

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

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended MARCH 31, 2001
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____
Commission file number 1-10816

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

WISCONSIN (State or other jurisdiction of incorporation or organization)	39-1486475 (I.R.S. Employer Identification No.)
250 E. KILBOURN AVENUE MILWAUKEE, WISCONSIN (Address of principal executive offices)	53202 (Zip Code)

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

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

YES	X	NO
-----		-----

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

CLASS OF STOCK	PAR VALUE	DATE	NUMBER OF SHARES
-----	-----	----	-----
Common stock	\$1.00	4/30/01	107,115,367

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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
March 31, 2001 (Unaudited) and December 31, 2000

	March 31, 2001	December 31, 2000
----- (In thousands of dollars) -----		
ASSETS		

Investment portfolio:		
Securities, available-for-sale, at market value:		
Fixed maturities	\$ 3,507,277	\$ 3,298,561
Equity securities	21,772	22,042
Short-term investments	165,356	151,592
	-----	-----
Total investment portfolio	3,694,405	3,472,195
Cash	14,192	5,598
Accrued investment income	47,219	51,419
Reinsurance recoverable on loss reserves	34,576	33,226
Reinsurance recoverable on unearned premiums	8,720	8,680
Home office and equipment, net	31,293	31,308
Deferred insurance policy acquisition costs	26,252	25,839
Investments in joint ventures	139,413	138,838
Other assets	86,926	90,678
	-----	-----
Total assets	\$ 4,082,996	\$ 3,857,781
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		

Liabilities:		
Loss reserves	\$ 606,972	\$ 609,546
Unearned premiums	169,169	180,724
Short-and long-term debt (note 2)	388,789	397,364
Other liabilities	284,675	205,265
	-----	-----
Total liabilities	1,449,605	1,392,899
	-----	-----
Contingencies (note 4) Shareholders' equity:		
Common stock, \$1 par value, shares authorized 300,000,000; shares issued 121,110,800; shares outstanding, 3/31/01 - 106,985,331 12/31/00 - 106,825,758	121,111	121,111
Paid-in surplus	209,595	207,882
Treasury stock (shares at cost, 3/31/01 - 14,125,469 12/31/00 - 14,285,042)	(614,370)	(621,033)
Accumulated other comprehensive income, net of tax	80,696	75,814
Retained earnings	2,836,359	2,681,108
	-----	-----
Total shareholders' equity	2,633,391	2,464,882
	-----	-----
Total liabilities and shareholders' equity	\$ 4,082,996	\$ 3,857,781
	=====	=====

See accompanying notes to consolidated financial statements.

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF OPERATIONS
Three Months Ended March 31, 2001 and 2000
(Unaudited)

	Three Months Ended March 31,	
	2001	2000
(In thousands of dollars, except per share data)		
Revenues:		
Premiums written:		
Direct	\$ 243,621	\$ 208,726
Assumed	105	226
Ceded	(14,138)	(9,632)
	229,588	199,320
Decrease in unearned premiums	11,594	10,784
	241,182	210,104
Net premiums earned	241,182	210,104
Investment income, net of expenses	50,045	40,609
Realized investment gains, net	13,693	4
Other revenue	15,559	10,456
	320,479	261,173
	320,479	261,173
Losses and expenses:		
Losses incurred, net	29,377	22,615
Underwriting and other expenses, net	51,654	47,008
Interest expense	8,563	6,621
	89,594	76,244
Total losses and expenses	89,594	76,244
	230,885	184,929
Income before tax	230,885	184,929
Provision for income tax	72,961	57,709
	157,924	127,220
Net income	\$ 157,924	\$ 127,220
	=====	=====
Earnings per share (note 5):		
Basic	\$ 1.48	\$ 1.20
	=====	=====
Diluted	\$ 1.46	\$ 1.19
	=====	=====
Weighted average common shares		
outstanding - diluted (shares in		
thousands, note 5)	107,817	106,860
	=====	=====
Dividends per share	\$ 0.025	\$ 0.025
	=====	=====

See accompanying notes to consolidated financial statements.

