
Dividends per share (1).....	\$.10	\$.10	\$.10	\$.095	\$.08
Balance sheet data					
Total investments	\$ 3,472,195	\$ 2,789,734	\$ 2,779,706	\$ 2,416,740	\$ 2,036,234
Total assets	3,857,781	3,104,393	3,050,541	2,617,687	2,222,315
Loss reserves	609,546	641,978	681,274	598,683	514,042
Long-term debt.....	397,364	425,000	442,000	237,500	—
Shareholders' equity	2,464,882	1,775,989	1,640,591	1,486,782	1,366,115
Book value per share	23.07	16.79	15.05	13.07	11.59

(1) In May 1997, the Company declared a two-for-one stock split of the common stock in the form of a 100% stock dividend. The additional shares were issued on June 2, 1997. Prior year shares, dividends per share and earnings per share have been restated to reflect the split.

A brief description of the Company's business is contained in [Note 1](#) to the Consolidated Financial Statements of the Company, page eighteen.

Five-Year Summary of Financial Information

	2000	1999	1998	1997	1996
New primary insurance written (\$ millions)	\$ 41,546	\$ 46,953	\$ 43,697	\$ 32,250	\$ 32,756
New primary risk written (\$ millions)	10,353	11,422	10,850	8,305	8,305
New pool risk written (\$ millions)	345	564	618	394	2
Insurance in force (at year-end) (\$ millions)					
Direct primary insurance	160,192	147,607	137,990	138,497	131,397
Direct primary risk	39,090	35,623	32,891	32,175	29,308
Direct pool risk	1,676	1,557	1,133	590	232
Primary loans in default ratios					
Policies in force	1,448,348	1,370,020	1,320,994	1,342,976	1,299,038
Loans in default	37,422	29,761	29,253	28,493	25,034
Percentage of loans in default	2.58%	2.17%	2.21%	2.12%	1.93%
Insurance operating ratios (GAAP)					
Loss ratio	10.3%	12.3%	27.7%	34.2%	38.0%
Expense ratio	16.4%	19.7%	19.6%	18.4%	21.6%
Combined ratio	26.7%	32.0%	47.3%	52.6%	59.6%
Risk-to-capital ratio (statutory)					
MGIC	10.6:1	11.9:1	12.9:1	15.7:1	18.1:1

Management's Discussion and Analysis

Results of Consolidated Operations

2000 Compared with 1999

Net income for 2000 was \$542.0 million, compared with \$470.2 million in 1999, an increase of 15%. Diluted earnings per share was \$5.05 for 2000 compared with \$4.30 in 1999. Included in diluted earnings per share for 2000 were a \$0.14 charge for the litigation settlement agreement referred to below and \$0.01 for realized gains. The 1999 earnings per share included \$0.02 for realized gains and \$0.10 for loss reserve reductions made in the fourth quarter of 1999. Excluding the aforementioned amounts, earnings per share was \$5.18 for 2000, compared to \$4.18 for 1999, an increase of 24%.

Total revenues for 2000 were \$1,110.3 million, an increase of 11% from the \$996.8 million for 1999. This increase was primarily attributed to an improvement in persistency, which generated an increase in renewal premiums. Also contributing to the increase in revenues was an increase in investment income resulting from strong cash flows. See below for a further discussion of premiums and investment income.

Losses and expenses for 2000 were \$321.5 million, an increase of 2% from \$315.7 million for the same period of 1999. The increase was primarily attributed to the litigation settlement, offset by a decline in underwriting expenses resulting from a decline in contract underwriting activity and an increase in deferred insurance policy acquisition costs. See below for a further discussion of losses incurred and underwriting expenses and the litigation settlement.

The amount of new primary insurance written by Mortgage Guaranty Insurance Corporation ("MGIC") during 2000 was \$41.5 billion, compared with \$47.0 billion in 1999. Refinancing activity decreased to 13% of new primary insurance written in 2000, compared to 25% in 1999 as a result of the increasing mortgage interest rate environment of the second half of 1999 and in 2000.

The \$41.5 billion of new primary insurance written during 2000 was offset by the cancellation of \$28.9 billion of insurance in force, and resulted in a net increase of \$12.6 billion in primary insurance in force, compared to new primary insurance written of \$47.0 billion, cancellation of \$37.4 billion, and a net increase of \$9.6 billion in insurance in force during 1999. Direct primary insurance in force was

\$160.2 billion at December 31, 2000, compared to \$147.6 billion at December 31, 1999.

In addition to providing direct primary insurance coverage, the Company also insures pools of mortgage loans. New pool risk written during 2000 and 1999, which was virtually all agency pool insurance, was \$345.5 million and \$563.8 million, respectively. The Company's direct pool risk in force at December 31, 2000 was \$1.7 billion compared to \$1.6 billion at December 31, 1999.

Cancellation activity has historically been affected by the level of mortgage interest rates, with cancellations generally moving inversely to the change in the direction of interest rates. Cancellations decreased during 2000 due to increasing mortgage interest rates which resulted in an increase in the MGIC persistency rate (percentage of insurance remaining in force from one year prior) to 80.4% at December 31, 2000, from 72.9% at December 31, 1999. Future cancellation activity could also be somewhat higher than it otherwise would have been as a result of legislation that went into effect in July 1999 regarding cancellation of mortgage insurance. Cancellation activity could also increase as more of the Company's insurance in force is represented by subprime loans, which the Company anticipates will have materially lower persistency than the Company's prime business. In general, subprime loans are mortgages that would not meet the standard underwriting guidelines of Fannie Mae and Freddie Mac for prime mortgages due to credit quality, documentation, or other factors, such as in a refinance transaction exceeding a specified increase in the amount of mortgage debt due to cash being paid to the borrower.

Principally as a result of changes in coverage requirements by Fannie Mae and Freddie Mac (described under "Other Matters" below), new insurance written for mortgages with reduced coverage (coverage of 17% for 90s and coverage of 25% for 95s) increased to 14% of new insurance written in 2000 compared to 8% a year ago. New insurance written for mortgages with deep coverage (coverage of 25% for 90s and coverage of 30% for 95s) declined to 62% of new insurance written in 2000 compared to 67% a year ago. 90s are mortgages with LTV ratios above 85% but not above 90%, and 95s are mortgages with LTV ratios above 90% but not above 95%.

New insurance written for subprime mortgages was 19% of new insurance written during 2000 compared to 7%

for 1999. The Company expects that subprime loans will have delinquency and default rates in excess of those on the Company's prime business. While the Company believes it has priced its subprime business to generate acceptable returns, there can be no assurance that the assumptions underlying the premium rates adequately address the risk of this business.

Net premiums written increased 12% to \$887.4 million in 2000, from \$792.3 million in 1999. Net premiums earned increased 12% to \$890.1 million in 2000, from \$792.6 million in 1999. The increases were primarily a result of a higher percentage of renewal premiums on products with higher premium rates and the growth in insurance in force offset by an increase in ceded premiums to \$52.9 million in 2000, compared to \$26.2 million in 1999, primarily due to an increase in captive mortgage reinsurance and similar arrangements.

Mortgages (newly insured during 2000 or 1999) equal to approximately 33% of MGIC's new insurance written during 2000 were subject to captive mortgage reinsurance and similar arrangements compared to 32% during 1999. Such arrangements entered into during a reporting period customarily include loans newly insured in a prior reporting period. As a result, the percentages cited above would be lower if only the current reporting period's newly insured mortgages subject to such arrangements were included. At December 31, 2000 approximately 21% of MGIC's risk in force was subject to captive reinsurance and similar arrangements compared to 15% at December 31, 1999. The amount of premiums ceded under captive mortgage reinsurance arrangements and the percentage of new insurance written and risk in force subject to such arrangements are expected to continue to increase.

Investment income for 2000 was \$178.5 million, an increase of 17% over the \$153.1 million in 1999. This increase was primarily the result of an increase in the amortized cost of average investment assets to \$3.1 billion for 2000, from \$2.7 billion for 1999, an increase of 13%. The portfolio's average pretax investment yield was 6.0% and 5.6% at December 31, 2000 and 1999, respectively. The portfolio's average after-tax investment yield was 4.9% in 2000 and 1999. The Company realized gains of \$1.4 million during 2000 compared to \$3.4 million in 1999.

Other revenue, which is composed of various components, was \$40.3 million in 2000, compared with \$47.7 million in 1999. The change is primarily the result of decreases in contract underwriting and FHA fee

revenue (a contract with the FHA was completed in 1999) and an increase in equity losses for Customers Forever LLC, a joint venture with Marshall & Ilsley Corporation, which were offset by increases in equity earnings from Credit-Based Asset Servicing and Securitization LLC ("C-BASS"), a joint venture with Enhance Financial Services Group Inc. ("Enhance"), and Sherman Financial Group LLC, ("Sherman," another joint venture with Enhance). In the first quarter of 2001, Enhance was acquired by Radian Group Inc.

C-BASS engages in the acquisition and resolution of delinquent single-family residential mortgage loans ("mortgage loans"). C-BASS also purchases and sells mortgage-backed securities ("mortgage securities"), interests in real estate mortgage investment conduit residuals and performs mortgage loan servicing. In addition, C-BASS issues mortgage-backed debt securities collateralized by mortgage loans and mortgage securities. C-BASS's results of operations are affected by the timing of these securitization transactions. Substantially all of C-BASS's mortgage-related assets do not have readily ascertainable market values and as a result their value for financial statement purposes is estimated by the management of C-BASS. Market value adjustments could impact C-BASS's results of operations and the Company's share of those results.

Total combined assets of C-BASS at December 31, 2000 and 1999 were approximately \$1.0 billion and \$934 million, respectively, of which approximately \$867 million and \$773 million, respectively, were mortgage-related assets, including open trades. Total liabilities at December 31, 2000 and 1999 were approximately \$765 million and \$744 million, respectively, of which approximately \$694 million and \$617 million, respectively, were funding arrangements, including accrued interest, virtually all of which were short-term. For the years ended December 31, 2000 and 1999, revenues of approximately \$153 million and \$112 million, respectively, and expenses of approximately \$97 million and \$72 million, respectively, resulted in income before tax of approximately \$56 million and \$40 million, respectively.

Sherman is engaged in the business of purchasing, servicing and securitizing delinquent unsecured consumer assets such as credit card loans and Chapter 13 bankruptcy debt. A substantial portion of Sherman's consolidated assets are investments in receivable portfolios that do not have readily ascertainable market values and as a result their value for financial statement

purposes is estimated by the management of Sherman. Market value adjustments could impact Sherman's results of operations and the Company's share of those results.

Net losses incurred decreased 6% to \$91.7 million in 2000, from \$97.2 million in 1999. Such decrease was primarily due to generally strong economic conditions, including in California, and a related decline in losses paid which led the Company to reduce its estimate of the claim rate and the severity (the "reserve factors") for loans in the primary and pool notices inventory. Partially offsetting the reduction in reserve factors was an increase in the primary insurance notice inventory from 29,761 at December 31, 1999 to 37,422 at December 31, 2000, primarily reflecting an increase in subprime notices, and an increase in pool insurance notice inventory from 11,638 at December 31, 1999 to 18,209 at December 31, 2000. The redundancy in loss reserves for 2000 was relatively consistent with that experienced in 1999. The default rate at December 31, 2000 was 2.58% compared to 2.17% at December 31, 1999 and the average claim paid for 2000 was \$18,977 compared to \$19,444 in 1999. The default rates for the subprime business were 8.66% and 7.39% for 2000 and 1999, respectively.

