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

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[ X ] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended SEPTEMBER 30, 1997

[   ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _______ to _______

Commission file number 1-10816

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

| | |
|---|---|
| WISCONSIN | 39-1486475 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

| | |
|---|---|
| 250 E. KILBOURN AVENUE MILWAUKEE, WISCONSIN | 53202 |
| (Address of principal executive offices) | (Zip Code) |

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

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

YES X  NO ____

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

| CLASS OF STOCK | PAR VALUE | DATE | NUMBER OF SHARES |
|---|---|---|---|
| Common stock | $1.00 | 9/30/97 | 114,167,401 |

MGIC INVESTMENT CORPORATION
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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
September 30, 1997 (Unaudited) and December 31, 1996

| | September 30 1997 | December 31, 1996 |
|---|---|---|
| ASSETS | (In thousands of dollars) | |
| Investment portfolio: | | |
| Securities, available-for-sale, at market value: | | |
| Fixed maturities | $2,081,045 | $1,892,081 |
| Equity securities | 103,596 | 4,039 |
| Short-term investments | 121,195 | 140,114 |
| Total investment portfolio | 2,305,836 | 2,036,234 |
| Cash | 7,099 | 3,861 |
| Accrued investment income | 29,391 | 33,363 |
| Reinsurance recoverable on loss reserves | 27,807 | 29,827 |
| Reinsurance recoverable on unearned premiums | 9,229 | 11,745 |
| Home office and equipment, net | 33,792 | 35,050 |
| Deferred insurance policy acquisition costs | 28,356 | 31,956 |
| Other assets | 55,170 | 40,279 |
| Total assets | $2,496,680 | $2,222,315 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Liabilities: | | |
| Loss reserves | $ 575,595 | $ 514,042 |
| Unearned premiums | 203,002 | 219,307 |
| Notes payable (note 2) | 222,500 | 35,424 |
| Income taxes payable | 20,176 | 23,111 |
| Other liabilities | 66,518 | 64,316 |
| Total liabilities | 1,087,791 | 856,200 |
| Contingencies (note 3) | | |
| Shareholders' equity (note 4): | | |
| Common stock, $1 par value, shares authorized 150,000,000; shares issued 121,110,800; shares outstanding, 9/30/97 - 114,167,401; 1996 - 117,900,868 | 121,111 | 121,111 |
| Paid-in surplus | 218,440 | 207,984 |
| Treasury stock (shares at cost, 9/30/97 - 6,943,399; 1996 - 3,209,932) | (230,179) | (7,073) |
| Unrealized appreciation in investments, net of tax | 67,056 | 40,685 |
| Retained earnings | 1,232,461 | 1,003,408 |
| Total shareholders' equity | 1,408,889 | 1,366,115 |
| Total liabilities and shareholders' equity | $2,496,680 | $2,222,315 |

See accompanying notes to consolidated financial statements.

# MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
## CONSOLIDATED STATEMENT OF OPERATIONS
Three and Nine Month Periods Ended September 30, 1997 and 1996
(Unaudited)