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
Three Months Ended March 31, 2001 and 2000
(Unaudited)

	Three Months Ended March 31,	
	2001	2000
	-----	-----
	(In thousands of dollars)	
Cash flows from operating activities:		
Net income	\$ 157,924	\$ 127,220
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of deferred insurance policy acquisition costs	3,984	2,668
Increase in deferred insurance policy acquisition costs	(4,397)	(2,338)
Depreciation and amortization	1,315	1,912
Decrease in accrued investment income	4,200	5,439
Increase in reinsurance recoverable on loss reserves	(1,350)	(359)
Increase in reinsurance recoverable on unearned premiums	(40)	(738)
Decrease in loss reserves	(2,574)	(10,078)
Decrease in unearned premiums	(11,555)	(10,047)
Increase in other liabilities	79,410	54,020
Realized investment gains, net	(13,693)	(4)
Equity earnings in joint ventures	(8,175)	(5,802)
Other	7,087	10,396
	-----	-----
Net cash provided by operating activities	212,136	172,289
	-----	-----
Cash flows from investing activities:		
Purchase of equity securities	-	(14,177)
Purchase of fixed maturities	(772,908)	(441,393)
Additional investment in joint ventures	(5,000)	(2,245)
Sale of equity securities	(315)	14,280
Proceeds from sale or maturity of fixed maturities	597,565	380,594
	-----	-----
Net cash used in investing activities	(180,658)	(62,941)
	-----	-----
Cash flows from financing activities:		
Dividends paid to shareholders	(2,670)	(2,646)
Proceeds from issuance of short-term debt	87,678	-
Repayment of long-term debt	(98,184)	-
Reissuance of treasury stock	4,056	1,061
Repurchase of common stock	-	(6,224)
	-----	-----
Net cash used in financing activities	(9,120)	(7,809)
	-----	-----
Net increase in cash and short-term investments	22,358	101,539
Cash and short-term investments at beginning of period	157,190	110,068
	-----	-----
Cash and short-term investments at end of period	\$ 179,548	\$ 211,607
	=====	=====

See accompanying notes to consolidated financial statements.

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2001
(Unaudited)

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

The accompanying unaudited consolidated financial statements of MGIC Investment Corporation (the "Company") and its wholly-owned subsidiaries have been prepared in accordance with the instructions to Form 10-Q and do not include all of the other information and disclosures required by generally accepted accounting principles. These statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2000 included in the Company's Annual Report on Form 10-K for that year.

The accompanying consolidated financial statements have not been audited by independent accountants in accordance with generally accepted auditing standards, but in the opinion of management such financial statements include all adjustments, including normal recurring accruals, necessary to summarize fairly the Company's financial position and results of operations. The results of operations for the three months ended March 31, 2001 may not be indicative of the results that may be expected for the year ending December 31, 2001.

Deferred insurance policy acquisition costs

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

The Company amortized \$2.7 million and \$4.0 million of deferred insurance policy acquisition costs during the three months ended March 31, 2000 and 2001, respectively.

Loss reserves

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

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

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

Income recognition

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

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

Note 2 - Short- and long-term debt

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 and Poor's ("S&P"). The net proceeds were used to repay borrowings under bank credit facilities.

During the first quarter of 2001, the Company established a \$200 million short term commercial paper program, rated "A-1" by S&P and "P-1" by Moody's. At March 31, 2001, the Company's outstanding par balance of commercial paper notes was \$88.3 million. The proceeds of the commercial paper were used to repay all outstanding borrowings under the bank facilities. There were no borrowings outstanding under the 1998 or 1999 credit facilities at March 31, 2001. The remaining credit available under these facilities was \$110.8 million. These facilities are being used as liquidity back up facilities for the outstanding commercial paper. The weighted average interest rates on the borrowings for the quarter were as follows:

Senior notes	7.50%
Bank borrowings	6.36%
Commercial paper	5.27%

Note 3 - Reinsurance

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

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

Note 4 - Contingencies and litigation settlement

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

In addition, 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. In the fourth quarter of 2000, the Company recorded a \$23.2 million charge to cover the estimated costs of the settlement, including

payments to borrowers. The settlement includes an injunction that prohibits certain practices and specifies the basis on which agency pool insurance, captive mortgage reinsurance, contract underwriting and other products may be provided in compliance with the Real Estate Settlement Procedures Act.