At December 31, 2000, 67% of the primary insurance in force was written during the last three years, compared to 65% at December 31, 1999. Based on all of the loans in the Company's insurance in force, the highest claim frequency years have typically been the third through fifth years after the year of loan origination. However, the pattern of claims frequency for refinance loans may be different from this historical pattern and the Company expects the period of highest claims frequency on subprime loans will occur earlier than in this historical pattern.

Underwriting and other expenses decreased to \$177.8 million in 2000 from \$198.1 million in 1999, a decrease of 10%. This decrease was primarily due to decreases in contract underwriting and an increase in deferred insurance policy acquisition costs.

Interest expense in 2000 increased to \$28.8 million from \$20.4 million in 1999 due to higher weighted average interest rates in 2000 compared to 1999.

The consolidated insurance operations loss ratio was 10.3% for 2000 compared to 12.3% for 1999. The consolidated insurance operations expense and combined ratios were 16.4% and 26.7%, respectively,

for 2000 compared to 19.7% and 32.0%, respectively, for 1999.

The effective tax rate was 31.3% in 2000, compared with 31.0% in 1999. During both years, the effective tax rate was below the statutory rate of 35%, reflecting the benefits of tax-preferenced investment income. The higher effective tax rate in 2000 resulted from a lower percentage of total income before tax being generated from tax-preferenced investments in 2000.

Other Matters

In December 2000, MGIC entered into an agreement to settle Downey et. al. v. MGIC, which is pending in Federal District Court for the Southern District of Georgia. The Court has preliminarily approved the settlement agreement, certified a nationwide class of borrowers and scheduled a hearing for June 15, 2001 to consider whether it should enter a final order approving the settlement. The Company has recorded a \$23.2 million charge to cover the estimated costs of the settlement, including payments to borrowers. The settlement includes an injunction that prohibits certain practices and specifies the basis on which agency pool insurance, captive mortgage reinsurance, contract underwriting and other products may be provided in compliance with the Real Estate Settlement Procedures Act.

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

During the first quarter of 1999, Fannie Mae and Freddie Mac ("GSEs") changed their mortgage insurance requirements for certain mortgages approved by their

automated underwriting services. The changes permit lower coverage percentages on these loans than the deeper coverage percentages that went into effect in 1995. MGIC's premium rates vary with the depth of coverage. While lower coverage percentages result in lower premium revenue, lower coverage percentages should also result in lower incurred losses at the same level of claim incidence. MGIC's results could also be affected to the extent the GSEs are compensated for assuming default risk that would otherwise be insured by the private mortgage insurance industry. The GSEs have programs under which a delivery fee is paid to them, with mortgage insurance coverage reduced below the coverage that would be required in the absence of the delivery fee.

In partnership with mortgage insurers, the GSEs are offering programs under which, on delivery of an insured loan to a GSE, the primary coverage is converted to an initial shallow tier of coverage followed by a second tier that is subject to an overall loss limit and, depending on the program, compensation may be paid to the GSE for services or other benefits realized by the mortgage insurer from the coverage conversion. Because lenders receive guaranty fee relief from the GSEs on mortgages delivered with these restructured coverages, participation in these programs is competitively significant to mortgage insurers.

In March 1999, the Office of Federal Housing Enterprise Oversight ("OFHEO") released a proposed risk-based capital stress test for the GSEs. One of the elements of the proposed stress test is that future claim payments made by a private mortgage insurer on GSE loans are reduced below the amount provided by the mortgage insurance policy to reflect the risk that the insurer will fail to pay. Claim payments from an insurer whose claims-paying ability rating is 'AAA' are subject to a 10% reduction over the 10-year period of the stress test, while claim payments from a 'AA' rated insurer, such as MGIC, are subject to a 20% reduction. The effect of the differentiation among insurers is to require the GSEs to have additional capital for coverage on loans provided by a private mortgage insurer whose claims-paying rating is less than 'AAA.' As a result, if adopted as proposed, there is an incentive for the GSEs to use private mortgage insurance provided by a 'AAA' rated insurer. The Company does not believe there should be a reduction in claim payments from private mortgage insurance nor should there be a distinction between 'AAA' and 'AA' rated private mortgage insurers. The proposed stress test covers many topics in addition to

capital credit for private mortgage insurance and is not expected to become final for some time. If the stress test ultimately gives the GSEs an incentive to use 'AAA' mortgage insurance, MGIC may need 'AAA' capacity, which in turn would entail using capital to support such a facility as well as additional expenses or MGIC may need to make other changes to provide the GSEs with the equivalent of 'AAA' coverage. The Company cannot predict whether the portion of the stress test discussed above will be adopted in its present form.

1999 Compared with 1998

Net income for 1999 was \$470.2 million, compared with \$385.5 million in 1998, an increase of 22%. Diluted earnings per share for 1999 was \$4.30, compared with \$3.39 in 1998, an increase of 27%. Included in the 1999 diluted earnings per share was \$0.02 for realized gains compared with \$0.10 for realized gains in 1998. The percentage increase in diluted earnings per share was favorably affected by the lower adjusted shares outstanding in 1999 as a result of common stock repurchased by the Company in the second half of 1998 and during the third quarter of 1999.

Total revenues for 1999 were \$996.8 million, an increase of 3% from the \$971.7 million for 1998. This increase was primarily attributed to an improvement in persistency, which generated an increase in renewal premiums. Also contributing to the increase in revenues was an increase in investment income resulting from strong cash flows. See below for a further discussion of premiums and investment income.

Losses and expenses for 1999 were \$315.7 million, a decrease of 24% from the \$417.1 million for 1998. The decrease was primarily attributed to a decline in losses incurred resulting from generally strong economic conditions, improvement in the California real estate market, and MGIC's claims mitigation efforts which resulted in a decline in losses paid and a reduction in both primary and pool reserve factors. See below for a further discussion of losses incurred and underwriting expenses.

The amount of new primary insurance written by MGIC during 1999 was \$47.0 billion, compared with \$43.7 billion in 1998. Refinancing activity decreased to 25% of new primary insurance written in 1999, compared to 31% in 1998 as a result of the increasing mortgage interest rate environment of the second half of 1999.

The \$47.0 billion of new primary insurance written during 1999 was offset by the cancellation of \$37.4 billion of insurance in force, and resulted in a net increase of \$9.6 billion in primary insurance in force, compared to new primary insurance written of \$43.7 billion, cancellation of \$44.2 billion, and a net decrease of \$0.5 billion in insurance in force during 1998. Direct primary insurance in force was \$147.6 billion at December 31, 1999, compared to \$138.0 billion at December 31, 1998.

In addition to providing direct primary insurance coverage, the Company also insures pools of mortgage loans. New pool risk written during 1999 and 1998, which was virtually all agency pool insurance, was \$563.8 million and \$618.1 million, respectively. The Company's direct pool risk in force at December 31, 1999 was \$1.6 billion compared to \$1.1 billion at December 31, 1998.

Cancellation activity has historically been affected by the level of mortgage interest rates, with cancellations generally moving inversely to the change in the direction of interest rates. Cancellations decreased during 1999 due to increasing mortgage interest rates which resulted in an increase in the MGIC persistency rate to 72.9% at December 31, 1999, from 68.1% at December 31, 1998.

Net premiums written increased 6% to \$792.3 million in 1999, from \$749.2 million in 1998. Net premiums earned increased 4% to \$792.6 million in 1999, from \$763.3 million in 1998. The increases were primarily a result of a higher percentage of renewal premiums on mortgage loans with deeper coverages and the growth in insurance in force offset by an increase in ceded premiums to \$26.2 million in 1999, compared to \$14.8 million in 1998, primarily due to an increase in captive mortgage reinsurance.

For a discussion of captive mortgage reinsurance and similar arrangements, certain programs with the GSEs regarding mortgage insurance and proposed capital regulations for the GSEs, see the 2000 compared with 1999 discussion and "Other Matters" above.

Investment income for 1999 was \$153.1 million, an increase of 7% over the \$143.0 million in 1998. This increase was primarily the result of an increase in the amortized cost of average investment assets to \$2.7 billion for 1999, from \$2.5 billion for 1998, an increase of 11%. The portfolio's average pretax investment yield was 5.6% in 1999 and 1998. The portfolio's average after-tax investment yield was 4.9%

in 1999 and 1998. The Company realized gains of \$3.4 million during 1999 compared to \$18.3 million in 1998. The decrease is primarily the result of gains on the sale of equity securities in 1998 compared to no such gains in 1999.

Other revenue, which is composed of various components, was \$47.7 million in 1999, compared with \$47.1 million in 1998. The change is primarily the result of an increase in equity earnings from C-BASS, a joint venture with Enhance, offset by equity losses from two joint ventures formed in 1999, Sherman, another joint venture with Enhance, and Customers Forever, a joint venture with Marshall and Ilsley Corporation, and a decrease in contract underwriting revenue. In accordance with generally accepted accounting principles, C-BASS is required to estimate the value of its mortgage related assets and recognize in earnings the resulting net unrealized gains and losses. Including open trades, C-BASS's mortgage related assets were \$773 million at December 31, 1999. Substantially all of C-BASS's mortgage-related assets do not have readily ascertainable market values and, as a result, their value for financial statement purposes is estimated by the management of C-BASS. Market valuation adjustments could impact C-BASS's results of operations and the Company's share of those results.

A substantial portion of Sherman's consolidated assets are investments in receivable portfolios that do not have readily ascertainable market values and, as a result, their value for financial statements purposes is estimated by the management of Sherman. Market value adjustments could impact Sherman's results of operations and the Company's share of those results.

Net losses incurred decreased 54% to \$97.2 million in 1999, from \$211.4 million in 1998. Such decrease was primarily due to generally strong economic conditions, improvement in the California real estate market, and MGIC's claims mitigation efforts, which in the aggregate resulted in a decline in losses paid and led the Company to reduce reserve factors for loans in the primary and pool notices inventory. Partially offsetting the reduction in reserve factors was an increase in the primary insurance notice inventory from 29,253 at December 31, 1998 to 29,761 at December 31, 1999 and an increase in pool insurance notice inventory from 6,524 at December 31, 1998 to 11,638 at December 31, 1999. The reasons for the decrease in net losses incurred discussed above contributed to an increase in redundancy in prior year loss reserves. The redundancy

results from actual claim rates and actual claim amounts being lower than those estimated by the Company when originally establishing the reserve at December 31, 1998.

At December 31, 1999, 65% of the primary insurance in force was written during the last three years, compared to 60% at December 31, 1998. The highest claim frequency years have typically been the third through fifth years after the year of loan origination. However, the pattern of claims frequency for refinance loans may be different from the historical pattern of other loans.

Underwriting and other expenses increased 6% in 1999 to \$200.8 million from \$190.0 million in 1998. This increase was primarily due to the increase in new primary insurance written and the related underwriting expenses.

Interest expense in 1999 increased to \$20.4 million from \$18.6 million in 1998 due to a higher weighted average outstanding notes payable balance in 1999 compared to 1998.

The Company utilized financial derivative transactions during 1999 consisting of interest rate swaps to reduce and manage interest rate risk on its notes payable. Earnings on such transactions aggregated approximately \$3.8 million and were netted against interest expense. In 1998, earnings on an interest rate swap and premium income on three put-swaptions aggregating approximately \$0.5 million for all such transactions were netted against interest expense.

The consolidated insurance operations loss ratio was 12.3% for 1999 compared to 27.7% for 1998. The consolidated insurance operations expense and combined ratios were 19.7% and 32.0%, respectively, for 1999 compared to 19.6% and 47.3%, respectively, for 1998.