| | Three Months Ended September 30, 1997 | Three Months Ended September 30, 1996 | Nine Months Ended September 30, 1997 | Nine Months Ended September 30, 1996 |
|---|---|---|---|---|
| | (In thousands of dollars, except per share data) | | | |
| Revenues: | | | | |
| Premiums written: | | | | |
| Direct | $184,670 | $152,544 | $511,069 | $421,203 |
| Assumed | 3,047 | 10,131 | 8,906 | 13,393 |
| Ceded | (3,714) | (4,143) | (9,450) | (10,952) |
| Net premiums written | 184,003 | 158,532 | 510,525 | 423,644 |
| (Increase) decrease in unearned premiums | (3,461) | (1,753) | 13,788 | 28,502 |
| Net premiums earned | 180,542 | 156,779 | 524,313 | 452,146 |
| Investment income, net of expenses | 31,548 | 26,926 | 91,428 | 76,378 |
| Realized investment gains, net | 1,502 | 566 | 2,098 | 979 |
| Other revenue | 10,233 | 5,405 | 21,942 | 17,081 |
| Total revenues | 223,825 | 189,676 | 639,781 | 546,584 |
| Losses and expenses: | | | | |
| Losses incurred, net | 60,785 | 60,247 | 182,230 | 173,973 |
| Underwriting and other expenses | 39,907 | 36,401 | 116,040 | 109,731 |
| Interest expense | 2,530 | 952 | 2,849 | 2,843 |
| Ceding commission | (951) | (958) | (2,459) | (3,100) |
| Total losses and expenses | 102,271 | 96,642 | 298,660 | 283,447 |
| Income before tax | 121,554 | 93,034 | 341,121 | 263,137 |
| Provision for income tax | 37,379 | 27,249 | 103,895 | 76,242 |
| Net income | $ 84,175 | $ 65,785 | $237,226 | $186,895 |
| Net income per share (notes 4 and 5) | $ 0.72 | $ 0.55 | $ 2.00 | $ 1.57 |
| Weighted average common shares outstanding (shares in thousands, note 4) | 116,386 | 118,994 | 118,442 | 118,929 |
| Dividends per share (note 4) | $ 0.025 | $ 0.02 | $ 0.07 | $ 0.06 |

See accompanying notes to consolidated financial statements.

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
Nine Months Ended September 30, 1997 and 1996
(Unaudited)

| | Nine Months Ended September 30, 1997 | 1996 | |
|---|---|---|---|
| | (In thousands of dollars) | | |
| Cash flows from operating activities: | | | |
| Net income | $ 237,226 | $ 186,895 | |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Amortization of deferred insurance policy acquisition costs | 19,163 | 23,332 | |
| Increase in deferred insurance policy acquisition costs | (15,563) | (18,832) | |
| Depreciation and amortization | 6,198 | 6,884 | |
| Decrease in accrued investment income | 3,972 | 2,292 | |
| Decrease in reinsurance recoverable on loss reserves | 2,020 | 4,374 | |
| Decrease in reinsurance recoverable on unearned premiums | 2,516 | 3,850 | |
| Increase in loss reserves | 61,553 | 115,172 | |
| Decrease in unearned premiums | (16,305) | (30,442) | |
| Other | (32,298) | (3,508) | |
| Net cash provided by operating activities | 268,482 | 290,017 | |
| Cash flows from investing activities: | | | |
| Purchase of equity securities | (93,716) | - | - |
| Purchase of fixed maturities | (510,789) | (859,864) | |
| Proceeds from sale of equity securities | 3,935 | - | - |
| Proceeds from sale or maturity of fixed maturities | 350,154 | 601,845 | |
| Net cash used in investing activities | (250,416) | (258,019) | |
| Cash flows from financing activities: | | | |
| Dividends paid to shareholders | (8,173) | (7,070) | |
| Net increase in notes payable | 187,076 | (283) | |
| Reissuance of treasury stock | 12,378 | 10,073 | |
| Repurchase of MGIC Investment Corporation common stock | (225,028) | - | |
| Net cash (used in) provided by financing activities | (33,747) | 2,720 | |
| Net (decrease) increase in cash and short-term investments | (15,681) | 34,718 | |
| Cash and short-term investments at beginning of period | 143,975 | 90,264 | |
| Cash and short-term investments at end of period | $ 128,294 | $ 124,982 | |

See accompanying notes to consolidated financial statements.

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 1997
(Unaudited)

Note 1 - Basis of presentation

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, 1996 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, consisting only of normal recurring accruals, necessary to summarize fairly the Company's financial position and results of operations. The results of operations for the nine months ended September 30, 1997 may not be indicative of the results that may be expected for the year ending December 31, 1997.

The Company's equity earnings from C-BASS, a joint venture with Enhance Financial Services Group, Inc., are included in other revenue.

Note 2 - Notes payable

In January 1997, the Company repaid mortgages payable of $35.4 million, which were secured by the home office and substantially all of the furniture and fixtures of the Company. In July 1997, the Company repurchased 4,260,985 shares of its outstanding common stock ("stock repurchase program") from a financial intermediary at a cost of approximately $225 million. Funds to repurchase the shares were primarily provided under a credit facility in the form of a note payable.

