MGIC INVESTMENT CORP
Form 424B5
September 15, 2006

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REGISTRATION NO. 333-126631

Prospectus Supplement
(To Prospectus dated August 3, 2005)

$200,000,000

MGIC INVESTMENT CORPORATION

5.625% Senior Notes due 2011

The notes will bear interest at the rate of % per year. Interest on the notes is payable on March 15 and September 15 of each year, beginning March 15, 2007. The notes will mature on September 15, 2011 We may redeem some or all of the notes at any time at the redemption price discussed under the caption Description of Notes Optional Redemption.

The notes will rank equally with all of our other existing and future unsecured and unsubordinated indebtedness, junior to any of our secured indebtedness to the extent of the security for that indebtedness and senior to any of our subordinated indebtedness. All of our operating assets are in our subsidiaries and, therefore, the notes will be effectively subordinated to all liabilities of those subsidiaries.

The notes will not be listed on any securities exchange or included in any automated quotation system.

Before making any investment in the notes, you should carefully consider the risks that are described under Risk Factors and Forward-Looking Statements in this prospectus supplement.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Per Note	Total
Public Offering Price	99.979%	$ 199,958,000
Underwriting Discount	0.600%	$ 1,200,000
Proceeds, Before Expenses, to MGIC	99.379%	$ 198,758,000

Interest on the notes will accrue from September 18, 2006 to date of delivery.

The notes will be ready for delivery in book-entry form only through The Depository Trust Company on or about September 18, 2006.

Joint Book-Running Managers

BNP PARIBAS **Lehman Brothers**

Senior Co-Managers

Banc of America Securities LLC **Deutsche Bank Securities** **LaSalle Capital Markets**

Co-Manager

Piper Jaffray

The date of this prospectus supplement is September 13, 2006.

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No person is authorized to give any information or to make any representations other than those contained or incorporated by reference in this prospectus supplement or the accompanying prospectus and, if given or made, such information or representations must not be relied upon as having been authorized. This prospectus supplement and the accompanying prospectus do not constitute an offer to sell or a solicitation of an offer to buy any securities other than the securities described in this prospectus supplement or an offer to sell or a solicitation of an offer to buy such securities in any circumstances in which such offer or solicitation is unlawful. Neither the delivery of this prospectus supplement or the accompanying prospectus, nor any sale made hereunder and thereunder, shall, under any circumstances, create any implication that there has been no change in our affairs since the date of this prospectus supplement or that the information contained or incorporated by reference herein or therein is correct as of any time subsequent to the date of such information.

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Prospectus Supplement

Prospectus

Unless the context otherwise requires, the terms Company, we, our and us and other similar terms mean MGIC Investment Corporation and its consolidated subsidiaries, and references to MGIC and to Mortgage Guaranty Insurance Corporation, our primary insurance subsidiary.

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RISK FACTORS AND FORWARD-LOOKING STATEMENTS

The Company s results of operations and financial condition 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. The Company is not undertaking any obligation to update any forward-looking statements it may make even though these statements may be affected by events or circumstances occurring after the forward-looking statements were made.

The amount of insurance the Company writes could be adversely affected if lenders and investors select alternatives to private mortgage insurance.

These alternatives to private mortgage insurance include:

- lenders originating mortgages using piggyback structures to avoid private mortgage insurance, such as a first mortgage with an 80% loan-to-value (LTV) ratio and a second mortgage with a 10%, 15% or 20% LTV ratio (referred to as 80-10-10, 80-15-5 or 80-20 loans, respectively) rather than a first mortgage with a 90%, 95% or 100% LTV ratio that has private mortgage insurance,

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

While no data is publicly available, the Company believes that piggyback loans are a significant percentage of mortgage originations in which borrowers make down payments of less than 20% and that their use is primarily by borrowers with higher credit scores. During the fourth quarter of 2004, the Company introduced on a national basis a program designed to recapture business lost to these mortgage insurance avoidance products. This program accounted for 9.9% of flow new insurance written in the second quarter of 2006 and 6.5% of flow new insurance written for all of 2005.

Deterioration in the domestic economy or changes in the mix of business may result in more homeowners defaulting and the Company s losses increasing.

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. A deterioration in economic conditions generally increases the likelihood that borrowers will not have sufficient income to pay their mortgages and can also adversely affect housing values.

Approximately 8.8% of the Company s primary risk in force is located in areas within Alabama (0.3%), Florida (4.7%), Louisiana (1.0%), Mississippi (0.6%) and Texas (2.2%) that have been declared eligible for individual and public assistance by the Federal Emergency Management Agency as a result of Hurricanes Katrina, Rita and Wilma.

The effect on the Company from these hurricanes, however, will not be limited to these areas to the extent that the borrowers in areas that have not experienced wind or water damage are adversely affected due to deteriorating economic conditions attributable to these hurricanes.

The mix of business the Company writes also affects the likelihood of losses occurring. In recent years, the percentage of the Company s volume written on a flow basis that includes segments the Company views as

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having a higher probability of claim has continued to increase. These segments include loans with LTV ratios over 95% (including loans with 100% LTV ratios), FICO credit scores below 620, limited underwriting, including limited borrower documentation, or total debt-to-income ratios of 38% or higher, as well as loans having combinations of higher risk factors.

