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Forward Looking Statements

Discussions presented below that are not statements of historical fact (including statements that include terms such as will, may, should, believe, expect, anticipate, estimate, intend, and plan) are forward-looking statements that involve risks and uncertainties. Any forward-looking statement is not a guarantee of future performance and actual results could differ materially from those contained in the forward-looking information. Such forward-looking statements include, but are not limited to, statements about the benefits of the business combination transaction involving Radian and MGIC, including future financial and operating results, the new company's plans, objectives, expectations and intentions and other statements that are not historical facts.

The following factors, among others, could cause actual results to differ from those set forth in the forward-looking statements: the ability to obtain regulatory approvals of the transaction on the proposed terms and schedule; the failure of Radian or MGIC to approve the transaction; the risk that the businesses will not be integrated successfully; customer attrition and disruption from the transaction making it more difficult to maintain relationships with customers, employees or suppliers; the risk that the cost savings and any other synergies from the transaction may not be fully realized or may take longer to realize than expected; competition and its effect on pricing, spending, third-party relationships and revenues; movements in market interest rates and secondary market volatility; potential sales of assets in connection with the merger; legislative and regulatory changes affecting demand for private mortgage insurance or financial guaranty insurance; downgrades of the insurance financial-strength ratings assigned by the major ratings agencies to Radian's and MGIC's operating subsidiaries and unfavorable changes in economic and business conditions. Additional factors that may affect future results are contained in Radian's and MGIC's filings with the SEC, which are available at the SEC's website <http://www.sec.gov>. Radian and MGIC disclaim any obligation to update and revise statements contained in these materials based on new information or otherwise.

Additional Information

MGIC Investment Corporation and Radian Group Inc. have filed a joint proxy statement/prospectus and other relevant documents concerning the MGIC/Radian merger transaction with the United States Securities and Exchange Commission (the SEC). STOCKHOLDERS ARE URGED TO READ THE JOINT PROXY STATEMENT/PROSPECTUS AND ANY OTHER DOCUMENTS FILED WITH THE SEC IN CONNECTION WITH THE MERGER TRANSACTION OR INCORPORATED BY REFERENCE IN THE PROXY STATEMENT/PROSPECTUS BECAUSE THEY CONTAIN IMPORTANT INFORMATION. Investors may obtain these documents free of charge at the SEC's website (<http://www.sec.gov>). In addition, documents filed with the SEC by MGIC are available free of charge by contacting Investor Relations at MGIC Investment Corporation, 250 East Kilbourn Avenue, Milwaukee, WI 53202. Documents filed with the SEC by Radian are available free of charge by calling Investor Relations at (215) 231-1486.

Radian and MGIC and their respective directors and executive officers, certain members of management and other employees may be deemed to be participants in the solicitation of proxies from Radian stockholders and MGIC stockholders with respect to the proposed merger transaction. Information regarding the directors and executive officers of Radian and MGIC and the interests of such participants are included in the joint proxy statement/prospectus filed with the SEC (which relates to the merger transaction, Radian's 2007 annual meeting of stockholders and MGIC's 2007 annual meeting of stockholders) and in the other relevant documents filed with the SEC.

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The following is a transcript to a webcast MGIC Investment Corporation had on April 12, 2007.

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Conference Call Transcript

MTG - Q1 2007 MGIC Investment Corp. Earnings Conference Call

Event Date/Time: Apr. 12. 2007 / 10:00AM ET

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the MGIC first quarter earnings conference call. [OPERATOR INSTRUCTIONS]

I would now like to introduce your host for today's conference, Mr. Mike Zimmerman. Mr. Zimmerman, you may begin your conference.

Mike Zimmerman *MGIC Investment Corp.* **IR**

Thanks, Ryan. Good morning and thank you for joining us this morning and for your interest in MGIC Investment Corporation. Joining me on the call today to discuss the first quarter of 2007 results are Chairman and CEO, Curt Culver; Executive Vice President and CFO, Mike Lauer; and Executive Vice President of Risk Management, Larry Pierzchalski. Also joining us on the call today to discuss C-BASS results is Bruce Williams, the co-Founder and Chief Executive Officer; and Peter Cerwin, Manager, Director, and head of Investor Relations for C-BASS.

Mike Zimmerman MGIC Investment Corp. IR

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Before we get started this morning, there are a couple of housekeeping issues that I wanted to cover. First, I wanted to point out we made some changes to the additional information disclosures this quarter that are contained in the press release and we've provided that information in the new format back to the fourth quarter of 2005. We hope you find this new format useful. Next, Curt will begin with his opening remarks, which will be followed by comments from Bruce and then we'll open up the lines for questions. The call this morning is scheduled for one hour and given the number of participants on the call, I, and I'm sure they would appreciate if you could limit yourselves to one question and a follow-up and then return to the queue.

Finally, I want to remind all participants that our earnings release of this morning, which may be accessed on MGIC's website which is located at www.MGIC.com, includes additional information about the Company's quarterly results that we will refer to during the call and contains certain non-GAAP financial measures. During the course of this call, we may make comments about our expectations of the future. Actual results may differ materially from those contained in these forward-looking statements. Additional information about those factors that could cause actual results to differ materially from those discussed on the call are contained in the quarterly earnings release. If the Company makes any forward-looking statement, we are not undertaking an obligation to update those statements in the future in light of subsequent developments. Now I'll turn the call over to Curt.