Note 3 - Contingencies

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

In addition to the litigation referred to above, Mortgage Guaranty Insurance Corporation ("MGIC") is a defendant in a lawsuit commenced by a borrower challenging the necessity of maintaining mortgage insurance in certain circumstances, primarily when the loan-to-value ratio is below 80%. The lawsuit purports to be brought on behalf of a class of borrowers. This case appears to be based to some degree upon guidelines issued by the Federal Home Loan Mortgage Corporation or the Federal National Mortgage Association to their respective mortgage servicers under which the mortgage servicers may be required in certain circumstances to cancel borrower-purchased insurance upon the borrower's request. The plaintiff alleges that MGIC has a common law duty to inform a borrower that the insurance may be cancelled in these circumstances. The relief sought is equitable relief as well as the return of premiums paid after the insurance was cancellable under the applicable guidelines. The Company believes that MGIC has a meritorious defense to this action in that, in the absence of a specific statute (no statutory duty other than under a general consumer fraud statute is alleged), there appears to be no legal authority requiring a mortgage insurer to inform a borrower that insurance may be cancelled. Summary judgment was granted to MGIC in another case involving similar issues. Similar cases are pending against other mortgage insurers, mortgage lenders and mortgage loan servicers.

Note 4 - Shareholders' equity

On June 2, 1997 the Company effected a two-for-one stock split of the Company's common stock in the form of a 100% stock dividend. Per share and certain equity amounts set forth in the accompanying financial statements have been adjusted appropriately to take into account the stock split.

Note 5 - New accounting standards

In February 1997, the Financial Accounting Standards Board issued Statement of Accounting Standards No. 128, Earnings Per Share ("SFAS 128"), which will be effective for financial statements issued after December 15, 1997. The current primary/fully diluted earnings per share ("EPS") under APB No. 15 will be replaced with a new basic/diluted EPS calculation that is intended to provide greater consistency and comparability. It is not anticipated that the effects of SFAS 128 on EPS will be material.

In June 1997, the Financial Accounting Standards Board issued Statement of Accounting Standards No. 130, Reporting Comprehensive Income ("SFAS 130"), which is effective for fiscal years beginning after December 15, 1997. SFAS 130 establishes standards for the reporting and display of comprehensive income and its components in financial statements. SFAS 130 will not impact the Company's financial position or results of operations.

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

## Results of Consolidated Operations

### Three Months Ended September 30, 1997 Compared With Three Months Ended September 30, 1996

Net income for the three months ended September 30, 1997 was $84.2 million, compared to $65.8 million for the same period of 1996, an increase of 28%. After giving effect to the Company's two-for-one stock split, net income per share for the three months ended September 30, 1997 was $0.72 compared to $0.55 in the same period last year, an increase of 31%. See note 4 to the consolidated financial statements.

The amount of new primary insurance written by Mortgage Guaranty Insurance Corporation ("MGIC") during the three months ended September 30, 1997 was $9.1 billion, compared to $8.6 billion in the same period of 1996. Refinancing activity accounted for 12% of new primary insurance written in the third quarter of 1997, compared to 10% in the third quarter of 1996.

New insurance written for the third quarter of 1997 reflected an increase in the usage of the monthly premium product to 92% of new insurance written from 90% of new insurance written in the third quarter of 1996. New insurance written for adjustable-rate mortgages ("ARMS") decreased to 26% of new insurance written in the third quarter of 1997 from 31% of new insurance written in the same period of 1996. Also, mortgages with loan-to-value ("LTV") ratios in excess of 90% but not more than 95% ("95%") decreased to 42% of new insurance written in the third quarter of 1997 from 44% of new insurance written in the same period of 1996.

The $9.1 billion of new primary insurance written during the third quarter of 1997 was partially offset by the cancellation of $6.6 billion of insurance in force, and resulted in a net increase of $2.5 billion in primary insurance in force, compared to new primary insurance written of $8.6 billion, the cancellation of $5.0 billion, and a net increase of $3.6 billion during the third quarter of 1996. Direct primary insurance in force was $136.7 billion at September 30, 1997 compared to $128.6 billion at September 30, 1996. Cancellation activity could increase in the future as the result of recently adopted and proposed legislation regarding cancellation of mortgage insurance. (See Safe Harbor Statement at the end of this document.)