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

Note 5 - Earnings per share

The Company's basic and diluted earnings per share ("EPS") have been calculated in accordance with SFAS No. 128, Earnings Per Share. The following is a reconciliation of the weighted-average number of shares used for basic EPS and diluted EPS.

	Three Months Ended March 31,	
	2001	2000
	----	----
	(Shares in thousands)	
Weighted-average shares - Basic EPS	106,883	105,851
Common stock equivalents	934	1,009
	-----	-----
Weighted-average shares - Diluted EPS	107,817	106,860
	=====	=====

Note 6 - New accounting standards

The Company adopted SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended, on January 1, 2001, in accordance with the transition provisions of SFAS No. 133.

The Company recorded a net-of-tax cumulative-effect-type adjustment of \$1.0 million in accumulated other comprehensive income to recognize at fair value all derivatives that are designated as cash-flow hedging instruments. Net losses on derivatives of \$7.6 million that had been previously deferred were reclassified on the balance sheet through a net-of-tax cumulative-effect-type adjustment of \$5.0 million to other comprehensive income.

Note 7 - Comprehensive income

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

	Three Months Ended March 31,	
	2001	2000
	----	----
	(In thousands of dollars)	
Net income	\$ 157,924	\$ 127,220
Other comprehensive income	4,882	30,145
	-----	-----
Total comprehensive income	\$162,806	\$ 157,365
	=====	=====
Other comprehensive income (loss) (net of tax):		
Cumulative effect - FAS 133	\$ (5,982)	\$ N/A
Net derivative losses	(1,810)	N/A
Amortization of deferred losses and Ineffectiveness of cash flow hedge	270	N/A
FAS 115	12,404	30,145
	-----	-----
Comprehensive gain	\$ 4,882	\$ 30,145
	=====	=====

The difference between the Company's net income and total comprehensive income for the three months ended March 31, 2001 and 2000 is due to the change in unrealized appreciation/depreciation on investments, the cumulative effect of the adoption of SFAS No. 133 and the market value adjustment of the hedges, all net of tax.

Note 8 - Accounting for Derivatives and Hedging Activities

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

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

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

Results of Consolidated Operations

Three Months Ended March 31, 2001 Compared With Three Months Ended March 31, 2000

Net income for the three months ended March 31, 2001 was \$157.9 million, compared to \$127.2 million for the same period of 2000, an increase of 24%. Diluted earnings per share for the three months ended March 31, 2001 was \$1.46 compared with \$1.19 in the same period last year, an increase of 23%. As used in this report, the term "Company" means the Company and its consolidated subsidiaries, which do not include joint ventures in which the Company has an equity interest.

Total revenues for the first quarter 2001 were \$320.5 million, an increase of 23% from the \$261.2 million for the first quarter 2000. This increase was primarily attributed to an increase in new business writings, which included \$6.7 billion in bulk transactions. Also contributing to the increase in revenues was an increase in investment income resulting from strong cash flows during the prior twelve months, and increases in realized gains and other revenue. See below for a further discussion of premiums and investment income.

Losses and expenses for the first quarter were \$89.6 million, an increase of 18% from \$76.2 million for the same period of 2000. The increase from last year can be attributed to increases in both insurance and non-insurance expenses relating to increased volume and contract underwriting and increases in notice inventories. See below for a further discussion of losses incurred and underwriting expenses.

The amount of new primary insurance written by MGIC during the three months ended March 31, 2001 was \$16.7 billion, compared to \$7.4 billion in the same period of 2000. The increase in new primary insurance written principally reflected \$6.7 billion of bulk transactions compared to zero in the same period last year and the increase in refinancing activity, which accounted for 38% of new primary insurance written in the first quarter of 2001, compared to 15% in the first quarter of 2000.