Approximately 9% of the Company s primary risk in force written through the flow channel, and 72% of the Company s primary risk in force written through the bulk channel, consists of adjustable rate mortgages (ARMs). The Company believes that during a prolonged period of rising interest rates, claims on ARMs would be substantially higher than for fixed rate loans, although the performance of ARMs has not been tested in such an environment. In addition, the Company believes the volume of interest-only loans (which may also be ARMs) and other loans with negative amortization features, such as pay option ARMs, increased in 2004 and 2005. Because interest-only loans and pay option ARMs are a relatively recent development, the Company has no data on their historical performance. The Company believes claim rates on certain of these loans will be substantially higher than on comparable loans that do not have negative amortization.

Competition or changes in the Company s relationships with its customers could reduce the Company s revenues or increase its losses.

Competition for private mortgage insurance premiums occurs not only among private mortgage insurers but also 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 or serviced by the lender. As discussed under The mortgage insurance industry is subject to risk from private litigation and regulatory proceedings below, the Company provided information to the New York Insurance Department and the Minnesota Department of Commerce about captive mortgage reinsurance arrangements. Other insurance departments or other officials, including attorneys general, may also seek information about or investigate captive mortgage reinsurance.

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.

The Company s private mortgage insurance competitors include:

PMI Mortgage Insurance Company,

Genworth Mortgage Insurance Corporation,

United Guaranty Residential Insurance Company,

Radian Guaranty Inc.,

Republic Mortgage Insurance Company,

Triad Guaranty Insurance Corporation, and

CMG Mortgage Insurance Company.

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

In each year, most of the Company s premiums are from insurance that has been written in prior years. As a result, the length of time insurance remains in force (which is also generally referred to as persistency) is an important determinant of revenues. The factors affecting the length of time the Company s 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

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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.

During the 1990s, the Company s year-end persistency ranged from a high of 87.4% at December 31, 1990 to a low of 68.1% at December 31, 1998. At June 30, 2006 persistency was at 64.1%, compared to the record low of 44.9% at September 30, 2003. Over the past several years, refinancing has become easier to accomplish and less costly for many consumers. Hence, even in an interest rate environment favorable to persistency improvement, the Company does not expect persistency will approach its December 31, 1990 level.

If the volume of low down payment home mortgage originations declines, the amount of insurance that the Company writes could decline which would reduce the Company s 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 can affect whether refinance loans have LTV ratios that require private mortgage insurance, and
- government housing policy encouraging loans to first-time homebuyers.

In general, the majority of the underwriting profit (premium revenue minus losses) that a book of mortgage insurance generates occurs in the early years of the book, with the largest portion of the underwriting profit realized in the first year. Subsequent years of a book generally result in modest underwriting profit or underwriting losses. This pattern of results occurs because relatively few of the claims that a book will ultimately experience occur in the first few years of the book, when premium revenue is highest, while subsequent years are affected by declining premium revenues, as persistency decreases due to loan prepayments, and higher losses.

If all other things were equal, a decline in new insurance written in a year that followed a number of years of higher volume could result in a lower contribution to the mortgage insurer s overall results. This effect may occur because the older books will be experiencing declines in revenue and increases in losses with a lower amount of underwriting profit on the new book available to offset these results.

Whether such a lower contribution would in fact occur depends in part on the extent of the volume decline. Even with a substantial decline in volume, there may be offsetting factors that could increase the contribution in the current year. These offsetting factors include higher persistency and a mix of business with higher average premiums, which could have the effect of increasing revenues, and improvements in the economy, which could have the effect of reducing losses. In addition, the effect on the insurer s overall results from such a lower contribution may be offset by decreases in the mortgage insurer s expenses that are unrelated to claim or default activity, including those related to lower volume.

Changes in the business practices of Fannie Mae and Freddie Mac could reduce the Company s revenues or increase its losses.

The business practices of the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac), each of which is a government sponsored entity (GSE), affect the entire relationship between them and mortgage insurers and include:

the level of private mortgage insurance coverage, subject to the limitations of Fannie Mae and Freddie Mac s charters, when private mortgage insurance is used as the required credit enhancement on low down payment mortgages, whether Fannie Mae or Freddie Mac influence the mortgage lender s selection of the mortgage insurer providing coverage and, if so, any transactions that are related to that selection,

whether Fannie Mae or Freddie Mac will give mortgage lenders an incentive, such as a reduced guaranty fee, to select a mortgage insurer that has a AAA claims-paying ability rating to benefit from the lower capital requirements for Fannie Mae and Freddie Mac when a mortgage is insured by a company with that rating,

the underwriting standards that determine what loans are eligible for purchase by Fannie Mae or Freddie Mac, which thereby affect the quality of the risk insured by the mortgage insurer and the availability of mortgage loans,

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

the circumstances in which mortgage servicers must perform activities intended to avoid or mitigate loss on insured mortgages that are delinquent.

The mortgage insurance industry is subject to the risk of private litigation and regulatory proceedings.

Consumers are bringing a growing number of lawsuits against home mortgage lenders and settlement service providers. In recent years, seven mortgage insurers, including MGIC, have been involved in litigation alleging violations of the anti-referral fee provisions of the Real Estate Settlement Procedures Act, which is commonly known as RESPA, and the notice provisions of the Fair Credit Reporting Act, which is commonly known as FCRA. MGIC s settlement of class action litigation against it under RESPA became final in October 2003. MGIC settled the named plaintiffs claims in litigation against it under FCRA in late December 2004 following denial of class certification in June 2004. There can be no assurance that MGIC will not be subject to future litigation under RESPA or FCRA or that the outcome of any such litigation would not have a material adverse effect on the Company. In August 2005, the United States Court of Appeals for the Ninth Circuit decided a case under FCRA to which the Company was not a party that may make it more likely that the Company will be subject to litigation regarding when notices to borrowers are required by FCRA.

