

BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

In Re: : Pursuant to Sections 1401, 1402, and
: 1403 of the Insurance Holding
Application of MGIC Investment : Companies Act, Article XIV of the
Corporation in Support of the Request : Insurance Company Law of 1921,
for Approval to Acquire Control of : Act of May 17, 1921, P.L. 682,
Radian Guaranty Inc. and Radian : as amended, 40 P.S. §§991.1401,
Insurance Inc. : 991.1402, and 991.1403
: :
: Order No. ID-RC-07-13

DECISION AND ORDER

AND NOW, on this 7th day of June, 2007, Randolph L. Rohrbaugh, Acting Insurance Commissioner of the Commonwealth of Pennsylvania ("Commissioner"), hereby makes the following Decision and Order:

Pursuant to the Insurance Company Law and the Insurance Holding Company Act and in consideration of the documents, presentations and reports received, as well as other inquiries and studies as permitted by law, the Commissioner hereby makes the following findings of fact:

FINDINGS OF FACT

Identity of Parties

1. Radian Insurance Inc. ("RII") is a stock casualty insurance company organized under the laws of the Commonwealth of Pennsylvania with its principal place of business located in Philadelphia, Pennsylvania.
2. Radian Guaranty Inc. ("RGI" and together with RII "Domestic Insurers") is a stock casualty insurance company organized under the laws of the Commonwealth of Pennsylvania with its principal place of business

located in Philadelphia, Pennsylvania. RGI holds 100% of the issued and outstanding capital stock of RII.

3. Radian Group Inc. ("Radian") is a publicly traded insurance holding company organized under the laws of the state of Delaware with its principal place of business located in Philadelphia, Pennsylvania. Radian holds 100% of the issued and outstanding capital stock of RGI.
4. MGIC Investment Corporation ("MGIC") is a business corporation organized under the laws of the state of Wisconsin with its principal place of business located in Milwaukee, Wisconsin. MGIC is a publicly traded company, with no entity controlling 10% or more of its issued and outstanding capital stock.

Acquisition Filing

5. The Insurance Holding Companies Act, Article XIV of the Insurance Company Law of 1921, Act of May 17, 1992, P.L. 682, as amended, 40 P.S. §§991.1401 et seq. ("Insurance Holding Companies Act"), provides that any transaction involving the control of a domestic insurer must be filed with the Commissioner for approval or disapproval.
6. On March 16, 2007, the Insurance Department of the Commonwealth of Pennsylvania ("Department") received an initial application (which together with all material received subsequently is collectively referenced as "Application") from MGIC for approval to acquire control of Domestic Insurers.
7. The Application was filed pursuant to Section 1402 of the Insurance Holding Companies Act.

Department Procedures

8. On March 31, 2007, the Department published notice in the *Pennsylvania Bulletin* that the Application was submitted by MGIC and such notice invited interested persons to submit comments to the Department regarding the Application for a thirty (30) day period, ending April 30, 2007.
9. The Department received no comments regarding the Application during the thirty (30) day comment period.

Description of the Proposed Acquisition

10. As described in the Application, on February 6, 2007, Radian and MGIC signed an Agreement and Plan of Merger (which together with subsequent amendments is referenced herein as the "Merger Agreement") whereby Radian would merge with and into MGIC (the "Merger").
11. As described in the Application, MGIC would issue 0.9658 shares of its common stock for each share of Radian common stock exchanged by the current Radian shareholders as a result of the Merger, with cash to be paid in lieu of fractional shares of MGIC stock.

Standards for Review

12. Section 1402(f)(1) of the Insurance Holding Companies Act establishes the standards for approval of an application for a change in control of a domestic insurer.
13. The application for a change in control must be approved unless the Commissioner finds any one of certain enumerated conditions to be present.

Licensing Requirements

14. When analyzing an application for change in control under Section 1402 of the Insurance Holding Companies Act, the Commissioner reviews the requirements for continued licensure of the domestic insurer being acquired.
15. The classes of insurance for which an insurance company may be incorporated and become licensed to write are set out in Section 202 of the Insurance Company Law (40 P.S. §382).
16. The minimum paid up capital stock and paid in surplus required of a stock insurer for each class of insurance is set out in Section 206 of the Insurance Company Law (40 P.S. §386).
17. Upon completion of the transaction, Domestic Insurers would have paid up capital in an amount that would satisfy the statutory minimum required of a casualty insurance company licensed to write the classes of authority currently held by Domestic Insurers.

18. Upon completion of the transaction, Domestic Insurers would have paid in surplus in an amount that would satisfy the statutory minimum required of a casualty insurance company licensed to write the classes of authority currently held by Domestic Insurers.