Curt Culver *MGIC Investment Corp. CEO*

Thank you, Mike, and good morning. Net income in the first quarter was \$92.4 million compared with \$163.5 million a year ago. Diluted earnings per share was \$1.12 versus \$1.87 a year ago. The first quarter financial results, while disappointing, mask numerous positive changes in our business fundamentals. But before I address those positives, I wanted to discuss the drivers of our earnings shortfall of which there are two, C-BASS's results and the losses incurred.

Regarding C-BASS, we're joined on the call today by Bruce Williams, C-BASS's co-Founder and CEO. We've had so many inquiries this quarter regarding C-BASS and the turmoil in the subprime markets, that we felt it would be appropriate to have Bruce participate on our call. In a minute I'll turn it over to Bruce to discuss C-BASS's results.

The second item was that we took loss reserves up in the quarter by 15 million over paid, even though delinquencies fell in the quarter by 2500 to just over 76,000. The reason we did this is that the newer delinquencies we are receiving are from higher-dollar states and as a result the loans have significantly higher loan balances. As we discussed last quarter, the average loan size on our bulk business has grown from 147,000 in 2003 to 236,000 in 2006 and the flow has increased from 144,000 to 161,000. At our year end call we felt paid for the year would be up by 10%, even though the actual number of claims we paid should be relatively flat year over year.

In addition, we did not repurchase any shares within the quarter due to our transaction with Radian. While in discussions with them in January, we were unable to buy any of our shares and after the transaction was announced, we were limited by SEC rules to an immaterial level of purchases. After the transaction is voted on by Radian's and our shareholders, Radian's meeting is May 9, and ours May 10, we'll be at normal repurchase limits.

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Now regarding the positive business fundamentals we are seeing, as we discussed last quarter, we expected to see an increase in the penetration rate for our flow product, and that indeed is what is happening. Even though the general mortgage market continues to be down, MGIC's flow new insurance written of \$10.4 billion was up 32% over last year. Interest rate levels, slowing property appreciation, and MI tax deductibility are all playing a role in the return of our flow product, although the single largest factor, I think, is a renewed interest in credit quality protection.

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Bulk writing, while written at higher premium rate levels in this quarter over last area's levels have not yet rebounded as the interest rates charged to borrowers have not yet been sufficient to include our cost. While lenders are now building in such rate increases, it probably won't be reflected in increased bulk writings for MGIC until the second half of the year. Persistency at 70.3% also continues to improve, up slightly from 69.6% last quarter and 62% a year ago. Flow persistency was 74.6%, up from 73.5 last quarter and bulk persistency was basically flat at 56%. Now the quarterly run rate for the combined portfolio was 75.2%, up from 71.5% last quarter.

As a result of the improvements in penetration and persistency, insurance in force grew to 178.3 billion, up 1% from last quarter and 6.8% from a year ago. The average premium yields held slightly to 67.4 basis points from 67.9, reflecting the much lower levels of bulk writing in the quarter, even though as I mentioned, the average premium rate on the bulk was significantly higher than last quarter and last year. The other strong influence was a continued runoff of the higher-priced '02, '03, and '04 books of business. Paid losses in the quarter totalled \$166 million up from \$157 million last quarter. While some are expecting a sky is falling scenario for paid losses for the year, we continue to see a year much as we thought, with paid losses up approximately 10% from last year.

A caveat would be California, however, where we have seen a marginal uptick in delinquencies. California has a 124-day disclosure period compared to most other states which they have a 12 to 18-month period. As a result, you can get claims much quicker there. Also, the average paid claim on California loans is two times higher than the average paid claim from the remainder of the country. So if the majority of these delinquencies don't cure in accordance with our claim rate assumption, you could have additional paid losses. We have not seen that in our development and we'll know more at the end of the second quarter and update you accordingly.

The subprime business continues to be a hot topic, particularly the 2006 book and rightly so given the many credit practices that were abused last year. Our industry and our company did not participate a great deal in these practices, as most subprime loans were originated with 80/20 piggybacks that avoided our product. MGIC did insure approximately \$4 billion of subprime business last year and by subprime, I'm talking about all loans which have FICO scores below 620 and about 7% of our 2006 insurance writings, we have subprime exposure and relative to our entire book, we have 4% of our risk enforce. However, regarding the 2006 writings, which have generated so much publicity, it will not be one of our better books and its loss development should closely match our 2000 book. However, even with the poor loss performance, through the combination of higher premium rates and loss deductibles, we still expect the 2006 subprime book to perform at a combined loss and expense ratio of 80% and provide a 20% margin to MGIC.

Regarding our international expansion, we, after recent positive meetings with the Australian regulators, we expect to receive our insurance license by the end of April. We also are in final stages of discussion with the rating agencies and don't see any obstacles to securing our necessary ratings. We continue to have numerous positive customer discussions and expect to hit the ground running once our license is received in April. In Canada we are still targeting the fourth quarter to obtain our license and start writing business. We hope to have our full management team in place in Canada within the next 30 days, and again, like Australia, we have had many positive discussions with customers.

