RADIAN GROUP INC
Form 10-Q
November 09, 2009
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2009

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File Number 1-11356

Radian Group Inc.

(Exact name of registrant as specified in its charter)

Delaware	**23-2691170**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
1601 Market Street, Philadelphia, PA	**19103**
(Address of principal executive offices)	**(Zip Code)**

(215) 231-1000

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check One):

Large accelerated filer ¨	Accelerated filer x	Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date: 82,775,605 shares of common stock, $0.001 par value per share, outstanding on November 2, 2009.

Table of Contents

Radian Group Inc.

INDEX

		Page Number
Forward-Looking Statements Safe Harbor Provisions		1
PART I FINANCIAL INFORMATION		
Item 1.	Financial Statements (Unaudited)	
	Condensed Consolidated Balance Sheets	3
	Condensed Consolidated Statements of Operations	4
	Condensed Consolidated Statements of Changes in Common Stockholders Equity	5
	Condensed Consolidated Statements of Cash Flows	6
	Notes to Unaudited Condensed Consolidated Financial Statements	7
Item 2.	Management s Discussion and Analysis of Financial Condition and Results of Operations	56
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	113
Item 4.	Controls and Procedures	115
PART II OTHER INFORMATION		
Item 1.	Legal Proceedings	117
Item 1A.	Risk Factors	118
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	142
Item 6.	Exhibits	143
SIGNATURES		144
EXHIBIT INDEX		145

Table of Contents

Forward-Looking Statements Safe Harbor Provisions

All statements in this report that address events, developments or results that we expect or anticipate may occur in the future are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, Section 21E of the Securities Exchange Act of 1934 and the United States (U.S.) Private Securities Litigation Reform Act of 1995. In most cases, forward-looking statements may be identified by words such as anticipate, may, should, expect, intend, plan, goal, contemplate, believe, estimate, predict, project, potential, contin variations on these words and other similar expressions. These statements, which include, without limitation, projections regarding our future performance and financial condition are made on the basis of management s current views and assumptions with respect to future events. 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. The forward-looking statements, as well as our prospects as a whole, are subject to risks and uncertainties, including the following:

changes in general financial and political conditions, such as the failure of the U.S. economy to recover robustly from the current recession or the U.S. economy reentering a recessionary period following a brief period of stabilization or even growth, a further reduction in the liquidity in the capital markets and further contraction of credit markets, a prolonged period of high unemployment rates and limited home price appreciation or further depreciation, changes or volatility in interest rates or consumer confidence, changes in credit spreads, changes in the way investors perceive the strength of private mortgage insurers or financial guaranty providers, investor concern over the credit quality and specific risks faced by the particular businesses, municipalities or pools of assets covered by our insurance;

catastrophic events or further economic changes in geographic regions where our mortgage insurance or financial guaranty insurance in force is more concentrated;

our ability to successfully execute upon our capital plan for our mortgage insurance business (which depends, in part, on the performance of our financial guaranty portfolio), and if necessary, to obtain additional capital to support new business writings in our mortgage insurance business and the long-term liquidity needs of our holding company (including significant payment obligations in 2010 and 2011);

a further decrease in the volume of home mortgage originations due to reduced liquidity in the lending market, tighter underwriting standards and the ongoing deterioration in housing markets throughout the U.S.;

our ability to maintain adequate risk-to-capital ratios and surplus requirements in our mortgage insurance business in light of ongoing losses in this business and continued deterioration in our financial guaranty portfolio which, in the absence of new capital, may depend on our ability to execute strategies for which regulatory and other approvals are required and may not be obtained;

our ability to continue to effectively mitigate our mortgage insurance losses, which have positively impacted our provisions for losses;

the negative impact our increased levels of insurance rescissions and claim denials may have on our relationships with customers;

the concentration of our mortgage insurance business among a relatively small number of large customers;

disruption in the servicing of mortgages covered by our insurance policies;

the aging of our mortgage insurance portfolio and changes in severity or frequency of losses associated with certain of our products that are riskier than traditional mortgage insurance or financial guaranty insurance policies;

the performance of our insured portfolio of higher risk loans, such as Alternative-A (Alt-A) and subprime loans, and of adjustable rate products, such as adjustable rate mortgages and interest-only mortgages, which have resulted in increased losses and are expected to result in further losses;

reduced opportunities for loss mitigation in markets where housing values do not appreciate or continue to decline;

Table of Contents

changes in persistency rates of our mortgage insurance policies;

an increase in the risk profile of our existing mortgage insurance portfolio due to mortgage refinancing in the current housing market;

further downgrades or threatened downgrades of, or other ratings actions with respect to, our credit ratings or the ratings assigned by the major rating agencies to any of our rated insurance subsidiaries at any time (in particular, the credit rating of Radian Group Inc. and the financial strength ratings assigned to Radian Guaranty Inc.);

heightened competition for our mortgage insurance business from others such as the Federal Housing Administration and the Veterans Administration or other private mortgage insurers (in particular those that have been assigned higher ratings from the major rating agencies);

changes in the charters or business practices of Federal National Mortgage Association (Fannie Mae) and Freddie Mac, the largest purchasers of mortgage loans that we insure, and our ability to remain an eligible provider to both Freddie Mac and Fannie Mae;

the application of existing federal or state consumer, lending, insurance, tax, securities and other applicable laws and regulations, or changes in these laws and regulations or the way they are interpreted; including, without limitation: (i) the outcome of existing investigations or the possibility of private lawsuits or other formal investigations by state insurance departments and state attorneys general alleging that services offered by the mortgage insurance industry, such as captive reinsurance, pool insurance and contract underwriting, are violative of the Real Estate Settlement Procedures Act and/or similar state regulations, (ii) legislative and regulatory changes affecting demand for private mortgage insurance, or (iii) legislation or regulatory changes limiting or restricting our use of (or requirements for) additional capital, the products we may offer, the form in which we may execute the credit protection we provide or the aggregate notional amount of any product we may offer for any one transaction or in the aggregate;

the possibility that we may fail to estimate accurately the likelihood, magnitude and timing of losses in connection with establishing loss reserves for our mortgage insurance or financial guaranty businesses or premium deficiencies for our mortgage insurance businesses, or to estimate accurately the fair value amounts of derivative contracts in our mortgage insurance and financial guaranty businesses in determining gains and losses on these contracts;

the ability of our primary insurance customers in our financial guaranty reinsurance business to provide appropriate surveillance and to mitigate losses adequately with respect to our assumed insurance portfolio;

volatility in our earnings caused by changes in the fair value of our derivative instruments and our need to reevaluate the premium deficiency in our mortgage insurance business on a quarterly basis;

changes in accounting guidance from the Securities and Exchange Commission or the Financial Accounting Standards Board;

legal and other limitations on amounts we may receive from our subsidiaries as dividends or through our tax- and expense-sharing arrangements with our subsidiaries; and

our investment in, and other arrangements with, Sherman Financial Group LLC, which could be negatively affected in the current credit environment if Sherman is unable to maintain sufficient sources of funding for its business activities or remain in compliance with its credit facilities.

For more information regarding these risks and uncertainties as well as certain additional risks that we face, you should refer to the Risk Factors detailed in Item 1A of Part II in this Quarterly Report on Form 10-Q. We caution you not to place undue reliance on these forward-looking statements, which are current only as of the date on which we filed this report. We do not intend to, and we disclaim any duty or obligation to, update or revise any forward-looking statements made in this report to reflect new information or future events or for any other reason.

Table of Contents

PART I FINANCIAL INFORMATION

Item 1. Financial Statements. (Unaudited)

Radian Group Inc.

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(In thousands, except share and per share amounts)	September 30 2009	December 31 2008
ASSETS		
Investments		
Fixed maturities held to maturity at amortized cost (fair value $23,352 and $37,486)	$ 22,253	$ 36,628
Fixed maturities available for sale at fair value (amortized cost $2,077,301 and $3,899,487)	2,041,590	3,647,269
Trading securities at fair value (amortized cost $2,548,808 and $670,835)	2,631,957	654,699
Equity securities available for sale at fair value (cost $182,051 and $212,620)	168,645	165,099
Hybrid securities at fair value (amortized cost $474,036 and $499,929)	487,304	426,640
Short-term investments	1,047,352	1,029,285
Other invested assets (cost $23,256 and $21,388)	23,256	21,933
Total investments	6,422,357	5,981,553
Cash	44,170	79,048
Investment in affiliates	112,034	99,712
Deferred policy acquisition costs	158,813	160,526
Prepaid federal income taxes		248,828
Accrued investment income	53,959	61,722
Accounts and notes receivable (less allowance of $72,526 and $61,168)	163,944	90,158
Property and equipment, at cost (less accumulated depreciation of $88,872 and $84,911)	16,685	18,178
Derivative assets	153,136	179,515
Deferred income taxes, net	351,575	446,102
Reinsurance recoverables	597,067	492,359
Other assets	290,672	258,418
Total assets	$ 8,364,412	$ 8,116,119
LIABILITIES AND STOCKHOLDERS EQUITY		
Unearned premiums	$ 872,375	$ 916,724
Reserve for losses and loss adjustment expenses (LAE)	3,512,999	3,224,542
Reserve for premium deficiency	9,291	86,861
Long-term debt and other borrowings	698,703	857,802
Variable interest entity debt at fair value	328,986	160,035
Derivative liabilities	394,386	519,260
Accounts payable and accrued expenses	406,802	320,185
Total liabilities	6,223,542	6,085,409
Commitments and Contingencies (Note 16)		
Stockholders equity		
Common stock: par value $.001 per share; 325,000,000 shares authorized, 99,824,267 and 98,223,210 shares issued at September 30, 2009 and December 31, 2008, respectively; 82,611,280 and 81,034,883 shares outstanding at September 30, 2009 and December 31, 2008, respectively	100	98
Treasury stock, at cost: 17,212,987 and 17,188,327 shares at September 30, 2009 and December 31, 2008, respectively	(889,212)	(888,057)

Additional paid-in capital	1,366,715	1,350,704
Retained earnings	1,694,219	1,766,946
Accumulated other comprehensive loss, net	(30,952)	(198,981)
Total stockholders equity	2,140,870	2,030,710
Total liabilities and stockholders equity	$ 8,364,412	$ 8,116,119

See accompanying notes to unaudited condensed consolidated financial statements.

3

Table of Contents

Radian Group Inc.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(In thousands, except per share amounts)	Three Months Ended September 30 2009	Three Months Ended September 30 2008	Nine Months Ended September 30 2009	Nine Months Ended September 30 2008
Revenues:				
Premiums written insurance:				
Direct	$ 201,571	$ 232,656	$ 593,794	$ 743,922
Assumed	(206,560)	8,507	(203,362)	45,820
Ceded	(33,071)	(38,712)	(109,835)	(120,340)
Net premiums written	(38,060)	202,451	280,597	669,402
Decrease in unearned premiums	247,547	47,267	333,734	71,374
Net premiums earned insurance	209,487	249,718	614,331	740,776
Net investment income	54,032	65,215	163,566	196,322
Change in fair value of derivative instruments	(30,857)	164,757	(42,955)	928,792
Net gains (losses) on other financial instruments	96,508	(48,602)	175,962	(74,642)
Total other-than-temporary impairment losses	(3)	(15,135)	(873)	(52,230)
Losses recognized in other comprehensive income (loss)				
Net impairment losses recognized in earnings	(3)	(15,135)	(873)	(52,230)
Other income	2,467	2,756	10,487	9,591
Total revenues	331,634	418,709	920,518	1,748,609
Expenses:				
Provision for losses	404,904	544,915	864,408	1,586,505
Provision for premium deficiency	(31,569)	(252,170)	(77,569)	135,727
Policy acquisition costs	14,193	20,770	54,114	120,628
Other operating expenses	54,034	80,781	161,271	199,771
Interest expense	11,296	13,852	35,890	40,177
Total expenses	452,858	408,148	1,038,114	2,082,808
Equity in net income of affiliates	7,946	15,798	23,608	44,028
Pretax (loss) income	(113,278)	26,359	(93,988)	(290,171)
Income tax (benefit) provision	(42,828)	(10,340)	(37,976)	(129,984)
Net (loss) income	$ (70,450)	$ 36,699	$ (56,012)	$ (160,187)
Basic net (loss) income per share	$ (0.86)	$ 0.46	$ (0.69)	$ (2.01)
Diluted net (loss) income per share	$ (0.86)	$ 0.46	$ (0.69)	$ (2.01)
Weighted-average number of common shares outstanding basic	81,749	79,960	81,761	79,603
Weighted-average number of common and common equivalent shares outstanding diluted	81,749	80,471	81,761	79,603

Dividends per share	$ 0.0025	$ 0.0025	$ 0.0075	$ 0.0425

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

Radian Group Inc.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN COMMON STOCKHOLDERS EQUITY (UNAUDITED)

					Accumulated Other Comprehensive Income (Loss)			
(In thousands)	**Common Stock**	**Treasury Stock**	**Additional Paid-in Capital**	**Retained Earnings**	**Foreign Currency Translation Adjustment**	**Unrealized Holding Gains (Losses)**	**Other**	**Total**
BALANCE, JANUARY 1, 2008	$ 98	$ (889,478)	$ 1,331,790	$ 2,181,191	$ 12,142	$ 86,619	$ (1,626)	$ 2,720,736
Comprehensive loss:								
Net loss				(160,187)				(160,187)
Unrealized foreign currency translation adjustment, net of tax of $29					(54)			(54)
Unrealized holding losses arising during period, net of tax benefit of $132,949						(246,905)		
Less: Reclassification adjustment for net losses included in net loss, net of tax benefit of $13,758						25,551		
Net unrealized loss on investments, net of tax benefit of $119,191						(221,354)		(221,354)
Comprehensive loss								(381,595)
Sherman equity adjustment							(16,761)	(16,761)
Pension curtailment							1,884	1,884
Repurchases of common stock under incentive plans		5,682	(5,992)					(310)
Issuance of restricted stock			476					476
Amortization of restricted stock			6,297					6,297
Stock-based compensation expense			5,061					5,061
Dividends declared				(3,462)				(3,462)
BALANCE, SEPTEMBER 30, 2008	$ 98	$ (883,796)	$ 1,337,632	$ 2,017,542	$ 12,088	$ (134,735)	$ (16,503)	$ 2,332,326
BALANCE prior to implementation effects JANUARY 1, 2009	$ 98	$ (888,057)	$ 1,350,704	$ 1,766,946	$ 13,966	$ (196,480)	$ (16,467)	$ 2,030,710
Cumulative effect of adoption of Accounting for Financial Guarantee Contracts (see Note 1)				(37,587)				(37,587)
BALANCE, JANUARY 1, 2009, as adjusted	$ 98	$ (888,057)	$ 1,350,704	$ 1,729,359	$ 13,966	$ (196,480)	$ (16,467)	$ 1,993,123
Cumulative effect of adoption of Recognition and Presentation of Other-Than-Temporary Impairments (see Note 1)				21,490		(21,490)		
Comprehensive income:								
Net loss				(56,012)				(56,012)
Unrealized foreign currency translation adjustment, net of tax of $3,067					5,695			5,695
Unrealized holding gains arising during the period, net of tax of $116,772						216,864		
Less: Reclassification adjustment for net gains included in net income, net of tax of $17,798						(33,054)		
Net unrealized gain on investments, net of tax of $98,974						183,810		183,810
Comprehensive income								133,493
Repurchases of common stock under incentive plans		(1,155)	1,155					
Issuance of stock under benefit plans	2		2,856					2,858
Amortization of restricted stock			3,884					3,884