The effective tax rate was 31.0% in 1999, compared with 30.5% in 1998. During both years, the effective tax rate was below the statutory rate of 35%, reflecting the benefits of tax-preferenced investment income. The higher effective tax rate in 1999 resulted from a lower percentage of total income before tax being generated from tax-preferenced investments in 1999.

Financial Condition

Consolidated total investments increased approximately \$682 million to \$3.5 billion at December 31, 2000 from \$2.8 billion at December 31, 1999, primarily due to

positive net cash flow, as well as unrealized gains on securities marked to market of \$179 million. The Company generated consolidated cash flows from operating activities of \$551.0 million during 2000, compared to \$455.0 million generated during 1999. The increase in operating cash flows during 2000 compared to 1999 is due primarily to an increase in renewal premiums and investment income and a decrease in losses paid. As of December 31, 2000, the Company had \$151.6 million of short-term investments with maturities of 90 days or less, and 63% of the portfolio was invested in tax-preferenced securities. In addition, at December 31, 2000, based on book value, the Company's fixed income securities were approximately 98% invested in 'A' rated and above, readily marketable securities, concentrated in maturities of less than 15 years. At December 31, 2000 the Company had \$22.0 million of investments in equity securities compared to \$15.4 million at December 31, 1999.

At December 31, 2000, the Company had no derivative financial instruments in its investment portfolio. The Company places its investments in instruments that meet high credit quality standards, as specified in the Company's investment policy guidelines; the policy also limits the amount of credit exposure to any one issue, issuer and type of instrument. At December 31, 2000, the average duration of the Company's investment portfolio was 6.1 years. The effect of a 1% increase/decrease in market interest rates would result in a 6.1% decrease/increase in the value of the Company's fixed income portfolio.

The Company's investments in joint ventures increased \$37.3 million from \$101.5 million at December 31, 1999 to \$138.8 million at December 31, 2000 as a result of additional investments of \$19.2 million and equity earnings of \$18.1 million.

Consolidated loss reserves decreased 5% to \$609.5 million at December 31, 2000 from \$642.0 million at December 31, 1999, reflecting a reduction in the primary and pool reserve factors partially offset by increases in the primary and pool insurance notice inventories, all of which were discussed earlier. Consistent with industry practices, the Company does not establish loss reserves for future claims on insured loans which are not currently in default.

Consolidated unearned premiums decreased \$0.7 million from \$181.4 million at December 31, 1999, to \$180.7 million at December 31, 2000, primarily reflecting the continued high level of monthly premium

policies written for which there is no unearned premium offset by an increase in unearned premiums for agency pool insurance written.

Consolidated shareholders' equity increased to \$2.5 billion at December 31, 2000, from \$1.8 billion at December 31, 1999, an increase of 39%. This increase consisted of \$542.0 million of net income during 2000, \$47.2 million from the reissuance of treasury stock and unrealized gains on investments, net of tax, of \$116.5 million offset by the repurchase of \$6.2 million of outstanding common shares and dividends declared of \$10.6 million.

Liquidity and Capital Resources

The Company's consolidated sources of funds consist primarily of premiums written and investment income. Funds are applied primarily to the payment of claims and expenses. Approximately 68% of underwriting expenses are personnel-related costs, most of which are considered by the Company to be fixed costs over the short term. Approximately 6% of operating expenses relate to occupancy costs, which are fixed costs. Substantially all of the remaining operating expenses are considered by the Company to be variable in nature, with data processing costs and taxes, licenses and fees representing approximately 4% and 10%, respectively, of total operating expenses. The Company generated positive cash flows of approximately \$551.0 million, \$455.0 million and \$411.8 million in 2000, 1999 and 1998, respectively, as shown on the Consolidated Statement of Cash Flows. Positive cash flows are invested pending future payments of claims and other expenses. Cash-flow shortfalls, if any, could be funded through sales of short-term investments and other investment portfolio securities.

During 1999 and 1998, the Company repurchased approximately 3.6 million and 5.3 million shares, respectively, of its outstanding common stock at a cost of \$201 and \$247 million, respectively. Funds to repurchase the shares in 1998 were primarily provided by borrowings under credit facilities evidenced by notes payable. The shares repurchased in 1999 were funded with a \$150 million special dividend from MGIC and cash flow. At December 31, 1999, the Company's outstanding balance on the credit facilities was \$425 million, which approximated market value.

In June of 2000, the Company filed a \$500 million public debt shelf registration statement. During the

fourth quarter of 2000, the Company issued in public offerings \$300 million, 7-1/2% Senior Notes due 2005. The notes are unsecured and were rated 'A1' by Moody's and 'A+' by Standard & Poors ("S&P"). The net proceeds were used to repay a portion of the borrowings under the bank credit facilities.

At December 31, 2000, the Company's aggregate outstanding balance under the 1998 and 1999 credit facilities, each of which provides \$100 million of availability, was approximately \$98 million and the remaining credit available was \$102 million. Amounts drawn under the 1998 and 1999 credit facilities are due in 2003 and 2004, respectively. The interest rates on these credit facilities vary based on LIBOR and the 1999 and 2000 weighted average interest rates were 6.71% and 5.57%, respectively. Under the terms of the credit facilities, the Company must maintain shareholders' equity of at least \$1 billion and MGIC must maintain a claims paying ability rating of 'AA-' or better with S&P. At December 31, 2000, the Company had shareholders' equity of \$2.46 billion and MGIC had a claims paying ability rating of 'AA+' from S&P. The Company plans to sell commercial paper and use the proceeds to repay borrowings under the credit facilities and to use the credit facilities to back the commercial paper.

During 1999, the Company utilized three interest rate swaps, each with a notional amount of \$100 million, to reduce and manage interest rate risk on a portion of the variable rate debt under the credit facilities. The notional amount of \$100 million represents the stated principal balance used for calculating payments. The Company received and paid amounts based on rates that were both fixed and variable. Earnings on the swaps during 1999, of approximately \$3.8 million, were netted against interest expense.

Early in 2000, two of the swaps were amended and designated as hedges. Later in 2000, the two hedges were amended. The Company pays an interest rate based on LIBOR and receives a fixed rate of 7.5%. The swaps have an expiration date coinciding with the maturity of the public debt and are designated as hedges. The remaining swap was also amended. On this swap, the Company pays a fixed rate of 6.79% and receives an interest rate based on LIBOR. The swap has an expiration date coinciding with the maturity of the credit facilities and is designated as a hedge. Gains or losses arising from the amendment or termination of interest rate swaps are deferred and amortized to interest expense over the life of the hedged items. Earnings on the swaps

during 2000, of approximately \$0.3 million, were netted against interest expense. The swaps are subject to credit risk to the extent the counterparty would be unable to discharge its obligations under the swap agreements.

MGIC is the principal insurance subsidiary of the Company. MGIC's risk-to-capital ratio was 10.6:1 at December 31, 2000 compared to 11.9:1 at December 31, 1999. The decrease was due to MGIC's increased policyholders' reserves, partially offset by the net additional risk in force of \$3.1 billion, net of reinsurance, during 2000.

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

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

Risk Factors

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

If the volume of low down payment home mortgage originations declines, the amount of insurance that we write could also decline which could result in declines in our future revenues.

The factors that affect the volume of low down payment mortgage originations include:

- the level of home mortgage interest rates,

- the health of the domestic economy as well as conditions in regional and local economies,
- housing affordability,
- population trends, including the rate of household formation,
- the rate of home price appreciation, which in times of heavy refinancing affects whether refinance loans have loan-to-value ratios that require private mortgage insurance, and
- government housing policy encouraging loans to first-time homebuyers.

Our volume declined 12% in 2000 compared to the same period in 1999 because many borrowers refinanced their mortgages during 1999 due to a lower interest rate environment. While our volume was higher in 1999, lenders cancelled insurance on loans due to borrowers refinancing. There has been substantially less refinancing activity in 2000. As a result, lenders have cancelled our insurance at a lower rate than in 1999. Also, due to generally favorable home mortgage interest rates in 2000, home purchase activity by first-time homebuyers, who are more likely to need private mortgage insurance, continued to be strong. As a result of these factors, our premium revenues increased in 2000 compared to 1999. While we have not experienced lower volume in recent years other than as a result of refinancing activity, one of the risks we face is that substantially higher interest rates will substantially reduce purchase activity by first-time homebuyers and that the decline in cancellations of insurance that in the past have accompanied higher interest rates will not be sufficient to offset the decline in premiums from loans that are not made.

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

These alternatives to private mortgage insurance include:

- lenders using government mortgage insurance programs, including those of the Federal Housing Administration and the Veterans Administration,
- investors holding mortgages in portfolio and self-insuring,

- investors using credit enhancements other than private mortgage insurance or using other credit enhancements in conjunction with reduced levels of private mortgage insurance coverage, and
- lenders structuring mortgage originations to avoid private mortgage insurance, such as a first mortgage with an 80% loan-to-value ratio and a second mortgage with a 10% loan-to-value ratio (referred to as an 80-10-10 loan) rather than a first mortgage with a 90% loan-to-value ratio.

We believe that during 2000 lenders and investors were self-insuring and making 80-10-10 loans at about the same percentage as they did over the last several years. Although during 2000, the share of the low down payment market held by loans with Federal Housing Administration and Veterans Administration mortgage insurance was lower than in 1999, during three of the prior four years, the Federal Housing Administration and Veterans Administration's collective share of this market increased. In the last quarter of 2000, the Federal Housing Administration reduced its mortgage insurance premiums. Investors are using reduced mortgage insurance coverage on a higher percentage of loans that we insure than they had over the last several years.

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

The business practices of Fannie Mae and Freddie Mac affect the entire relationship between them and mortgage insurers and include:

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

proposed lower capital requirements for Fannie Mae and Freddie Mac when a mortgage is insured by a company with that rating,

- the underwriting standards that determine what loans are eligible for purchase by Fannie Mae or Freddie Mac, which thereby affect the quality of the risk insured by the mortgage insurer and the availability of mortgage loans,
- the terms on which mortgage insurance coverage can be canceled before reaching the cancellation thresholds established by law, and
- the circumstances in which mortgage servicers must perform activities intended to avoid or mitigate loss on insured mortgages that are delinquent.

We do not have a 'AAA' rating. If the proposed capital rules of the Office of Federal Housing Enterprise Oversight are adopted in a form that gives greater capital credit to private mortgage insurers with 'AAA' ratings, we may need to obtain a 'AAA' rating or may need to make other changes to provide Fannie Mae and Freddie Mac with the equivalent of 'AAA' coverage. While we believe we can obtain this rating, we would need to dedicate capital to the mortgage insurance business that we might use in other ways and we would also have additional costs that we would not otherwise incur.

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

Competition for private mortgage insurance premiums occurs not only among private mortgage insurers but increasingly with mortgage lenders through captive mortgage reinsurance transactions. In these transactions, a lender's affiliate reinsures a portion of the insurance written by a private mortgage insurer on mortgages originated by the lender. The low level of losses that has recently prevailed in the private mortgage insurance industry has encouraged competition to assume default risk through captive reinsurance arrangements, self-insurance, 80-10-10 loans and other means. In 1996, we reinsured under captive reinsurance arrangements virtually none of our primary insurance. At the end of 2000, about 21% of our risk in force was subject to captive reinsurance arrangements. The level of competition within the private mortgage insurance industry has also increased as many large mortgage

lenders have reduced the number of private mortgage insurers with whom they do business. At the same time, consolidation among mortgage lenders has increased the share of the mortgage lending market held by large lenders. Our top ten customers generated 27.0% of the new primary insurance that we wrote in 1997 compared to 36.2% in 2000.