Finally, regarding our merger with Radian, we're pleased that we did not receive a second question under HartScottRodino. So the waiting period before we can close under the Federal Antitrust law has expired. The principal remaining legal hurdles to closing are twofold. The first is approval of each of the Company's shareholders, the proxy materials were mailed earlier this week and as I mentioned, the votes are scheduled May 9, for Radian and May 10, for MGIC. The second hurdle is approval of various state insurance departments. We expect these approvals to be completed late in the third quarter or early in the fourth quarter. In the meantime, we've had numerous discussions ongoing with coworkers from both companies regarding the integration with a great deal of work expected to be completed before our closing.

Now before we take questions, let me turn the call over to Bruce Williams, C-BASS's co-Founder and CEO. Bruce and his fellow co-Founder, Saul Sanders have created the premier company in their space, one that quarter over quarter has turned out returns of over 20%. Unfortunately, the events in the first quarter broke that string. However, longer term, these same events with C-BASS's strength, I think, will benefit C-BASS and MGIC. Bruce?

Bruce Williams C-BASS Co-Founder, CEO

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Thanks, Curt. Good morning. This past quarter the subprime market experienced a substantial repricing and increase in credit risk premium. This is primarily due to the well-publicized issues with subprime loans, especially the 2006 vintage to include poor underwriting, increasing delinquencies, and foreclosures. That has created liquidity issues for all subprime participants and caused the following, a dramatic drop in origination volume, accelerated subprime originator consolidation and bankruptcy, increased margin calls from all lenders, and significant tiering for subprime asset-backed issuers, plus a lack of access for certain issuers.

Demonstrating the strength of our franchise, we were able to continue to access the market, pricing four whole loan deals, a CBO, and a second lean deal in the first quarter. In anticipation of the changes in the environment, we tightened our purchase requirements and increased our expected losses in late 2005. This led to a reduction of our loan purchases of 2006 originated loans by approximately 50% versus 2005 originated loans. In addition, our early pay defaults are running well below the industry average due to these changes. However, like every participant in the market, we were surprised at the speed and over reaction of this past quarter's adjustment and have not been immune to these market events and responded accordingly.

From a liquidity perspective, we have reduced our whole loan position/exposure from \$3.9 billion at the beginning of the quarter to \$2.6 billion as of March 31. Total assets declined \$1.9 billion from \$8.8 billion to \$6.9 billion at March 31. We began the quarter with approximately \$300 million in cash resources. After absorbing margin costs of approximately \$200 million, we ended the quarter with approximately \$200 million in cash resources.

Due to these significant changes in the market, our first quarter results and full-year forecast has been negatively impacted. For the quarter, we reported a pretax loss of approximately \$15 million versus an expected pretax profit of approximately \$60 million. The major reasons for this shortfall are as follows: the write-down of approximately \$34 million in our existing securities portfolio. This is due to both spread widening and an increase in our loss assumptions for our 2006 book. We realized securitization losses of \$11 million for deals issued in the first quarter due to wider spreads. We had a mark-to-market adjustment of \$34 million and our home loan portfolio to reflect current market conditions. In addition, we wrote off \$21 million in outstanding claims to certain impaired counterparties.

These results were offset by an operating profit, and written loan servicing, interest income on our portfolio, and reduced compensation expenses. A substantial portion of the first quarter shortfall occurred during the last week of February and in March as the market continued to deteriorate due to announcements relating to New Century, Fremont, and others. Results during this period also led us to revise our 2007 forecast. We expect a return to profitability in the second quarter of 2007 and expect a pretax return for the year of 15 to 20%, which translates into approximately 150 to \$200 million in pretax earnings for the full year. This assumes that our credit portfolio continues to perform within our current expectations, our whole loan volume remains at depressed levels, and spreads do not widen significantly from here.

Lastly, additionally in the quarter, we entered into a definitive agreement to acquire Fieldstone Investment Corporation. We view Fieldstone as a long-term strategic asset. Fieldstone filed a preliminary proxy statement with the SEC on March 27, 2007. Therefore, at this time, I am unable to comment on this transaction other than to reiterate information contained in the publicly-available documents.

Curt Culver *MGIC Investment Corp. CEO*

Thanks, Bruce. With that, operator, we'll take questions for either MGIC team or Bruce.

QUESTION AND ANSWER

Operator

Thank you. [OPERATOR INSTRUCTIONS] Our first question comes from Geoffrey Dunn of KBW.

Geoffrey Dunn *KBW Analyst*

Curt, so I heard right, are you reiterating your 10% paid loss guidance for the year?

Geoffrey Dunn *KBW Analyst*

Curt Culver *MGIC Investment Corp. CEO*

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Yes.

Geoffrey Dunn *KBW Analyst*

Okay. Is there any way you can give us any parameters around the provisioning? I know it's a hard number to project, but obviously that's the real wildcard in the MI business. How should we be thinking about how that number trends from this quarter? Can you put any kind of range around that to help us firm numbers?