During the first quarter of 1997, the Company began writing pool insurance generally covering fixed-rate, 30-year mortgage loans delivered to the Federal Home Loan Mortgage Corporation and Federal National Mortgage Association ("agency pool insurance"). The aggregate loss limit on agency pool insurance generally does not exceed 1% of the aggregate original principal balance of the mortgage loans in the pool. New pool risk written during the three months ended September 30, 1997 was $120 million which was virtually all agency pool insurance. A minimal amount of new pool risk written was associated with loans insured under state housing finance programs. The Company expects that it will write additional agency pool risk but does not anticipate that new risk written under this product will be material to its total risk in force. In October 1997, the California Commissioner of Insurance was asked by a California legislator to review the legality of arrangements involving agency pool insurance.

Net premiums written were $184.0 million during the third quarter of 1997, compared to $158.5 million during the third quarter of 1996, an increase of $25.5 million or 16%. The increase was primarily a result of the growth in insurance in force.

Net premiums earned were $180.5 million for the third quarter of 1997, compared to $156.8 million for the third quarter of 1996, an increase of $23.7 million, or 15%, primarily reflecting the growth of insurance in force.

Investment income for the third quarter of 1997 was $31.5 million, an increase of 17% over the $26.9 million in the third quarter of 1996. This increase was primarily the result of an increase in the amortized cost of average invested assets to $2,146.7 million for the third quarter of 1997 from $1,828.3 million for the third quarter of 1996, an increase of 17%. The portfolio's average pre-tax investment yield was 5.9% for the third quarter of 1997 and 1996. The portfolio's average after-tax investment yield was 5.0% for the third quarter of 1997 and 1996.

Other revenue, primarily contracts with government agencies for premium reconciliation and claim administration, fee-based services for underwriting and equity earnings from C-BASS, the Company's joint venture with Enhance Financial Services Group, Inc., was $10.2 million in the third quarter of 1997, compared to $5.4 million in the same period of 1996. The increase is primarily the result of equity earnings from C-BASS.

Net losses incurred increased slightly to $60.8 million during the third quarter of 1997 from $60.2 million during the third quarter of 1996. Such increase was primarily due to a higher level of defaults which resulted from a higher percentage of the Company's insurance in force reaching its peak claim paying years and higher delinquency levels on insurance written from 1994 through 1996. Net incurred losses also increased due to an increase in severity as a result of the continued high level of loss activity in certain high cost geographic regions and an increase in claim amounts on defaults with higher coverages. The increase was offset by a redundancy in prior year loss reserves resulting from actual claim rates and actual claim amounts being lower than those estimated by the Company when originally establishing the reserve at December 31, 1996. At September 30, 1997, 53% of MGIC's insurance in force was written during the preceding eleven quarters, compared to 58% at September 30, 1996. The highest claim frequency years have typically been the third through fifth year after the year of loan origination.

Underwriting and other expenses increased to $39.9 million in the third quarter of 1997 from $36.4 million in the third quarter of 1996, an increase of 10%. This increase was primarily due to an increase in expenses associated with the fee-based services for underwriting and an increase in premium tax due to higher premiums written.

Interest expense increased to $2.5 million in the third quarter of 1997 from $1.0 million during the same period in 1996, an increase of 166%. Interest expense in the current period is the result of debt incurred to fund the stock repurchase program. Interest expense for the same period in 1996 was the result of mortgage debt. There was no interest expense on mortgage debt during the quarter ended September 30, 1997 as a result of repayment in January 1997 of the mortgages payable. See note 2 to the consolidated financial statements.

The consolidated insurance operations loss ratio was 33.7% for the third quarter of 1997 compared to 38.4% for the third quarter of 1996. The consolidated insurance operations expense and combined ratios were 17.2% and 50.9%, respectively, for the third quarter of 1997 compared to 19.8% and 58.2% for the third quarter of 1996.