Stock-based compensation expense			8,116					8,116
Dividends declared				(618)				(618)
Pension net actuarial loss							14	14
BALANCE, SEPTEMBER 30, 2009	$ 100	$ (889,212)	$ 1,366,715	$ 1,694,219	$ 19,661	$ (34,160)	$ (16,453)	$ 2,140,870

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

Radian Group Inc.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(In thousands)	Nine Months Ended September 30 2009	2008
Cash flows used in operating activities	$ (1,737,902)	$ (123,957)
Cash flows from investing activities:		
Proceeds from sales of fixed-maturity investments available for sale	1,965,290	547,718
Proceeds from sales of equity securities available for sale	33,373	93,896
Proceeds from sales of hybrid securities	178,672	264,690
Proceeds from redemptions of fixed-maturity investments available for sale	178,522	150,161
Proceeds from redemptions of fixed-maturity investments held to maturity	15,020	17,953
Proceeds from redemptions of hybrid securities	33,686	29,347
Purchases of fixed-maturity investments available for sale	(309,632)	(519,936)
Purchases of equity securities available for sale	(2,908)	(114,933)
Purchases of hybrid securities	(209,112)	(318,151)
Purchases of short-term investments, net	(17,370)	(73,854)
Purchases of other invested assets, net	(1,293)	(1,921)
Purchases of property and equipment, net	(3,274)	(3,991)
Net cash provided by investing activities	1,860,974	70,979
Cash flows from financing activities:		
Dividends paid	(618)	(3,462)
Paydown of other borrowings	(100,000)	(50,000)
Redemption of long-term debt	(57,669)	
Proceeds from termination of interest rate swap		12,800
Net cash used in financing activities	(158,287)	(40,662)
Effect of exchange rate changes on cash	337	(185)
Decrease in cash	(34,878)	(93,825)
Cash, beginning of period	79,048	200,787
Cash, end of period	$ 44,170	$ 106,962
Supplemental disclosures of cash flow information:		
Income taxes received	$ (338,305)	$ (508,756)
Interest paid	$ 34,975	$ 38,368
Supplemental disclosures of non-cash items:		
Stock-based compensation, net of tax	$ 11,525	$ 10,914

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

Radian Group Inc.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Condensed Consolidated Financial Statements Basis of Presentation

Our condensed consolidated financial statements include the accounts of Radian Group Inc. and its subsidiaries. We refer to Radian Group Inc. together with its consolidated subsidiaries as Radian, we, us, or our, unless the context requires otherwise. We generally refer to Radian Group Inc. alone, without its consolidated subsidiaries, as Radian Group.

Our condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and include the accounts of all wholly-owned subsidiaries. We have condensed or omitted certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with GAAP pursuant to the instructions of Article 10 of Regulation S-X of the Securities and Exchange Commission s (SEC) rules and regulations.

The financial information presented for interim periods is unaudited; however, such information reflects all adjustments that are, in the opinion of management, necessary for a fair statement of the financial position, results of operations, and cash flows for the interim periods. These interim financial statements should be read in conjunction with the audited financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2008. The results of operations for interim periods are not necessarily indicative of results to be expected for the full year or for any other period. The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP.

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. While the amounts included in our condensed consolidated financial statements include our best estimates and assumptions, actual results may vary.

Basic net income per share is based on the weighted-average number of common shares outstanding, while diluted net income per share is based on the weighted-average number of common shares outstanding and common share equivalents that would be issuable upon the exercise of stock options and other stock-based compensation. As a result of our net loss for the three and nine months ended September 30, 2009, 4,752,900 shares of our common stock equivalents issued under our stock-based compensations plans were not included in the calculation of diluted net loss per share because they were anti-dilutive. For the three months ended September 30, 2008, 4,082,849 shares of our common stock equivalents were not included in the calculation of diluted earnings per share because they were anti-dilutive. As a result of our net loss for the nine months ended September 30, 2008, 5,235,491 shares of our common stock equivalents were not included in the calculation of diluted net loss per share because they were anti-dilutive.

Effective January 1, 2009, we adopted the accounting standard regarding share-based payment transactions. This standard requires companies to consider unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents as participating securities in the calculation of basic and diluted earnings per share. Our restricted stock awards meet the definition of participating securities. The adoption of this standard did not have a material impact on our condensed consolidated financial statements.

Effective January 1, 2009, we adopted the accounting standard regarding disclosures about derivative instruments and hedging activities. This standard requires increased qualitative, quantitative and credit-risk disclosures including: (a) how and why an entity is using a derivative instrument or hedging activity; (b) how the entity is accounting for its derivative instruments and hedged items; and (c) how the instruments affect the entity s financial position, financial performance and cash flows. This standard also clarifies that derivative instruments are subject to concentration-of-credit-risk disclosures. See Notes 3, 4 and 5 for further information.

Radian Group Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Effective January 1, 2009, we adopted the accounting standard regarding accounting for financial guarantee insurance contracts for all non-derivative financial guaranty insurance policies. This standard clarifies the accounting for financial guarantee insurance contracts, including the method of recognition and measurement to be used to account for premium revenue and claim liabilities. The scope of this newly adopted standard is limited to financial guarantee insurance (and reinsurance) contracts issued by insurance enterprises included within the scope of the previous accounting standard regarding accounting and reporting by insurance enterprises. As a result of the implementation of this standard, we recognized the cumulative effect of adoption as a reduction in retained earnings of $37.6 million, after tax, effective January 1, 2009. See Note 10, Financial Guaranty Insurance Contracts for further information.

Effective April 1, 2009, we adopted the accounting standard regarding interim disclosures about fair value of financial instruments. This standard requires disclosures about the fair value of financial instruments for interim reporting periods of publicly traded companies, as well as in annual financial statements. This standard also amends previous standards to require that fair value disclosures be included in summarized financial information at interim reporting periods. See Note 4, Fair Value of Financial Instruments for further information.

Effective April 1, 2009, we adopted the accounting standard regarding recognition and presentation of other-than-temporary impairments. This standard improves the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. The adoption of this standard resulted in a $21.5 million increase in retained earnings and a corresponding decrease in accumulated other comprehensive loss, net upon adoption. See Note 6, Investments for further information.

Effective April 1, 2009, we adopted the accounting standard regarding determining fair value when the volume and level of activity for an asset or liability have significantly decreased and identifying transactions that are not orderly for purposes of this accounting standard. The adoption of this standard did not have a significant impact on our condensed consolidated financial statements.

Effective June 30, 2009, we adopted the accounting standard regarding subsequent events. This standard establishes principles and requirements for disclosure in financial statements of subsequent events. In particular, it sets forth (i) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, (ii) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and (iii) the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. The adoption of this standard did not have a significant impact on our condensed consolidated financial statements.

Effective July 1, 2009, we adopted the Financial Accounting Standards Board (FASB) Accounting Standards Codification (the Codification). The Codification became the single source of authoritative United States (U.S.) accounting and reporting standards applicable for all non-governmental entities, with the exception of the SEC and its staff. The Codification changes the method of referring to financial standards, eliminating the numbering system previously prescribed by the FASB. As the Codification is not intended to change or alter existing GAAP, the adoption did not have any impact on our consolidated financial position or results of operations.

Table of Contents

Radian Group Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

2. Segment Reporting

We have three reportable segments: Mortgage Insurance, Financial Guaranty and Financial Services. We allocate corporate income and expenses to our mortgage insurance and financial guaranty segments based on either an allocated percentage of time spent or internally allocated capital. We evaluate operating segment performance based principally on net income. Summarized financial information concerning our operating segments, as of and for the periods indicated, are as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
Mortgage Insurance (In thousands)	**2009**	**2008**	**2009**	**2008**
Net premiums written insurance	$ 149,000	$ 188,583	$ 465,878	$ 598,864
Net premiums earned insurance	$ 186,859	$ 196,207	$ 534,789	$ 605,568
Net investment income	33,822	38,017	97,465	115,803
Change in fair value of derivative instruments	6,678	8,606	(28,455)	105,548
Net gains (losses) on other financial instruments	38,583	(36,579)	64,250	(47,983)
Net impairment losses recognized in earnings	(3)	(3,346)	(850)	(18,231)
Other income	2,299	2,561	9,865	9,051
Total revenues	268,238	205,466	677,064	769,756
Provision for losses	376,488	519,257	840,974	1,539,561
Provision for premium deficiency	(31,569)	(252,170)	(77,569)	135,727
Policy acquisition costs	8,672	5,327	22,332	82,473
Other operating expenses	39,440	43,771	110,724	126,644
Interest expense	3,739	6,718	12,052	21,140
Total expenses	396,770	322,903	908,513	1,905,545
Equity in net income of affiliates				
Pretax loss	(128,532)	(117,437)	(231,449)	(1,135,789)
Income tax benefit	(45,912)	(70,473)	(73,048)	(428,186)
Net loss	$ (82,620)	$ (46,964)	$ (158,401)	$ (707,603)
Cash and investments	$ 4,093,265	$ 3,899,815		
Deferred policy acquisition costs	30,528	17,997		
Total assets	5,231,755	4,928,234		
Unearned premiums	266,122	351,200		
Reserve for losses and LAE	3,387,740	2,496,412		
Derivative liabilities	17,018	220,363		

Table of Contents

Radian Group Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

	Three Months Ended September 30		Nine Months Ended September 30	
Financial Guaranty (In thousands)	**2009**	**2008**	**2009**	**2008**
Net premiums written insurance	$ (187,060)	$ 13,868	$ (185,281)	$ 70,538
Net premiums earned insurance	$ 22,628	$ 53,511	$ 79,542	$ 135,208
Net investment income	20,209	27,198	66,098	80,505
Change in fair value of derivative instruments	(37,535)	156,151	(14,500)	823,244
Net gains (losses) on other financial instruments	57,925	(12,106)	111,712	(26,779)
Net impairment losses recognized in earnings		(11,789)	(23)	(33,999)
Other income	97	58	316	237
Total revenues	63,324	213,023	243,145	978,416
Provision for losses	28,416	25,658	23,434	46,944
Provision for premium deficiency				
Policy acquisition costs	5,521	15,443	31,782	38,155
Other operating expenses	18,877	36,885	54,619	72,642
Interest expense	7,557	7,134	23,838	18,788
Total expenses	60,371	85,120	133,673	176,529
Equity in net income of affiliates				
Pretax income	2,953	127,903	109,472	801,887
Income tax (benefit) provision	(1,245)	53,550	25,004	279,537
Net income	$ 4,198	$ 74,353	$ 84,468	$ 522,350
Cash and investments	$ 2,373,262	$ 2,430,399		
Deferred policy acquisition costs	128,285	160,584		
Total assets	3,015,532	2,934,032		
Unearned premiums	606,253	649,525		
Reserve for losses and LAE	125,259	183,969		
Derivative liabilities	377,368	122,933		

Table of Contents

Radian Group Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Financial Services (In thousands)	Three Months Ended September 30 2009	Three Months Ended September 30 2008	Nine Months Ended September 30 2009	Nine Months Ended September 30 2008
Net premiums written insurance	$	$	$	$
Net premiums earned insurance	$	$	$	$
Net investment income	1		3	14
Change in fair value of derivative instruments				
Net gains on other financial instruments		83		120
Net impairment losses recognized in earnings				
Other income	71	137	306	303
Total revenues	72	220	309	437
Provision for losses				
Provision for premium deficiency				
Policy acquisition costs				
Other operating expenses	(4,283)	125	(4,072)	485
Interest expense				249
Total expenses	(4,283)	125	(4,072)	734
Equity in net income of affiliates	7,946	15,798	23,608	44,028
Pretax income	12,301	15,893	27,989	43,731
Income tax provision	4,329	6,583	10,068	18,665
Net income	$ 7,972	$ 9,310	$ 17,921	$ 25,066
Cash and investments	$	$		
Deferred policy acquisition costs				
Total assets	117,125	183,970		
Unearned premiums				
Reserve for losses and LAE				
Derivative liabilities				

A reconciliation of segment net (loss) income to consolidated net (loss) income is as follows:

Consolidated (In thousands)	Three Months Ended September 30 2009	Three Months Ended September 30 2008	Nine Months Ended September 30 2009	Nine Months Ended September 30 2008
Net (loss) income:				
Mortgage Insurance	$ (82,620)	$ (46,964)	$ (158,401)	$ (707,603)
Financial Guaranty	4,198	74,353	84,468	522,350
Financial Services	7,972	9,310	17,921	25,066

Total	$ (70,450)	$ 36,699	$ (56,012)	$ (160,187)

11

Table of Contents

Radian Group Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

3. Derivative Instruments

A summary of our derivative assets and liabilities, as of and for the periods indicated, is as follows. Certain contracts are in an asset position because the net present value of the contractual premium exceeds the net present value of our estimate of the expected future premiums that a financial guarantor of similar credit quality to us would charge to provide the same credit protection assuming a transfer of our obligation to such financial guarantor as of the measurement date.

Balance Sheets (In millions)	September 30 2009	December 31 2008
Derivative assets:		
Financial Guaranty credit derivative assets	$ 20.8	$ 22.8
Net interest margin securities (NIMS) assets (1)	11.2	5.8
Put options on Money Market committed preferred custodial trust securities (CPS)	121.1	150.0
Mortgage Insurance domestic and international credit default swaps (CDS) assets		0.9
Total derivative assets	153.1	179.5
Derivative liabilities:		
Financial Guaranty credit derivative liabilities	377.4	357.4
NIMS liabilities (1)		84.3
Mortgage Insurance domestic and international CDS liabilities	17.0	77.6
Total derivative liabilities	394.4	519.3
Derivative liabilities, net	$ 241.3	$ 339.8

(1) All NIMS trusts required consolidation at September 30, 2009, and are reported as variable interest entity (VIE) debt and derivative assets. The fair value of the VIE debt was $329.0 million and $160.0 million at September 30, 2009 and December 31, 2008, respectively.

Amounts set forth in the table above represent gross unrealized gains and gross unrealized losses on derivative assets and liabilities. The notional value of our derivative contracts at September 30, 2009 and December 31, 2008 was $49.9 billion and $51.8 billion, respectively.

The components of the (loss) gain included in change in fair value of derivative instruments are as follows:

Statements of Operations (In millions)	Three Months Ended September 30		Nine Months Ended September 30	
	2009	2008	2009	2008
Net premiums earned derivatives	$ 13.4	$ 18.7	$ 42.6	$ 64.8
Financial Guaranty credit derivative liabilities	(20.9)	156.9	(22.9)	724.7
NIMS	0.7	(35.9)	(8.8)	119.1
Mortgage Insurance domestic and international CDS	6.5	40.7	(15.0)	(30.5)
Put options on CPS	(29.8)	(14.4)	(31.6)	57.6

Other	(0.8)	(1.2)	(7.3)	(6.9)
Change in fair value of derivative instruments	$ (30.9)	$ 164.8	$ (43.0)	$ 928.8

12

Radian Group Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

The valuation of derivative instruments results in volatility from period to period in gains and losses as reported on our condensed consolidated statements of operations. Generally, these gains and losses result from changes in corporate credit or asset-backed spreads and changes in the creditworthiness of underlying corporate entities or the credit performance of the assets underlying an asset-backed security. Any incurred gains or losses on our financial guaranty contracts that are accounted for as derivatives are recognized as a change in the fair value of derivative instruments. Beginning in the first quarter of 2008, as required by the provisions of the accounting standard regarding fair value measurements, we also incorporated our own non-performance risk into our fair valuation methodology. Our fair value estimates may result in significant volatility in our financial position or results of operations for future periods.