In June 2005, in response to a letter from the New York Insurance Department (the NYID), the Company provided information regarding captive mortgage reinsurance arrangements and other types of arrangements in which lenders receive compensation. In February 2006, the NYID requested MGIC to review its premium rates in New York and to file adjusted rates based on recent years experience or to explain why such experience would not alter rates. In March 2006, MGIC advised the NYID that it believes its premium rates are reasonable and that, given the nature of mortgage insurance risk, premium rates should not be determined only by the experience of recent years. In February 2006, in response to an administrative subpoena from the Minnesota Department of Commerce (the MDC), which regulates insurance, the Company provided the MDC with information about captive mortgage reinsurance and certain other matters. The Company subsequently provided additional information to the MDC and expects to provide more information in the future. Other insurance departments or other officials, including attorneys general, may also seek information about or investigate captive mortgage reinsurance.

The anti-referral fee provisions of RESPA provide that the Department of Housing and Urban Development (HUD) as well as the insurance commissioner or attorney general of any state may bring an action to enjoin violations of these provisions of RESPA. The insurance law provisions of many states prohibit paying for the referral of insurance business and provide various mechanisms to enforce this prohibition. While the Company believes its captive reinsurance arrangements are in conformity with applicable laws and regulations, it is not possible to predict the outcome of any such reviews or investigations nor is it possible to predict their effect on the Company or the mortgage insurance industry.

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Net premiums written could be adversely affected if the Department of Housing and Urban Development reproposes and adopts a regulation under the Real Estate Settlement Procedures Act that is equivalent to a proposed regulation that was withdrawn in 2004.

HUD regulations under RESPA prohibit paying lenders for the referral of settlement services, including mortgage insurance, and prohibit lenders from receiving such payments. In July 2002, HUD proposed a regulation that would exclude from these anti-referral fee provisions settlement services included in a package of settlement services offered to a borrower at a guaranteed price. HUD withdrew this proposed regulation in March 2004. Under the proposed regulation, if mortgage insurance were required on a loan, the package must include any mortgage insurance premium paid at settlement. Although certain state insurance regulations prohibit an insurer s payment of referral fees, had this regulation been adopted in this form, the Company s revenues could have been adversely affected to the extent that lenders offered such packages and received value from the Company in excess of what they could have received were the anti-referral fee provisions of RESPA to apply and if such state regulations were not applied to prohibit such payments.

The Company could be adversely affected if personal information on consumers that it maintains is improperly disclosed.

As part of its business, the Company maintains large amounts of personal information on consumers. While the Company believes it has appropriate information security policies and systems to prevent unauthorized disclosure, there can be no assurance that unauthorized disclosure, either through the actions of third parties or employees, will not occur. Unauthorized disclosure could adversely affect the Company s reputation and expose it to material claims for damages.

The Company s income from joint ventures could be adversely affected by credit losses, insufficient liquidity or competition affecting those businesses.

C-BASS: Credit-Based Asset Servicing and Securitization LLC (C-BASS) is principally engaged in the business of investing in the credit risk of credit sensitive single-family residential mortgages. C-BASS is particularly exposed to funding risk and to credit risk through ownership of the higher risk classes of mortgage backed securities from its own securitizations and those of other issuers. In addition, C-BASS s results are sensitive to its ability to purchase mortgage loans and securities on terms that it projects will meet its return targets. C-BASS s mortgage purchases in 2005 and 2006 have primarily been of subprime mortgages, which bear a higher risk of default. Further, a higher proportion of subprime mortgage originations in 2005 and in 2006, as compared to 2004, were interest-only loans, which C-BASS views as having greater credit risk. C-BASS has not purchased any pay option ARMs, which are another type of higher risk mortgage. Credit losses are affected by housing prices. A higher house price at default than at loan origination generally mitigates credit losses while a lower house price at default generally increases losses. Over the last several years, in certain regions home prices have experienced rates of increase greater than historical norms and greater than growth in median incomes. During the period 2003 to 2005, according to the Office of Federal Housing Oversight, home prices nationally increased 27%. Recent forecasts predict that home prices will have minimal if any increase over the remainder of 2006, and may decline in certain regions.

With respect to liquidity, the substantial majority of C-BASS s on-balance sheet financing for its mortgage and securities portfolio is dependent on the value of the collateral that secures this debt. C-BASS maintains substantial liquidity to cover margin calls in the event of substantial declines in the value of its mortgages and securities. While C-BASS s policies governing the management of capital at risk are intended to provide sufficient liquidity to cover an instantaneous and substantial decline in value, such policies cannot guaranty that all liquidity required will in fact be available. Further, approximately 43% of C-BASS s financing has a term of less than one year, and is subject to renewal risk.

The interest expense on C-BASS s borrowings is primarily tied to short-term rates such as LIBOR. In a period of rising interest rates, the interest expense could increase in different amounts and at different rates and times than the interest that C-BASS earns on the related assets, which could negatively impact C-BASS s earnings.