Competitive Impact

19. The acquisition of control of Domestic Insurers is subject to review and analysis under certain specified provisions of Section 1403 of the Insurance Holding Companies Act to determine whether the effect of the acquisition of control would be to substantially lessen competition or tend to create a monopoly in the Commonwealth (“Competitive Standard”). The applicable portions of Section 1403 for the Competitive Standard analysis are 1403(c)(2) (informational requirements) and 1403(d)(2) (standards for analysis).
20. For purposes of reviewing the competitive impact of the change in control of Domestic Insurers, “product market” is defined in Section 1403(d)(2) of the Insurance Holding Companies Act as the direct written premium for the line of business as reported on the Annual Statement which is required to be filed by insurance entities doing business in the Commonwealth.
21. The relevant product market for the Competitive Standard analysis of the Application under Section 1403(d)(2) of the Insurance Holding Companies Act is the mortgage guaranty insurance line of business.
22. The applicable Annual Statement to be utilized for a Competitive Standard analysis of the Application is the 2005 Annual Statement which was available at the time the Application was filed.
23. Section 1403(d)(2) of the Insurance Holding Companies Act provides that the relevant geographical market for a competitive standard analysis is the entire Commonwealth unless available information indicates that a smaller geographical market should be adopted.
24. Because Annual Statements filed with the Department contain verified data which is reported for the entire Commonwealth of Pennsylvania, not by region or county, the geographical market for the Competitive Standard analysis is the entire Commonwealth.
25. Section 1403 of the Insurance Holding Companies Act specifies the guidelines to be used for a competitive standard analysis if the market is

considered a highly concentrated market.

26. The total mortgage guaranty insurance premium written market for the Commonwealth of Pennsylvania was approximately \$256.32 million according to the 2005 Annual Statement data.
27. According to Section 1403 of the Insurance Holding Companies Act, a market is highly concentrated if the market share of the four (4) largest insurers is 75% or more of that market.
28. For purposes of this Competitive Standard analysis, insurer, as defined in Section 1403 of the Insurance Holding Companies Act, includes any company or group of companies under common management, ownership or control.
29. For the purposes of this Competitive Standard analysis, the mortgage guaranty insurance premiums written in Pennsylvania by the top four (4) insurers, as confirmed by the Department according to the 2005 Annual Statement data, was as follows:

Radian Group	\$ 100,975,411	39.39%
MGIC Group	54,138,046	21.12%
American International Group	29,648,975	11.57%
PMI Group	<u>28,290,666</u>	<u>11.04%</u>
Totals	<u>\$213,053,098</u>	<u>83.16%</u>

30. According to the 2005 Annual Statement data, the top four (4) insurers writing in the mortgage guaranty insurance lines of business did control greater than 75% of this product market.
31. According to the 2005 Annual Statement data, the mortgage guaranty insurance product market was highly concentrated.
32. Section 1403 of the Insurance Holding Companies Act specifies the guidelines for the competitive standard analysis of a market that is highly concentrated.

33. The guidelines are as follows:

Insurer A	Insurer B
4%	4% or more
10%	2% or more
15%	1% or more

34. The guidelines are applicable only to insurers who are in competition in the same market.

35. Section 1403 of the Insurance Holding Companies Act defines “involved insurer” as an insurer which either acquires or is acquired, is affiliated with an acquirer or acquired or is the result of a merger.

36. For the purpose of this Competitive Standard analysis, the insurer with the largest share of the market shall be deemed to be Insurer A.

37. The total market share of the involved insurers of Domestic Insurers is considered Insurer A for purposes of this Competitive Standard analysis.

38. The market share of Insurer A, as stated in the Application and as confirmed by the Department in the 2005 Annual Statement data, was approximately \$101.0 million or 39.39%.

39. The total market share of MGIC’s direct written premium for the mortgage guaranty insurance line of business is considered Insurer B for purposes of this Competitive Standard analysis.

40. The market share of Insurer B, as stated in the Application and as confirmed by the Department in the 2005 Annual Statement data, is approximately \$54.1 million or 21.12%.

41. As a result, the mortgage guaranty insurance market shares of Insurer A (39.39%) and Insurer B (21.12%) are not within the guidelines for a market that is highly concentrated.

42. Section 1403 of the Insurance Holding Companies Act provides that even if an acquisition is prima facie violative of the competitive standard after the above analysis, a party may establish the absence of the requisite anticompetitive effect based upon other substantial evidence.

43. Section 1403 of the Insurance Holding Companies Act states that relevant factors in making such a determination include, but are not limited to,

- market shares, volatility of ranking of market leaders, number of competitors, trends of concentration in the industry and ease of entry and exit into the market.
44. As provided in the Application, pursuant to the federal Hart-Scott-Rodino Act the Federal Trade Commission waiting period after notification of the proposed merger expired without the issuance of a request for additional information. Also, the federal antitrust enforcement authorities did not impose or seek to impose any restriction or limitation on the transaction.
 45. As provided in the Application, the main customers for mortgage insurance are loan originators (e.g., the banks, brokers, or mortgage bankers that make new mortgage loans) and other participants in secondary mortgage markets (e.g. investment banks, hedge funds, or loan originators) that use credit enhancement to manage the risk of potential losses associated with mortgage loans.
 46. As provided in the Application, many loan originators attempt to keep mortgage cost competitive since potential borrowers can easily go elsewhere if the payments will be less.
 47. The Application states that many loan originators attempt to avoid mortgage insurance altogether by self insuring the risk, delaying the placement of a credit enhancement tool until after closing when numerous non-mortgage insurance products also are available, or by offering one of their own products, such as a “piggyback” loan (consisting of a first mortgage and a second mortgage, neither of which will require mortgage insurance).
 48. The Application states that mortgage insurance was used as a credit enhancement on only approximately 8% of the mortgage debt outstanding in 2006; reflecting the competitive pressure faced by mortgage insurance from other forms of credit enhancement (this figure was down from 14% in 1996).
 49. The Application states that private mortgage insurance is just one form of credit enhancement used to manage risk and help sell mortgages. Listed others include piggyback loans, lender self insurance, government agencies such as FHA and the VA and the use of risk-based pricing programs and delivery fees.
 50. The Application states that most lenders do a substantial volume of business with multiple mortgage insurance providers, in an effort to