The following table shows selected information about our derivative contracts:

Product	Number of Contracts	September 30, 2009 Par/Notional Exposure (In millions)	Total Net Asset/ (Liability)
Put options on CPS	3	$ 150.0	$ 121.1
NIMS related (1)	(2)	(2)	11.2
Corporate collateralized debt obligations (CDOs)	100	37,287.7	(68.3)
Non-Corporate CDOs and other derivative transactions:			
Trust Preferred Securities (TruPs)	21	2,312.8	(118.0)
CDO of commercial mortgage-backed securities (CMBS)	4	1,831.0	(24.6)
CDO of asset-backed securities (ABS)	2	618.3	(122.5)
Other:			
Structured finance	13	1,239.3	(8.5)
Public finance	28	1,666.5	(0.3)
Total Other	41	2,905.8	(8.8)
Total Non-Corporate CDOs and other derivative transactions	68	7,667.9	(273.9)
Assumed financial guaranty credit derivatives:			
Structured finance	305	1,378.0	(9.9)
Public finance	16	314.0	(4.5)
Total Assumed	321	1,692.0	(14.4)
Mortgage Insurance international CDS	2	3,131.6	(17.0)
Grand Total	494	$ 49,929.2	$ (241.3)

(1) This represents NIMS derivative assets.

(2) NIMS related derivative assets represent assets associated with the consolidation of NIMS and does not represent additional exposure, as would be the case in a financial guaranty contract.

4. Fair Value of Financial Instruments

We adopted the accounting standard regarding fair value measurements effective January 1, 2008 with respect to financial assets and liabilities measured at fair value. This accounting standard (i) defines fair value, (ii) establishes a framework for measuring fair value and (iii) expands disclosure requirements about fair value measurements. This standard is effective for all financial statements issued for fiscal years beginning after

Radian Group Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

November 15, 2007 on a prospective basis. There was no cumulative impact on retained earnings as a result of the adoption. In accordance with the related accounting standard regarding the implementation effective date, we elected to defer the effective date for non-financial assets and non-financial liabilities until January 1, 2009.

We define fair value as the current amount that would be exchanged to sell an asset or transfer a liability, other than in a forced liquidation. This accounting standard requires that a fair value measurement reflect the assumptions market participants would use in pricing an asset or liability based on the best information available. Assumptions include the risks inherent in a particular valuation technique (such as a pricing model) and/or the risks inherent in the inputs to the model. In the event that our investments or derivative contracts were sold or transferred in a forced liquidation, the values received or paid may be materially different than those determined in accordance with this standard.

In accordance with this standard, when determining the fair value of our liabilities we are required to incorporate into the fair value an adjustment that reflects our own non-performance risk. As our credit default swap spread tightens or widens, the fair value of our liabilities increase or decrease.

As required by this standard, we established a fair value hierarchy by prioritizing the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level I measurements) and the lowest priority to unobservable inputs (Level III measurements). The three levels of the fair value hierarchy under this standard are described below:

Level I Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level II Quoted prices in markets that are not active or financial instruments for which all significant inputs are observable, either directly or indirectly;

Level III Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

The level of market activity in determining the fair value hierarchy is based on the availability of observable inputs market participants would use to price an asset or a liability, including market value price observations. For markets in which inputs are not observable or limited, we use significant judgment and assumptions that a typical market participant would use to evaluate the market price of an asset or liability. These assets and liabilities are classified in Level III of our fair value hierarchy.

A financial instrument s level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. At September 30, 2009, our total Level III assets were approximately 3.2% of total assets measured at fair value and total Level III liabilities accounted for 100% of total liabilities measured at fair value.

The following are descriptions of our valuation methodologies for financial assets and liabilities measured at fair value.

Investments

U.S. Government and agency securities The fair value of U.S. government and agency securities is estimated using observed market transactions, including broker-dealer quotes and actual trade activity as a basis for valuation. U.S government and agency securities are categorized in Level II of the fair value hierarchy.

Radian Group Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

State and municipal obligations The fair value of state and municipal obligations is estimated using recent transaction activity, including market and market-like observations for normalized market conditions. Evaluation models are used which incorporate bond structure, yield curve, credit spreads, and other factors. These securities are generally categorized in Level II of the fair value hierarchy or in Level III when market-based transaction activity is unavailable.

Money market instruments The fair value of money market instruments is based on daily prices which are published and available to all potential investors and market participants. As such, these securities are categorized in Level I of the fair value hierarchy.

Corporate bonds and notes The fair value of corporate bonds and notes is estimated using recent transaction activity, including market and market-like observations for normalized market conditions. Spread models are used to incorporate issue and structure characteristics where applicable. These securities are generally categorized in Level II of the fair value hierarchy or in Level III when market-based transaction activity is unavailable.

Residential mortgage-backed securities (RMBS) The fair value of RMBS is estimated based on prices of comparable securities and spreads, and observable prepayment speeds. These securities are generally categorized in Level II of the fair value hierarchy or in Level III when market-based transaction activity is unavailable.

CMBS The fair value of CMBS is estimated based on prices of comparable securities and spreads, and observable prepayment speeds. These securities are generally categorized in Level II of the fair value hierarchy or in Level III when market-based transaction activity is unavailable.

Other ABS The fair value of other ABS is estimated based on prices of comparable securities and spreads, and observable prepayment speeds. These securities are generally categorized in Level II of the fair value hierarchy or in Level III when market-based transaction activity is unavailable.

Foreign government securities The fair value of foreign government securities is estimated using observed market yields used to create a maturity curve and observed credit spreads from market makers and broker dealers. These securities are categorized in Level II of the fair value hierarchy.

Hybrid securities These instruments are convertible securities measured at fair value based on observed trading activity and daily quotes. In addition, on a daily basis, dealer quotes are marked against the current price of the corresponding underlying stock. These securities are categorized in Level II of the fair value hierarchy. For certain securities, the underlying security price may be adjusted to account for observable changes in the conversion and investment value from the time the quote was obtained. Such securities are categorized in Level III of the fair value hierarchy.

Equity securities The fair value of these securities is generally estimated using observable market data in active markets or bid prices from market makers and broker-dealers. Generally, these securities are categorized in Level I or II of the fair value hierarchy as observable market data are readily available. A small number of our equity securities, however, are categorized in Level III of the fair value hierarchy due to a lack of market-based transaction data or the use of model-based evaluations.

Other investments These securities are categorized in Level II or Level III of the fair value hierarchy. The fair value of the Level III securities is generally estimated by discounting estimated future cash flows.

Table of Contents

Radian Group Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Derivative Assets and Liabilities

Fair value is defined as the price that would be received in connection with the sale of an asset or that would be paid to transfer a liability. In determining an exit market, we consider the fact that most of our derivative contracts are unconditional and irrevocable, and contractually prohibit us from transferring them to other capital market participants. Accordingly, there is no principal market for such highly structured insured credit derivatives. In the absence of a principal market, we value these insured credit derivatives in a hypothetical market where market participants include other monoline mortgage and financial guaranty insurers with similar credit quality to us, as if the risk of loss on these contracts could be transferred to these other mortgage and financial guaranty insurance and reinsurance companies. We believe that in the absence of a principal market, this hypothetical market provides the most relevant information with respect to fair value estimates.

We determine the fair value of our derivative assets and liabilities using internally-generated models. We utilize market observable inputs, such as credit spreads on similar products, whenever they are available. When one of our transactions develops characteristics that are inconsistent with the characteristics of transactions that underlie the relevant market-based index that we use in our credit spread valuation approach, and we can develop cash flow projections that we believe would represent the view of a typical market participant, we believe it is necessary to change to a discounted cash flow model from a credit spread valuation model. This change in approach is generally prompted when the credit component, and not market factors, becomes the dominant driver of the estimated fair value for a particular transaction. When the particular circumstances of a specific transaction, rather than systemic market risk or other market factors, becomes the dominant driver of fair value, the credit spread valuation approach will generally result in a fair value that is different than the discounted cash flow valuation and, we believe, less representative of a typical market participant s view. Therefore, in these instances, we believe the discounted cash flow valuation approach, and not the credit spread valuation approach, provides a fair value that better represents a typical market participant s view, as it results in a reasonable estimation of the credit component of fair value at a point in time where the index is no longer representative of the fair value of the particular transaction. There is a high degree of uncertainty about our fair value estimates since our contracts are not traded or exchanged, which makes external validation and corroboration of our estimates difficult, particularly given the current market environment, where very few, if any, contracts are being traded or originated. In very limited recent instances, we have negotiated terminations of financial guaranty contracts with our counterparties and believe that such terminations provide the most relevant data with respect to validating our fair value estimates and such data has been generally consistent with our fair value estimates.

Beginning in 2008, in accordance with the accounting standard regarding fair value measurements, we made an adjustment to our derivative liabilities valuation methodology to account for our own non-performance risk by incorporating our observable credit default swap spread into the determination of the fair value of our derivative liabilities. Our five-year credit default spread tightened by approximately 1,143 basis points from 2,466 basis points at December 31, 2008 to 1,323 basis points at September 30, 2009, compared to a widening of the spread by 1,684 basis points during the first nine months of 2008. Considerable judgment is required to interpret market data to develop the estimates of fair value. Accordingly, the estimates may not be indicative of amounts we could realize in a current market exchange. The use of different market assumptions or estimation methodologies may have a significant effect on the estimated fair value amounts.

Put Options on CPS

The fair value of our put options on CPS is estimated based on the present value of the spread differential between the current market rate of issuing a perpetual preferred security and the maximum contractual rate of our perpetual preferred security as specified in our put option agreements. In determining the current market rate, consideration is given to our current long-term CDS spread curve as well as market observations of similar

Radian Group Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

securities issued, if available. The annual spread differential is calculated as the difference between the current market rate and the contractual rate, and is discounted at our current CDS spread, adjusted for a market-implied recovery rate. At September 30, 2009, given the current market environment and the market s view of our credit risk, we recorded a $28.9 million reduction in the fair value of these securities to $121.1 million. The put options on CPS are categorized in Level III of the fair value hierarchy. See Note 17, Subsequent Events for further information regarding the possible actions with respect to the CPS.

NIMS Credit Derivatives and NIMS Derivative Assets

NIMS credit derivatives are financial guarantees that we have issued on NIMS. NIMS derivative assets primarily represent derivative assets in the NIMS trusts that we are required to consolidate in accordance with the accounting standard regarding consolidation of variable interest entities. The estimated fair value amounts of these financial instruments are derived from internally-generated discounted cash flow models. We estimate losses in each securitization underlying either the NIMS credit derivatives or the NIMS derivative assets by applying expected default rates separately to loans that are delinquent and those that are paying currently. These default rates are based on historical experience of similar transactions. We then project prepayment speeds on the underlying collateral in each securitization, incorporating historical prepayment experience. The estimated loss and prepayment speeds are used to estimate the cash flows for each underlying securitization and NIMS bond, and ultimately, to produce the projected credit losses for each NIMS bond. In addition to expected credit losses, we consider the future expected premiums to be received from the NIMS trust for each credit derivative. The projected net losses are then discounted using a rate of return that incorporates our own non-performance risk, and based on our current credit default swap spread, results in a significant reduction of the derivative liability. Because NIMS guarantees are not market-traded instruments, considerable judgment is required in estimating fair value. The use of different assumptions and/or methodologies could have a significant effect on estimated fair values. The NIMS credit derivatives are categorized in Level III of the fair value hierarchy. As a result of our having to consolidate our NIMS structures, the derivative assets held by the NIMS VIE are also fair valued using the same internally-generated valuation model. The NIMS VIE derivative assets are also categorized in Level III of the fair value hierarchy.

Changes in our expected principal credit losses on NIMS could have a significant impact on our fair value estimate. The gross expected principal credit losses were $416.0 million as of September 30, 2009, which is our best estimate of settlement value and represents 99% of our total risk in force of $418.2 million. The fair value of our total net liabilities related to NIMS as of September 30, 2009 was $317.8 million, of which $11.2 million relates to derivative assets and $329.0 million relates to debt of the NIMS VIE trusts, all of which are consolidated. Our fair value estimate incorporates a discount rate that is based on our credit default swap spread, which has resulted in a fair value amount that is substantially less than the expected settlement value. Changes in the credit loss estimates will impact the fair value directly, reduced only by the present value factor, which is dependent on the timing of the expected losses and our credit spread.

Corporate CDOs

The fair value of each of our corporate CDO transactions is estimated based on the difference between (1) the present value of the expected future contractual premiums we charge and (2) the fair premium amount that we estimate that another financial guarantor would require to assume the rights and obligations under our contracts. The fair value estimates reflect the fair value of the asset or liability, which is consistent with the in-exchange approach, in which fair value is determined based on the price that would be received or paid in a current transaction as defined by the accounting standard regarding fair value measurements. These credit derivatives are categorized in Level III of the fair value hierarchy.

Radian Group Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Present Value of Expected Future Contractual Premiums Our contractual premiums are subject to change for two reasons: (1) all of our contracts provide our counterparties with the right to terminate upon our default and (2) 85% of our corporate CDO transactions (as of September 30, 2009) provide our counterparties with the right to terminate these transactions based on certain rating agency downgrades that occurred during 2008. In determining the expected future premiums of these transactions, we adjust the contractual premiums for such transactions to reflect the estimated fair value of those premiums, based on our estimate of the probability of our counterparties exercising this downgrade termination right and the impact it would have on the remaining expected lifetime premium. In these circumstances, we also cap the total estimated fair value of the contracts at zero, such that none of the contracts subject to immediate termination are in a derivative asset position. The discount rate we use to determine the present value of expected future premiums is our credit default swap spread plus a risk-free rate. This discount rate reflects the risk that we may not collect future premiums due to our inability to satisfy our contractual obligations, which provides our counterparties the right to terminate the contracts.

For each Corporate CDO transaction, we perform three principal steps in determining the fair premium amount:

- First, we define a tranche on the CDX index (defined below) that equates to the risk profile of our specific transaction (we refer to this tranche as an equivalent-risk tranche);

- Second, we determine the fair premium amount on the equivalent-risk tranche for those market participants engaged in trading on the CDX index (we refer to each of these participants as a typical market participant); and

- Third, we adjust the fair premium amount for a typical market participant to account for the difference between the non-performance or default risk of a typical market participant and the non-performance or default risk of a financial guarantor of similar credit quality to us (in each case, we refer to the risk of non-performance as non-performance risk).

Defining the Equivalent-Risk Tranche Direct observations of fair premium amounts for our transactions are not available since these transactions cannot be traded or transferred pursuant to their terms and there is currently no active market for these transactions. However, credit default swaps on tranches of a standardized index (the CDX index) are widely traded and observable, and provide relevant market data for determining the fair premium amount of our transactions, as described more fully below.

The CDX index is a synthetic corporate CDO that is comprised of a list of corporate obligors and is segmented into multiple tranches of synthetic senior unsecured debt of these obligors ranging from the equity tranche (i.e., the most credit risk or first-loss position) to the most senior tranche (i.e., the least credit risk). We refer to each of these tranches as a standard CDX tranche. A tranche is defined by an attachment point and detachment point, representing the range of portfolio losses for which the protection seller would be required to make a payment.