Although there has been growth in the volume of subprime mortgage originations in recent years, volume is expected to decline in 2006, which may result in C-BASS purchasing fewer mortgages for securitization. Since 2005, there has been an increasing amount of competition to purchase subprime mortgages, from mortgage originators that formed real estate investment trusts and from firms, such as investment banks and commercial banks, that in the past acted as mortgage securities intermediaries but which are now establishing their own captive origination capacity. Many of these competitors are larger and have a lower cost of capital.

Sherman: The results of Sherman Financial Group LLC (Sherman), which is principally engaged in the business of purchasing and servicing delinquent consumer assets, are sensitive to its ability to purchase receivable portfolios on terms that it projects will meet its return targets. While the volume of charged-off consumer receivables and the portion of these receivables that have been sold to third parties such as Sherman has grown in recent years, there is an increasing amount of competition to purchase such portfolios, including from new entrants to the industry, which has resulted in increases in the prices at which portfolios can be purchased.

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MGIC INVESTMENT CORPORATION

MGIC Investment Corporation is a holding company which, through its wholly owned subsidiary MGIC, is the leading provider of private mortgage insurance in the United States to the home mortgage lending industry. Private mortgage insurance covers residential first mortgage loans and expands home ownership opportunities by enabling people to purchase homes with less than 20% down payments. If the homeowner defaults, private mortgage insurance reduces and, in some instances, eliminates the loss to the insured institution. Private mortgage insurance also facilitates the sale of low down payment and other mortgage loans in the secondary mortgage market, including to Fannie Mae and Freddie Mac. In addition to mortgage insurance on first liens, the Company, through other subsidiaries, provides lenders with various underwriting and other services and products related to home mortgage lending.

MGIC is licensed in all 50 states of the United States, the District of Columbia and Puerto Rico. The Company is a Wisconsin corporation. Its principal office is located at MGIC Plaza, 250 East Kilbourn Avenue, Milwaukee, Wisconsin 53202 (telephone number (414) 347-6480).

The Company also has ownership interests in less than majority-owned joint ventures, principally C-BASS and Sherman. C-BASS is principally engaged in the business of investing in the credit risk of credit sensitive single-family residential mortgages. Sherman is principally engaged in the business of purchasing and servicing delinquent consumer assets. The term Company means the Company and its consolidated subsidiaries. The Company s joint ventures are not consolidated with the Company for financial reporting purposes and are not subsidiaries of the Company.

The Company and its business may be materially affected by the risk factors applicable to the Company that are described under Risk Factors and Forward-Looking Statements in this Prospectus Supplement. C-BASS and Sherman and their respective businesses may be materially affected by the risk factors applicable to them that are described under that caption.

Primary Insurance

Primary insurance provides mortgage default protection on individual loans and covers unpaid loan principal, delinquent interest and certain expenses associated with the default and subsequent foreclosure (collectively, the claim amount). In addition to the loan principal, the claim amount is affected by the mortgage note rate and the time necessary to complete the foreclosure process. The insurer generally pays the coverage percentage of the claim amount specified in the primary policy, but has the option to pay 100% of the claim amount and acquire title to the property. Primary insurance generally applies to owner occupied, first mortgage loans on one-to-four family homes, including condominiums. Primary coverage can be used on any type of residential mortgage loan instrument approved by the mortgage insurer. References in this document to amounts of insurance written or in force, risk written or in force and other historical data related to MGIC s insurance refer only to direct (before giving effect to reinsurance) primary insurance, unless otherwise indicated. References in this document to primary insurance include insurance written in bulk transactions (see Bulk Transactions below) that is supplemental to mortgage insurance written in connection with the origination of the loan or that reduces a lender s credit risk to less than 51% of the value of the property. Effective with the third quarter of 2001, in reports by private mortgage insurers to the trade association for the private mortgage insurance industry, mortgage insurance that is supplemental to other mortgage insurance or that reduces a lender s credit risk to less than 51% of the value of the property is classified as pool insurance.

Primary insurance may be written on a flow basis, in which loans are insured in individual, loan-by-loan transactions, or may be written on a bulk basis, in which each loan in a portfolio of loans is individually insured in a single, bulk transaction. New insurance written on a flow basis was $40.1 billion in 2005 compared to $47.1 billion in 2004 and $71.1 billion in 2003. New insurance written for bulk transactions was $21.4 billion during 2005 compared to $15.8 billion for 2004 and $25.7 billion for 2003.

MGIC charges higher premium rates for higher coverages. MGIC believes depth of coverage requirements have no significant impact on frequency of default. Higher coverage percentages generally result in increased severity (which is the amount paid on a claim), and lower coverage percentages generally result in decreased severity. In accordance with industry accounting practice, reserves for losses are only established for loans in default. Because relatively few defaults occur in the early years of a book of business (see Claims below), the higher premium revenue from deeper coverage is recognized before any higher losses resulting from that deeper coverage may be incurred. MGIC s premium pricing methodology generally targets substantially similar returns on capital regardless of the depth of coverage. However, there can be no assurance that changes in the level of premium rates adequately reflect the risks associated with changes in the depth of coverage.