The effective tax rate was 30.8% in the third quarter of 1997, compared to 29.3% in the third quarter of 1996. 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 1997 resulted from a lower percentage of total income before tax being generated from tax-preferenced investments.

Nine Months Ended September 30, 1997 Compared With Nine Months Ended September 30, 1996

Net income for the nine months ended September 30, 1997 was $237.2 million, compared to $186.9 million for the same period of 1996, an increase of 27%. After giving effect to the Company's two-for-one stock split, net income per share for the nine months ended September 30, 1997 was $2.00 compared to $1.57 in the same period last year, an increase of 27%. See note 4 to the consolidated financial statements.

The amount of new primary insurance written by MGIC during the nine months ended September 30, 1997 was $23.3 billion, compared to $25.1 billion in the same period of 1996. Refinancing activity accounted for 14% of new primary insurance written in the first nine months of 1997, compared to 19% in the first nine months of 1996.

New insurance written for the first nine months of 1997 reflected an increase in the usage of the monthly premium product to 92% of new insurance written from 90% of new insurance written in the first nine months of 1996. New insurance written for ARMS increased to 27% of new insurance written in the first nine months of 1997 from 24% of new insurance written in the same period of 1996. Also, mortgages with 95% LTVs increased to 42% of new insurance written in the first nine months of 1997 compared to 41% for the same period in 1996.

The $23.3 billion of new primary insurance written during the first nine months of 1997 was partially offset by the cancellation of $18.0 billion of insurance in force, and resulted in a net increase of $5.3 billion in primary insurance in force, compared to new primary insurance written of $25.1 billion, the cancellation of $16.8 billion, and a net increase of $8.3 billion during the first nine months of 1996. Direct primary insurance in force was $136.7 billion at September 30, 1997 compared to $128.6 billion at September 30, 1996. Cancellation activity could increase in the future as the result of recently adopted and proposed legislation regarding cancellation of mortgage insurance. (See Safe Harbor Statement at the end of this document.)

During the first quarter of 1997, the Company began writing pool insurance generally covering fixed-rate, 30-year mortgage loans delivered to the Federal Home Loan Mortgage Corporation and Federal National Mortgage Association ("agency pool insurance"). The aggregate loss limit on agency pool insurance generally does not exceed 1% of the aggregate original principal balance of the mortgage loans in the pool. New pool risk written during the nine months ended September 30, 1997 was $253 million which was virtually all agency pool insurance. A minimal amount of new pool risk written was associated with loans insured under state housing finance programs. The Company expects that it will write additional agency pool risk but does not anticipate that new risk written under this product will be material to its total risk in force. In October 1997, the California Commissioner of Insurance was asked by a California legislator to review the legality of arrangements involving agency pool insurance.

Net premiums written were $510.5 million during the first nine months of 1997, compared to $423.6 million during the first nine months of 1996, an increase of $86.9 million or 21%. The increase was primarily a result of the growth in insurance in force.

Net premiums earned were $524.3 million for the first nine months of 1997, compared to $452.1 million for the first nine months of 1996, an increase of $72.2 million, or 16%, primarily reflecting the growth of insurance in force.

Investment income for the first nine months of 1997 was $91.4 million, an increase of 20% over the $76.4 million in the first nine months of 1996. This increase was primarily the result of an increase in the amortized cost of average invested assets to $2,088.3 million for the first nine months of 1997 from $1,749.0 million for the first nine months of 1996, an increase of 19%. The portfolio's average pre-tax investment yield was 5.8% for the first nine months of 1997 and 1996. The portfolio's average after-tax investment yield was 5.0% for the first nine months of 1997 compared to 5.1% for the first nine months of 1996.

Other revenue, primarily contracts with government agencies for premium reconciliation and claim administration, fee-based services for underwriting and equity earnings from C-BASS, the Company's joint venture with Enhance Financial Services Group, Inc., was $21.9 million in the first nine months of 1997, compared to $17.1 million in the same period of 1996. The increase is primarily the result of equity earnings from C-BASS.

