

MGIC Investment Corporation

Letter of Comment No: 41  
File Reference: EITF03-1A

James A. Karpowicz  
Vice President and Treasurer

October 21, 2004

Mr. Robert Herz, Chairman  
Financial Accounting Standards Board  
401 Merritt 7  
Norwalk, CT 06856-5116

Mr. Lawrence W. Smith  
Chairman of the Emerging Issues Task Force  
Financial Accounting Standards Board  
401 Merritt 7  
Norwalk, CT 06856-5116

**RE: EITF 03 -1 - The Meaning of Other than Temporary Impairment**

Dear Sir:

MGIC Investment Corporation (the "Company") is a holding company which, through its wholly owned subsidiary Mortgage Guaranty Insurance Corporation ("MGIC"), is the leading provider of private mortgage insurance coverage 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 mortgage loans in the secondary mortgage market, principally to the Federal National Mortgage Association ("Fannie Mae") and the Federal Home Loan Mortgage Corporation ("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 holds an investment portfolio of more than \$5.6 billion in diversified bonds, mortgage loans, and equity securities. 100% of our bond portfolio is investment grade quality, with much of the Company's holdings invested in US treasury obligations, AAA asset-backed securities, and A or better rated municipal bonds. The bond portfolio is actively managed, is designated as available for sale, and is designed to support liabilities represented by our mortgage insurance reserves. Fluctuations in the value of the underlying fixed income securities in our portfolio are common and expected due to either changes in market interest rates or credit spreads associated with a sector or issuer.

For the reasons cited in the comment letters that have been submitted by the insurance and banking associations as representatives of this country's major institutional investors, we urge you to defer the effective date of the new guidance and to solicit additional public comment on the serious detrimental

consequences that will arise from applying its requirements to declines in market value of securities that are not attributable to readily identifiable, credit-related impairment factors.

I believe that application of EITF 03-1 in its present form would have significant negative effects on the receptivity of institutional investors for fixed-rate, long-duration bonds and would reduce the liquidity of current holdings. Under the existing rules, changes in value attributable to interest rate changes affect only the GAAP balance sheet of institutional investors who hold the securities as available for sale, with many analysts excluding these effects in calculating a company's equity or ROE. We believe that the requirement under the proposed guidance that these changes reduce net income will make it extremely difficult for investors, regulators, and other interested persons to gain a clear picture of the true financial health of an enterprise's operations.

I also wish to point out the serious practical and administrative difficulties that CFOs and other financial officers of institutional investors will have in applying the proposed guidance. Rather than focusing on the relevant, credit-related factors underlying a diminution in value that might be other than temporary, under the proposed guidance, an extraordinary amount of cost and effort will be spent each quarter assessing, and then documenting, the reasonableness of a forecasted recovery date for changes in interest rates and the intentions of the portfolio managers with regard to U.S. government, MBS and ABS, and highly-rated investment grade municipal securities that are most unlikely to suffer a material deterioration in credit quality of default.

Our company holds thousands of such issues. The temporary rise in interest rates in the second quarter of this year resulted in more than 460 individual securities with an unrealized loss – each of these would have had to be individually considered for impairments under the proposed guidance. As an aside, the recent decline in market interest rates has eliminated over 80% of these unrealized losses, an occurrence which would not have been reflected in a recovery of net income. It also strikes us as anomalous to assert that certain securities of a high-quality issuer may need to be treated as impaired due to a rise in interest rates after the date of initial purchase while other securities of the same issuer would not be so treated if the purchase occurred at a later date when interest rates stabilized at higher levels.

I appreciate your consideration of this very important matter.

Sincerely,



James A. Karpowicz  
Vice President & Treasurer