Coverage tends to continue in areas experiencing economic contraction and housing price depreciation. The persistency of coverage in such areas coupled with cancellation of coverage in areas experiencing economic expansion and housing price appreciation can increase the percentage of the insurer s portfolio comprised of loans in economically weak areas. This development can also occur during periods of heavy mortgage refinancing because refinanced loans in areas of economic expansion experiencing property value appreciation are less likely to require mortgage insurance at the time of refinancing, while refinanced loans in economically weak areas not experiencing property value appreciation are more likely to require mortgage insurance at the time of refinancing or not qualify for refinancing at all and, thus, remain subject to the mortgage insurance coverage.

The percentage of primary risk written with respect to loans representing refinances was 39.5% in 2005 compared to 37.4% in 2004, 48.7% in 2003, 43.8% in 2002, and 43.7% in 2001. When a borrower refinances an MGIC-insured mortgage loan by paying it off in full with the proceeds of a new mortgage that is also insured by MGIC, the insurance on that existing mortgage is canceled, and insurance on the new mortgage is considered to be new primary insurance written. Therefore, continuation of MGIC s coverage from a refinanced loan to a new loan results in both a cancellation of insurance and new insurance written.

In addition to varying with the coverage percentage, MGIC s premium rates vary depending upon the perceived risk of a claim on the insured loan and, thus, take into account the LTV ratio, the loan type (fixed payment versus non-fixed payment) and mortgage term and, for A– and subprime loans and certain other loans, the location of the borrower s credit score within a range of credit scores. In general, A– loans have FICO scores between 575 and 619 and subprime loans have FICO credit scores of less than 575. A FICO score is a score based on a borrower s credit history generated by a model developed by Fair Isaac and Company.

Pool Insurance

Pool insurance is generally used as an additional credit enhancement for certain secondary market mortgage transactions. Pool insurance generally covers the loss on a defaulted mortgage loan which exceeds the claim payment under the primary coverage, if primary insurance is required on that mortgage loan, as well as the total loss on a defaulted mortgage loan which did not require primary insurance. Pool insurance may have a stated aggregate loss limit and may also have a deductible under which no losses are paid by the insurer until losses exceed the deductible.

New pool risk written during 2005 was $358 million and was $208 million in 2004. New pool risk written during these years was primarily comprised of risk associated with loans delivered to Freddie Mac and Fannie Mae (agency pool insurance), loans delivered to the Federal Home Loan Banks under their mortgage purchase programs and loans made under state housing finance programs. Direct pool risk in force at December 31, 2005 was $2.9 billion compared to $3.0 billion and $2.9 billion at December 31, 2004 and 2003, respectively. The risk amounts referred to above represent pools of loans with contractual aggregate loss limits and without such limits. For pools of loans without such limits, risk is estimated based on the amount that would credit enhance these loans to a AA level based on a rating agency model. Under this model, December 31, 2005, 2004 and 2003 for $5.0 billion, $4.9 billion, and $4.9 billion, respectively, of risk without such limits, risk in force is calculated at $469 million, $418 million, and $353 million, respectively. New risk written, under this model, for the years ended December 31, 2005 and 2004 was $51 million and $65 million, respectively.

The settlement of a nationwide class action alleging that MGIC violated RESPA by providing agency pool insurance and entering into other transactions with lenders that were not properly priced (the RESPA

Litigation) became final in October 2003. In a February 1, 1999 circular addressed to all mortgage guaranty insurers licensed in New York, the New York Department of Insurance advised that significantly underpriced agency pool insurance would violate the provisions of New York insurance law that prohibit mortgage guaranty insurers from providing lenders with inducements to obtain mortgage guaranty business. In a January 31, 2000 letter addressed to all mortgage guaranty insurers licensed in Illinois, the Illinois Department of Insurance advised that providing pool insurance at a discounted or below market premium in return for the referral of primary mortgage insurance would violate Illinois law.

Risk Sharing Arrangements

MGIC participates in risk sharing arrangements with the GSEs and captive reinsurance arrangements with subsidiaries of certain mortgage lenders that reinsure a portion of the risk on loans originated or purchased by the lender which have MGIC primary insurance. During the years ended December 31, 2005 and December 31, 2004, about 48% and 51%, respectively, of MGIC s new insurance written on a flow basis was subject to risk sharing arrangements. New insurance written through the bulk channel is not subject to such arrangements.

Bulk Transactions

In bulk transactions, the individual loans in the insured portfolio are insured to specified levels of coverage. The premium in a bulk transaction, which is negotiated with the securitizer or other owner of the loans, is based on the mortgage insurer s evaluation of the overall risk of the insured loans included in the transaction and is often a composite rate applied to all of the loans in the transaction.

In general, the loans insured by MGIC in bulk transactions consist of A− loans; subprime loans; cash out refinances that exceed the standard underwriting requirements of the GSEs; jumbo loans; and loans with reduced underwriting documentation. A− loans have FICO scores between 575 and 619 and subprime loans have FICO credit scores of less than 575. A jumbo loan has an unpaid principal balance that exceeds the conforming loan limit. The conforming loan limit is the maximum unpaid principal amount of a mortgage loan that can be purchased by the GSEs. The conforming loan limit is subject to annual adjustment, and for mortgages covering a home with one dwelling unit is $417,000 for 2006 and was $359,650 in 2005 and $333,700 in 2004.