Our private mortgage insurance competitors include:

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

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

In each year, most of MGIC's premiums are from insurance that has been written in prior years. As a result, the length of time insurance remains in force is an important determinant of revenues. The factors affecting the length of time our insurance remains in force include:

- the level of current mortgage interest rates compared to the mortgage coupon rates on the insurance in force, which affects the vulnerability of the insurance in force to refinancings, and
- mortgage insurance cancellation policies of mortgage investors along with the rate of home price appreciation experienced by the homes underlying the mortgages in the insurance in force.

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

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

Losses result from events that reduce a borrower's ability to continue to make mortgage payments, such as unemployment, and whether the home of a borrower

who defaults on his mortgage can be sold for an amount that will cover unpaid principal and interest and the expenses of the sale. Favorable economic conditions generally reduce the likelihood that borrowers will lack sufficient income to pay their mortgages and also favorably affect the value of homes, thereby reducing and in some cases even eliminating a loss from a mortgage default. In recent years, due in part to the strength of the economy, we have had low losses by historical standards. A significant deterioration in economic conditions would probably increase our losses.

Our industry is subject to litigation risk.

In recent years, consumers have brought a growing number of lawsuits against home mortgage lenders and settlement service providers. As of the middle of February, 2001, seven mortgage insurers, including our MGIC subsidiary, were involved in litigation alleging violations of the Real Estate Settlement Procedures Act. Our MGIC subsidiary and two other mortgage insurers have entered into an agreement to settle the cases against them. The Court will consider whether to enter a final order approving this settlement in June 2001. We took a \$23.2 million pretax charge in 2000 to cover our share of the estimated costs of the settlement. While the settlement includes an injunction that prohibits certain practices and specifies the basis on which other practices may be done in compliance with the Real Estate Settlement Procedures Act, we may still be subject to future litigation.

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

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

Consolidated Statement of Operations

	2000	1999	1998
(In thousands of dollars, except per share data)			
REVENUES:			
Premiums written:			
Direct	\$ 939,482	\$ 816,351	\$ 755,620
Assumed.....	847	2,215	8,352
Ceded (note 7).....	(52,941)	(26,221)	(14,811)
Net premiums written	887,388	792,345	749,161
Decrease in unearned premiums.....	2,703	236	14,123
Net premiums earned (note 7)	890,091	792,581	763,284
Investment income, net of expenses (note 4)	178,535	153,071	143,019
Realized investment gains, net (note 4).....	1,432	3,406	18,288
Other revenue	40,283	47,697	47,075
Total revenues	1,110,341	996,755	971,666
LOSSES AND EXPENSES:			
Losses incurred, net (notes 6 and 7)	91,723	97,196	211,354
Underwriting and other expenses	177,837	198,147	187,103
Interest expense	28,759	20,402	18,624
Litigation settlement (note 13)	23,221	-	-
Total losses and expenses	321,540	315,745	417,081
Income before tax	788,801	681,010	554,585
Provision for income tax (note 10)	246,802	210,809	169,120
Net income	\$ 541,999	\$ 470,201	\$ 385,465
Earnings per share (note 11):			
Basic	\$ 5.10	\$ 4.35	\$ 3.44
Diluted.....	\$ 5.05	\$ 4.30	\$ 3.39

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheet

<u>ASSETS</u>	<u>2000</u>	<u>1999</u>
	<i>(In thousands of dollars)</i>	
Investment portfolio (note 4):		
Securities, available-for-sale, at market value:		
Fixed maturities	\$ 3,298,561	\$ 2,666,562
Equity securities	22,042	15,426
Short-term investments.....	<u>151,592</u>	<u>107,746</u>
Total investment portfolio.....	3,472,195	2,789,734
Cash.....	5,598	2,322
Accrued investment income	51,419	46,713
Reinsurance recoverable on loss reserves (note 7).....	33,226	35,821
Reinsurance recoverable on unearned premiums (note 7).....	8,680	6,630
Home office and equipment, net	31,308	32,880
Deferred insurance policy acquisition costs	25,839	22,350
Investments in joint ventures (note 8)	138,838	101,545
Other assets	<u>90,678</u>	<u>66,398</u>
Total assets.....	<u>\$ 3,857,781</u>	<u>\$ 3,104,393</u>
 <u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
Liabilities:		
Loss reserves (notes 6 and 7).....	\$ 609,546	\$ 641,978
Unearned premiums (note 7)	180,724	181,378
Notes payable (note 5)	397,364	425,000
Other liabilities	<u>205,265</u>	<u>80,048</u>
Total liabilities	<u>1,392,899</u>	<u>1,328,404</u>
Contingencies (note 13)		
Shareholders' equity (note 11):		
Common stock, \$1 par value, shares authorized 300,000,000; shares issued 121,110,800; outstanding 2000 – 106,825,758; 1999 – 105,798,034.....	121,111	121,111
Paid-in surplus	207,882	211,593
Treasury stock (shares at cost 2000 – 14,285,042; 1999 – 15,312,766).....	(621,033)	(665,707)
Accumulated other comprehensive income – unrealized appreciation (depreciation) in investments, net of tax (note 2).....	75,814	(40,735)
Retained earnings (note 11)	<u>2,681,108</u>	<u>2,149,727</u>
Total shareholders' equity.....	<u>2,464,882</u>	<u>1,775,989</u>
Total liabilities and shareholders' equity	<u>\$ 3,857,781</u>	<u>\$ 3,104,393</u>

See accompanying notes to consolidated financial statements.

Consolidated Statement of Shareholders' Equity

	Common stock	Paid-in surplus	Treasury stock	Accumulated other comprehensive income (note 2)	Retained earnings	Comprehensive income
	<i>(In thousands of dollars)</i>					
Balance, December 31, 1997.....	\$ 121,111	\$ 218,499	\$ (252,942)	\$ 83,985	\$ 1,316,129	
Net income.....	-	-	-	-	385,465	\$ 385,465
Unrealized investment gains, net.....	-	-	-	10,587	-	10,587
Comprehensive income.....	-	-	-	-	-	<u>\$ 396,052</u>
Dividends declared.....	-	-	-	-	(11,243)	
Repurchase of outstanding common shares.....	-	-	(246,840)	-	-	
Reissuance of treasury stock.....	-	(1,477)	17,317	-	-	
Balance, December 31, 1998.....	121,111	217,022	(482,465)	94,572	1,690,351	
Net income.....	-	-	-	-	470,201	\$ 470,201
Unrealized investment losses, net.....	-	-	-	(135,307)	-	(135,307)
Comprehensive income.....	-	-	-	-	-	<u>\$ 334,894</u>
Dividends declared.....	-	-	-	-	(10,825)	
Repurchase of outstanding common shares.....	-	-	(200,533)	-	-	
Reissuance of treasury stock.....	-	(5,429)	17,291	-	-	
Balance, December 31, 1999.....	121,111	211,593	(665,707)	(40,735)	2,149,727	
Net income.....	-	-	-	-	541,999	\$ 541,999
Unrealized investment gains, net.....	-	-	-	116,549	-	116,549
Comprehensive income.....	-	-	-	-	-	<u>\$ 658,548</u>
Dividends declared.....	-	-	-	-	(10,618)	
Repurchase of outstanding common shares.....	-	-	(6,224)	-	-	
Reissuance of treasury stock.....	-	(3,711)	50,898	-	-	
Balance, December 31, 2000.....	<u>\$ 121,111</u>	<u>\$ 207,882</u>	<u>\$ (621,033)</u>	<u>\$ 75,814</u>	<u>\$ 2,681,108</u>	

See accompanying notes to consolidated financial statements.

Consolidated Statement of Cash Flows

	2000	1999	1998
	<i>(In thousands of dollars)</i>		
Cash flows from operating activities:			
Net income	\$ 541,999	\$ 470,201	\$ 385,465
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization of deferred insurance policy acquisition costs	20,597	16,822	20,717
Increase in deferred insurance policy acquisition costs	(24,086)	(15,107)	(17,626)
Depreciation and other amortization	6,860	11,746	7,742
Increase in accrued investment income	(4,706)	(5,236)	(5,992)
Decrease (increase) in reinsurance recoverable on loss reserves	2,595	9,706	(19,112)
(Increase) decrease in reinsurance recoverable on unearned premiums	(2,050)	2,126	483
(Decrease) increase in loss reserves	(32,432)	(39,296)	82,591
Decrease in unearned premiums	(654)	(2,361)	(14,566)
Equity earnings in joint ventures	(18,113)	(12,700)	(12,420)
Other	61,027	19,114	(15,500)
Net cash provided by operating activities	551,037	455,015	411,782
Cash flows from investing activities:			
Purchase of equity securities	(14,629)	(14,035)	(3,886)
Purchase of fixed maturities	(1,807,718)	(1,223,599)	(916,129)
Investments in joint ventures	(19,180)	(13,599)	(33,426)
Proceeds from sale of equity securities	14,029	4,150	116,164
Proceeds from sale or maturity of fixed maturities	1,349,398	949,723	529,358
Net cash used in investing activities	(478,100)	(297,360)	(307,919)
Cash flows from financing activities:			
Dividends paid to shareholders	(10,618)	(10,825)	(11,243)
Proceeds from issuance of long-term debt	309,079	43,000	262,000
Repayment of long-term debt	(336,751)	(60,000)	(57,500)
Reissuance of treasury stock	18,699	3,912	6,953
Repurchase of common stock	(6,224)	(200,533)	(246,840)
Net cash used in financing activities	(25,815)	(224,446)	(46,630)
Net increase (decrease) in cash and cash equivalents	47,122	(66,791)	57,233
Cash and cash equivalents at beginning of year	110,068	176,859	119,626
Cash and cash equivalents at end of year	\$ 157,190	\$ 110,068	\$ 176,859

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1. *Nature of business*

MGIC Investment Corporation ("Company") is a holding company which, through Mortgage Guaranty Insurance Corporation ("MGIC") and several other subsidiaries, is principally engaged in the mortgage insurance business. The Company provides mortgage insurance to lenders throughout the United States to protect against loss from defaults on low down payment residential mortgage loans. Through certain other non-insurance subsidiaries, the Company also provides various services for the mortgage finance industry, such as contract underwriting and portfolio analysis.

At December 31, 2000, the Company's direct primary insurance in force (representing the current principal balance of all mortgage loans that are currently insured) and direct primary risk in force, excluding MGIC Indemnity Corporation ("MIC"), formerly known as Wisconsin Mortgage Assurance Corporation, was approximately \$160.2 billion and \$39.1 billion, respectively. In addition to providing direct primary insurance coverage, the Company also insures pools of mortgage loans. The Company's direct pool risk in force at December 31, 2000 was approximately \$1.7 billion. MIC's direct primary insurance in force, direct primary risk in force and direct pool risk in force was approximately \$1.2 billion, \$0.3 billion and \$0.3 billion, respectively, at December 31, 2000. (See note 7.)

2. *Basis of presentation and summary of significant accounting policies*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Principles of consolidation

The consolidated financial statements include the accounts of MGIC Investment Corporation and its wholly-owned subsidiaries. All intercompany transactions have been eliminated. The Company's 45.9% investment in Credit-Based Asset Servicing and Securitization LLC ("C-BASS") and 45.5% investment in Sherman Financial Group LLC, ("Sherman"), joint ventures with Enhance Financial Services Group Inc. and 46.4% investment in Customers Forever LLC,

("Customers Forever"), a joint venture with Marshall & Ilsley Corporation are accounted for on the equity method and recorded on the balance sheet as investments in joint ventures. The Company's equity earnings from these joint ventures are included in other revenue. (See note 8.)