Our corporate CDO transactions possess similar structural features to the standard CDX tranches, but often differ with respect to certain of the referenced corporate entities, term, attachment point and detachment points. Therefore, in order to determine the equivalent risk tranche for each of our corporate CDO transactions, we determine the attachment and detachment points on the CDX index that have comparable estimated probabilities of loss as the attachment and detachment points in our transactions. We begin by performing a simulation analysis of referenced entity defaults in our transactions to determine the probability of portfolio losses exceeding our attachment and detachment points. The referenced entity defaults are primarily determined based on the following inputs: the market observed credit default swap credit spreads of the referenced corporate entities, the correlations between each of the referenced corporate entities, and the term of the transaction.

Table of Contents

Radian Group Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

For each referenced corporate entity in our corporate CDO transactions, the credit default swap spreads associated with the term of our transactions (credit curve) define the estimated expected loss for each entity (as applied in a market standard approach known as risk neutral modeling). The credit curves on individual referenced entities are generally observable. The expected cumulative loss for the portfolio of referenced entities associated with each of our transactions is the sum of the expected losses of these individual referenced entities. With respect to the correlation of losses across the underlying reference entities, two obligors belonging to the same industry or located in the same geographical region are assumed to have a higher probability of defaulting together (i.e., they are more correlated). An increase in the correlations between the referenced entities generally causes a higher expected loss for the portfolio associated with our transactions. The estimated correlation factors that we use are derived internally based on observable third-party inputs that are based on historical data. The impact of our correlation assumptions currently does not have a material effect on our fair premium estimates in light of the significant impact of our non-performance risk adjustment as described below.

Once we have established the probability of portfolio losses exceeding the attachment and detachment points in our transactions, we then use the same simulation method to locate the attachment and detachment points on the CDX index with comparable probabilities. These equivalent attachment and detachment points define the equivalent-risk tranche on the CDX index that we use to determine fair premium amounts.

Determining the Typical Fair Premium Amount The equivalent-risk tranches for our corporate CDO transactions often are not identical to any standard CDX tranches. As a result, fair premium amounts generally are not directly observable from the CDX index for the equivalent-risk tranche and must be separately determined. We make this determination through an interpolation in which we use the observed premium rates on the standard CDX tranches that most closely match our equivalent-risk tranche to derive the typical fair premium amount for the equivalent-risk tranche.

Non-Performance Risk Adjustment on Corporate CDOs The typical fair premium amount estimated for the equivalent-risk tranche represents the fair premium amount for a typical market participant not Radian. Accordingly, the final step in our fair value estimation is to convert this typical fair premium amount into a fair premium amount for a financial guarantor of similar credit quality to us. A typical market participant is contractually bound by a requirement that collateral be posted regularly to minimize the impact of that participant s default or non-performance. This collateral posting feature makes these transactions less risky to the protection buyer, and therefore, priced differently. None of our contracts require us to post collateral with our counterparties, which exposes our counterparties fully to our non-performance risk. We make an adjustment to the typical fair premium amount to account for both this contractual difference, as well as for the market s perception of our default probability which is observable through our credit default swap spread.

The amount of the non-performance risk adjustment is computed based, in part, on the expected claim payment by Radian. To estimate this expected payment, we first determine the expected claim payment of a typical market participant by using a risk-neutral modeling approach. A significant underlying assumption of the risk neutral model approach that we use is that the typical fair premium amount is equal to the present value of expected claim payments from a typical market participant. Expected claim payments on a transaction are based on the expected loss on that transaction (also determined using the risk neutral modeling approach). Radian s expected claim payment is calculated based on the correlation between the default probability of the transaction and our default probability. The default probability of Radian is determined from the observed Radian Group credit default swap spread, and the default probability of the transaction is determined as described above under *Defining the Equivalent-Risk Tranche*. The present value of Radian s expected claim payments is discounted using a risk-free interest rate, as the expected claim payments have already been risk-adjusted.

Radian Group Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

The reduction in our fair premium amount related to our non-performance risk is limited to a minimum fair premium amount, which is determined based on our estimate of the minimum fair premium that a market participant would require to assume the risks of our obligations. Our non-performance risk adjustment currently results in a material reduction of our typical fair premium amounts.

Non-Corporate CDOs and Other Derivative Transactions

Our non-corporate CDO transactions include our guaranty of RMBS CDOs, CMBS CDOs, TruPs CDOs and CDOs backed by other asset classes such as (i) municipal securities, (ii) synthetic financial guarantees of asset-backed securities (such as auto loan and credit card securities), and (iii) project finance transactions. The fair value of our non-corporate CDO and other derivative transactions is calculated as the difference between the present value of the expected future contractual premiums and our estimate of the fair premium amount for these transactions. The present value of expected future contractual premiums is determined based on the methodology described above for corporate CDOs. For our credit card and auto loan transactions, the fair premium amount is estimated using observed spreads on recent trades of securities that are similar to the securities that we guaranty. In all other instances, we utilize internal models to estimate the fair premium amount as described below. These credit derivatives are categorized in Level III of the fair value hierarchy.

RMBS CDOs The fair value amounts for our two remaining RMBS CDO transactions are derived using standard market indices and discounted cash flows, to the extent expected losses are estimable. The credit quality of the underlying referenced obligations in one of these transactions is reasonably similar to that which is included in the AAA-rated ABX.HE index, a standardized list of residential mortgage-backed security reference obligations. Accordingly, the fair premium amount for a typical market participant for this transaction is derived directly from the observed spreads of this index. For our second RMBS CDO transaction, the underlying referenced obligations in this transaction have experienced significant credit deterioration, and we expect this deterioration ultimately will result in claims. Fair value for this transaction is determined using a discounted cash flow analysis. We estimate projected claims based on our internal credit analysis which is based on the current performance of each underlying reference obligation, and our estimate of the claim rate associated with the current delinquent loans. The expected cash flows from the underlying reference obligations are then present valued using a discount rate derived from the BBB- ABX.HE index. The insured cash flows are present valued using a discount rate that is equal to our credit default swap rate plus a risk-free rate.

CMBS CDOs The fair premium amounts for our CMBS CDO transactions for a typical market participant are derived directly from the observed spreads on the CMBX indices. The CMBX indices represent standardized lists of commercial mortgage-backed security reference obligations. A different CMBX index exists for different types of underlying referenced obligations based on their various origination periods and credit grades. For each of our CMBS CDO transactions we use the CMBX index that most directly correlates to our transaction with respect to the origination period and credit rating of the referenced obligations included in our transactions. The typical fair premium amount is the expected future fair premiums (determined by the observed index spreads) present valued using a discount rate equal to the credit default swap spread of a typical market participant plus a risk free rate.

TruPs CDOs Our TruPs transactions are credit default swaps on CDOs where the collateral consists primarily of deeply subordinated securities issued by banks and insurance companies, as well as real estate investment trusts and other financial institutions (TruPs CDOs), whose individual spreads are not observable. In each case, we provide credit protection on a specific tranche of each CDO. Beginning in the third quarter of 2009, fair value for these transactions is determined using a discounted cash flow valuation, as a result of significant credit deterioration during this reporting period, such that the market spreads utilized in prior periods

20

Radian Group Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

are no longer a relevant key assumption in determining fair value of these transactions. We utilize a discounted cash flow valuation approach that captures the credit characteristics of each transaction. We estimate projected claims based on our internal credit analysis which is based on the current performance of each underlying reference obligation. The expected cash flows to the TruPs transaction are then present valued using a discount rate derived from the observed market pricing for a TruPs deal with similar characteristics. The insured cash flows are present valued using a discount rate that is equal to our credit default swap rate plus a risk-free rate.

For certain of our TruPs transactions, our counterparties may require that we pay them the outstanding par on the underlying TruPs bond if an event of default remains outstanding as of the credit default swap termination date (the Conditional Liquidity Claim). For these transactions, an additional adjustment is made. To calculate this adjustment, a probability that we will be required to pay a Conditional Liquidity Claim is assigned based on our internal cash flow projections, which provides us with information as to the likelihood of the existence of a default at the time of maturity. The discounted cash flow valuation is performed for this scenario where we are required to make a Conditional Liquidity Claim. The fair value is set equal to the probability weighted average of the valuations from the two scenarios: one in which our counterparty makes a Conditional Liquidity Claim and one in which the claim is not made.

Prior to the third quarter of 2009, we used internally-generated models to calculate the fair premium amount for a typical market participant based on the following inputs: our contractual premium rate (which was estimated to be equal to the typical fair premium rate as of the contract date), the estimated change in the spread of the underlying referenced obligations, the remaining term of the TruPs CDOs and the deterioration (if any) of the subordination.

All Other Non-Corporate CDOs and other Derivative Transactions For all of our other non-corporate CDO and other derivative transactions observed prices and market indices are not available. As a result, we utilize an internal model that estimates fair premium based on a market rate of return that would be required for a monoline insurer to undertake the contract risk. The fair premium amount is calculated as the premium required to achieve a market rate of return (net of expected losses and other expenses) over an estimated internally developed risk-based capital amount. Such market rates of return approximate historical rates of return earned by financial guarantors. Expected losses and our internally developed risk-based capital amounts are projected by our model based on the internal credit rating, term, asset class, and current par outstanding for each transaction.

For each of the non-corporate CDO and other derivative transactions discussed above, with the exception of the CDO of ABS transaction and the TruPs transactions that are valued using a discounted cash flow analysis, we make an adjustment to the fair premium amounts as described above under *Non-Performance Risk Adjustments on Corporate CDOs* to incorporate our own non-performance risk. The non-performance risk adjustment associated with our CDO of ABS is incorporated in the fair value as described above; therefore, no separate adjustment is required. These credit derivatives are categorized in Level III of the fair value hierarchy.

Assumed Financial Guaranty Credit Derivatives

In making our own determination of fair value for these credit derivatives, we use information provided to us by our counterparties to these reinsurance transactions, which are the primary insurers (the primaries) of the underlying credits, including the primaries fair valuations for these credits. The information obtained from our counterparties is not received with sufficient time for us to properly record the mark-to-market liability as of the balance sheet date. Therefore, the amount recorded as of September 30, 2009 is based on the most recent available financial information. The valuation methodology as described above continues to be relevant to the amount recorded. This lag in reporting is consistent from period to period. The estimated fair value of pooled corporate CDO CDS contracts is based on the primaries pricing models that use the Dow Jones CDX for domestic corporate CDS contracts and iTraxx for European corporate CDS contracts. Each index provides price

Radian Group Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

quotes for standard attachment and detachment points for contracts with maturities of three, five, seven and ten years. The quoted index price is calibrated by the primaries to the typical attachment points for that type of CDS contract in order to derive the appropriate value. The value of CDS and collateralized loan obligation (CLO) contracts is estimated with reference to the London Interbank Offered Rate (LIBOR) spread in the current published JP Morgan High Yield CLO Triple-A Index, which includes a credit and funding component. In addition, these fair value estimates incorporate an adjustment for our non-performance risk that is based on our credit default swap spread. The primaries models used to estimate the fair values of these instruments include a number of factors, including credit spreads, changes in interest rates, changes in correlation assumptions, current delinquencies, recovery rates and the credit ratings of referenced entities. In establishing our fair value marks for these transactions, we assess the reasonableness of the primaries valuations by (1) reviewing the primaries publicly available information regarding their mark-to-market processes, including methodology and key assumptions; and (2) discussing the changes in fair value with the primaries where the changes appear unusual or do not appear materially consistent with credit loss related information when provided by the primaries for these transactions. Despite significant volatility in relevant credit spreads during each of the four quarters ended September 30, 2009, in each of these quarters the change in fair value of our assumed financial guaranty credit derivatives represented 4% or less of our net gains or losses on all credit derivatives. These credit derivatives are categorized in Level III of the fair value hierarchy.

Mortgage Insurance Domestic and International CDS

In determining the estimated fair value of our mortgage insurance domestic CDS, we use internal models that employ a discounted cash flow methodology. We estimate losses in each securitization by applying expected default rates separately to loans that are delinquent and to those that are current. We then project prepayment speeds on the underlying collateral in each securitization, incorporating historical prepayment experience. The estimated loss and prepayment speeds are used to estimate the cash flows for each underlying securitization, and ultimately, to produce the projected credit losses for each mortgage insurance domestic CDS. In addition to expected credit losses, the fair value for each mortgage insurance domestic CDS is approximated by incorporating future expected premiums to be received from the transaction. These future expected premiums are discounted utilizing a risk-adjusted interest rate that is based on the current rating of each transaction. The projected net losses are discounted using a rate of return that incorporates our own non-performance risk, which currently results in a significant reduction of the derivative liability. The use of different assumptions and/or methodologies could have a significant effect on estimated fair values.

In the second quarter of 2009, we paid an aggregate of $63.9 million to terminate all of our five domestic CDS transactions. The settlement payments were approximately equal to the fair value of these terminated transactions. As a result, we no longer have any exposure to domestic CDS. Prior to their termination, the mortgage insurance domestic CDS were categorized in Level III of the fair value hierarchy.

In determining the estimated fair value of our mortgage insurance international CDS, we use the following information: (1) non-binding fair value quotes from our counterparties on each respective deal, which are based on quotes for transactions with similar underlying collateral from market makers and other broker dealers, and (2) in the absence of observable market data for these transactions, a review of monthly information regarding the performance of the underlying collateral and discussion with our counterparties regarding any unusual or inconsistent changes in fair value. In either case, in the event there are material inconsistencies in the inputs to determine estimated fair value, they are reviewed and a final determination is made by management in light of the specific facts and circumstances surrounding each price. Despite significant volatility in credit spreads during each of the four quarters ended September 30, 2009, in each of these quarters, the change in fair value of our mortgage insurance international CDS represented less than 2% of our net gains or losses on all credit

Radian Group Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

derivatives. These credit derivatives are categorized in Level III of the fair value hierarchy. For each of the mortgage insurance international CDS transactions, we make an adjustment to the fair value amounts described above to incorporate our own non-performance risk. The amount of the adjustment is computed based on the correlation between the default probability of the transaction and our default probability as described more fully under *Non-Performance Risk Adjustments on Corporate CDOs.*

VIE Debt-NIMS

NIMS VIE debt represents the consolidated NIMS trust obligations that we were required to consolidate as of September 30, 2009 and December 31, 2008. We elected to record at fair value the consolidated NIMS VIE debt. The VIE debt recorded represents our obligation to pay the NIMS guaranteed cash flows expected to be paid to the NIMS bondholders. At September 30, 2009, all NIMS trust obligations that we have guaranteed have been consolidated. The face value of our consolidated VIE debt was $443.1 million and includes $24.9 million that has been issued by the consolidated trusts which is not guaranteed by us.