Approximately 60% of MGIC s bulk loan risk in force at December 31, 2005 had FICO credit scores of at least 620, compared to 58% at December 31, 2004. Approximately 25% of MGIC s bulk loan risk in force at December 31, 2005 had A− FICO credit scores compared to 28% at December 31, 2004, and approximately 15% had subprime credit scores at December 31, 2005 compared to 14% at December 31, 2004. Most of the subprime loans insured by MGIC in 2005 were insured in bulk transactions. More than 30% of MGIC s bulk loan risk in force at December 31, 2005 and 2004 had LTV ratios of 80% and below. New insurance written for bulk transactions was $21.4 billion during 2005 compared to $15.8 billion for 2004 and $25.7 billion for 2003.

Customers

Originators of residential mortgage loans such as mortgage bankers, savings institutions, commercial banks, mortgage brokers, credit unions and other lenders have historically determined the placement of mortgage insurance written on flow basis and as a result are the customers of MGIC. To obtain primary insurance from MGIC written on flow basis, a mortgage lender must first apply for and receive a mortgage guaranty master policy from MGIC. MGIC had approximately 13,800 master policyholders at December 31, 2005 (not including policies issued to branches and affiliates of large lenders). In 2005, MGIC issued coverage on mortgage loans for approximately 3,800 of its master policyholders. MGIC s top 10 customers generated 30.5% of its new insurance written on a flow basis in 2005, compared to 31.9% in 2004 and 33.1% in 2003.

Competition

For flow business, MGIC and other private mortgage insurers compete directly with federal and state governmental and quasi-governmental agencies, principally the FHA and, to a lesser degree, the Veterans

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Administration (the VA). These agencies sponsor government-backed mortgage insurance programs, which during 2005 and 2004 accounted for approximately 24% and 33%, respectively, of the total low down payment residential mortgages which were subject to governmental or private mortgage insurance. Loans insured by the FHA cannot exceed maximum principal amounts which are determined by a percentage of the conforming loan limit. For 2006, the maximum FHA loan amount for homes with one dwelling unit in high cost areas is as high as $362,790 and was as high as $312,896 in 2005. Loans insured by the VA do not have mandated maximum principal amounts but have maximum limits on the amount of the guaranty provided by the VA to the lender. For loans closed on or after December 10, 2004, the maximum VA guarantee is $104,250.

In addition to competition from the FHA and the VA, MGIC and other private mortgage insurers face competition from state-supported mortgage insurance funds in several states, including California and New York. From time to time, other state legislatures and agencies consider expansions of the authority of their state governments to insure residential mortgages.

MGIC and other mortgage insurers also compete with transactions structured to avoid mortgage insurance on low down payment mortgage loans. Such transactions include self-insuring, and piggyback loans, which are loans comprised of both a first and a second mortgage (for example, an 80% LTV first mortgage and a 10% LTV second mortgage), with the LTV ratio of the first mortgage below what investors require for mortgage insurance, compared to a loan with mortgage insurance in which the first mortgage covers the entire borrowed amount (which in the preceding example would be a 90% LTV mortgage). Captive mortgage reinsurance and similar transactions also result in mortgage originators receiving a portion of the premium and the risk.

Private mortgage insurers may also be subject to competition from Fannie Mae and Freddie Mac to the extent the GSEs are compensated for assuming default risk that would otherwise be insured by the private mortgage insurance industry. Fannie Mae and Freddie Mac each have programs under which an up-front delivery fee can be paid to the GSE and primary mortgage insurance coverage is substantially reduced compared to the coverage requirements that would apply in the absence of the program. In October 1998, Freddie Mac s charter was amended (and the amendment immediately repealed) to give Freddie Mac flexibility to use protection against default in addition to private mortgage insurance and the two other types of credit enhancement required by the charter for low down payment mortgages purchased by Freddie Mac. In addition, to the extent up-front delivery fees are not retained by the GSEs to compensate for their assumption of default risk, and are used instead to purchase supplemental coverage from mortgage insurers, the resulting concentration of purchasing power in the hands of the GSEs could increase competition among insurers to provide such coverage.

The capital markets may also develop as competitors to private mortgage insurers in ways the Company cannot predict. During 1998, a newly organized off-shore company funded by the sale of notes to institutional investors provided reinsurance to Freddie Mac against default on a specified pool of mortgages owned by Freddie Mac. A competitor of MGIC has engaged in transactions in which it transferred portions of the risk that it had written in certain bulk transactions to institutional investors in similar reinsurance structures. MGIC has also engaged in similar reinsurance transactions.

The private mortgage insurance industry currently consists of eight active mortgage insurers and their affiliates; one of the eight is a joint venture in which another mortgage insurer is one of the joint venturers. The names of the mortgage insurers in addition to MGIC are listed in this Prospectus Supplement under Risk Factors and Forward-Looking Statements. According to Inside Mortgage Finance, a mortgage industry publication, which obtains its data from reports to it by MGIC and other mortgage insurers that are to be prepared on the same basis as the reports by insurers to the trade association for the private mortgage insurance industry, for 1995 and subsequent years, MGIC has been the largest private mortgage insurer based on new primary insurance written (with a market share of 22.9% in 2005, 23.5% in 2004, 21.9% in 2003 and 24.8% in 2002) and at December 31, 2005, MGIC also had the largest book of direct primary insurance in force. Effective with the third quarter of 2001, these reports do not include as primary mortgage insurance insurance on certain loans classified by MGIC as primary insurance, such as loans insured through bulk transactions that already had mortgage insurance placed on the loans at origination.