The Company also holds a 12% voting preferred stock investment in GHR Systems, Inc. ("GHR"). GHR provides infrastructure for Internet-based lending, including loan decisioning technology. The investment in GHR is recorded on the Company's balance sheet as an equity security.

Investments

The Company categorizes its investment portfolio according to its ability and intent to hold the investments to maturity. Investments which the Company does not have the ability and intent to hold to maturity are considered to be available-for-sale and must be recorded at market and the unrealized gains or losses recognized as an increase or decrease to shareholders' equity. The Company's entire investment portfolio is classified as available-for-sale. Realized investment gains and losses are reported in income based upon specific identification of securities sold. (See note 4.)

Home office and equipment

Home office and equipment is carried at cost net of depreciation. For financial statement reporting purposes, depreciation is determined on a straight-line basis for the home office, equipment and data processing hardware over estimated lives of 45, 5 and 3 years, respectively. For income tax purposes, the Company uses accelerated depreciation methods.

Home office and equipment is shown net of accumulated depreciation of \$31.3 million and \$31.5 million at December 31, 2000 and 1999, respectively.

Deferred insurance policy acquisition costs

Costs associated with the acquisition of mortgage insurance business, consisting of employee compensation and other policy issuance and underwriting expenses, are initially deferred and reported as deferred acquisition costs (DAC). Because SFAS 60 specifically excludes mortgage guaranty insurance from its guidance relating to the amortization of DAC, amortization of these costs for each underwriting year book of business are charged against revenue in proportion to estimated gross profits over the life of the policies using the guidance of SFAS 97,

Accounting and Reporting by Insurance Enterprises For Certain Long Duration Contracts and Realized Gains and Losses From the Sale of Investments. This includes accruing interest on the unamortized balance of DAC. The estimates for each underwriting year are updated annually to reflect actual experience and any changes to key assumptions such as persistency or loss development.

During 2000, 1999 and 1998, the Company amortized \$20.6 million, \$16.8 million and \$20.7 million, respectively, of deferred insurance policy acquisition costs.

Loss reserves

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

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

Reserves also provide for the estimated costs of settling claims, including legal and other expenses and general expenses of administering the claims settlement process. (See note 6.)

Income recognition

The insurance subsidiaries write policies which are guaranteed renewable contracts at the insured's option on a single, annual or monthly premium basis. The insurance subsidiaries have no ability to reunderwrite or reprice these contracts. Premiums written on a single premium basis and an annual premium basis are initially deferred as unearned premium reserve and earned over

the policy term. Premiums written on policies covering more than one year are amortized over the policy life in accordance with the expiration of risk which is the anticipated claim payment pattern based on historical experience. Premiums written on annual policies are earned on a monthly pro rata basis. Premiums written on monthly policies are earned as coverage is provided.

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

Income taxes

The Company and its subsidiaries file a consolidated federal income tax return. A formal tax sharing agreement exists between the Company and its subsidiaries. Each subsidiary determines income taxes based upon the utilization of all tax deferral elections available. This assumes tax and loss bonds are purchased and held to the extent they would have been purchased and held on a separate company basis since the tax sharing agreement provides that the redemption or non-purchase of such bonds shall not increase such member's separate taxable income and tax liability on a separate company basis.

Federal tax law permits mortgage guaranty insurance companies to deduct from taxable income, subject to certain limitations, the amounts added to contingency loss reserves. Generally, the amounts so deducted must be included in taxable income in the tenth subsequent year. The deduction is allowed only to the extent that U.S. government non-interest bearing tax and loss bonds are purchased and held in an amount equal to the tax benefit attributable to such deduction. The Company accounts for these purchases as a payment of current federal income taxes.

Deferred income taxes are provided under the liability method which recognizes the future tax effects of temporary differences between amounts reported in the financial statements and the tax bases of these items. The expected tax effects are computed at the current federal tax rate. (See note 10.)

Benefit plans

The Company has a non-contributory defined benefit pension plan covering substantially all employees. Retirement benefits are based on compensation and years of service. The Company's policy is to fund pension cost as required under the Employee Retirement Income Security Act of 1974. (See note 9.)

Notes (continued)

The Company accrues the estimated costs of retiree medical and life benefits over the period during which employees render the service that qualifies them for benefits. The Company offers both medical and dental benefits for retired employees and their spouses. Benefits are generally funded on a pay-as-you-go basis. (See note 9.)

Reinsurance

Loss reserves and unearned premiums are reported before taking credit for amounts ceded under reinsurance treaties. Ceded loss reserves are reflected as "Reinsurance recoverable on loss reserves." Ceded unearned premiums are reflected as "Reinsurance recoverable on unearned premiums." The Company remains contingently liable for all reinsurance ceded. (See note 7.)

Earnings per share

The Company's basic and diluted earnings per share ("EPS") have been calculated in accordance with Statement of Financial Accounting Standards No. 128, Earnings Per Share ("SFAS 128"). The Company's net income is the same for both basic and diluted EPS. Basic EPS is based on the weighted-average number of common shares outstanding. Diluted EPS is based on the weighted-average number of common shares outstanding and common stock equivalents which would arise from the exercise of stock options. The following is a reconciliation of the weighted-average number of shares used for basic EPS and diluted EPS. (See note 11.)

	Years Ended December 31,		
	2000	1999	1998
	<i>(shares in thousands)</i>		
Weighted-average shares –			
Basic EPS	106,202	108,061	112,135
Common stock equivalents	1,058	1,197	1,447
Weighted-average shares –			
Diluted EPS	<u>107,260</u>	<u>109,258</u>	<u>113,582</u>

Statement of cash flows

For purposes of the consolidated statement of cash flows, the Company considers short-term investments to be cash equivalents, as short-term investments have original maturities of three months or less.

Comprehensive income

The Company's other comprehensive income consists of the change in unrealized appreciation (depreciation) on investments, net of tax. Realized investment gains of

\$1.4 million and \$3.4 million in 2000 and 1999, respectively, include sales of securities which had unrealized (depreciation) appreciation of (\$18.6) million and \$27.9 million at December 31, 1999 and 1998, respectively.

Recent accounting pronouncements

The Company adopted Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities ("SFAS 133"), effective January 1, 2001. The statement establishes accounting and reporting standards for derivative instruments and for hedging activities. The adoption of SFAS 133 will not have a significant effect on the Company's results of operations or its financial position due to its limited use of derivative instruments. (See note 5.)

Reclassifications

Certain reclassifications have been made in the accompanying financial statements to 1999 and 1998 amounts to allow for consistent financial reporting.

3. Related party transactions

The Northwestern Mutual Life Insurance Company ("NML") held approximately 8% of the common stock of the Company at December 31, 2000. The Company contracts with Northwestern Mutual Investment Services, LLC, a subsidiary of NML, for investment portfolio management. The Company incurred expense of \$1.1 million, \$1.0 million and \$1.0 million for these services in 2000, 1999 and 1998, respectively.

The Company provided certain services to C-BASS during 2000, 1999 and 1998, and Customers Forever in 2000 and 1999 in exchange for an immaterial amount of fees. In addition, C-BASS provided certain services to the Company during 2000 and 1999 in exchange for an immaterial amount of fees.

4. Investments

The following table summarizes the Company's investments at December 31, 2000 and 1999:

	Amortized Cost	Market Value	Financial Statement Value
	<i>(In thousands of dollars)</i>		
<u>At December 31, 2000:</u>			
Securities, available-for-sale:			
Fixed maturities	\$ 3,182,063	\$ 3,298,561	\$ 3,298,561
Equity securities	21,903	22,042	22,042
Short-term investments	151,592	151,592	151,592
Total investment portfolio	<u>\$ 3,355,558</u>	<u>\$ 3,472,195</u>	<u>\$ 3,472,195</u>
<u>At December 31, 1999:</u>			
Securities, available-for-sale:			
Fixed maturities	\$ 2,732,451	\$ 2,666,562	\$ 2,666,562
Equity securities	12,203	15,426	15,426
Short-term investments	107,746	107,746	107,746
Total investment portfolio	<u>\$ 2,852,400</u>	<u>\$ 2,789,734</u>	<u>\$ 2,789,734</u>

The amortized cost and market value of investments at December 31, 2000 are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
	<i>(In thousands of dollars)</i>			
<u>December 31, 2000:</u>				
U.S. Treasury securities and obligations of U.S. government corporations and agencies.....	\$ 220,168	\$ 6,033	\$ (592)	\$ 225,609
Obligations of states and political subdivisions.....	2,382,766	106,776	(1,226)	2,488,316
Corporate securities.....	715,115	12,152	(7,282)	719,985
Mortgage-backed securities.....	1,648	9	-	1,657
Debt securities issued by foreign sovereign governments.....	13,958	628	-	14,586
Total debt securities.....	3,333,655	125,598	(9,100)	3,450,153
Equity securities.....	21,903	757	(618)	22,042
Total investment portfolio	<u>\$ 3,355,558</u>	<u>\$ 126,355</u>	<u>\$ (9,718)</u>	<u>\$ 3,472,195</u>

The amortized cost and market value of investments at December 31, 1999 are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
	<i>(In thousands of dollars)</i>			
<u>December 31, 1999:</u>				
U.S. Treasury securities and obligations of U.S. government corporations and agencies.....	\$ 163,663	\$ 305	\$ (9,162)	\$ 154,806
Obligations of states and political subdivisions.....	2,195,031	25,196	(71,323)	2,148,904
Corporate securities.....	466,204	469	(11,406)	455,267
Mortgage-backed securities.....	1,366	-	(8)	1,358
Debt securities issued by foreign sovereign governments.....	13,933	55	(15)	13,973
Total debt securities.....	2,840,197	26,025	(91,914)	2,774,308
Equity securities.....	12,203	3,223	-	15,426
Total investment portfolio	<u>\$ 2,852,400</u>	<u>\$ 29,248</u>	<u>\$ (91,914)</u>	<u>\$ 2,789,734</u>

Notes (continued)

The amortized cost and market values of debt securities at December 31, 2000, by contractual maturity, are shown below. Debt securities consist of fixed maturities and short-term investments. 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.

	Amortized Cost	Market Value
	<i>(In thousands of dollars)</i>	
Due in one year or less	\$ 180,967	\$ 181,015
Due after one year through five years	645,228	657,114
Due after five years through ten years.....	893,942	920,049
Due after ten years	<u>1,611,870</u>	<u>1,690,318</u>
	3,332,007	3,448,496
Mortgage-backed securities	<u>1,648</u>	<u>1,657</u>
Total at December 31, 2000.....	<u>\$ 3,333,655</u>	<u>\$ 3,450,153</u>

Net investment income is comprised of the following:

	2000	1999	1998
	<i>(In thousands of dollars)</i>		
Fixed maturities	\$ 167,810	\$ 144,614	\$ 133,307
Equity securities.....	1,279	975	1,133
Short-term investments.....	10,673	8,865	9,603
Other	<u>341</u>	<u>46</u>	<u>79</u>
Investment income.....	180,103	154,500	144,122
Investment expenses.....	<u>(1,568)</u>	<u>(1,429)</u>	<u>(1,103)</u>
Net investment income.....	<u>\$ 178,535</u>	<u>\$ 153,071</u>	<u>\$ 143,019</u>

The net realized investment gains (losses) and change in net unrealized appreciation (depreciation) of investments are as follows:

	2000	1999	1998
	<i>(In thousands of dollars)</i>		
Net realized investment gains (losses), on sale of investments:			
Fixed maturities	\$ 1,440	\$ 3,409	\$ 8,349
Equity securities.....	-	-	9,941
Short-term investments.....	<u>(8)</u>	<u>(3)</u>	<u>(2)</u>
	1,432	3,406	18,288
Change in net unrealized appreciation (depreciation):			
Fixed maturities	182,387	(208,338)	25,631
Equity securities.....	(3,084)	179	(9,339)
Short-term investments.....	-	-	-
	<u>179,303</u>	<u>(208,159)</u>	<u>16,292</u>
Net realized investment gains (losses) and change in net unrealized appreciation (depreciation).....	<u>\$ 180,735</u>	<u>\$ (204,753)</u>	<u>\$ 34,580</u>

The gross realized gains and the gross realized losses on sales of available-for-sale securities were

\$18.2 million and \$16.8 million, respectively, in 2000, \$14.5 million and \$11.1 million, respectively, in 1999 and \$22.7 million and \$4.4 million, respectively, in 1998.