The \$16.7 billion of new primary insurance written during the first quarter of 2001 was offset by the cancellation of \$12.1 billion of insurance in force, and resulted in a net increase of \$4.6 billion in primary insurance in force, compared to new primary insurance written of \$7.4 billion, the cancellation of \$6.5 billion of insurance in force and a net increase of \$0.9 billion in primary insurance in force during the first quarter of 2000. Direct primary insurance in force was \$164.8 billion at March 31, 2001 compared to \$160.2 billion at December 31, 2000 and \$148.5 billion at March 31, 2000.

In addition to providing direct primary insurance coverage, the Company also insures pools of mortgage loans. New pool risk written during the three months ended March 31, 2001 and March 31, 2000, which was virtually all agency pool insurance, was \$48 million and \$86 million, respectively. The Company's direct pool risk in force was \$1.7 billion at both March 31, 2001 and at December 31, 2000, and was \$1.6 billion at March 31, 2000.

Cancellation activity has historically been affected by the level of mortgage interest rates, with cancellations generally moving inversely to the change in the direction of interest rates. Cancellations increased during the first quarter of 2001 compared to the cancellation levels of 2000 principally due to the lower mortgage interest rate environment which resulted in a decrease in the MGIC persistency rate (percentage of insurance remaining in force from one year prior) to 76.7% at March 31, 2001 from 80.4% at December 31, 2000 and 76.8% at March 31, 2000. Future cancellation activity could 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 credit loans, which the Company anticipates will have materially lower persistency than the Company's prime business. Subprime credit loans are all loans submitted under MGIC's A- program and loans with FICO credit scores below 620 submitted as part of bulk transactions.

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 17% of new insurance written in the first quarter of 2001 compared to 12% a year ago. New insurance written for mortgages with deep coverage (coverage of 25% for 90s and coverage of 30% for 95s) declined to 57% of new insurance written in the first quarter of 2001 compared to 64% a year ago.

New insurance written for subprime credit mortgages was 13% of new insurance written during the first quarter of 2001 compared to 5% for the same period a year ago. The Company expects that subprime credit 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 credit 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 15% to \$229.6 million during the first quarter of 2001, from \$199.3 million during the first quarter of 2000. Net premiums earned increased 15% to \$241.2 million for the first quarter of 2001 from \$210.1 million for the same period in 2000. The increases were primarily a result of the growth in insurance in force and a higher percentage of renewal premiums on products with higher premium rates offset in part by an increase in ceded premiums to \$14.1 million in the first quarter of

2001 compared to \$9.6 million during the same period a year ago, primarily due to an increase in captive mortgage reinsurance.

Mortgages (newly insured during the three months ended March 31, 2001 or in previous periods) approximating 23% of MGIC's new insurance written during the first quarter of 2001 were subject to captive mortgage reinsurance and similar arrangements compared to 34% during the same period in 2000. 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 March 31, 2001 and at December 31, 2000, approximately 21% of MGIC's risk in force was subject to captive reinsurance and similar arrangements. The amount of premiums ceded under captive mortgage reinsurance arrangements and the amount of risk in force subject to such arrangements are expected to continue to increase.

Investment income for the first quarter of 2001 was \$50.0 million, an increase of 23% over the \$40.6 million in the first quarter of 2000. This increase was the result of increases in the amortized cost of average invested assets to \$3.5 billion for the first quarter of 2001 from \$2.9 billion for the first quarter of 2000, an increase of 18%, and an increase in the investment yield. The portfolio's average pre-tax investment yield was 5.9% for the first quarter of 2001 and 5.8% for the same period in 2000. The portfolio's average after-tax investment yield was 4.9% for the first quarters of 2001 and 2000. The Company's net realized gains were \$13.7 million for the three months ended March 31, 2001 compared to net realized gains of \$4 thousand during the same period in 2000, resulting primarily from the sale of fixed maturities.