Mike Lauer *MGIC Investment Corp. EVP, CFO*

This is Mike. I would say at a minimum, we'd be at this level going forward. It will be subject to the level of delinquencies. As Curt talked about, one of the things that we're seeing in the underlying delinquencies is that there's been a big shift, if you will, in the pre-'03 books are declining rapidly, but being offset by growth in '04 and '05 and '06 and '06, or really '05 and '06 books. And the average severity there is significant. The underlying loan coverage, as Curt talked about.

Another thing that happened, as Curt mentioned, about California. A year ago, California delinquencies were about 1900. Now they're up to 3400. So we're seeing an increase in California delinquencies. As a matter of fact, even though we had a reduction in delinquencies overall quarter to quarter, about 2500, we had an increase in some areas like California, Arizona, Florida, Mass., New England area of about 1500. And those delinquencies obviously carrying much higher loan averages. That's what's happening with the underlying coverages.

As a result even though we didn't have much of a change in severity, that is delinquencies going to claim, only in a couple of small areas, the major increase in reserve factors were changes again in average severity because of the average loan size. Now, going forward, I would say that we'd be running at the current level of 181 million quarter to quarter, subject to changes in delinquencies if they, for example, they tend to decrease again in the second quarter, historically, they have, anyway. And then some increase in the second half of the year. So subject to that change and the mix again, but, again, we'll have to look at that as Curt mentioned in the second quarter.

Geoffrey Dunn *KBW Analyst*

Okay, thanks.

Operator

Our next question comes from Steve Stelmach with FBR.

Operator

Steve Stelmach *FBR Analyst*

Good morning, gentlemen.

Curt Culver *MGIC Investment Corp. CEO*

Good morning.

Steve Stelmach *FBR Analyst*

With your stocks trading so close to book value, I guess investor's concerns are, how safe is book value? And outside of C-BASS and Sherman, anything on balance sheet that you guys can see that may impact book value going forward? And then also, looks like you delevered a little bit in the quarter, any?

Mike Lauer *MGIC Investment Corp. EVP, CFO*

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No, that was just the fact that if you remember, we had a couple hundred million coming due in March and we took the opportunity and raised the money earlier in the fourth quarter and that was just the planned reduction of that five-year debt that was coming due in March. That's the only difference in leverage. On book value, I'd say, no, there's no significant changes. The balance sheet is stronger than ever. Investment portfolio is strong as ever. As Curt mentioned, I think the fundamental business looked very good. We need to get through the bulge, if you will, in the '06 book, and '05 delinquencies, but no impairment on the book value.

Curt Culver *MGIC Investment Corp. CEO*

This is really a strange quarter and maybe a year for the company in that I feel really good about the business fundamentals. Now, we're going through some issues here relative to subprime and its impact on C-BASS, and our business also to a limited extent. But relative to what's going on fundamentally behind the business, things are looking very good, but it doesn't show up, obviously, in the financial results, which is why it makes this call so difficult.

Steve Stelmach *FBR Analyst*

And then just one follow-up, I guess it's for Bruce. If I'm calculating my numbers right, it looks like C-BASS tends to run leverage around 9 times after you sold some whole loans, looks like you're running around 7 times. As better underwriting works its way through the system, do you foresee getting back to that 9 times? Do you have the capacity to get back to 9 times in this environment, or is the margin call just going to prevent you from getting there?

Bruce Williams *C-BASS Co-Founder, CEO*

Well, I guess our view for this year is that origination volume for the whole industry is going to be down substantially, and we bought probably 10 to 11 billion of home loans last year, we expect that and that's in the forecast that I stated to be down about 50%. So, no, I don't think we're going to lever back up this year.

Steve Stelmach *FBR Analyst*

Thank you.

Curt Culver *MGIC Investment Corp. CEO*

Operator?

Operator

Our next question comes from [Brian Hennessey] with [Tribeca] Management.

Brian Hennessey *Tribeca Management Analyst*

Question for the MGIC team. Could you shed some light on your due diligence into Radian's subprime exposure and its financial guarantee business? We know that there's 567 million of subprime RBS exposure and about 769 million of exposure to CDOs with subprime collateral. Just wanted to get a little better picture on how you've gotten comfortable on this exposure?

Larry Pierzchalski *MGIC Investment Corp. EVP, Risk Management*

Yes, this is Larry Pierzchalski. With regard to the due diligence, we received loan level information on their total insurance portfolio. We ran it through the pricing models we have here and we're comfortable with the outcome. Quite frankly, it's not too different from some of the business we did, although the portions may be a little different. So anyhow, that's what the due diligence process was. Loan level information running through our pricing models, and we also had reviewed some of their NIM transactions and credit default swap transactions.

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Brian Hennessey *Tribeca Management Analyst*

Thank you.

Operator

Our next question comes from Mark Patterson with NWQ Investment Management.

Mark Patterson *NWQ Investment Management Analyst*

Hey, there. Question on the book value. Just in the roll forward, the book value at the end of the quarter was much higher than I would have expected it to be given the earnings level and the fact that FAS 115 would have been a reduction, it looks like and your \$0.25 dividend. It looks like the book value is more than \$1 higher than a normal roll forward would be. Does that have something to do with the Sherman dividend or what's really driving that?