The tax expense (benefit) of the changes in net unrealized appreciation (depreciation) was \$62.8 million, (\$72.9) million and \$5.7 million for 2000, 1999 and 1998, respectively.

5. Long-term debt

During 1999 and 1998, the Company repurchased approximately 3.6 million and 5.3 million shares, respectively, of its outstanding common stock at a cost of \$201 million and \$247 million, respectively. Funds to repurchase the shares in 1998 were primarily provided by borrowings under credit facilities evidenced by notes payable. The shares repurchased in 1999 were funded with a \$150 million special dividend from MGIC and cash flow. At December 31, 1999, the Company's outstanding balances on the 1997, 1998 and 1999 credit facilities were \$200 million, \$225 million and \$0, respectively, which approximated market value.

In June of 2000, the Company filed a \$500 million public debt shelf registration statement. During the fourth quarter of 2000, the Company issued in a public offering \$300 million, 7-1/2% Senior Notes due 2005. The notes are unsecured and were rated 'A1' by Moody's and 'A+' by Standard & Poors ("S&P"). The net proceeds were used to repay a portion of the previously existing credit facilities.

During the fourth quarter, the Company repaid and terminated the 1997 credit facility. At December 31, 2000, the Company's outstanding balances under the 1998 and 1999 credit facilities were approximately \$98 million and \$0, respectively. The remaining credit available under these facilities at December 31, 2000 was \$2 million and \$100 million, expiring in 2003 and 2004, respectively. The interest rates on these credit facilities vary based on LIBOR and the 1999 and 2000 weighted average interest rates were 6.71% and 5.57%, respectively. Under the terms of the credit facilities, the Company must maintain shareholders' equity of at least \$1 billion and MGIC must maintain a claims paying ability rating of 'AA-' or better with S&P. At December 31, 2000, the Company had shareholders' equity of \$2.46 billion and MGIC had a claims paying ability rating of 'AA+' from S&P.

During 1999, the Company utilized three interest rate swaps, each with a notional amount of \$100 million, to reduce and manage interest rate risk on a portion of the variable rate debt under the credit facilities. The notional amount of \$100 million represents the stated principal balance used for calculating payments. The Company received and paid amounts based on rates that were both fixed and variable. Earnings on the swaps during 1999, of approximately \$3.8 million, were netted against interest expense.

Early in 2000, two of the swaps were amended and designated as hedges. Later in 2000, the two hedges were amended. The Company pays an interest rate based on LIBOR and receives a fixed rate of 7.5%. The swaps have an expiration date coinciding with the maturity of the public debt and are designated as hedges. The remaining swap was also amended. On this swap, the Company pays a fixed rate of 6.79% and receives an interest rate based on LIBOR. The swap has an expiration date coinciding with the maturity of the credit facilities and is designated as a hedge. Gains or losses arising from the amendment or termination of interest rate swaps are deferred and amortized to interest expense over the life of the hedged items. Earnings on the swaps during 2000, of approximately \$0.3 million, were netted against interest expense. The swaps are subject to credit risk to the extent the counterparty would be unable to discharge its obligations under the swap agreements.

Interest payments on all long-term debt were \$25.5 million and \$22.0 million for the years ended December 31, 2000 and 1999, respectively. At December 31, 2000, the carrying value of the long-term debt approximates market value.

6. Loss reserves

Loss reserve activity was as follows:

	2000	1999	1998
	<i>(In thousands of dollars)</i>		
Reserve at beginning of year	\$ 641,978	\$ 681,274	\$ 598,683
Less reinsurance recoverable	35,821	45,527	26,415
Net reserve at beginning of year	606,157	635,747	572,268
Reserve transfer (1)	85	833	538
Adjusted reserve at beginning of year	606,242	636,580	572,806
Losses incurred:			
Losses and LAE incurred in respect of default notices received in:			
Current year	320,769	333,193	377,786
Prior years (2)	(229,046)	(235,997)	(166,432)
Subtotal	91,723	97,196	211,354
Losses paid:			
Losses and LAE paid in respect of default notices received in:			
Current year	9,044	7,601	8,752
Prior years	112,601	120,018	139,661
Subtotal	121,645	127,619	148,413
Net reserve at end of year	576,320	606,157	635,747
Plus reinsurance recoverables	33,226	35,821	45,527
Reserve at end of year	\$ 609,546	\$ 641,978	\$ 681,274

(1) Received in conjunction with the cancellation of certain reinsurance treaties. (See note 7.)

(2) A negative number for a prior year indicates a redundancy of loss reserves, and a positive number for a prior year indicates a deficiency of loss reserves.

The top portion of the table above shows losses incurred on default notices received in the current year and in prior years, respectively. The amount of losses incurred relating to default notices received in the current year represents the estimated amount to be ultimately paid on such default notices. The amount of losses incurred relating to default notices received in prior years represents an adjustment made in the current year for defaults which were included in the loss reserve at the end of the prior year.

Current year losses incurred decreased from 1999 to 2000 primarily due to generally strong economic conditions, including California and a related decline in losses paid which resulted in a decline in both primary and pool reserve factors. Partially offsetting the reduction in factors was an increase in the primary insurance notice inventory from 29,761 at December 31, 1999 to 37,422 at December 31, 2000 and an increase in pool insurance notice inventory from 11,638 at

Notes (continued)

December 31, 1999 to 18,209 at December 31, 2000. The default rate at December 31, 2000 was 2.58% compared to 2.17% at December 31, 1999 and the average claim paid for 2000 was \$18,977 compared to \$19,444 in 1999.

The favorable development of the reserves in 2000, 1999 and 1998 is reflected in the prior year line, and results from the actual claim rates and actual claim amounts being lower than those estimated by the Company when originally establishing the reserve at December 31, 1999, 1998 and 1997, respectively.

The lower portion of the table above shows the breakdown between claims paid on default notices received in the current year and default notices received in prior years. Since it takes, on average, about twelve months for a default which is not cured to develop into a paid claim, most losses paid relate to default notices received in prior years.

7. Reinsurance

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

The reinsurance recoverable on loss reserves and the reinsurance recoverable on unearned premiums primarily represent amounts recoverable from large international reinsurers. The Company monitors the financial strength of its reinsurers including their claims paying ability rating and does not currently anticipate any collection problems. Generally, reinsurance recoverables on loss reserves and unearned premiums are backed by trust funds or letters of credit. No reinsurer represents more than \$10 million of the aggregate amount recoverable. As a result of the purchase of MIC on December 31, 1998, reinsurance recoverable on loss reserves as shown in the Consolidated Balance Sheet includes approximately \$15 million and \$19 million of reinsured loss reserves at December 31, 2000 and December 31, 1999, respectively.

The effect of reinsurance on premiums earned and losses incurred is as follows:

	2000	1999	1998
(In thousands of dollars)			
Premiums earned:			
Direct	\$ 939,981	\$ 819,485	\$ 770,775
Assumed	999	1,442	9,670
Ceded	(50,889)	(28,346)	(17,161)
Net premiums earned.....	\$ 890,091	\$ 792,581	\$ 763,284
Losses incurred:			
Direct	\$ 93,218	\$ 94,920	\$ 216,340
Assumed	35	(1,332)	(3,234)
Ceded	(1,530)	3,608	(1,752)
Net losses incurred.....	\$ 91,723	\$ 97,196	\$ 211,354

8. Investments in joint ventures

C-BASS engages in the acquisition and resolution of delinquent single-family residential mortgage loans ("mortgage loans"). C-BASS also purchases and sells mortgage-backed securities ("mortgage securities"), interests in real estate mortgage investment conduit residuals and performs mortgage loan servicing. In addition, C-BASS issues mortgage-backed debt securities collateralized by mortgage loans and mortgage securities. Substantially all of C-BASS's mortgage-related assets do not have readily ascertainable market values and as a result their value for financial statement purposes is estimated by the management of C-BASS. Market value adjustments could impact the Company's share of C-BASS's results of operations.

Total combined assets of C-BASS at December 31, 2000 and 1999 were approximately \$1,006 million and \$934 million, respectively, of which approximately \$867 million and \$773 million, respectively, were mortgage-related assets, including open trades. Total liabilities at December 31, 2000 and 1999 were approximately \$765 million and \$744 million, respectively, of which approximately \$694 million and \$617 million, respectively, were funding arrangements, including accrued interest. For the years ended December 31, 2000 and 1999, revenues of approximately \$153 million and \$112 million, respectively, and expenses of approximately \$97 million and \$72 million, respectively, resulted in income before tax of approximately \$56 million and \$40 million, respectively. The Company's investment in C-BASS on an equity basis at December 31, 2000 was \$108.7 million.

Sherman is engaged in the business of purchasing, servicing and securitizing delinquent unsecured consumer assets such as credit card loans and Chapter 13

bankruptcy debt. A substantial portion of Sherman's consolidated assets are investments in receivable portfolios that do not have readily ascertainable market values and as a result their value for financial statement purposes is estimated by the management of Sherman. Market value adjustments could impact the Company's share of Sherman's results of operations. The Company's investment in Sherman on an equity basis at December 31, 2000 was \$17.0 million. MGIC is guaranteeing one half of a \$25 million Sherman credit facility that is scheduled to expire in December 2001.

Customers Forever is an Internet-focused transaction service company dedicated to helping large residential mortgage servicers retain and enhance relationships with their customers nationwide. The Company's investment in Customers Forever on an equity basis at December 31, 2000 is \$8.3 million.

The Company expects that it will provide additional funding to the joint ventures.