Other revenue, which is composed of various components, was \$15.6 million for the first quarter of 2001, compared with \$10.5 million for the same period in 2000. The increase is primarily the result of an increase in contract underwriting revenue, an increase in equity earnings from Credit-Based Asset Servicing and Securitization LLC ("C-BASS"), a joint venture with Radian Group Inc. ("Radian"), and equity earnings (compared to a loss in the prior period) from Sherman Financial Group LLC ("Sherman"), also a joint venture with Radian.

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 March 31, 2001 and 2000 were approximately \$845 million and \$1.2 billion, respectively, of which approximately \$681 million and \$913 million, respectively, were mortgage-related assets, including open trades. Total liabilities at March 31, 2001 and 2000 were approximately \$602 million and \$1.0 billion, respectively, of which approximately \$516 million and \$802 million, respectively, were funding arrangements, including accrued interest, virtually all of which were short-term. For the three months ended March 31, 2001 and 2000, revenues of approximately \$55 million and \$39 million, respectively, and expenses of approximately \$26 million and \$22 million, respectively, resulted in income before tax of approximately \$29 million and \$17 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 increased 30% to \$29.4 million during the first quarter of 2001 from \$22.6 million during the same period in 2000. The increase from a year ago was primarily attributable to an increase in new notices. The default rate at March 31, 2001 was 2.67% compared to 2.58% at December 31, 2000, and the primary notice inventory increased from 37,422 at December 31, 2000 to 39,246 at March 31, 2001. Excluding subprime credit loans, the default rate was 2.28% at March 31, 2001 compared to 2.22% at December 31, 2000. The average primary claim paid during the first quarter was \$18,100 compared to \$19,500 in the first quarter of 2000. The pool notice inventory increased from 18,209 at December 31, 2000 to 18,931 at March 31, 2001.

At March 31, 2001, 70% of MGIC's insurance in force was written subsequent to December 31, 1997. 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 year after the year of loan origination. However, the pattern of claims frequency for refinance loans may be different from this historical pattern and the Company expects the period of highest claims frequency on subprime credit loans will occur earlier than in this historical pattern.

Underwriting and other expenses increased to \$51.7 million in the first quarter of 2001 from \$47.0 million in the same period of 2000, an increase of 10%. The increase can be attributed to increases in both insurance and non-insurance expenses related to increased volume and contract underwriting.

Interest expense increased to \$8.6 million in the first quarter of 2001 from \$6.6 million during the same period in 2000 primarily due to higher weighted-average interest

rates during the three months ended March 31, 2001 compared to the comparable period in 2000.

The consolidated insurance operations loss ratio was 12.2% for the first quarter of 2001 compared to 10.8% for the first quarter of 2000. The consolidated insurance operations expense and combined ratios were 17.2% and 29.4%, respectively, for the first quarter of 2001 compared to 20.2% and 31.0% for the first quarter of 2000.

The effective tax rate was 31.6% in the first quarter of 2001, compared to 31.2% in the first quarter of 2000. During both periods, 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 2001 resulted from a lower percentage of total income before tax being generated from the tax-preferenced investments.

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. See note 4 of the Notes to Consolidated Financial Statements.

During the first quarter of 1999, Fannie Mae and Freddie Mac 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 Fannie Mae and Freddie Mac are compensated for assuming default risk that would otherwise be insured by the private mortgage insurance industry. Fannie Mae and Freddie Mac 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, Fannie Mae and Freddie Mac are also offering programs under which, on delivery of an insured loan to them, 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 them for services or other benefits realized by the mortgage insurer from the coverage conversion. Because lenders receive guaranty fee relief from Fannie Mae and Freddie Mac 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 Fannie Mae and Freddie Mac. One of the elements of the proposed stress test is that future claim payments made by

a private mortgage insurer on Fannie Mae and Freddie Mac 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 Fannie Mae and Freddie Mac 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 Fannie Mae and Freddie Mac 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. If the stress test ultimately gives Fannie Mae and Freddie Mac 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 Fannie Mae and Freddie Mac 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.