The following is a list of assets and liabilities that are measured at fair value by hierarchy level as of September 30, 2009:

(In millions)

Assets and Liabilities at Fair Value	Level I	Level II	Level III	Total	Investments Not Carried at Fair Value	Total Investments
Investment Portfolio:						
U.S. government and agency securities	$	$ 628.5	$	$ 628.5	$	$ 628.5
State and municipal obligations		1,490.9	21.3	1,512.2		1,512.2
Money market instruments	1,030.6			1,030.6		1,030.6
Corporate bonds and notes		1,128.7	6.0	1,134.7		1,134.7
RMBS		1,069.0	15.3	1,084.3		1,084.3
CMBS		49.7		49.7		49.7
Other ABS		83.7	6.0	89.7		89.7
Foreign government securities		82.2		82.2		82.2
Hybrid securities		486.8	0.5	487.3		487.3
Equity securities (1)	139.8	117.4	1.2	258.4		258.4
Other investments		0.9	3.9	4.8		4.8
Other investments not carried at fair value (2)					60.0	60.0
Total Investments	1,170.4	5,137.8	54.2	6,362.4	$ 60.0	$ 6,422.4
Derivative Assets			153.1	153.1		
Total Assets at Fair Value	$ 1,170.4	$ 5,137.8	$ 207.3	$ 6,515.5		
Derivative Liabilities	$	$	$ 394.4	$ 394.4		
VIE debt (3)			329.0	329.0		
Total Liabilities at Fair Value	$	$	$ 723.4	$ 723.4		

(1) Comprised of broadly diversified domestic equity mutual funds ($139.8 million fair value) included within Level I, and various preferred and common stocks invested across numerous companies and industries ($118.6 million fair value) included within Level II and III.

Table of Contents

Radian Group Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(2) Comprised of fixed-maturities held to maturity ($22.2 million carried at cost), short-term investments ($14.5 million), primarily invested in time deposits, and other invested assets ($23.3 million), primarily invested in limited partnerships, accounted for as cost-method investments and not measured at fair value.
(3) Represents consolidated debt issued by the NIMS VIE that required consolidation upon our becoming the primary beneficiary of the VIE.

The following is a list of assets and liabilities that are measured at fair value by hierarchy level as of December 31, 2008:

(In millions) Assets and Liabilities at Fair Value	Level I	Level II	Level III	Total	Investments Not Carried at Fair Value	Total Investments
Investment Portfolio:						
U.S. government and agency securities	$	$ 159.8	$	$ 159.8	$	$ 159.8
State and municipal obligations		3,607.0		3,607.0		3,607.0
Money market instruments	836.7			836.7		836.7
Corporate bonds and notes		176.8		176.8		176.8
RMBS		233.6		233.6		233.6
CMBS		57.8		57.8		57.8
Other ABS		17.0		17.0		17.0
Foreign government securities		64.9		64.9		64.9
Hybrid securities		422.1	4.5	426.6		426.6
Equity securities (1)	117.3	72.5	0.8	190.6		190.6
Other investments		1.4	5.1	6.5		6.5
Other investments not carried at fair value (2)					204.2	204.2
Total Investments	954.0	4,812.9	10.4	5,777.3	$ 204.2	$ 5,981.5
Derivative Assets			179.5	179.5		
Total Assets at Fair Value	$ 954.0	$ 4,812.9	$ 189.9	$ 5,956.8		
Derivative Liabilities	$	$	$ 519.3	$ 519.3		
VIE debt (3)			160.0	160.0		
Total Liabilities at Fair Value	$	$	$ 679.3	$ 679.3		

(1) Comprised of broadly diversified domestic equity mutual funds ($117.3 million fair value), included within Level I, and various preferred and common stocks, invested across numerous companies and industries ($73.3 million fair value) included within Level II and III.
(2) Comprised of fixed-maturities held to maturity ($36.6 million carried at cost), short-term investments ($145.7 million), and other invested assets ($21.9 million) accounted for as cost-method investments and not measured at fair value.
(3) Represents consolidated debt issued by the NIMS VIE that required consolidation upon our becoming the primary beneficiary of the VIE.

Table of Contents

Radian Group Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

The following table is a rollforward of Level III assets and liabilities measured at fair value for the quarter ended September 30, 2009:

(In millions)	Beginning Balance at July 1 2009	Realized and Unrealized Gains (Losses) Recorded in Earnings	Purchases, Sales, Issuances & Settlements	Transfers Into (Out of) Level III (1)	Ending Balance at September 30 2009
Investments:					
State and municipal obligations	$	$	$ 21.3	$	$ 21.3
Corporate bonds and notes			6.0		6.0
RMBS	7.1	0.3	15.3	(7.4)	15.3
Other ABS		0.1	5.9		$ 6.0
Hybrid securities	0.4	0.1			0.5
Equity securities.	1.5	(0.2)		(0.1)	1.2
Other investments	4.1		(0.2)		3.9
Total Level III Investments	$ 13.1	$ 0.3	$ 48.3	$ (7.5)	$ 54.2
Derivative liabilities, net	$ (199.5)	$ (30.3)(2)	$ (11.5)	$	$ (241.3)
NIMS VIE debt	(283.2)	(45.5)	(0.3)		(329.0)
Total Level III liabilities, net	$ (482.7)	$ (75.8)	$ (11.8)	$	$ (570.3)

(1) Transfers are assumed to be made at the end of the period as the availability of market observed inputs change from period to period.
(2) All related to losses on derivatives still held at September 30, 2009.

The following table is a rollforward of Level III assets and liabilities measured at fair value for the nine months ended September 30, 2009:

(In millions)	Beginning Balance at January 1 2009	Realized and Unrealized Gains (Losses) Recorded in Earnings	Purchases, Sales, Issuances & Settlements	Transfers Into (Out of) Level III (1)	Ending Balance at September 30 2009
Investments:					
State and municipal obligations	$	$	$ 21.3	$	$ 21.3
Corporate bonds and notes			6.0		6.0
RMBS		0.3	22.4	(7.4)	15.3
Other ABS		0.1	5.9		6.0
Hybrid securities	4.5	4.9	(9.3)	0.4	0.5
Equity securities	0.8	0.3		0.1	1.2
Other investments	5.1	0.1	(1.3)		3.9

Total Level III Investments	$ 10.4	$ 5.7	$ 45.0	$ (6.9)	$ 54.2
Derivative liabilities, net	$ (339.8)	$ (33.9)(2)	$ 132.4	$	$ (241.3)
NIMS VIE debt	(160.0)	(72.5)	(96.5)(3)		(329.0)
Total Level III liabilities, net	$ (499.8)	$ (106.4)	$ 35.9	$	$ (570.3)

(1) Transfers are assumed to be made at the end of the period as the availability of market observed inputs change from period to period.

(2) Of this amount, $9.9 million relates to losses on derivatives no longer held at September 30, 2009, and $24.0 million relates to losses on derivatives still held at September 30, 2009.

(3) This amount primarily represents derivative liabilities transferred to VIE debt related to NIMS trusts that we were required to consolidate during the period.

Radian Group Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

At September 30, 2009, our total Level III assets approximated 3.2% of total assets measured at fair value and our total Level III liabilities accounted for 100% of total liabilities measured at fair value. Realized and unrealized gains and losses on Level III assets and liabilities in the rollforward represent gains and losses for the periods in which they were classified as Level III.

The following table is a rollforward of Level III assets and liabilities measured at fair value for the quarter ended September 30, 2008:

(In millions)	Beginning Balance at July 1 2008	Realized and Unrealized Gains (Losses) Recorded in Earnings	Purchases, Sales, Issuances & Settlements	Transfers Into (Out of) Level III (1)	Ending Balance at September 30 2008
Investments:					
Corporate bonds and notes	$ 0.3	$ 0.1	$	$	$ 0.4
Hybrid securities	1.0	0.1		(1.1)	
Equity securities	1.0	(0.2)	0.4		1.2
Other investments	8.1	0.1	(3.2)		5.0
Total Level III Investments	$ 10.4	$ 0.1	$ (2.8)	$ (1.1)	$ 6.6
Derivative liabilities, net	$ (406.4)	$ 159.3	$ 74.9	$	$ (172.2)
NIMS VIE debt	(85.7)	6.7	(48.6)		(127.6)
Total Level III liabilities, net	$ (492.1)	$ 166.0	$ 26.3	$	$ (299.8)

(1) Transfers are assumed to be made at the end of the period as the availability of market observed inputs change from period to period.
The following table is a rollforward of Level III assets and liabilities measured at fair value for the nine months ended September 30, 2008:

(In millions)	Beginning Balance at January 1 2008	Unearned Premiums Reclass January 1 2008 (1)	Realized and Unrealized Gains (Losses) Recorded in Earnings	Purchases, Sales, Issuances & Settlements	Transfers Into (Out of) Level III (2)	Ending Balance at September 30 2008
Investments:						
Corporate bonds and notes	$	$	$ 0.1	$	$ 0.3	$ 0.4
Hybrid securities	6.7		0.1	1.0	(7.8)	
Equity securities	0.1		(0.2)	0.4	0.9	1.2
Other investments	12.1		(5.2)	(1.9)		5.0
Total Level II Investments	$ 18.9	$	$ (5.2)	$ (0.5)	$ (6.6)	$ 6.6

Derivative liabilities, net	$ (1,262.5)	$ (23.3)	$ 920.4	$ 193.2	$	$ (172.2)
NIMS VIE debt			36.2	(163.8)		(127.6)
Total Level III liabilities, net	$ (1,262.5)	$ (23.3)	$ 956.6	$ 29.4	$	$ (299.8)

(1) These unearned premiums were reclassified after adoption of an agreement with member companies of the Association of Financial Guaranty Investors (AFGI) in consultation with the staffs of the Office of the Chief Accountant and the Division of Corporate Finance of the SEC. This reclassification was implemented in order to increase comparability of our financial guaranty companies with derivative contracts.

(2) Transfers are assumed to be made at the end of the period as the availability of market observed inputs change from period to period.

Radian Group Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

The following table quantifies the impact of our non-performance risk on our derivative assets, derivative liabilities and NIMS VIE debt (in aggregate by type) presented in our condensed consolidated balance sheets. Our five-year CDS spread is representative of the market s view of our non-performance risk; the CDS spread used in the valuation of these specific assets or liabilities is typically based on the remaining term of the instrument.

	January 1 2008	September 30 2008	December 31 2008	September 30 2009
Radian Group five-year CDS spread	628	2,312	2,466	1,323
(in basis points)				

Product (In millions)	Cumulative Unrealized Gain at December 31, 2008	Cumulative Unrealized Gain at September 30, 2009
Corporate CDOs	$ 4,197.1	$ 901.2
Non-Corporate CDOs	948.7	1,880.3
NIMS and other	440.0	183.7
Total	$ 5,585.8	$ 2,965.2

The unrealized gain attributable to the market s perception of our non-performance risk decreased by $2.6 billion during the first nine months of 2009, as presented in the table above. This decrease was primarily the result of the tightening of our CDS spread, which decreased by 1,143 basis points during the nine months ended September 30, 2009.

Other Fair Value Disclosure

On our condensed consolidated balance sheets, we disclose the carrying value and fair value of assets and liabilities which are reported at fair value. The carrying value and estimated fair value of other selected assets and liabilities that are not carried at fair value on our condensed consolidated balance sheets are as follows:

	September 30, 2009		December 31, 2008	
(In millions)	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets:				
Fixed-maturities held to maturity	$ 22.2	$ 23.4	$ 36.6	$ 37.5
Short-term investments (carried at cost)	14.5	14.5	145.7	145.7
Other invested assets.	23.3	23.3	21.9	21.4
Liabilities:				
Long-term debt and other borrowings	698.7	471.5	857.8	410.6
Non-derivative financial guaranty liabilities	538.8	656.1	800.3	756.9

Fixed-Maturity Held to Maturity The fair values of fixed-maturity securities are obtained from independent pricing services that use observed market transactions, including broker-dealer quotes and actual trade activity as a basis for valuation.

Short-Term Investments Carried at Cost The fair value of short-term investments carried at cost is estimated using market quotes or actual fair value estimates.

Table of Contents

Radian Group Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Other Invested Assets The fair value of other invested assets is based on the present value of the estimated net future cash flows. The carrying value of equity-method investment and cost-method investments approximates fair value.

Long-Term Debt and Other Borrowings The fair value is estimated based on the quoted market prices for the same or similar issue or on the current rates offered to us for debt of the same remaining maturities.

Non-Derivative Financial Guaranty Liabilities We estimate the fair value of these non-derivative financial guarantees in accordance with the accounting standard regarding fair value measurements in a hypothetical market where market participants include other monoline mortgage and financial guaranty insurers with similar credit quality to us, assuming that the net liability related to these insurance contracts could be transferred to these other mortgage and financial guaranty insurance and reinsurance companies.

This fair value estimate of non-derivative financial guarantees includes direct and assumed contracts written, and is based on the difference between the present value of (1) the expected future contractual premiums and (2) the fair premium amount to provide the same credit protection assuming a transfer of our obligation to a guarantor of similar credit quality as Radian as of the measurement date.

The key variables considered in estimating fair value include par amounts outstanding (including future periods for the estimation of future installment premiums), expected term, unearned premiums, expected losses and our CDS spread. Estimates of future installment premiums received are based on contractual premium rates.

With respect to the fair premium amount, the accounting standard regarding fair value measurements requires that the non-performance risk of a financial liability be included in the estimation of fair value. Accordingly, the fair premium amount for financial guarantee insurance contracts includes consideration of our credit quality as represented by our CDS spread.

Our ability to accurately estimate the fair value of our non-derivative financial guarantees is limited. There are no observable market data points as a result of the current disruption in the credit markets and we have experienced recent rating agency actions. These factors have significantly limited our ability to write new financial guaranty business, except in limited circumstances. We believe that in the absence of a principal market, our estimate of fair value described above in a hypothetical market provides the most relevant information with respect to fair value estimates given the information currently available to us. Due to the volume and geographic diversification of our financial guaranty exposures, in the future we may need to consider other key variables that may influence the fair value estimate. Variables not currently incorporated in our current fair value estimate of non-derivative financial guarantees include the credit spreads of the underlying insured obligations, the underlying ratings of those insured obligations and assumptions about current financial guarantee premium levels relative to the underlying insured obligations credit spreads.

The carrying value of our non-derivative financial guaranty liabilities consists of unearned premiums, premiums receivable, deferred policy acquisition costs, and reserve for losses and LAE as reported on our condensed consolidated balance sheets.

Table of Contents

Radian Group Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

5. Special Purpose Entities (SPEs)

The following is a summary of the financial impact on our condensed consolidated balance sheet, our condensed consolidated statement of operations and our condensed consolidated statement of cash flows as of and for the nine months ended September 30, 2009, as it relates to VIEs in which we have a significant variable interest and qualified special purpose entities (QSPEs) sponsored by us:

	Significant Interests in VIEs				Sponsored QSPE
(In millions)	**NIMS**	**Financial Guaranty Insurance and Credit Derivatives**	**CPS**	**International CDS**	**Smart Home**
Balance Sheet:					
Reinsurance recoverables	$	$	$	$	$ 108.8(1)
Derivative assets	11.2		121.1		
Unearned premiums		10.3			
Reserves for losses and LAE		8.3			
Derivative liabilities				17.0	
VIE consolidated debt	329.0				
Other comprehensive income (loss) (OCI)				(0.3)	
Statement of Operations:					
Change in fair value of derivative instruments gain (loss)	(8.5)		(31.6)	(3.8)	
Provision for losses increase (decrease)		5.3			(17.7)(2)
Net gain on other financial instruments	(70.4)				
Net premiums earned	0.9	2.7		0.7	(8.0)
Cash Inflow (Outflow):					
Net (payments) receipts related to credit derivatives	(17.8)(3)		(2.7)		
Net receipts related to VIE consolidated debt	0.7				
Premiums received (paid)		2.5		0.7	(8.0)
Losses paid.		(6.1)			

(1) Represents ceded loss reserves recorded as reinsurance loss recoverables.
(2) Represents ceded provision for losses.
(3) Represents the amount paid for interest and the amount paid for the purchase of NIMS bonds we insure, offset by premiums received.