Mike Lauer *MGIC Investment Corp. EVP, CFO*

I can't there's nothing significant. FIN 48 wasn't a big issue.

Mark Patterson *NWQ Investment Management Analyst*

Well, book value is \$1.76 higher than year end.

Mike Lauer *MGIC Investment Corp. EVP, CFO*

FIN 48 might have been \$0.50, \$0.52 or something, not that much more. So no significant factors.

Mark Patterson *NWQ Investment Management Analyst*

Okay, I'll check back on that. One other thing. On C-BASS, since Bruce is on the line, did I hear what your appetite, obviously you've been active, the Fieldstone purchase looks like it's a good return on investment, but do you have other opportunities you can take advantage of over the next two, two and a half quarters, or are you saying?

Bruce Williams *C-BASS Co-Founder, CEO*

No, no, no. Maybe I wasn't as clear as I should have been. We're seeing lots of opportunities. I was just stating the fact that it's our belief that the amount of product that will be produced this year versus last year is going to be substantially reduced.

Curt Culver *MGIC Investment Corp. CEO*

You're probably looking at a subprime business that was \$600 billion last year, down to 3 to \$400 billion this year.

Bruce Williams *C-BASS Co-Founder, CEO*

But we are there have been some well-publicized distressed sales. We had seen those and to date we have not participated because we didn't like the pricing in terms of where they traded, but we expect that will continue.

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Mark Patterson *NWQ Investment Management Analyst*

Okay. So just one clarification, then. There are some distressed subprime properties, some portfolios that could be available, but you're concentrated on what you've done with Fieldstone and your own opportunities, even though the market is coming down in terms of volume?

Bruce Williams *C-BASS Co-Founder, CEO*

Correct.

Mark Patterson *NWQ Investment Management Analyst*

Thank you.

Mike Lauer *MGIC Investment Corp. EVP, CFO*

Thanks, Mark.

Operator

Our next question comes from [Adam Gileskie] of Goldman Sachs.

Adam Gileskie *Goldman Sachs Analyst*

Thank you. Can you talk a little bit more about claims management? And in particular, I've heard from other sources that if a loan has been conveyed fraudulently, then the insurance is not necessarily valid? How does that impact your expected approach to claims management as this year progresses?

Larry Pierzchalski *MGIC Investment Corp. EVP, Risk Management*

Well, this is Larry Pierzchalski. With regard to fraud or other reps and warrants, in particular on the bulk business side, when we do a transaction, we receive loan level information, so one of the reps and warrants is the accuracy of that information and aside from that, there are usually additional terms in terms of what's included or specifically excluded and fraud, certainly first-party fraud and generally third-party fraud is generally excluded. Typically, we would, at time of delinquency really check out all the rep and warrant items, contract items, and check for fraud, in particular on early delinquencies, where fraud tends to be more of the mix than later in life. So that's the process. Once again, we're looking for material misrepresentations. We've been doing that through all the policy years, it's not something we've started and I guess we're of the opinion that although we rescind from time to time due to various items, we try hard to clear those up with the insured as we see them and hopefully make that less of an issue on a go-forward basis. The last thing I'd say is some of the rep and warrant items that are in the marketplace between buyers and sellers of loan may not be the same as the rep and warrants in items we have.

Curt Culver *MGIC Investment Corp. CEO*

Yes. What I would like to say, Adam, is we've always been MGIC's always been very consistent relative to our approach on we've had a team here that investigates the business and long-term have done that. It's not something we gear up to when we have tough times or something like that. All our customers appreciate the fact that we're consistent. If the item's in dispute, we did not cause a change in the underwriting decision, if you will, those are things you let go. But if they are things that were material to the risk and fraud was present, then those we enforce.

Adam Gileskie *Goldman Sachs Analyst*

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So recognizing that the process hasn't changed, nevertheless, the marketplace has or allegedly has. So can you comment at least qualitatively on how that how much more or how more often are you seeing fraud in your current process than you were in previous implementations of the same process?

Larry Pierzchalski *MGIC Investment Corp. EVP, Risk Management*

I would say that the percentage hasn't changed, but you get more opportunity to the degree there's more delinquencies, and obviously with delinquencies up, largely as a result of the slowdown California, Florida housing market, obviously there's more delinquencies. And if you look at more delinquencies, even if you're raters of fraud is the same, you'll discover a few more cases.

Curt Culver *MGIC Investment Corp. CEO*

Again, I don't think a lot of the business that we did that you read about in the subprime space is business that was insured by our industry. So it's not as though these are perpetrated on MGIC or our industry, those were done with piggybacks, no income, no asset, or stated income-type programs that avoided any check by anybody. So those just weren't things that came to our industry.

Adam Gileskie *Goldman Sachs Analyst*

Thank you.

Operator

Our next question comes from David Hochstim with Bear Stearns. David, your line is open.