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The private mortgage insurance industry is highly competitive. The Company believes it competes with other private mortgage insurers for business written through the flow channel principally on the basis of programs involving captive mortgage reinsurance, agency pool insurance, and other similar structures involving lenders; the provision of contract underwriting and related fee-based services to lenders; the provision of other products and services that meet lender needs for risk management, affordable housing, loss mitigation, capital markets and training support; the strength of MGIC s management team and field organization; and the effective use of technology and innovation in the delivery and servicing of MGIC s insurance products. The Company believes MGIC s additional competitive strengths, compared to other private insurers, are its customer relationships, name recognition, reputation and the depth of its database covering loans it has insured. The Company believes it competes for bulk business principally on the basis of the premium rate and the portion of loans submitted for insurance that the Company is willing to insure.

Certain private mortgage insurers compete for flow business by offering lower premium rates than other companies, including MGIC, either in general or with respect to particular classes of business. MGIC on a case-by-case basis will adjust premium rates, generally depending on the risk characteristics, loss performance or class of business of the loans to be insured, or the costs associated with doing such business.

Contract Underwriting and Related Services

The Company performs contract underwriting services for lenders in which the Company judges whether the data relating to the borrower and the loan contained in the lender s mortgage loan application file comply with the lender s loan underwriting guidelines. The Company also provides an interface to submit such data to the automated underwriting systems of the GSEs, which independently judge the data. These services are provided for loans that require private mortgage insurance as well as for loans that do not require private mortgage insurance. A material portion of the Company s new insurance written through the flow channel in recent years involved loans for which the Company provided contract underwriting services. The complaint in the RESPA Litigation alleged, among other things, that the pricing of contract underwriting provided by the Company violated RESPA.

Under its contract underwriting agreements, the Company may be required to provide certain remedies to its customers if certain standards relating to the quality of the Company s underwriting work are not met. The cost of remedies provided by the Company to customers for failing to meet these standards has not been material to the Company s financial position or results of operations for the years ended December 31, 2005, 2004 and 2003. There can be no assurance that contract underwriting remedies will not be material in the future.

Defaults

The claim cycle on private mortgage insurance begins with the insurer s receipt of notification of a default on an insured loan from the lender. MGIC defines a default as an insured loan with a mortgage payment that is 45 days or more past due. Lenders are required to notify MGIC of defaults within 130 days after the initial default, although most lenders do so earlier. The incidence of default is affected by a variety of factors, including the level of borrower income growth, unemployment, divorce and illness, the level of interest rates and general borrower creditworthiness. Defaults that are not cured result in a claim to MGIC. Defaults may be cured by the borrower bringing current the delinquent loan payments or by a sale of the property and the satisfaction of all amounts due under the mortgage.

Claims

Claims result from defaults which are not cured. Whether a claim results from an uncured default principally depends on the borrower s equity in the home at the time of default and the borrower s (or the lender s) ability to sell the home for an amount sufficient to satisfy all amounts due under the mortgage. Claims are affected by various factors, including local housing prices and employment levels, and interest rates.

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Claim activity is not evenly spread throughout the coverage period of a book of primary business. For prime loans, relatively few claims are received during the first two years following issuance of coverage on a loan. This is followed by a period of rising claims which, based on industry experience, has historically reached its highest level in the third through fourth years after the year of loan origination. Thereafter, the number of claims received has historically declined at a gradual rate, although the rate of decline can be affected by conditions in the economy, including lower housing price appreciation. There can be no assurance that this historical pattern of claims will continue in the future and due in part to the subprime component of loans insured in bulk transactions, the peak claim period for bulk loans has generally occurred earlier than for prime loans. Moreover, when a loan is refinanced, because the new loan replaces, and is a continuation of, an earlier loan, the pattern of claims frequency for that new loan may be different from the historical pattern of other loans. As of December 31, 2005, 77.0% of the MGIC Book primary insurance in force had been written during 2003-2005, although a portion of such insurance arose from the refinancing of earlier originations.

In addition to the increasing level of claim activity arising from the maturing of the MGIC Book, another important factor affecting MGIC Book losses is the amount of the average claim paid, which is generally referred to as claim severity. The main determinants of claim severity are the amount of the mortgage loan and the coverage percentage on the loan. The average claim severity on the MGIC Book primary insurance was $26,361 for 2005 as compared to $24,438 in 2004 and $22,925 in 2003.

Investment Portfolio

Approximately 76% of the Company s long-term investment portfolio is managed by outside managers, although the Company maintains overall control of investment policy and strategy. The Company maintains direct management of the remainder of its investment portfolio.

The Company s current policies emphasize preservation of capital, as well as total return. Therefore, the Company s investment portfolio consists almost entirely of high-quality, fixed-income investments. Liquidity is sought through diversification and investment in publicly traded securities. The Company attempts to maintain a level of liquidity commensurate with its perceived business outlook and the expected timing, direction and degree of changes in interest rates. The Company s investment policies in effect at December 31, 2005 limited investments in the securities of a single issuer (other than the U.S. government) and generally limit the purchase of fixed income securities to those that are rated investment grade by at least one rating agency.