For all VIEs in which we have a variable interest, we perform an evaluation to determine whether we are the primary beneficiary. In making this determination, we first qualitatively assess whether we have a sufficiently large variable interest in the VIE to be a potential primary beneficiary. In instances where it is not clear who the primary beneficiary is, we perform an analysis of the present value of expected losses to determine whether we would absorb more than 50% of those losses. Other than our NIMS transactions, we are not the primary beneficiary of any VIE as determined by our qualitative and quantitative analyses.

NIMS

As of September 30, 2009, the amount included in derivative assets and VIE debt related to the NIMS trusts was $11.2 million and $329.0 million, respectively. As of December 31, 2008, the amount included in derivative assets and VIE debt related to the NIMS trusts was $5.8 million and $160.0 million, respectively. We consolidate

Radian Group Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

the assets and liabilities associated with these VIEs when we gain control over the trust assets and liabilities as a result of our contractual provisions. The consolidated NIMS assets are accounted for as derivatives and recorded at fair value. The NIMS VIE debt is recorded at fair value.

As a risk mitigation initiative, we have purchased, at a discount to par, some of our insured NIMS bonds. The NIMS purchased are accounted for as derivative assets and are recorded at fair value in accordance with the accounting standard regarding accounting for derivative instruments and hedging activities. Upon purchase, and prior to consolidation, our liability representing the unrealized loss associated with the purchased NIMS is eliminated. The difference between the amount we pay for the NIMS and the sum of the fair value of the NIMS and the eliminated liability represents the net impact to earnings. The overall impact to our consolidated results of operations as a result of these purchases has been immaterial.

The following is summary information related to all NIMS trusts as of the dates indicated:

(In millions)	September 30, 2009			December 31, 2008		
VIE Assets	Total NIMS Trust Assets (1)	Maximum Principal Exposure (2)	Average Rating of Collateral at Inception	Total NIMS Trust Assets (1)	Maximum Principal Exposure (3)	Average Rating of Collateral at Inception
NIMS	$ 539.8	$ 418.2	BBB to BB	$ 556.6	$ 438.3	BBB to BB

(1) Represents the notional value of NIMS trust assets.
(2) Represents maximum exposure related to consolidated VIE assets and liabilities.
(3) Represents maximum exposure related to derivative liabilities and consolidated VIE assets and liabilities.

There was $418.2 million of risk in force associated with NIMS at September 30, 2009 comprised of 30 transactions. The average expiration of our existing NIMS transactions is approximately three years. At September 30, 2009, all of the NIMS transactions required consolidation in our condensed consolidated balance sheets.

Financial Guaranty Insurance and Credit Derivatives

The following table sets forth our financial guaranty total assets and maximum exposure to loss associated with VIEs in which we held significant variable interests:

(In millions)	September 30, 2009		December 31, 2008	
	Total Assets	Maximum Exposure	Total Assets	Maximum Exposure
Asset-Backed Obligations	$ 1,969.9	$ 322.2	$ 2,349.6	$ 371.8
Other Structured Finance	5,890.1	411.1	8,736.9	544.0
Total	$ 7,860.0	$ 733.3	$ 11,086.5	$ 915.8

Put Options

In September 2003, our principal financial guaranty subsidiary, Radian Asset Assurance Inc. (Radian Asset Assurance), completed a transaction for $150 million of CPS, pursuant to which it entered into a series of three perpetual put options on its own preferred stock to Radian Asset Securities Inc. (Radian Asset Securities), our wholly-owned subsidiary. Radian Asset Securities in turn entered into a series of three perpetual put options on its own preferred stock (on substantially identical terms to the Radian Asset Assurance preferred stock). The

Radian Group Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

counterparties to the Radian Asset Securities put options are three trusts. The trusts were created as a vehicle for providing capital support to Radian Asset Assurance by allowing Radian Asset Assurance to obtain immediate access to additional capital at its sole discretion at any time through the exercise of one or more of the put options and the corresponding exercise of one or more corresponding Radian Asset Securities put options. Our put options are perpetual in nature, allowing us to put or call our preferred stock solely at our discretion and call our preferred stock subsequent to its issuance. Specifically, there is no limit to the number of times that Radian Asset Assurance (and, correspondingly, Radian Asset Securities) may put its preferred stock to Radian Asset Securities (and, correspondingly, from the custodial trusts), fully redeem its preferred stock from Radian Asset Securities (and, correspondingly, from the custodial trusts), and put it back to Radian Asset Securities (and, correspondingly, the custodial trusts).

If the Radian Asset Assurance put options were exercised, Radian Asset Securities, through the Radian Asset Assurance preferred stock thereby acquired, and investors, through their equity investment in the Radian Asset Securities preferred stock, would have rights to the assets of Radian Asset Assurance as an equity investor in Radian Asset Assurance. Such rights would be subordinate to policyholders claims, as well as to claims of general unsecured creditors of Radian Asset Assurance, but senior to any claim of Radian Guaranty Inc. (Radian Guaranty), as the owner of the common stock of Radian Asset Assurance. If all the Radian Asset Assurance put options were exercised, Radian Asset Assurance would receive up to $150 million in cash in return for the issuance of its own perpetual preferred stock, the proceeds of which could be used for any purpose, including the payment of claims. Dividend payments on the preferred stock will be cumulative only if Radian Asset Assurance pays dividends on its common stock.

As discussed in Note 17, Subsequent Events, we intend to offer to purchase the securities issued by the custodial trusts associated with the CPS, and possibly exercise our put options or cause the dissolution of the custodial trusts. We may also elect not to take any action following the tender offers or to take different actions with respect to each custodial trust.

We performed an analysis of these trusts and determined that these trusts are significant VIEs. Since we are not considered to be the primary beneficiary of these trusts, we do not consolidate these trusts. The aggregate fair value of the put options of $121.1 million is classified as a derivative asset, and changes in the fair value of the put options are classified as a change in fair value of derivative instruments.

International CDS

We provide credit enhancement in the form of CDS in the international markets and have one international CDS transaction involving a VIE in which we have a significant interest. At September 30, 2009, total exposure to this international CDS transaction was $3.0 billion and our total derivative liability was $17.0 million. At December 31, 2008, our total exposure to this international CDS transaction was $3.2 billion and our total derivative liability was $14.2 million. This transaction was terminated in the fourth quarter of 2009 for a payment of $6.5 million.

Table of Contents

Radian Group Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Sponsored QSPE Smart Home

We have completed four Smart Home reinsurance transactions, with the last of these transactions closing in May 2006. Details of these transactions (aggregated) as of the initial closing of each transaction and as of September 30, 2009 are as follows:

	Initial	As of September 30, 2009
Pool of mortgages (par value)	$ 14.7 billion	$ 4.6 billion
Risk in force (par value)	$ 3.9 billion	$ 1.2 billion
Notes sold to investors/risk ceded (principal amount)	$ 718.6 million	$ 547.9 million

6. Investments

Our investment portfolio held to maturity and available for sale consisted of the following at September 30, 2009 and December 31, 2008:

	Cost/Amortized Cost	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
		(In thousands)		
September 30, 2009:				
Fixed-maturities held to maturity:				
Bonds and notes:				
State and municipal obligations	$ 22,253	$ 23,352	$ 1,127	$ 28
	$ 22,253	$ 23,352	$ 1,127	$ 28
Fixed-maturities available for sale:				
U.S. government and agency securities	$ 117,551	$ 124,294	$ 6,774	$ 31
State and municipal obligations	1,442,183	1,386,099	18,822	74,906
Corporate bonds and notes	182,069	188,306	8,870	2,633
RMBS	188,214	194,350	6,138	2
CMBS	49,972	47,181	116	2,907
Other ABS	18,605	19,914	1,309	
Foreign government securities	73,649	76,054	2,584	179
Other investments	5,058	5,392	369	35
	$ 2,077,301	$ 2,041,590	$ 44,982	$ 80,693
Equity securities available for sale (1)	$ 182,051	$ 168,645	$ 2,749	$ 16,155
Total	$ 2,281,605	$ 2,233,587	$ 48,858	$ 96,876

(1) Comprised of broadly diversified domestic equity mutual funds ($139.8 million fair value) and various preferred and common stocks invested across numerous companies and industries ($28.8 million fair value). Gross unrealized losses include $15.0 million related to domestic equity mutual funds.

Table of Contents

Radian Group Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

	Cost/Amortized Cost	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
		(In thousands)		
December 31, 2008:				
Fixed-maturities held to maturity:				
Bonds and notes:				
State and municipal obligations	$ 36,628	$ 37,486	$ 1,293	$ 435
	$ 36,628	$ 37,486	$ 1,293	$ 435
Fixed-maturities available for sale:				
U.S. government and agency securities	$ 101,725	$ 114,842	$ 13,286	$ 169
State and municipal obligations	3,235,053	2,977,919	54,768	311,902
Corporate bonds and notes	181,991	174,876	3,032	10,147
RMBS	225,869	233,616	8,370	623
CMBS	68,516	57,882	13	10,647
Other ABS	17,456	16,904	33	585
Foreign government securities	62,703	64,856	2,216	63
Other investments	6,174	6,374	464	264
	$ 3,899,487	$ 3,647,269	$ 82,182	$ 334,400
Equity securities available for sale (1)	$ 212,620	$ 165,099	$ 1,011	$ 48,532
Total	$ 4,148,735	$ 3,849,854	$ 84,486	$ 383,367

(1) Comprised of broadly diversified domestic equity mutual funds ($117.3 million fair value) and various preferred and common stocks invested across numerous companies and industries ($47.8 million fair value). Gross unrealized losses include $36.4 million related to domestic equity mutual funds.

The following table shows the gross unrealized losses and fair value of our investments (in thousands), aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position.

	Less Than 12 Months		12 Months or Greater		Total	
Description of Securities	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
			(In thousands)			
September 30, 2009:						
U.S. government and agency securities	$ 2,011	$ 31	$	$	$ 2,011	$ 31
State and municipal obligations	48,550	875	734,922	74,059	783,472	74,934
Corporate bonds and notes	14,478	351	28,727	2,282	43,205	2,633
RMBS	128	2			128	2
CMBS	17,264	586	23,280	2,321	40,544	2,907
Foreign government securities	15,171	177	1,008	2	16,179	179

Other investments	95	23	315	12	410	35
Equity securities	109,304	8,022	47,840	8,133	157,144	16,155
Total	$ 207,001	$ 10,067	$ 836,092	$ 86,809	$ 1,043,093	$ 96,876

Radian Group Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Description of Securities	Less Than 12 Months Fair Value	Less Than 12 Months Unrealized Losses	12 Months or Greater Fair Value	12 Months or Greater Unrealized Losses	Total Fair Value	Total Unrealized Losses
			(In thousands)			
December 31, 2008:						
U.S. government and agency securities	$ 6,981	$ 169	$	$	$ 6,981	$ 169
State and municipal obligations	847,638	88,372	838,786	223,965	1,686,424	312,337
Corporate bonds and notes	76,997	6,977	16,694	3,170	93,691	10,147
RMBS	9,099	545	6,753	78	15,852	623
CMBS	21,190	3,406	36,504	7,241	57,694	10,647
Other ABS	11,655	578	666	7	12,321	585
Foreign government securities	6,083	39	10,285	24	16,368	63
Other investments	2,525	264			2,525	264
Equity securities	150,584	48,532			150,584	48,532
Total	$ 1,132,752	$ 148,882	$ 909,688	$ 234,485	$ 2,042,440	$ 383,367

On April 1, 2009, we adopted a new accounting standard regarding recognition and presentation of other-than-temporary impairments (OTTI). In accordance with this new guidance, if an entity intends to sell or if it is more likely than not that it will be required to sell an impaired security prior to recovery of its amortized cost basis, the security is other-than-temporarily impaired and the full amount of the impairment is recognized as a loss in the statement of operations. Otherwise, losses on securities which are other-than-temporarily impaired are separated into: (i) the portion of loss which represents the credit loss; and (ii) the portion which is due to other factors. The credit loss portion is recognized as a loss in the statement of operations while the loss due to other factors is recognized in other comprehensive income (loss), net of taxes and related amortization. The credit loss is determined to exist if the present value of cash flows expected to be collected from the security is less than the cost basis of the security. The present value of cash flows is determined using the original yield of the security. For securities held as of April 1, 2009 that had previously been other-than-temporarily impaired, an after-tax transition adjustment of $33.1 million was booked to reclassify these impairments from retained earnings to other comprehensive income (loss).

The following table provides a rollforward of the amount related to credit losses recognized in earnings for which a portion of an OTTI was recognized in OCI for the third quarter of 2009 and from April 1, 2009 (inception date) through September 30, 2009 (in thousands):

	Three Months Ended September 30, 2009	April 1 2009 through September 30, 2009
Debt securities credit losses, balance at beginning of period	$ 868	$ 868
Additions:		
Credit losses on previously impaired securities		
Credit losses for which an OTTI was not previously recognized		
Credit losses for which an OTTI was previously recognized		
Reductions:		
Credit losses on securities		
Increases in expected cash flows on previously impaired securities		
For securities sold during the period	868	868
Debt securities credit losses, end of period	$	$

34

Table of Contents

Radian Group Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

At September 30, 2009, we did not have the intent to sell any debt securities in an unrealized loss position, and determined that it is more likely than not that we will not be required to sell the securities before recovery of their cost basis.

In evaluating whether a decline in value is other-than-temporary, we consider several factors, including, but not limited to, the following:

- the extent and the duration of the decline in value;
- the reasons for the decline in value (e.g., credit event, interest related or market fluctuations);
- the financial position and access to capital of the issuer, including the current and future impact of any specific events;
- our intent to sell the security, or whether it is more likely than not that we will be required to sell it before recovery; and
- the financial condition of and near term prospects of the issuer.

A debt security impairment is deemed other-than-temporary if:

- we either intend to sell the security, or it is more likely than not that we will be required to sell the security before expected recovery of amortized cost; or
- we expect to be unable to collect cash flows sufficient to recover the amortized cost basis of the security.

Impairments due to deterioration in credit that result in a conclusion that the present value of cash flows expected to be collected will not be sufficient to recover the amortized cost basis of the security are considered other-than-temporary. Other declines in fair value (for example, due to interest rate changes, sector credit rating changes or company-specific rating changes) that result in a conclusion that the present value of cash flows expected to be collected will not be sufficient to recover the amortized cost basis of the security may also result in a conclusion that an OTTI has occurred. To the extent we determine that a security is deemed to be other-than-temporarily impaired, an impairment loss is recognized.

We have securities that have been in an unrealized loss position for 12 months or more that we did not consider to be other-than-temporarily impaired due to the qualitative factors explained below.

State and municipal obligations

The unrealized losses of 12 months or greater duration as of September 30, 2009 on our investments in tax-exempt state and municipal obligations were caused primarily by interest rate movement. Certain securities, mainly those insured by monoline insurance companies, experienced credit spread widening during 2008 and 2009 as a result of the deterioration in the financial condition of those monolines. Because as of September 30, 2009, we did not intend to sell these investments, nor did we believe we will more likely than not be required to sell before

recovery of our amortized cost basis, which may be maturity, we did not consider these investments to be other-than-temporarily impaired at September 30, 2009.