David Hochstim *Bear Stearns Analyst*

Thanks. I wonder if you can just talk a little more in detail on the uptick in delinquencies on the reduced stock loans, and are you seeing anything strange or unusual there, everything else performs relatively normally from a seasonal standpoint in terms of delinquencies, but that portion of the book didn't.

Mike Lauer *MGIC Investment Corp. EVP, CFO*

With regard to the uptick in delinquencies, whether it be alt-A or subprime, in my mind it has a lot to do with the slowdown in California and Florida. Those markets were very hot. Appreciation, 20% per year. Appreciation cures a lot of ills. On the bulk business and in the capital markets, Florida and California were a big piece of the mix. In our bulk book, recent writings probably are 35% or so. So to the degree those markets cool down from the 20% per year appreciation to let's say more normal in-line with the rest of the country, the true nature of the risk shows up. If you remove the impact of California and Florida in some of these mixes, alt-A, subprime, I don't see, at this point, much performance difference to date.

Mike Lauer *MGIC Investment Corp. EVP, CFO*

Curt Culver *MGIC Investment Corp. CEO*

Another thing, David, is just the mathematics of that. We've written more business within that space. I think on a percentage basis, it's not out of line of where it's been the last couple of years, relative to 8 or 9%. So I think it's just that we did a little more business in there, we had a couple large originators that we trust their processes and we did more business in that space with them.

David Hochstim *Bear Stearns Analyst*

Is it possible that you could provide us with the historical presentation of bulk versus flow delinquencies in addition to this new disclosure, so we could get a sense of how...?

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FINAL TRANSCRIPT

Apr. 12.2007 / 10:00AM ET, MTG - Q1 2007 MGIC Investment Corp. Earnings Conference Call

Mike Lauer *MGIC Investment Corp. EVP, CFO*

That's, actually, David, in the text of the press release, we give you that bulk and flow delinquency rate, really doesn't impute the actual numbers, but.

Curt Culver *MGIC Investment Corp. CEO*

I think it goes back to 2005, doesn't it.. Do you want longer than that, David? Is that what you're asking?

David Hochstim *Bear Stearns Analyst*

Well, we have the old stuff.

Mike Lauer *MGIC Investment Corp. EVP, CFO*

The bulk and flow before this change here. But in the text, there, we give you the delinquency rates, David, so we'd have to impute what the number would be to get there.

David Hochstim *Bear Stearns Analyst*

Okay. Can I just ask Bruce to clarify what he said on the mark-to-market adjustments and how much of that... he said there's a \$34 million spread widening and increased loss assumptions and how much was each piece? And if you could just review the other mark-to-market adjustments that drove down earnings that weren't cash flow-related or earnings-related?

Bruce Williams *C-BASS Co-Founder, CEO*

Yes. You can see the \$34 million, about half was spread widening and half was an increase in our loss assumptions. I mentioned the \$11 million in realized securitization losses. I mentioned a number of deals. We issued over 3 billion in the quarter. If you take that 11 million against that 3 billion, that's a pretty small difference in terms of what happened in the market. Our home loan portfolio, as I said, we reduced, but home loan prices dropped dramatically and most of that is in anticipation of where we can securitize things out, which is now at wider spreads. If you look at each of our three deals over our deals over the quarter, our home loan deals, we priced exceptionally well in January. The last week of February, we did price very well and widened out very substantially in the third deal in March. A lot of that \$34 million is due to what are current spread levels in the market and then the \$21 million is we have a very robust claim process been claiming on our origination counterparties for the past decade. Obviously, there were some surprises in the last three to four months in terms of some major originators going out of business, not the least of which was a big surprise, which was New Century. That was a fairly dramatic change in a very short period of time.

David Hochstim *Bear Stearns Analyst*

Is there a possibility of some recovery from that, or that's really gone?

Bruce Williams *C-BASS Co-Founder, CEO*

Subject to where they liquidate out and what their book value is, we're hoping to have potentially some recovery. We don't expect to get 100 cents back on the dollar, but prudently we decided to write all of that off in this quarter.

David Hochstim *Bear Stearns Analyst*

Okay, thank you.

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Curt Culver *MGIC Investment Corp. CEO*

Thanks, David.

Operator

Our next question comes from Kenneth Posner of Morgan Stanley.

Kenneth Posner *Morgan Stanley Analyst*

Thank you. Curt, I wanted to ask, if I could, one question about magic and one question about C-BASS.

Kenneth Posner *Morgan Stanley Analyst*

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Curt Culver *MGIC Investment Corp. CEO*

Sure.

Kenneth Posner *Morgan Stanley Analyst*

I think people in the market must be very concerned about losses, for all mortgage companies and one of the things they may have forgotten at the mortgage insurers is that a significant portion of your book is covered by captives. And we don't know the exact attachment points, but I'm wondering if you can give us a sense of at what level of chaos in the housing market would you start to see, at least some of your losses limited by those captives?

Mike Lauer *MGIC Investment Corp. EVP, CFO*

Well, with regard to the captive, kind of on the flow side, there's two forms. The two forms being excessive loss and the other form being the quota share. The majority of the excess loss transactions probably have attachment points roughly equivalent with foreclosure rates of about 4 to 5 per 100 out of the original population. Past books didn't come close to that '05, '06, potentially it could, we'll have to wait and see. The other form, quota share, obviously they're sharing proportionately on claims starting with the first claim.