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. The Company generated positive cash flows from operating activities of approximately \$212.1 million and \$172.3 million for the quarters ended March 31, 2001 and 2000, 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.

Consolidated total investments and cash balances increased approximately \$231 million to \$3.7 billion at March 31, 2001 from \$3.5 billion at December 31, 2000, primarily due to positive net cash flow, as well as unrealized gains on securities marked to market of \$19 million. The Company generated consolidated cash flows from operating activities of \$212.1 million through March 31, 2001, compared to \$172.3 million generated during the same period in 2000. The increase in operating cash flows during the first quarter of 2001 compared to 2000 is due primarily to increases in renewal premiums and investment income. As of March 31, 2001, the Company had \$165.4 million of short-term investments with maturities of 90 days or less, and 64% of the portfolio was invested in tax-preferenced securities. In addition, at March 31, 2001, based on book value, the Company's fixed income securities were approximately 97% invested in 'A' rated and above, readily marketable securities, concentrated in maturities of less than 15 years. At March 31, 2001, the Company had \$21.8 million of investments in equity securities compared to \$22.0 million at December 31, 2000.

At March 31, 2001, the Company had an immaterial amount of derivative financial instruments in its investment portfolio. The Company's philosophy is to invest in instruments that meet high credit quality standards as specified in the Company's investment policy guidelines; the policy also limits the amount of credit exposure to any one issue, issuer and type of instrument.

The Company's investments in joint ventures increased \$0.6 million from \$138.8 million at December 31, 2000 to \$139.4 million at March 31, 2001 as a result of additional investments of \$5.0 million and equity earnings of \$8.2 million offset by \$12.6 million of dividends received.

Consolidated loss reserves decreased slightly to \$607.0 million at March 31, 2001 from \$609.5 million at December 31, 2000, reflecting a reduction in the primary and pool reserve factors partially offset by increases in the primary and pool insurance notice inventories, as discussed earlier. Consistent with industry practices, the Company does not establish loss reserves for future claims on insured loans which are not currently in default.

Consolidated unearned premiums decreased \$11.5 million from \$180.7 million at December 31, 2000, to \$169.2 million at March 31, 2001, primarily reflecting the seasonality of the insurance in force.

During the first quarter of 2001, the Company established a \$200 million short term commercial paper program, rated "A-1" by S&P and "P-1" by Moody's. At March 31, 2001, the Company's outstanding par balance of commercial paper notes was \$88.3 million. The proceeds of the commercial paper were used to repay all outstanding borrowings under the bank facilities. At March 31, 2001, the Company's outstanding debt was \$388.8 million.

Consolidated shareholders' equity increased to \$2.6 billion at March 31, 2001, from \$2.5 billion at December 31, 2000, an increase of 7%. This increase consisted of \$157.9 million of net income during the first quarter of 2001, \$8.4 million from the reissuance of treasury stock and other comprehensive income, net of tax, of \$4.9 million offset by dividends declared of \$2.7 million.

MGIC is the principal insurance subsidiary of the Company. MGIC's risk-to-capital ratio was 10.1:1 at March 31, 2001 compared to 10.6:1 at December 31, 2000. The decrease was due to MGIC's increased policyholders' reserves, partially offset by the net additional risk in force of \$0.9 billion, net of reinsurance, during the first quarter of 2001.

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.

In April 2001, the Staff of the Congressional Joint Committee on Taxation proposed the elimination of the federal income tax deduction for amounts added to contingency reserves that are required to be established under state insurance regulation of mortgage guaranty and certain other classes of credit insurance. Insurers taking the deduction must purchase from the Treasury non-interest bearing tax and loss bonds equal to the tax benefit of the deduction. The bonds are recognized as assets in computing capital and the elimination of the deduction could affect MGIC's risk-to-capital ratio.