9. Benefit plans

The following tables provide reconciliations of the changes in the benefit obligation, fair value of plan assets and funded status of the pension and other postretirement benefit plans:

	Pension Benefits		Other Postretirement Benefits	
	2000	1999	2000	1999
	<i>(In thousands of dollars)</i>			
<u>Reconciliation of benefit obligation:</u>				
Benefit obligation at beginning of year	\$ 69,971	\$ 66,280	\$ 24,512	\$ 23,010
Service cost	4,734	5,869	1,943	2,041
Interest cost	4,885	4,677	1,831	1,644
Actuarial (gain) loss	(4,341)	(5,917)	(18)	(2,044)
Benefits paid.....	(1,067)	(938)	(344)	(139)
Benefit obligation at end of year	<u>\$ 74,182</u>	<u>\$ 69,971</u>	<u>\$ 27,924</u>	<u>\$ 24,512</u>
<u>Reconciliation of fair value of plan assets:</u>				
Fair value of plan assets at beginning of year.....	\$ 86,848	\$ 73,822	\$ 13,330	\$ 11,045
Actual return on plan assets.....	(1,627)	6,390	(524)	422
Employer contributions	2,131	7,574	750	1,863
Benefits paid.....	(1,067)	(938)	–	–
Fair value of plan assets at end of year.....	<u>\$ 86,285</u>	<u>\$ 86,848</u>	<u>\$ 13,556</u>	<u>\$ 13,330</u>
<u>Reconciliation of funded status:</u>				
Benefit obligation at end of year	\$ (74,182)	\$ (69,971)	\$ (27,924)	\$ (24,512)
Fair value of plan assets at end of year.....	86,285	86,848	13,556	13,330
Funded status at end of year	12,103	16,877	(14,368)	(11,182)
Unrecognized net actuarial gain	(7,977)	(12,011)	(3,426)	(4,959)
Unrecognized net transition obligation.....	–	31	6,359	6,889
Unrecognized prior service cost	2,176	2,359	–	–
Prepaid (accrued) benefit cost	<u>\$ 6,302</u>	<u>\$ 7,256</u>	<u>\$ (11,435)</u>	<u>\$ (9,252)</u>

Notes (continued)

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

	Pension Benefits			Other Postretirement Benefits		
	2000	1999	1998	2000	1999	1998
	<i>(In thousands of dollars)</i>					
Service cost	\$ 4,734	\$ 5,869	\$ 4,064	\$ 1,943	\$ 2,041	\$ 1,612
Interest cost	4,885	4,677	3,959	1,831	1,644	1,357
Expected return on plan assets	(6,496)	(5,543)	(4,674)	(1,009)	(844)	(696)
Recognized net actuarial gain.....	(520)	—	—	(146)	(17)	(170)
Amortization of transition obligation	32	32	32	530	530	530
Amortization of prior service cost.....	183	183	183	—	—	—
Net periodic benefit cost	<u>\$ 2,818</u>	<u>\$ 5,218</u>	<u>\$ 3,564</u>	<u>\$ 3,149</u>	<u>\$ 3,354</u>	<u>\$ 2,633</u>

The assumptions used in the measurement of the Company's pension and other postretirement benefit obligations are shown in the following table:

	Pension Benefits			Other Postretirement Benefits		
	2000	1999	1998	2000	1999	1998
Weighted-average interest rate assumptions as of December 31:						
Discount rate.....	7.5%	7.5%	7.0%	7.5%	7.5%	7.0%
Expected return on plan assets.....	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%
Rate of compensation increase.....	6.0%	6.0%	6.0%	N/A	N/A	N/A

Plan assets consist of fixed maturities and equity securities. The Company is amortizing the unrecognized transition obligation for other postretirement benefits over 20 years.

The assumed health care cost trend rate used in measuring the accumulated postretirement benefit obligation is:

Medical Pre 65	8.0% for 2000 graded down by 0.5% to 6.0% in 2004 and remaining level thereafter.
Medical Post 65	7.5% for 2000 graded down by 0.5% to 6.0% in 2003 and remaining at 6.0% thereafter.
Dental.....	6.0% per year.

A 1% change in the health care trend rate assumption would have the following effects on other postretirement benefits:

	1-Percentage Point Increase	1-Percentage Point Decrease
	<i>(In thousands of dollars)</i>	
Effect on total service and interest cost components	\$ 801	\$ (678)
Effect on postretirement benefit obligation.....	5,400	(4,562)

The Company has a profit sharing and 401(k) savings plan for employees. At the discretion of the Board of Directors, the Company may make a profit sharing

contribution of up to 5% of each participant's compensation. The Company provides a matching 401(k) savings contribution on employees' before-tax contributions at a rate of 80% of the first \$1,000 contributed and 40% of the next \$2,000 contributed. Profit sharing costs and the Company's matching contributions to the 401(k) savings plan were \$4.7 million, \$5.3 million and \$5.0 million in 2000, 1999 and 1998, respectively.

10. Income taxes

The components of the net deferred tax liability (asset) as of December 31, 2000 and 1999 are recorded on the Consolidated Balance Sheet as part of other liabilities or other assets and are as follows:

	2000	1999
	<i>(In thousands of dollars)</i>	
Unearned premium reserves	\$ (12,054)	\$ (17,726)
Deferred policy acquisition costs.....	9,044	7,822
Loss reserves	(6,368)	(8,119)
Unrealized appreciation/depreciation in investments	40,822	(21,933)
Contingency reserve	51,330	29,029
Other	(993)	(4,521)
Net deferred tax (asset) liability.....	<u>\$ 81,781</u>	<u>\$ (15,448)</u>

At December 31, 2000, gross deferred tax assets and liabilities amounted to \$75.3 million and \$157.1 million, respectively. Management believes that all gross deferred tax assets at December 31, 2000 are fully realizable and no valuation reserve has been established.

The following summarizes the components of the provision for income tax:

	2000	1999	1998
	<i>(In thousands of dollars)</i>		
Federal:			
Current.....	\$ 208,949	\$ 179,423	\$ 171,244
Deferred.....	34,476	28,874	(4,198)
State	3,377	2,512	2,074
Provision for income tax	<u>\$ 246,802</u>	<u>\$ 210,809</u>	<u>\$ 169,120</u>

The Company paid \$199.9 million, \$173.1 million and \$160.6 million in federal income tax in 2000, 1999 and 1998, respectively. At December 31, 2000 and 1999, the Company owned \$838.0 million and \$704.1 million, respectively, of tax and loss bonds.

The reconciliation of the tax provision computed at the federal tax rate of 35% to the reported provision for income tax is as follows:

	2000	1999	1998
	<i>(In thousands of dollars)</i>		
Tax provision computed at federal tax rate.....	\$ 276,080	\$ 238,354	\$ 194,105
(Decrease) increase in tax provision resulting from:			
Tax exempt municipal bond interest.....	(32,350)	(31,851)	(28,973)
Other, net.....	3,072	4,306	3,988
Provision for income tax	<u>\$ 246,802</u>	<u>\$ 210,809</u>	<u>\$ 169,120</u>

11. Shareholders' equity and dividend restrictions

The Company's insurance subsidiaries are subject to statutory regulations as to maintenance of policyholders' surplus and payment of dividends. The maximum amount of dividends that the insurance subsidiaries may pay in any twelve-month period without regulatory approval by the Office of the Commissioner of Insurance of the State of Wisconsin ("OCI") is the lesser of adjusted statutory net income or 10% of statutory policyholders' surplus as of the preceding calendar year end. Adjusted statutory net income is defined for this purpose to be the greater of statutory net income, net of realized investment gains, for the calendar year preceding the date of the dividend or statutory net income, net of realized investment gains, for the three

calendar years preceding the date of the dividend less dividends paid within the first two of the preceding three calendar years. In 2001, MGIC can pay \$92.0 million of dividends and the other insurance subsidiaries of the Company can pay \$7.1 million of dividends without such regulatory approval.

Certain of the Company's non-insurance subsidiaries also have requirements as to maintenance of net worth. These restrictions could also affect the Company's ability to pay dividends.

In 2000, 1999 and 1998, the Company paid dividends of \$10.6 million, \$10.8 million and \$11.2 million, respectively or \$0.10 per share in 2000, 1999 and 1998.

The principles used in determining statutory financial amounts differ from generally accepted accounting principles ("GAAP"), primarily for the following reasons:

Under statutory accounting practices, mortgage guaranty insurance companies are required to maintain contingency loss reserves equal to 50% of premiums earned. Such amounts cannot be withdrawn for a period of ten years except as permitted by insurance regulations. Contingency loss reserves are not reflected as liabilities under GAAP.

Under statutory accounting practices, insurance policy acquisition costs are charged against operations in the year incurred. Under GAAP, these costs are deferred and amortized as the related premiums are earned commensurate with the expiration of risk.

Statutory financial statements only include a provision for current income taxes due, and purchases of tax and loss bonds are accounted for as investments. GAAP financial statements provide for deferred income taxes, and purchases of tax and loss bonds are recorded as payments of current income taxes.

Under statutory accounting practices, fixed maturity investments are valued at amortized cost. Under GAAP, those investments which the Company does not have the ability and intent to hold to maturity are considered to be available for sale and are recorded at market, with the unrealized gain or loss recognized, net of tax, as an increase or decrease to shareholders' equity.

Notes (continued)

The statutory net income, equity and the contingency reserve liability of the insurance subsidiaries (excluding the non-insurance companies) are as follows:

Year Ended December 31,	Net Income	Equity	Contingency Reserve
<i>(In thousands of dollars)</i>			
2000	\$ 348,137	\$ 991,343	\$ 2,616,653
1999	296,287	637,234	2,253,418
1998	187,535	585,280	1,939,626

The differences between the statutory net income and equity presented above for the insurance subsidiaries and the consolidated net income and equity presented on a GAAP basis primarily represent the differences between GAAP and statutory accounting practices, and the effect of the treasury shares on consolidated equity.

In 1998, the NAIC adopted the Codification of Statutory Accounting Principles guidance, which replaces the current Accounting Practices and Procedures manual as the NAIC's primary guidance on statutory accounting as of January 1, 2001. The Codification provides guidance for areas where statutory accounting has been silent and also changes current statutory accounting in other areas. The OCI has adopted the Codification guidance, effective January 1, 2001. The effect of the adoption is not expected to have a material impact on the Company's insurance subsidiaries' statutory surplus. The most significant change affecting surplus is the requirement to record deferred income taxes.

The Company has two stock option plans which permit certain officers and employees to purchase common stock at specified prices. A summary of activity in the stock option plans during 1998, 1999 and 2000 is as follows:

	Average Exercise Price	Shares Subject to Option
Outstanding, December 31, 1997	\$ 22.09	3,634,874
Granted	62.28	109,500
Exercised	10.99	(478,848)
Canceled	33.99	(70,002)
Outstanding, December 31, 1998	24.87	3,195,524
Granted	42.29	791,750
Exercised	8.74	(413,930)
Canceled	45.94	(17,200)
Outstanding, December 31, 1999	30.52	3,556,144
Granted	45.40	954,000
Exercised	16.91	(1,080,208)
Canceled	37.96	(44,940)
Outstanding, December 31, 2000	\$ 38.96	3,384,996

The exercise price of the options granted in 1998, 1999 and 2000 was equal to the market value of the stock on the date of grant. The options are exercisable between one and ten years after the date of grant. At December 31, 2000, 1,846,627 shares were available for future grant under the stock option plans.

The Company adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation ("SFAS 123"). Had compensation cost for the Company's stock option plans been determined based on the fair value method described by SFAS 123, the Company's net income and earnings per share would have been reduced to the pro forma amounts indicated below (in thousands, except per share data):

	Year Ended December 31,		
	2000	1999	1998
Net income	\$ 530,625	\$ 464,793	\$ 381,689
Earnings per share:			
Basic	\$ 5.00	\$ 4.30	\$ 3.40
Diluted	\$ 4.95	\$ 4.25	\$ 3.36

The fair value of these options was estimated at grant date using the Black-Scholes option pricing model with the following weighted average assumptions for each year:

	Grants Issued in Year Ended December 31,		
	2000	1999	1998
Risk free interest rate	6.75%	5.18%	5.33%
Expected life	6.8 years	5.4 years	5.9 years
Expected volatility	33.62%	33.55%	26.69%
Expected dividend yield	0.15%	0.16%	0.25%
Fair value of each option	\$21.96	\$16.70	\$22.64

The following is a summary of stock options outstanding at December 31, 2000:

Exercise Price Range	Options Outstanding			Options Exercisable	
	Shares	Remaining Average Life (yrs.)	Average Exercise Price	Shares	Average Exercise Price
\$9.63-\$20.88	380,830	3.0	\$ 15.65	380,830	\$ 15.65
\$26.69-\$46.06	2,886,166	7.6	40.97	791,418	37.41
\$60.25-\$68.63	118,000	7.0	65.15	56,790	64.75
Total	3,384,996	7.1	\$ 38.96	1,229,038	\$ 31.93

At December 31, 1999 and 1998, option shares of 1,721,204 and 1,751,725 were exercisable at an average exercise price of \$20.03 and \$14.01, respectively. The Company also granted an immaterial amount of equity instruments other than options during 1999 and 2000.