Net losses incurred increased to $182.2 million during the first nine months of 1997 from $174.0 million during the first nine months of 1996, an increase of 5%. Such increase was primarily due to a higher level of defaults which resulted from a higher percentage of the Company's insurance in force reaching its peak claim paying years and higher delinquency levels on insurance written from 1994 through 1996. Net incurred losses also increased due to an increase in severity as a result of the continued high level of loss activity in certain high cost geographic regions and an increase in claim amounts on defaults with higher coverages. The increase was partially offset by a redundancy in prior year loss reserves resulting from actual claim rates and actual claim amounts being lower than those estimated by the Company when originally establishing the reserve at December 31, 1996. At September 30, 1997, 53% of MGIC's insurance in force was written during the preceding eleven quarters, compared to 58% at September 30, 1996. The highest claim frequency years have typically been the third through fifth year after the year of loan origination.

Underwriting and other expenses increased 6% to $116.0 million in the first nine months of 1997 from $109.7 million in the first nine months of 1996. This increase was primarily due to an increase in expenses associated with the fee-based services for underwriting and an increase in premium tax due to higher premiums written.

Interest expense was $2.8 million during the nine months ended September 30, 1997 and 1996. Interest expense in the current period is primarily the result of debt incurred to fund the stock repurchase program. Interest expense for the same period in 1996 was the result of mortgage debt. See note 2 to the consolidated financial statements.

The consolidated insurance operations loss ratio was 34.8% for the first nine months of 1997 compared to 38.5% for the first nine months of 1996. The consolidated insurance operations expense and combined ratios were 18.6% and 53.4%, respectively, for the first nine months of 1997 compared to 22.4% and 60.9% for the first nine months of 1996.

The effective tax rate was 30.5% in the first nine months of 1997, compared to 29.0% in the first nine months of 1996. 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 1997 resulted from a lower percentage of total income before tax being generated from tax-preferenced investments.

Liquidity and Capital Resources

The Company's consolidated sources of funds consist primarily of premiums written and investment income. The Company generated positive cash flows from operating activities for the nine months ended September 30, 1997, as shown on the Consolidated Statement of Cash Flows. Funds are applied primarily to the payment of claims and expenses. The Company's business does not require significant capital expenditures on an ongoing basis. 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. In January 1997, the Company repaid mortgages payable of $35.4 million, which were secured by the home office and substantially all of the furniture and fixtures of the Company, with internally generated funds.

Consolidated total investments were $2,305.8 million at September 30, 1997, compared to $2,036.2 million at December 31, 1996, an increase of 13%. This increase is due primarily to positive cash flow from operations offset by the $35.4 million repayment of the mortgages payable. The investment portfolio includes unrealized gains on securities marked to market at September 30, 1997 and December 31, 1996 of $103.2 million and $62.6 million, respectively. As of September 30, 1997, the Company had $121.2 million of short-term investments with maturities of 90 days or less. In addition, at September 30, 1997, based on amortized cost, the Company's total investments, which were primarily comprised of fixed maturities, were approximately 98% invested in "A" rated and above, readily marketable securities, concentrated in maturities of less than 15 years.

Consolidated loss reserves increased 12% to $575.6 million at September 30, 1997 from $514.0 million at December 31, 1996, reflecting a higher level of defaults for the reasons described above. 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 $16.3 million from $219.3 million at December 31, 1996 to $203.0 million at September 30, 1997, primarily reflecting the continued high level of monthly premium policies written, for which there is no unearned premium. Reinsurance recoverable on unearned premiums decreased $2.5 million to $9.2 million at September 30, 1997 from $11.7 million at December 31, 1996, primarily reflecting the reduction in unearned premiums.

Consolidated shareholders' equity increased to $1,408.9 million at September 30, 1997, from $1,366.1 million at December 31, 1996, an increase of 3%. This increase consisted of $237.2 million of net income during the first nine months of 1997, an increase in net unrealized gains on investments of $26.4 million, net of tax, and $12.4 million from the reissuance of treasury stock offset by approximately $225.0 for the repurchase of 4,260,985 shares of the Company's outstanding common stock and dividends declared of $8.2 million.