Kenneth Posner *Morgan Stanley Analyst*

Right. And so can you I don't know if you I don't know if you guys disclosed where the cumulative foreclosure rates are running, but can you give us a rough sense today where we are versus the 4 to 5% attachment rates that you have on some of these captives?

Mike Lauer *MGIC Investment Corp. EVP, CFO*

The early 2000 books probably half that.

Curt Culver *MGIC Investment Corp. CEO*

Yes, I was going to say 2. Maybe these books Ken, I don't think to me it's a statement about how we feel about housing, I still don't think those excessive loss treaties are going to be touched.

Kenneth Posner *Morgan Stanley Analyst*

Really?

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Curt Culver *MGIC Investment Corp. CEO*

And if they're touched which says a lot about what we think about housing. Half of our flow business is under those contracts, so what you're saying is a wonderful safety net for our company if things deteriorated to that level. I just don't see that.

Kenneth Posner *Morgan Stanley Analyst*

Right. So it's got to and is there do the captives the captives don't start to repay until the deals have seasoned enough that you because you wouldn't get a 4 to 5% foreclosure rate immediately, it would take several years, right?

Curt Culver *MGIC Investment Corp. CEO*

Exactly. It's our business, running you have a couple years before delinquencies hit and then claims in that third to fourth year.

Kenneth Posner *Morgan Stanley Analyst*

Can I just clarify on your guidance for the 10% increase incurred this year. If I was reading the press release and doing the math right, in the first quarter the paid were up 20% year over year, and so ?

Curt Culver *MGIC Investment Corp. CEO*

Well, the first quarter last year was an unusual I'm sorry, go ahead with your question.

Kenneth Posner *Morgan Stanley Analyst*

Well, I just actually, I should clarify, is the guidance of 10%, is that the swap?

Curt Culver *MGIC Investment Corp. CEO*

That's the annual.

Kenneth Posner *Morgan Stanley Analyst*

That's the annual. Is that the paid or the expense?

Curt Culver *MGIC Investment Corp. CEO*

Paid, paid.

Kenneth Posner *Morgan Stanley Analyst*

Okay. So we should see the paid stabilize at this level and not go jumping up in the next few quarters?

Curt Culver *MGIC Investment Corp. CEO*

Yes. As we talked last quarter, we thought paid would be an area of 670 to 680. We still feel that. The caveat, as I mentioned, is we are seeing that a slight uptick in delinquencies, which Mike mentioned in California, now those and they have a faster foreclosure rate there. So that's the only caveat.

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Kenneth Posner *Morgan Stanley Analyst*

That's right. And then if I could just ask one more question on the MI side. The net premiums earned were flat year over year. We were looking for a little bit faster growth than that. Now, there is better persistency, finally, after many years of waiting for it, and the insurance of course was up 5%. What are the... I think you mentioned some things in your comments about some of the pressures on the premium yields, what's your take on the net premium ARMs growth? Is that going to be indicative... is that a blip, or are there still pricing pressures that have to be contended with in the business?

Mike Lauer *MGIC Investment Corp. EVP, CFO*

This is Mike. You'll start to see some quarter to quarter growth as we get into second quarter. So as we continue to move out you'll start to see the benefit on the persistency. The unique thing on earned premium this quarter, as Curt mentioned, was the low bulk business we did, but I think as we continue to move through the quarter, you'll continue to see a modest growth quarter to quarter on premiums earned.

Curt Culver *MGIC Investment Corp. CEO*

Written was up about 1.5%, but earned was, as you mentioned, was flat. But it will continue to grow as we go through the rest of the year.

Kenneth Posner *Morgan Stanley Analyst*

Okay, great. Then just my one C-BASS question. The \$11 million write-down of securitization, I guess is tiny. It's 40 basis points of \$3 billion in loans, if that's the right way to look at it. I just wondered if I could get the denominator for the \$30 million write-down and just understand that as a percentage.

Bruce Williams *C-BASS Co-Founder, CEO*

Of the securities... you mean... there's two different. There's the whole loans and then there's the securities.

Kenneth Posner *Morgan Stanley Analyst*

Right. There's a \$34 million write-down, I just...

Curt Culver *MGIC Investment Corp. CEO*

In the whole loan portfolio.

Bruce Williams *C-BASS Co-Founder, CEO*

Well, the \$34... our securities portfolio as of the end of March is \$2.3 billion.

Kenneth Posner *Morgan Stanley Analyst*

\$2.3 billion. So the \$34 million is actually a fairly small percentage that's a 1.5% markdown of that portfolio.

Bruce Williams *C-BASS Co-Founder, CEO*

Yes. Most of the spread widening came in sort of the well-documented BBB sector.