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:

- o the level of home mortgage interest rates,
- o the health of the domestic economy as well as conditions in regional and local economies,
- o housing affordability,
- o population trends, including the rate of household formation,
- o 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
- o government housing policy encouraging loans to first-time homebuyers.

For the first quarter of 2001, our new insurance written volume increased 126% compared to the same period in 2000. One of the reasons our volume was higher in 2001 was because many borrowers refinanced their mortgages during the first three months of 2001 due to a lower interest rate environment, which also led to lenders canceling insurance that we wrote in the past. While we have not experienced lower volume in recent years other than as a result of declining refinancing activity, one of the risks we face is that substantially higher interest rates will substantially reduce purchase activity by first time homebuyers and that the decline in cancellations of insurance that in the past have accompanied higher interest rates will not be sufficient to offset the decline in premiums from loans that are not made.

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

These alternatives to private mortgage insurance include:

- o lenders using government mortgage insurance programs, including those of the Federal Housing Administration and the Veterans Administration,
- o investors holding mortgages in portfolio and self-insuring,
- o 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
- o 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 mortgages insurance premiums. Investors are using reduced mortgage insurance coverage on a somewhat 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:

- o 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,
- o 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,
- o 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,
- o 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,
- o the terms on which mortgage insurance coverage can be canceled before reaching the cancellation thresholds established by law, and
- o 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 or 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 March 31, 2001, 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:

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

- o 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
- o mortgage insurance cancellation policies of mortgage investors along with the rate of home price appreciation experienced by the homes underlying the mortgages in the insurance in force.

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

If the domestic economy deteriorates, more homeowners may default and

our losses may increase.

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

Our industry is subject to litigation risk.

In recent years, consumers have brought a growing number of lawsuits against home mortgage lenders and settlement service providers. As of the end of April 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.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

At March 31, 2001, the Company's derivative financial instruments in its investment portfolio were immaterial. The Company's philosophy is to invest in instruments that meet high credit quality standards, as specified in the Company's investment policy guidelines; the policy also limits the amount of credit exposure to any one issue, issuer and type of instrument. At March 31, 2001, the effective duration of the Company's investment

portfolio was 5.8 years. The effect of a 1% increase/decrease in market interest rates would result in a 5.8% decrease/increase in the value of the Company's investment portfolio. The Company's borrowings under the commercial paper program are subject to interest rates that are variable. See note 2 to the consolidated financial statements.

PART II. OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

- (a) Exhibits - The exhibits listed in the accompanying Index to Exhibits are filed as part of this Form 10-Q.
- (b) Reports on Form 8-K - No reports were filed on Form 8-K during the quarter ended March 31, 2001.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized, on May 11, 2001.

MGIC INVESTMENT CORPORATION

\s\ J. Michael Lauer

J. Michael Lauer
Executive Vice President and
Chief Financial Officer

\s\ Patrick Sinks

Patrick Sinks
Senior Vice President, Controller and
Chief Accounting Officer

INDEX TO EXHIBITS
(Item 6)

Exhibit
Number

Description of Exhibit

11

Statement Re Computation of Net Income
Per Share

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
STATEMENT RE COMPUTATION OF NET INCOME PER SHARE
Three Months Ended March 31, 2001 and 2000

	Three Months Ended March 31,	
	2001	2000
	----	----
(In thousands of dollars, except per share data)		
BASIC EARNINGS PER SHARE		
Average common shares outstanding	106,883	105,851
	=====	=====
Net income	\$ 157,924	\$ 127,220
	=====	=====
Basic earnings per share	\$ 1.48	\$ 1.20
	=====	=====
DILUTED EARNINGS PER SHARE		
Adjusted shares outstanding:		
Average common shares outstanding	106,883	105,851
Net shares to be issued upon exercise of dilutive stock options after applying treasury stock method	934	1,009
	-----	-----
Adjusted shares outstanding	107,817	106,860
	=====	=====
Net income	\$ 157,924	\$ 127,220
	=====	=====
Diluted earnings per share	\$ 1.46	\$ 1.19
	=====	=====