MGIC is the principal insurance subsidiary of the Company. MGIC's risk-to-capital ratio was 16.2:1 at September 30, 1997 compared to 18.1:1 at December 31, 1996. The decrease was due to MGIC's increased policyholders' reserves, partially offset by the net additional risk in force of $1.8 billion, net of reinsurance, during the first nine months of 1997.

The Company's combined insurance risk-to-capital ratio was 17.0:1 at September 30, 1997, compared to 18.8:1 at December 31, 1996. The decrease was due to the same reasons as described above.

In July 1997, the Company repurchased 4,260,985 shares of its common stock from a financial intermediary at a total cost of approximately $225.0 million. Funds to repurchase the shares were primarily provided under a credit facility in the form of a note payable.

SAFE HARBOR STATEMENT

The following is a "Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995, which applies to all statements in this Form 10-Q, which are not historical facts and to all oral statements that the Company may make from time to time relating thereto which are not historical facts (such written and oral statements are herein referred to as "forward looking statements"):

Actual results may differ materially from those contemplated by the forward looking statements. These forward looking statements involve risks and uncertainties, including but not limited to, the following risk:

- that cancellations may be higher than projected and persistency may be lower than projected due to refinancings, changes in the Federal Home Loan Mortgage Corporation or Federal National Mortgage Association cancellation policies or legislation or other factors.

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 September 30, 1997.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized, on November 13, 1997.

MGIC INVESTMENT CORPORATION

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

/s/ Patrick Sinks
----------------------------
Patrick Sinks
Vice President, Controller
and Chief Accounting Officer

INDEX TO EXHIBITS
(Item 6)

| Exhibit Number | Description of Exhibit |
|---|---|
| 11.1 | Statement Re Computation of Net Income Per Share |
| 27 | Financial Data Schedule |

EXHIBIT 11.1

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
STATEMENT RE COMPUTATION OF NET INCOME PER SHARE (1)
Three and Nine Month Periods Ended September 30, 1997 and 1996

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 1997 | 1996 | 1997 | 1996 |
| | (In thousands of dollars, except per share data) | | | |
| PRIMARY NET INCOME PER SHARE | | | | |
| Adjusted shares outstanding: | | | | |
| Average common shares outstanding | 114,935 | 117,866 | 117,109 | 117,750 |
| Net shares to be issued upon exercise of dilutive stock options after applying treasury stock method | 1,451 | 1,128 | 1,333 | 1,179 |
| Adjusted shares outstanding | 116,386 | 118,994 | 118,442 | 118,929 |
| Net income | $ 84,175 | $ 65,785 | $237,226 | $186,895 |
| Primary net income per share | $ 0.72 | $ 0.55 | $ 2.00 | $ 1.57 |
| FULLY DILUTED NET INCOME PER SHARE | | | | |
| Adjusted shares outstanding: | | | | |
| Average common shares outstanding | 114,935 | 117,866 | 117,109 | 117,750 |
| Net shares to be issued upon exercise of dilutive stock options after applying treasury stock method | 1,537 | 1,178 | 1,564 | 1,257 |
| Adjusted shares outstanding | 116,472 | 119,044 | 118,673 | 119,007 |
| Net income | $ 84,175 | $ 65,785 | $237,226 | $186,895 |
| Fully diluted net income per share | $ 0.72 | $ 0.55 | $ 2.00 | $ 1.57 |

(1) The current and prior year share and per share amounts have been adjusted to reflect the Company's two-for-one stock split in the form of a 100% stock dividend effective June 2, 1997.

This schedule contains summary information extracted from Form 10-Q for the nine months ended September 30, 1997 and is qualified in its entirety by reference to such financial statements.

9-MOS
DEC-31-1997
SEP-30-1997
2081045
0
0
103596
0
0
2305836
128294
0
28356
2496680
575595
203002
0
0
222500
0
0
121111
1287778
2496680
524313
91428
2098
21942
182230
3600
112440
341121
103895
237226
0
0
0
237226
2.00
2.00
0
0
0
0
0
0
0