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Kenneth Posner *Morgan Stanley Analyst*

Right, right. So for the overall asset collateral, it's a small amount. If I can just ask, there's been some deals, I guess, where people have bought portfolios at \$0.95 on the dollar with some of us thinking that the collateral is worth \$0.98 to \$0.99. The assumption is that some extremely opportunistic buyers are stepping in and getting very good deals buying collateral from companies that are on the verge of going out of business, unfortunately. Are you saying that C-BASS doesn't find that \$0.95 attractive, or is it just given that given the need for you to securitize loans and given the finite size of your balance sheet, you're just going to be cautious and careful and not to be looking to opportunistic buyers this year?

Bruce Williams *C-BASS Co-Founder, CEO*

It's hard to answer that question. We have seen those transactions, and I think as I stated, we would probably have paid a different price, to be perfectly blunt. But that's not to say that's what makes this market really different.

Kenneth Posner *Morgan Stanley Analyst*

Well, you all know what you're doing, so I'll leave it at that then. Thanks very much for answering my questions.

Bruce Williams *C-BASS Co-Founder, CEO*

Welcome to the call.

Operator

Our next question comes from Terry Shu with JPMorgan.

Terry Shu *JPMorgan Analyst*

Since everyone asked two, if I could ask two also. One on C-BASS. One more clarification. When you gave us the first quarter original expectation of over \$60 million and said the \$15 million pretax loss, there are all these whole host of items that you've discussed in very good detail. But just in a very top level general sense, how much of it would be because of reduced volume, how much of it is real economic loss write-off, and how much do you think is temporary kind of mark-to-market impact? Then you gave us the full-year number, 150 to 200. I think the previous expectation was probably 250 plus, I don't remember. And again the same question, how much is each component. Because mark-to-market, if the loans mature, you get it back if there's no true impairment. So if you could just broadly speaking size it, how much is because of reduced origination, reduced volume? How much write-offs?

Terry Shu *JPMorgan Analyst*

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Mike Lauer *MGIC Investment Corp. EVP, CFO*

Let's just as I said, if you look at top level .

Terry Shu *JPMorgan Analyst*

Kind of big picture type stuff.

Mike Lauer *MGIC Investment Corp. EVP, CFO*

Okay. The top level numbers I gave you added up to about 100 million.

Terry Shu *JPMorgan Analyst*

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Right.

Mike Lauer *MGIC Investment Corp. EVP, CFO*

I would say probably 25 to 35% of that potentially comes back from spread widening or improved credit. In terms of the full year when we look at the 150 to 200, we're being we're not assuming that spreads tighten from here. We're assuming that the market these things take a long time. Those of us that have been in the market for more than the past five years, this is not the first time this has happened. It obviously happened in '98, a lot of people went out of business. If you think back to '98, and that context, it took the market a good 12 to 24 months to come back. So what historically happens with spreads is, they grind tighter, they stay very tight for a period of time, and then there is an event, that is the mortgage market. The event, we hope it's the only event, happens in this quarter and spreads blew out. It's very tough to avoid that.

Terry Shu *JPMorgan Analyst*

Right. But assuming that the environment there are more bad news and such, it could widen some more, but this and it could have another hit. But longer term, I gather, the volume comes back. So of the maybe \$100 million reduction, a big chunk of it is this volume coming down, some write-offs, and then finally just the current quarters market to market. Is that right, sort of big picture?

Mike Lauer *MGIC Investment Corp. EVP, CFO*

Yes, big picture, right. We have reduced our anticipated volume for the year, certainly. We have .

Terry Shu *JPMorgan Analyst*

By a lot. Right. Because you said the whole loan by 50%, is that correct?

Mike Lauer *MGIC Investment Corp. EVP, CFO*

That was a year-to-year comparison. We did not anticipate in our original numbers buying anywhere near what we bought last year. We thought that the market .

Terry Shu *JPMorgan Analyst*

Okay.

Mike Lauer *MGIC Investment Corp. EVP, CFO*

was going to be down in terms of origination this year. We didn't think, and I don't think anybody in the industry thought it would be down 50%.

Terry Shu *JPMorgan Analyst*

You see, questions one gets is that are there big write-offs yet to come in C-BASS? And I think you're kind of indicating confidence that you may have reduced earning power, but no material write-offs. Am I reading that right?

Mike Lauer *MGIC Investment Corp. EVP, CFO*

I would say that is correct.

Terry Shu *JPMorgan Analyst*

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Okay. Then another quick question on just the Magic. The loss reserve and paid trend, Curt, you had said that you other than maybe worsening experience in California, you're still confident of the 10% pay growth, however, reserving now is at a higher level. I gather that translates into still higher paid growth into '08, then. Because reserves then flows into paid losses. Is that correct, with a lag? So overall there is worse than expected experience because of higher severity?

Curt Culver *MGIC Investment Corp. CEO*

I think that's accurate, Terry.

Terry Shu *JPMorgan Analyst*

Okay, so when one goes forward, one kind of reduces one's earnings expectation on that basis; correct?

Curt Culver *MGIC Investment Corp. CEO*

Into 2008.

Terry Shu *JPMorgan Analyst*

Into 2008.

Curt Culver *MGIC Investment Corp. CEO*

Right. Yes.

Terry Shu *JPMorgan Analyst*

Thank you.

Curt Culver *MGIC Investment Corp. CEO*

Thank you, Terry.

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