At December 31, 2005, the market value of the Company s investment portfolio was approximately $5.5 billion. At December 31, 2005, municipal securities represented 86.6% of the market value of the total investment portfolio. Securities due within one year, within one to five years, within five to ten years, and after ten years, represented 9.2%, 15.1%, 21.0% and 54.7%, respectively, of the total book value of the Company s investment in debt securities. The Company s after-tax yield for 2005 was 3.9%, which was comparable to the after-tax yield of 3.8% in 2004.

Recent Developments Regarding Sherman

We and Radian Guaranty Inc. currently each own 34.58% of the existing interests in Sherman, which has a single class of interests. The remainder of the interests are owned by entities owned by Sherman s management. We and Radian have separate options granted in June 2005 by one of these entities that give us or Radian the right to purchase 6.92% (13.84% in total for both options) of the existing interests in Sherman. We are close to finalizing a transaction with Sherman s management in which our option would be restructured.

As part of the restructuring of our option, 94% of the existing interests in Sherman will be recapitalized into Class A Common Units and the remaining 6% will be recapitalized into a combination of Preferred Units and Class B

Common Units. The Preferred Units will have a preference over the Class B Units in the allocation of 6% of Sherman s operating income. Under the preference, 6% of the first $200 million of operating income will be allocated to the Preferred Units. Six percent of operating income above $200 million is not part of the preference and will be allocated 50% to the Preferred Units and 50% to the Class B Units. The preference is cumulative so that until the Preferred Units have been allocated the preference amount on a cumulative basis, no operating income is allocated to the Class B Units. The description above expresses the $200 million preference on an annual basis. The $200 million threshold amount will be lower during the next year and will be higher thereafter. In liquidation or on sale of Sherman, the Preferred Units will be entitled to approximately $45 million plus any undistributed operating income allocated to the Preferred Units. Assuming the value of Sherman increases by at least $45 million above its value on July 1, 2006, remaining amounts in a liquidation or sale occurring on or after July 1, 2010 will be allocated 94% to the Class A Common Units and 6% to the Class B Common Units. If the value increases by less than $45 million or the liquidation or sale occurs prior to July 1, 2010, the percentage of the liquidation or sale proceeds to which the Class B Common Units are entitled will be less than 6%. The percentages of Sherman s income to which the Class A Units, the Preferred Units and the Class B Units are entitled and the percentage of the liquidation proceeds payable to the Class A Units and the Class B Units will vary depending on the percentage that the outstanding Class B Units are of the total of the outstanding Class A Units and Class B Units. Based on the number of Class A Units and Class B Units that will be outstanding immediately after the recapitalization, this percentage will be 6%, as set forth in the description above.

We intend to restructure our option so that the portion of the option that covers 3% of the existing interests will cover the Preferred Units to be issued in the recapitalization in exchange for those interests (half of the Preferred Units to be issued in the recapitalization) and the remainder of the option will cover the Class A Units to be issued in the recapitalization in exchange for the remaining interests subject to the option (3.92% of the original interests, which will represent 4.17% of the Class A Units to be issued in the recapitalization). The option price allocable to the Preferred Units will be reduced to 60% of what it would have otherwise been on 3% of the existing interests. The option price under the restructured option is expected to be $65.3 million.

The option restructuring and the recapitalization treat Radian the same as us. We will not proceed with the restructuring and the recapitalization unless Radian agrees to them. If the restructuring of the options and the recapitalization occur, we expect that we will exercise our restructured option in full. If the exercise of the restructured options and the recapitalization occur, we would own 40.96% of the Class A Units and 50% of the Preferred Units. Radian would own the same percentages of each Class. The remainder of the Class A Units and all of the Class B Units would be owned by entities owned by Sherman s management.

Consolidated Ratio of Earnings to Fixed Charges

The following table sets forth our ratios of earnings to fixed charges for the periods presented:

Six Months Ended			Year Ended December 31,		
June 30, 2006	2005	2004	2003	2002	2001
20.7	18.9	16.0	14.4	21.1	27.2

For purposes of computing the ratios of earnings to fixed charges, earnings represent net income less income or loss from equity investees, plus applicable income taxes and fixed charges. Fixed charges include all interest expense, amortization of debt expense and the proportion deemed representative of the interest factor of rent expense.

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USE OF PROCEEDS

We estimate that we will receive net proceeds from the offering of approximately $198,458,000. We expect to use the net proceeds to repay short-term indebtedness to a balance of approximately $100 million and, together with cash to be generated from future sales of short-term indebtedness and future dividends from MGIC, to repay all $200,000,000 of our outstanding 6.00% Senior Notes due March 15, 2007. Pending such use, we anticipate that we will use the net proceeds to invest in short-term investments and for general corporate purposes, including repurchases of our common stock pursuant to our previously announced share repurchase program.

As of August 31, 2006, our short-term debt had a weighted average interest rate of 5.36% and a weighted average maturity of 31 days.

CAPITALIZATION

The following table sets forth our consolidated capitalization as of June 30, 2006 and as adjusted for the offering of the notes under this prospectus supplement, the use of proceeds of the notes and future cash to be generated as described under Use of Proceeds. You should read this table in conjunction with our consolidated financial statements and the related notes for the period ended June 30, 2006 contained in our Quarterly Report on Form 10-Q for the period ended June 30, 2006, which is incorporated in this prospectus supplement by reference.

	At June 30, 2006	
	Actual	**As Adjusted**
	(In thousands of dollars) (unaudited)	
Total short and long-term debt:		
Short-term debt(1)	$ 131,104	$