Corporate bonds and notes

The unrealized losses of 12 months or greater duration as of September 30, 2009 on the majority of the securities in this category were caused by market interest rate movement. Certain securities, mainly those issued by financial firms with exposure to subprime residential mortgages, experienced spread widening during 2008

35

Radian Group Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

and 2009. Because as of September 30, 2009, we did not intend to sell these investments, nor did we believe we will more likely than not be required to sell before recovery of our amortized cost basis, which may be maturity, we did not consider these investments to be other-than-temporarily impaired at September 30, 2009.

CMBS

The unrealized losses of 12 months or greater duration as of September 30, 2009 on the securities in this category were caused by market interest rate movement. The CMBS in our investments are primarily AAA rated senior tranche positions, collateralized by pools of credit card, auto loan and equipment lease receivables. The ratings of these investments are supported by credit enhancements which include financial guarantor insurance, subordination, over-collateralization and reserve accounts. Most of our CMBS investments have retained AAA ratings. Because as of September 30, 2009, we did not intend to sell these investments, nor did we believe we will more likely than not be required to sell before recovery of our amortized cost basis, which may be maturity, we did not consider the investment in these securities to be other-than-temporarily impaired at September 30, 2009.

Foreign governments

The unrealized losses of 12 months or greater duration as of September 30, 2009 on the majority of the securities in this category were caused by market interest rate movement. We believe that credit quality did not impact security pricing due to the relative high quality of the holdings (i.e., the majority of the securities were highly-rated governments and government agencies or corporate issues with minimum ratings of single-A). Because as of September 30, 2009, we did not intend to sell these investments, nor did we believe we will more likely than not be required to sell before recovery of our amortized cost basis, we did not consider these investments to be other-than-temporarily impaired at September 30, 2009.

Other investments

The unrealized loss of 12 months or greater duration as of September 30, 2009 on our investments in this category is comprised of an investment in a single surplus note issued by an insurance company. The small loss for this bond can be attributed to market-related factors impacting the insurance sector, rather than credit-related factors impacting this issuer. Because as of September 30, 2009, we did not intend to sell this investment, nor did we believe we will more than likely than not be required to sell before recovery of our amortized cost basis, we did not consider the investment in this security to be other-than-temporarily impaired at September 30, 2009.

Equity securities

The unrealized losses of 12 months or greater duration as of September 30, 2009 on the securities in this category, the majority of which are investments in an Standard and Poor s Rating Service (S&P) 500 Index mutual fund and a small capitalization equity mutual fund, primarily resulted from the credit crisis of 2008, which negatively impacted certain equity sectors, especially those with exposures to residential and commercial mortgage risk. We did not consider these investments to be other-than-temporarily impaired at September 30, 2009.

For all investment categories, unrealized losses of less than 12 months in duration were generally attributable to interest rate or equity market indices movements. In addition, certain securities experienced spread widening due to issuers exposure to subprime residential mortgages. All securities were evaluated in accordance with our impairment recognition policy covering various time and price decline scenarios. Because as of

Table of Contents

Radian Group Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

September 30, 2009, we did not intend to sell these investments, nor did we believe we will more likely than not be required to sell before recovery of our amortized cost basis, we did not consider the investment in these securities to be other-than-temporarily impaired at September 30, 2009.

The contractual maturities of fixed-maturity investments at September 30, 2009 were as follows:

	Cost/Amortized Cost	Fair Value
	(In thousands)	
Fixed-maturities held to maturity:		
Due in one year or less	$ 8,355	$ 8,664
Due after one year through five years	9,558	10,023
Due after five years through ten years	4,039	4,383
Due after ten years	301	282
	$ 22,253	$ 23,352
Fixed-maturities available for sale:		
Due in one year or less	$ 22,487	$ 22,811
Due after one year through five years	229,823	240,807
Due after five years through ten years	188,865	197,160
Due after ten years	1,636,126	1,580,812
	$ 2,077,301	$ 2,041,590

7. Investment in Affiliates

We own a 28.7% interest in Sherman Financial Group LLC (Sherman) and a 46% interest in Credit-Based Asset Servicing and Securitization LLC (C-BASS), each of which are credit-based consumer asset businesses. As a consequence of the complete write-off of our investment in C-BASS in 2007, we have no carrying value related to our interest in C-BASS. All of C-BASS s business is currently in run-off and we anticipate that all future cash flows of C-BASS will be used to service the outstanding debt. The likelihood that we will recoup any of our investment is extremely remote. Accordingly, we believe that the likelihood that our investment in C-BASS will have anything more than a negligible impact on our financial position, results of operations or cash flows at any time in the future is extremely remote.

The following table shows the components of our investment in affiliates balance:

(In thousands)	September 30 2009	December 31 2008
Sherman	$ 111,979	$ 99,656
Other	55	56
Total	$ 112,034	$ 99,712

37

Table of Contents

Radian Group Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(In thousands)	Three Months Ended September 30 2009	Three Months Ended September 30 2008	Nine Months Ended September 30 2009	Nine Months Ended September 30 2008
Investment in Affiliates-Selected Information:				
Sherman				
Balance, beginning of period	$ 108,719	$ 112,644	$ 99,656	$ 104,315
Share of net income for period	7,946	15,798	23,608	44,028
Dividends received	(4,599)	(15,961)	(11,040)	(35,460)
Other comprehensive (loss) income	(87)	522	(245)	120
Adjustment to investment related to Sherman buyback of Mortgage Guaranty Insurance Corporation (MGIC) equity interest		(25,786)		(25,786)
Balance, end of period	$ 111,979	$ 87,217	$ 111,979	$ 87,217
Portfolio Information:				
Sherman				
Total assets	$ 1,951,458	$ 2,433,666		
Total liabilities	1,530,082	2,161,372		
Summary Income Statement:				
Sherman				
Income				
Revenues from receivable portfolios net of amortization	$ 292,164	$ 370,663	$ 945,878	$ 1,143,150
Other revenues	9,080	1,568	14,922	14,540
Derivative mark-to-market	(1,652)	(4,119)	7,275	764
Total revenues	299,592	368,112	968,075	1,158,454
Expenses				
Operating and servicing expenses	122,319	155,118	400,409	525,490
Provision for loan losses	92,558	110,531	301,406	319,842
Interest	26,719	29,080	80,086	77,892
Other	29,404	9,822	83,109	29,969
Total expenses	271,000	304,551	865,010	953,193
Net income	$ 28,592	$ 63,561	$ 103,065	$ 205,261

Radian Group Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

8. Reserve for losses and LAE Mortgage Insurance

The following table reconciles our mortgage insurance segment s beginning and ending reserves for losses and LAE for the three and nine months ended September 30, 2009 and 2008:

	Three Months Ended September 30		Nine Months Ended September 30	
(In thousands)	**2009**	**2008**	**2009**	**2008**
Mortgage Insurance				
Balance at beginning of period	$ 3,122,444	$ 2,120,577	$ 2,989,994	$ 1,345,452
Less Reinsurance recoverables	567,551	175,840	491,836	21,992
Balance at beginning of period, net of reinsurance recoverables	2,554,893	1,944,737	2,498,158	1,323,460
Add total losses and LAE incurred in respect of default notices reported and unreported	376,488	519,257	840,974	1,539,561
Deduct total losses and LAE paid	135,498	277,391	543,249	676,418
Foreign exchange		2		2
Balance at end of period, net of reinsurance recoverables	2,795,883	2,186,605	2,795,883	2,186,605
Add Reinsurance recoverables	591,857	309,807	591,857	309,807
Balance at end of period	$ 3,387,740	$ 2,496,412	$ 3,387,740	$ 2,496,412

We have protected against some of the losses that may occur related to riskier products, including non-prime products, by reinsuring our exposure through transactions (referred to as Smart Home) that effectively transfer risk to investors in the capital markets. Smart Home ceded losses recoverable were $108.8 million at September 30, 2009. In addition to Smart Home, we transfer a portion of our primary mortgage insurance risk to captive reinsurance companies affiliated with our lender-customers. Ceded losses recoverable related to captive transactions were $483.1 million at September 30, 2009. The change in reinsurance recoverables on Smart Home and captive transactions is reflected in our provision for losses. During the third quarter of 2009, we terminated certain captive reinsurance transactions. As a result, we received cash from the captive trusts that was in excess of our ceded loss recoverable. These amounts were accounted for as a claim recovery and reduced the provision for losses by approximately $67.3 million.

While we have experienced an increase in outstanding delinquencies in the quarter, the effect of this increase on reserves for losses and LAE was partially offset by an increase in expected insurance rescissions and claim denials on insured loans. Our loss mitigation efforts have resulted in higher rescissions and denials than we have experienced in the past, which is reflected in our estimate of reserves for losses and LAE at September 30, 2009. In the third quarter and the first nine months of 2009, we rescinded or denied approximately $307.0 million and $956.9 million, respectively, of claims submitted to us for payment (submitted claims), compared to $138.9 million and $355.8 million, respectively, for the comparable periods of 2008. These amounts include an immaterial amount of submitted claims that were subsequently withdrawn by the insured. In addition, due to deductibles and other exposure limitations included in our transactions, the amount of submitted claims rescinded or denied does not necessarily reflect the amounts we would have had to pay absent such rescissions or denials.

Our projected default to claim rate decreased from 46% at December 31, 2008 and 37% at June 30, 2009, to 36% at September 30, 2009, primarily as a result of our revised estimate of expected rescissions and denials which is based on actual recent experience. The increase in rescissions and denials may lead to an increased risk

39

Table of Contents

Radian Group Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

of litigation by the lenders and policyholders challenging our right to rescind coverage or deny claims. Such challenges may be made several years after we have rescinded insurance or denied a claim. Although we believe that our rescissions and denials are valid under our policies, if we are not successful in defending the rescissions and denials in any potential legal action, we may need to reassume the risk on, and reestablish loss reserves for those loans. To date, we have not been required to reassume risk or reestablish loss reserves for more than an immaterial amount of our previously asserted rescissions and denials.

The following table shows the cumulative rescission rates in the quarter the claims were received through the periods indicated:

Claim Received Quarter		Cumulative Rescission Rate for each quarter (1)	Percentage of Review Completed (2)
Structured	Q1 2008	17.2%	100%
	Q2 2008	17.4%	99%
	Q3 2008	24.0%	97%
	Q4 2008	28.5%	92%
	Q1 2009	21.4%	63%
Flow	Q1 2008	8.9%	99%
	Q2 2008	9.9%	98%
	Q3 2008	16.5%	95%
	Q4 2008	15.0%	91%
	Q1 2009	10.6%	66%
Total	Q1 2008	12.8%	100%
	Q2 2008	13.6%	99%
	Q3 2008	20.0%	96%
	Q4 2008	21.3%	91%
	Q1 2009	15.5%	65%

(1) Rescission rates represent the ratio of claims rescinded or denied to claims received (by claim count) and represent the cumulative rate for each quarter as of September 30, 2009 based on number of claims received during that quarter. Until all of the claims received during the periods shown have been resolved, the rescission rates for each quarter will be subject to change.

(2) For each quarter, represents the number of claims that have been reviewed to completion as a percentage of the total number of claims received for the quarter. For the second and third quarters of 2009, the review has not yet been completed for a significant portion of claims received in those quarters; therefore, we do not believe the cumulative rescission rates for those periods are presently meaningful and are therefore not presented here.

We considered the sensitivity of mortgage insurance loss reserve estimates at September 30, 2009 by assessing the potential changes resulting from a parallel shift in severity and default to claim rate. For example, assuming all other factors remain constant, for every one percentage point change in claim severity (28% of unpaid principal balance at September 30, 2009), we estimated that our loss reserves would change by approximately $140 million at September 30, 2009. For every one percentage point change in our default to claim rate (36% at September 30, 2009, including our assumptions related to rescissions and denials), we estimated a $109 million change in our loss reserves at September 30, 2009.

Table of Contents

Radian Group Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

9. Reserve for Premium Deficiency

We perform a quarterly evaluation of our expected profitability for our existing mortgage insurance portfolio, by business line, over the remaining life of the portfolio. A premium deficiency reserve (PDR) is established when the present value of expected losses and expenses for a particular product line exceeds the present value of expected future premiums and existing reserves for that product line. We consider first- and second-lien products separate lines of business as each product is managed separately, priced differently and has a different customer base.

The following table illustrates our net projected premium excess (deficiency) on our first-lien portfolio:

		As of	
First-lien portfolio (In billions)	**September 30 2009**	**December 31 2008**	**September 30 2008**
Net present value of expected premiums	$ 2.6	$ 3.0	$ 2.3
Net present value of expected losses and expenses	(3.6)	(4.9)	(4.5)
Reserve for premiums and losses established, net of reinsurance recoverables	2.7	2.4	2.0
Net projected premium excess (deficiency)	$ 1.7	$ 0.5	$ (0.2)

Because the combination of the net present value of expected premiums and already established reserves (net of reinsurance recoverables) exceeds the net present value of expected losses and expenses, a first-lien PDR was not required as of September 30, 2009. Expected losses are based on an assumed paid claim rate of approximately 13% on our total primary first-lien mortgage insurance portfolio, including 9% on prime, 31% on subprime and 22% on Alternative-A (Alt-A). While deterioration in the macroeconomic environment has resulted in an increase in expected losses, new business originated during the second half of 2008 and first nine months of 2009 is expected to be profitable, which has contributed to the overall expected net profitability of our first-lien portfolio. In addition, an increase in expected rescissions and denials on insured loans as part of our loss mitigation efforts is expected to offset the impact of expected defaults and claims to some extent.

Numerous factors affect our ultimate paid claim rates, including home price depreciation, unemployment, the impact of our loss mitigation efforts and interest rates, as well as potential benefits associated with recently announced lender and governmental initiatives to modify loans and ultimately reduce foreclosures. To assess the need for a PDR on our first-lien mortgage insurance portfolio, we develop loss projections based on modeled loan defaults in our current risk in force. This projection is based on recent trends in default experience, severity, and rates of delinquent loans moving to claim (such default to claim rates are net of our estimates of rescissions and denials), as well as recent trends in prepayment speeds. As of September 30, 2009, our modeled loan default projections assume that recent observed default rates will increase through the end of 2009, will remain stable through the middle of 2010, and will gradually return to normal historical levels over the subsequent two years. If our modeled loan default projections were stressed such that recent observed increases in defaults were to continue until the end of 2010, remain stable through the middle of 2012, and gradually return to normal historical levels over the subsequent three years, we estimate that the combination of the net present value of expected premiums and already established reserves (net of reinsurance recoverables) would exceed the net present value of expected losses and expenses by approximately $0.9 billion; therefore, no PDR would be required in this scenario.