The Company adopted a Shareholder Rights Plan on July 22, 1999. Under terms of the plan, on August 9, 1999, Common Share Purchase Rights were distributed as a dividend at the rate of one Common Share Purchase Right for each outstanding share of the Company's Common Stock. The "Distribution Date" occurs ten days after an announcement that a person has acquired 15 percent or more of the Company's Common Stock (the date on which such an acquisition occurs is the "Shares Acquisition Date" and a person who makes such an acquisition is an "Acquiring Person"), or ten business days after a person announces or begins a tender offer in which consummation of such offer would result in ownership by a person of 15 percent or more of the Common Stock. The Rights are not exercisable until the Distribution Date. Each Right will initially entitle shareholders to buy one-half of one share of the Company's Common Stock at a Purchase Price of \$225 per full share (equivalent to \$112.50 for each one-half share), subject to adjustment. If there is an Acquiring Person, then each Right (subject to certain limitations) will entitle its holder to purchase, at the Rights' then-current Purchase Price, a number of shares of Common Stock of the Company (or if after the Shares Acquisition Date, the Company is acquired in a business combination, common shares of the acquiror) having a market value at the time equal to twice the Purchase Price. The Rights will expire on July 22, 2009, subject to extension. The Rights are redeemable at a price of \$.001 per Right at any time prior to the time a person becomes an Acquiring Person. Other than certain amendments, the Board of Directors may amend the Rights in any respect without the consent of the holders of the Rights.

12. Leases

The Company leases certain office space as well as data processing equipment and autos under operating leases that expire during the next seven years. Generally, all rental payments are fixed.

Total rental expense under operating leases was \$5.3 million, \$5.5 million and \$5.4 million in 2000, 1999 and 1998, respectively.

At December 31, 2000, minimum future operating lease payments are as follows (in thousands of dollars):

2001	\$	4,886
2002		3,408
2003		1,568
2004		820
2005		586
2006 and thereafter		<u>143</u>
Total	\$	<u>11,411</u>

13. Contingencies and litigation settlement

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

In addition, MGIC has entered into an agreement to settle Downey et. al. v. MGIC, which is pending in Federal District Court for the Southern District of Georgia. The Court has preliminarily approved the settlement agreement, certified a nationwide class of borrowers and scheduled a hearing for June 15, 2001 to consider whether it should enter a final order approving the settlement. The Company has recorded a \$23.2 million charge to cover the estimated costs of the settlement, including payments to borrowers. The settlement includes an injunction that prohibits certain practices and specifies the basis on which agency pool insurance, captive mortgage reinsurance, contract underwriting and other products may be provided in compliance with the Real Estate Settlement Procedures Act.

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

Report of Independent Accountants

*To the Board of Directors & Shareholders of
MGIC Investment Corporation*

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of operations, of shareholders' equity and of cash flows present fairly, in all material respects, the financial position of MGIC Investment Corporation and Subsidiaries (the "Company") at December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial

statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.



Milwaukee, Wisconsin
January 9, 2001

Unaudited quarterly financial data

2000	Quarter				2000 Year
	First	Second	Third	Fourth	
	<i>(In thousands of dollars, except per share data)</i>				
Net premiums written.....	\$ 199,320	\$ 220,814	\$ 236,208	\$ 231,046	\$ 887,388
Net premiums earned	210,104	218,434	229,208	232,345	890,091
Investment income, net of expenses	40,609	42,731	46,125	49,070	178,535
Losses incurred, net.....	22,615	22,540	21,442	25,126	91,723
Underwriting and other expenses, net	47,008	46,198	40,055	44,576	177,837
Litigation settlement.....	-	-	-	23,221	23,221
Net income	127,220	136,103	146,355	132,321	541,999
Earnings per share (a):					
Basic	1.20	1.28	1.38	1.24	5.10
Diluted.....	1.19	1.27	1.36	1.23	5.05

1999	Quarter				1999 Year
	First	Second	Third	Fourth	
	<i>(In thousands of dollars, except per share data)</i>				
Net premiums written.....	\$ 184,011	\$ 196,374	\$ 207,582	\$ 204,378	\$ 792,345
Net premiums earned	193,981	194,766	200,042	203,792	792,581
Investment income, net of expenses	36,915	38,627	39,303	38,226	153,071
Losses incurred, net.....	44,232	30,941	19,533	2,490	97,196
Underwriting and other expenses, net	52,872	51,384	47,476	46,415	198,147
Net income	100,418	112,934	122,909	133,940	470,201
Earnings per share (a):					
Basic92	1.04	1.13	1.27	4.35
Diluted.....	.91	1.02	1.11	1.25	4.30

(a) Due to the use of weighted average shares outstanding when calculating earnings per share, the sum of the quarterly per share data may not equal the per share data for the year.

Directors

James A. Abbott

Chairman and Principal
American Security Mortgage Corp.
Charlotte, NC
A Mortgage Banking Company

Mary K. Bush

President
Bush & Company
Washington, D.C.
An International Financial Advisory Firm

Karl E. Case

Professor of Economics
Wellesley College
Wellesley, MA
A Private Women's College

Curt S. Culver

President and Chief Executive Officer
MGIC Investment Corporation
Milwaukee, WI

David S. Engelman

Private Investor
Rancho Santa Fe, CA

James D. Ericson

Chairman and Chief Executive Officer
The Northwestern Mutual Life Insurance Company
Milwaukee, WI
A Life Insurance Company

Kenneth M. Jastrow, II

Chairman and Chief Executive Officer
Temple-Inland Inc.
Austin, TX
A Holding Company with Interests in Paper, Forest Products and Financial Services

Daniel P. Kearney

Business Consultant and Private Investor
Marblehead, MA

Sheldon B. Lubar

Chairman
Lubar & Co. Incorporated
Milwaukee, WI
A Private Investment and Management Firm

William A. McIntosh

Adjunct Faculty Member
Howard University
Washington, D.C.

Leslie M. Muma

President and Chief Executive Officer
Fiserv, Inc.
Brookfield, WI
A Financial Industry Automation Products and Services Company

Edward J. Zore

President
The Northwestern Mutual Life Insurance Company
Milwaukee, WI
A Life Insurance Company

Officers

MGIC Investment Corporation

President and Chief Executive Officer

Curt S. Culver

Executive Vice President and Chief Financial Officer

J. Michael Lauer

Senior Vice Presidents

Jeffrey H. Lane

General Counsel and Secretary

Patrick Sinks

Controller and Chief Accounting Officer

Joseph J. Ziino, Jr.

Regulatory Relations, Associate General Counsel and Assistant Secretary

Vice Presidents

James A. Karpowicz

Treasurer

Mortgage Guaranty Insurance Corporation

President and Chief Executive Officer

Curt S. Culver

Executive Vice Presidents

J. Michael Lauer

Chief Financial Officer

James S. MacLeod

Field Operations

Lawrence J. Pierzchalski

Risk Management

Gordon H. Steinbach

Credit Policy

Lou T. Zellner

Corporate Development

Senior Vice Presidents

Joseph L. Birbaum

Credit Policy

Jeffrey H. Lane

General Counsel and Secretary

Michael G. Meade

Information Services

Patrick Sinks

Controller and Chief Accounting Officer

Steven T. Snodgrass

Capital Markets

Joseph J. Ziino, Jr.

Regulatory Relations, Associate General Counsel and Assistant Secretary

Vice Presidents

Gary A. Antonovich

Internal Audit

Stephen L. Blose

Corporate Development

Norman E. Christman

National Accounts

Larry M. Dew, Jr.

Managing Director

Thomas A. Drew

Claims

Sandra K. Dunst

Capital Markets Operations

Henry W. Duvall, Jr.

Managing Director

Carla A. Gallas

Managing Director

David A. Greco

Marketing

Frank E. Hilliard

Contract Services

Steven F. Himebauch

National Accounts

James J. Hlavacek

National Accounts

W. Thomas Hughes

Managing Director

James A. Karpowicz

Treasurer

Joseph J. Komanecki

Tax

John D. Ludwick

Human Resources

Robin D. Mallory

Managing Director

Mark E. Marple

Mortgage Banking Strategies

James A. McGinnis

Investor Relations

Salvatore A. Miosi

Information Services

Charlotte L. Reed

Information Services

John R. Schroeder

Risk Management

Dan D. Stilwell

Assistant General Counsel and Assistant Secretary

Thomas B. Theobald

Managing Director

Steven M. Thompson

Risk Management

Bernhard W. Verhoeven

Risk Management

Cheryl L. Webb

Managing Director

E. Stephen White

Managing Director

John S. Wiseman

Managing Director

Terrance R. Wright

Regulatory Relations

Michael J. Zimmerman

Mortgage Banking Strategies

Shareholder Information

The Annual Meeting

The Annual Meeting of Shareholders of MGIC Investment Corporation will convene at 9 a.m. (CDT) on May 10, 2001 in Vogel Hall, Marcus Center for the Performing Arts, 123 E. State Street, Milwaukee, Wisconsin.

10-K Report

Copies of the Annual Report on Form 10-K, filed with the Securities and Exchange Commission, will be available without charge after April 2, 2001, to shareholders on request from:

Secretary
MGIC Investment Corporation
P.O. Box 488
Milwaukee, WI 53201

Transfer Agent and Registrar

Firststar Bank, N.A.
Corporate Trust Services
1555 North RiverCenter Drive
Suite 301
Milwaukee, Wisconsin 53212
(414) 276-3737
(800) 637-7549

Corporate Headquarters

MGIC Plaza
250 East Kilbourn Avenue
Milwaukee, Wisconsin 53202

Mailing Address

P.O. Box 488
Milwaukee, Wisconsin 53201

Shareholders' Services

(414) 347-6596

MGIC Stock

MGIC Investment Corporation Common Stock is listed on the New York Stock Exchange under the symbol MTG. At December 31, 2000, 106,825,758 shares were outstanding. The following table sets forth for 1999 and 2000 by quarter the high and low sales prices of the Common Stock on the New York Stock Exchange Composite Tape.

Quarters	1999		2000	
	High	Low	High	Low
1st	\$ 45.625	\$ 30.125	\$ 59.2500	\$ 31.9375
2nd	51.625	34.750	54.8750	42.0000
3rd	56.750	40.250	64.3125	44.7500
4th	62.750	46.500	71.5000	58.5000

In 1999 and 2000 the Company declared and paid the following cash dividends:

Quarters	1999	2000
	1st	\$.025
2nd	.025	.025
3rd	.025	.025
4th	.025	.025
	<u>\$.100</u>	<u>\$.100</u>

The Company is a holding company and the payment of dividends from its insurance subsidiaries is restricted by insurance regulation. For a discussion of these restrictions, see Note 11 of the Notes to the Consolidated Financial Statements.

As of March 12, 2001, the number of shareholders of record was 238. In addition, there were approximately 33,500 beneficial owners of shares held by brokers and fiduciaries.

MGIC Investment Corporation

MGIC Plaza, Milwaukee, Wisconsin 53202