spread the risk. As a result of this practice MGIC and Radian expect approximately \$12 billion of loss in new insurance written by 2008 as a result of the proposed transaction because of the desire of most lenders to do business with multiple parties.

51. The acquisition of control of Domestic Insurers will not lessen competition or tend to create a monopoly in the Commonwealth because of the absence of the requisite anticompetitive effect based upon substantial evidence as permitted by Section 1403 of the Insurance Holding Companies Act.

Financial Condition of MGIC

52. When analyzing an application for an acquisition of control under Section 1402 of the Insurance Holding Companies Act, the Department reviews the financial condition of the acquiring persons.
53. MGIC's 10-K reports that as of March 1, 2007, the GAAP account balances were:

Assets:	\$ 6,621,671,000
Liabilities:	\$ 2,325,794,000
Shareholder's Equity:	\$ 4,295,877,000

54. The financial condition of MGIC would not pose any impediments to the change in control nor jeopardize the financial condition of Domestic Insurers.

Plans for the Acquired Insurer

55. When analyzing an application for an acquisition of control under Section 1402 of the Insurance Holding Companies Act, the Department reviews the plans or proposals which the acquiring party has for the insurers.
56. As provided in the Application, MGIC has disclosed that it intends to make no significant immediate changes to the business plans of Domestic Insurers.

Management

57. When analyzing an application for an acquisition of control under Section 1402 of the Insurance Holding Companies Act, the

Department reviews the competence, experience and integrity of the persons who will control the operations of the acquired insurers.

58. Biographical affidavits for all directors and executive officers of MGIC were provided as part of the Application and the Department reviewed all affidavits that were submitted.
59. The Department is satisfied that the persons who would control the operations of Domestic Insurers have such competence, experience and integrity that the interests of policyholders and the public would not be jeopardized.
60. If any of the above Findings of Fact are determined to be Conclusions of Law, they shall be incorporated in the Conclusions of Law as if fully set forth therein.

CONCLUSIONS OF LAW

1. Under Section 1402 of the Insurance Holding Companies Act, the Commissioner has jurisdiction to review and approve the change in control of Domestic Insurers.
2. Under Section 1402 of the Insurance Holding Companies Act, the Commissioner must approve an application for a change in control unless the Department has found that:
 - a) The insurer will not be able to satisfy the requirements for the issuance of a license to operate the line or lines of business for which it is presently licensed;
 - b) The change in control will substantially lessen competition in insurance in this Commonwealth or tend to create a monopoly therein;
 - c) The financial condition of the acquiring company is such as might jeopardize the financial stability of the insurer or prejudice the interests of its policyholders;
 - d) Any plans to liquidate the insurer, sell its assets or consolidate or merge it with any person, or to make material changes in its business or corporate structure or management are unfair and

unreasonable to policyholders of the insurers and not in the public interest;

- e) The competence, experience and integrity of those persons who would control the operation of the insurer are such that it would not be in the interest of policyholders and the general public to permit the acquisition of control;
 - f) The acquisition is likely to be hazardous or prejudicial to the insurance buying public; or,
 - g) The acquisition of control is not in compliance with the laws of this Commonwealth, including Article VIII-A, Insurance Company Mutual-to-Stock Conversion Act.
3. Under Section 1402 of the Insurance Holding Companies Act, the Commissioner has not found that any of the above conditions are present with respect to the change in control of Domestic Insurers.
 4. Based upon the Application, the Commissioner has determined that upon closing of the Acquisition the sole ultimate controlling person of Domestic Insurers would be MGIC.
 5. If any of the above Conclusions of Law are determined to be Findings of Fact, they shall be incorporated in the Findings of Fact as if fully set forth therein.

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: Order No. ID-RC-07-13

ORDER

Upon consideration of the foregoing, the Insurance Commissioner of the Commonwealth of Pennsylvania hereby makes the following Order:

The application of MGIC Investment Corporation in support of the request for approval to acquire control of Radian Guaranty Inc. and Radian Insurance Inc. is hereby approved, subject to this Order and the following condition:

MGIC shall provide a list of the closing documents to the Insurance Department within five days of consummation of the subject transaction. Such documents shall be available for Department review for a period of not less than five years from the date of the closing of this acquisition.

This Order is effective immediately and valid for one year, provided no material changes are made to the transaction prior to consummation.

RANDOLPH L. RORHBAUGH
Insurance Commissioner
Commonwealth of Pennsylvania