Table of Contents

Radian Group Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

During 2009, our second-lien PDR decreased by approximately $77.6 million to $9.3 million primarily as a result of the transfer of premium deficiency reserves to loss reserves. For the three months ended September 30, 2009, our second-lien PDR decreased by $19.5 million as a result of changes in underlying assumptions, including a $12.0 million benefit related to seven second-lien transactions terminated in the period for less than the amounts reflected in our premium deficiency reserve estimate for the previous quarter. The following table reconciles our mortgage insurance segment s beginning and ending second-lien PDR for the three and nine months ended September 30, 2009 and 2008 (in thousands):

	Three Months Ended September 30		Nine Months Ended September 30	
Second-lien PDR	**2009**	**2008**	**2009**	**2008**
Balance at beginning of period	$ 40,861	$ 161,718	$ 86,861	$ 195,646
Incurred losses recognized in loss reserves	(14,324)	(19,848)	(80,321)	(180,006)
Premiums recognized in earned premiums	1,262	3,250	4,647	14,377
Changes in underlying assumptions	(19,538)	30,264	722	139,577
Accretion of discount and other	1,030	5,923	(2,618)	11,713
Balance at end of period	$ 9,291	$ 181,307	$ 9,291	$ 181,307

10. Financial Guaranty Insurance Contracts

In January 2009, we adopted the accounting standard regarding accounting for financial guarantee insurance contracts for all non-derivative financial guaranty insurance policies. This standard requires that an insurance enterprise recognize a claim liability prior to an event of default (insured event) when there is evidence that credit deterioration has occurred in an insured financial obligation, and when the present value of the expected claim loss will exceed the unearned premium revenue. The expected claim loss is based on the probability-weighted present value of expected net cash outflows to be paid under the policy. In measuring the claim liability, we develop the present value of expected net cash outflows by using our own assumptions about the likelihood of all possible outcomes, based on information currently available. We determine the existence of credit deterioration on directly insured policies based on periodic reporting from the insured party, indenture trustee or servicer, or based on our surveillance efforts. The expected cash outflows are discounted using a risk-free rate. Our assumptions about the likelihood of outcomes, expected cash outflows and the appropriate risk-free rate are updated each reporting period. For assumed policies, we rely on information provided by the primary insurer as confirmed by us, as well as our specific knowledge of the credit, for determining expected loss.

Insurance enterprises are required to record the initial unearned premium liability on installment policies equal to the present value of the premiums due or expected to be collected over either the period of the policy or the expected period of risk. In determining the present value of premiums due, we use a discount rate that reflects the risk-free rate as of the implementation date of this standard. Premiums paid in full at inception are recorded as unearned premiums. Consequently, unearned premiums, premiums receivable and deferred policy acquisition costs increased by $263.5 million, $161.4 million and $62.3 million, respectively, and retained earnings decreased by $28.8 million, net of tax upon implementation.

In addition, the accounting standard for financial guarantee insurance contracts requires the recognition of the remaining unearned premium revenue when bonds issued are redeemed or otherwise retired (a refunding) that results in the extinguishment of the financial guaranty policies insuring such bonds. A refunding that is effected through the deposit of cash or permitted securities into an irrevocable trust for repayment when

Radian Group Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

permitted under the applicable bond indenture (a legal defeasance) does not qualify for immediate revenue recognition since the defeased obligation legally remains outstanding and covered by our insurance. Consequently, $3.6 billion of net par outstanding on defeased refundings was reversed upon the implementation of this standard. As a result, unearned premiums and deferred policy acquisition costs increased by $29.3 million and $3.7 million, respectively, and retained earnings decreased by $17.0 million, net of tax.

The risk management function in our financial guaranty business is responsible for the identification, analysis, measurement and surveillance of credit, market, legal and operational risk associated with our financial guaranty insurance contracts. Risk management, working with our legal group, is also primarily responsible for claims prevention and loss mitigation strategies. This discipline is applied at the point of origination of a transaction and during the ongoing monitoring and surveillance of each exposure in the portfolio.

There are both performing and non-performing credits in our financial guaranty portfolio. Performing credits generally have investment-grade internal ratings. However, claim liabilities could be established for performing credits if the expected losses on the credit exceed the unearned premium revenue for the contract based on the present value of the expected net cash outflows. When our risk management department concludes that a directly insured transaction should no longer be considered performing, it is placed in one of three designated watch list categories for deteriorating credits: Special Mention, Intensified Surveillance or Case Reserve. Assumed exposures in financial guaranty s reinsurance portfolio are generally placed in one of these categories if the primary insurer for such transaction downgrades it to an equivalent watch list classification. However, if our financial guaranty risk management group disagrees with the risk rating assigned by the primary insurer, we may assign our own risk rating rather than using the risk rating assigned by the primary insurer.

Our risk management department uses internal ratings in monitoring our insured transactions. We determine our internal ratings for a transaction by utilizing all relevant information available to us, including: periodic reports supplied by the issuer, trustee or servicer for the transaction; publicly available information regarding the issuer, the transaction, the underlying collateral or asset class of the transaction and/or collateral; communications with the issuer, trustee, collateral manager and servicer for the transaction; and when available, public or private ratings assigned to our insured transactions or to other obligations that have substantially similar risk characteristics to our transactions without the benefit of financial guaranty or similar credit insurance. When we deem it appropriate, we also utilize nationally recognized rating agency models and methodologies to assist in such analysis. We use this information to develop an independent judgment regarding the risk and loss characteristics for our insured transactions. If public or private ratings have been used, our risk management analysts express a view regarding the rating agency opinion and analysis. When our analyses of the transaction results in a materially different view of the risk and loss characteristics of an insured transaction, we will assign a different internal rating than that assigned by the rating agency.

Our rating scale is comparable to the rating scales utilized by S&P and Moody s Investor Service (Moody s). Our internal ratings estimates are subject to revision at any time and may differ from the credit ratings ultimately assigned by the rating agencies.

In the third quarter of 2009, S&P materially changed its model for evaluating CDOs, including for purposes of determining the percentage of transactions that have subordination at or above the level needed to warrant a AAA rating from S&P. Application of this new model results in a significant decline in the number of our CDO transactions that would warrant a AAA rating from S&P. Based on this new model, 28.6% of par outstanding on our directly insured corporate CDO transactions as of September 30, 2009 had subordination at or above the level needed to warrant a AAA rating from S&P, compared to 90.9% as of June 30, 2009, using the prior version of S&P s CDO evaluator model. We have not used either version of the S&P evaluator in forming our own internal ratings for our corporate CDO transactions.

Table of Contents

Radian Group Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

The initial impact of the adoption of the accounting standard for financial guarantee insurance contracts on January 1, 2009, on our condensed consolidated financial statements is shown in the table below (in millions):

Increase in unearned premiums	$ (292.8)
Increase in premiums receivable	161.4
Increase in deferred policy acquisition costs	66.0
Decrease in reserve for losses and LAE	8.2
Decrease in deferred income taxes, net	20.2
Increase in premium taxes payable	(0.6)
Decrease in retained earnings, net of taxes	$ (37.6)

The following table includes additional information as of September 30, 2009 regarding our financial guaranty claim liabilities segregated by the surveillance categories described above:

Surveillance Categories

($ in millions)	**Performing**	**Special Mention**	**Intensified Surveillance**	**Case Reserve**	**Total**
Number of policies	84	172	69	62	387
Remaining weighted-average contract period (in years)	20	19	23	28	21
Insured contractual payments outstanding:					
Principal	$ 689.8	$ 1,001.4	$ 446.6	$ 339.9	$ 2,477.7
Interest	538.7	477.1	172.0	219.9	1,407.7
Total	$ 1,228.5	$ 1,478.5	$ 618.6	$ 559.8	$ 3,885.4
Gross claim liability	$ 44.3	$ 19.0	$ 147.3	$ 66.5	$ 277.1
Less:					
Gross potential recoveries	25.3	7.9	59.6	15.3	108.1
Discount, net	4.6	2.8	17.1	2.6	27.1
Net claim liability	$ 14.4	$ 8.3	$ 70.6	$ 48.6	$ 141.9
Unearned premium revenue	$ 9.3	$ 26.8	$ 12.0	$	$ 48.1
Claim liability reported in the balance sheet	$ 7.2	$ 2.8	$ 58.9	$ 48.7	$ 117.6
Reinsurance recoverables	$	$	$	$	$

Included in accounts and notes receivable and unearned premiums on our condensed consolidated balance sheets are the present value of premiums receivable and unearned premiums that are received on an installment basis. The premiums receivable is net of commissions on

assumed reinsurance business. The present value of the premiums receivable and unearned premiums as of January 1, 2009 and September 30, 2009 are as follows (in millions):

	January 1 2009	September 30 2009
Premiums receivable	$ 161.4	$ 56.8
Unearned premiums	223.3	76.2

Table of Contents

Radian Group Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

The accretion of these balances is included in premiums written and premiums earned for premiums receivable and policy acquisition costs for commissions on our condensed consolidated statement of operations. The amount of the accretion included in premiums written, premiums earned and policy acquisition costs for the three and nine months ended September 30, 2009 is as follows (in millions):

	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2009
Premiums written	$ 1.6	$ 4.1
Premiums earned	1.6	4.1
Policy acquisition costs	0.4	1.1

The weighted-average risk-free rate used to discount the premiums receivable and premiums to be collected was 2.46% at September 30, 2009.

The following table shows the nominal (non-discounted) premiums net of commissions that are expected to be collected on financial guaranty contracts with installment premiums included in premiums receivable as of September 30, 2009 (in millions):

	Future Expected Premium Payments
Fourth Quarter 2009	$ 2.6
2010	9.3
2011	5.3
2012	3.1
2013	4.8
2009 2013	25.1
2014 2018	15.3
2019 2023	10.5
2024 2028	7.5
After 2028	14.4
Total	$ 72.8

The following table shows the rollforward of the net present value of premiums receivable as of September 30, 2009 (in millions):

	Premiums Receivable
Balance at January 1, 2009	$ 161.4
Payments received	(13.0)
Accretion	2.2
Adjustments to installment premiums	(0.4)
Foreign exchange revaluation	(0.2)

Ambac Commutation		(93.2)
Balance at end of period	$	56.8

Radian Group Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Premiums earned were affected by the following for the three and nine months ended September 30, 2009 (in millions):

	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2009
Refundings	$ 8.6	$ 32.1
Recaptures/Commutations (1)		(15.0)
Unearned premium acceleration upon establishment of case reserves	0.8	6.6
Foreign exchange revaluation, gross of commissions	(2.0)	(0.9)
Adjustments to installment premiums, gross of commissions	1.4	4.6
Total adjustment to premiums earned	$ 8.8	$ 27.4

(1) Primarily Ambac Commutation.

The following table shows the expected contractual premium revenue from our existing financial guaranty portfolio, assuming no prepayments or refunding of any financial guaranty obligations, as of September 30, 2009:

(In millions)	Ending Net Unearned Premiums	Unearned Premium Amortization	Accretion	Total Premium Earnings
Fourth Quarter 2009	$ 593.1	$ 12.6	$ 0.4	$ 13.0
2010	546.0	47.1	1.6	48.7
2011	502.4	43.6	1.5	45.1
2012	461.2	41.2	1.4	42.6
2013	422.3	38.9	1.2	40.1
2009 2013	422.3	183.4	6.1	189.5
2014 2018	256.6	165.7	5.2	170.9
2019 2023	138.9	117.7	3.7	121.4
2024 2028	64.8	74.1	2.5	76.6
After 2028		64.8	4.0	68.8
Total	$	$ 605.7	$ 21.5	$ 627.2

Radian Group Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

The following table shows the significant components of the change in our financial guaranty claim liability as of September 30, 2009 (in millions):

	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2009
Claim liability, beginning of period	$ 171.5	$ 211.5
Incurred losses and LAE:		
Increase in gross claim liability	58.2	12.6
Increase in gross potential recoveries	(23.2)	(62.8)
(Increase) decrease in discount	(2.6)	64.6
(Increase) decrease in unearned premiums	(2.8)	13.6
Incurred losses and LAE	29.6	28.0
Paid losses and LAE	(83.5)	(121.9)
Claim liability, end of period	$ 117.6	$ 117.6
Components of incurred losses and LAE:		
Claim liability established in current period	$ 11.6	$ 47.1
Changes in existing claim liabilities	18.0	(19.1)
Total incurred losses and LAE	$ 29.6	$ 28.0

Weighted-average risk-free rates (used for discounting gross claim liability and gross potential recoveries):

January 1, 2009	2.53%
June 30, 2009	4.07%
September 30, 2009	3.71%

(In millions)	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2009
Components of (increase) decrease in discount:		
Decrease (increase) in discount related to claim liabilities established in current period	$ 4.2	$ (7.0)
(Increase) decrease in discount related to existing claim liabilities	(6.8)	71.6
Total (increase) decrease in discount	$ (2.6)	$ 64.6

On July 20, 2009, Radian Asset Assurance entered into a commutation and release agreement with Ambac Assurance Corporation and Ambac Assurance UK Limited (collectively, Ambac). Under this agreement, in addition to payment of outstanding amounts owed by Radian Asset Assurance to Ambac, on July 24, 2009, Radian Asset Assurance paid a $100 million settlement payment to Ambac to commute $9.8 billion of Radian Asset Assurance net par outstanding assumed from Ambac (the Ambac Commutation). The risk commuted under this agreement represented 99.7% of Radian Asset Assurance s reinsured portfolio with Ambac, 26.2% of Radian Asset Assurance s total reinsurance portfolio and 9.8% of Radian Asset Assurance s total insured portfolio, in each case as of June 30, 2009. The Ambac Commutation also reduced Radian Asset Assurance s financial guaranty exposure to mortgage-backed securities (MBS) by 41.9%.

Table of Contents

Radian Group Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

As a result of the Ambac Commutation, our financial statements were impacted in the third quarter of 2009 as follows:

Balance Sheet (In millions)	
Decrease in:	
Cash	$ 100.0
Premiums receivable	93.2
Unearned premiums	185.6
Reserve for losses and LAE	53.9
Deferred policy acquisition costs	46.3

The impact on our financial statements for the nine months ended September 30, 2009 related to the Ambac Commutation was as follows:

Statement of Operations (In millions)	
Increase (decrease) in:	
Net premiums earned	$ (15.3)
Policy acquisition costs	8.9
Provision for losses	(38.6)
Pre-tax income	$ 14.4

11. Long-Term Debt and Other Borrowings

The composition of our long-term debt and other borrowings at September 30, 2009 and December 31, 2008 was as follows:

(In thousands)	**September 30 2009**	**December 31 2008**
7.75% Debentures due 2011	$ 192,113	$ 249,695
5.625% Senior Notes due 2013	256,872	258,420
5.375% Senior Notes due 2015	249,718	249,687
Borrowings under unsecured revolving credit facility		100,000
	$ 698,703	$ 857,802

On August 6, 2009, we repaid in full the $100.0 million of outstanding principal plus accrued interest under our credit facility, which had a maturity date of February 2011, and terminated the credit facility in accordance with its terms. We did not incur any early termination or prepayment penalties in connection with such termination.

During the third quarter of 2009, we repurchased $57.7 million of outstanding principal on our 7.75% debentures due in 2011 at an average purchase price of approximately $0.79 per dollar of principal. As such, we recorded a gain of $12.0 million on these repurchases, which is included in net gains (losses) on other financial instruments on our condensed consolidated statements of operations.

48

Table of Contents

Radian Group Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

12. Comprehensive Income (Loss)

Our total comprehensive income (loss), as calculated per the accounting standard regarding reporting comprehensive income, was as follows (in thousands):

	Three Months Ended September 30		Nine Months Ended September 30	
	2009	2008	2009	2008
Net (loss) income, as reported	$ (70,450)	$ 36,699	$ (56,012)	$ (160,187)
Other comprehensive income (loss) (net of tax)				
Net unrealized gains (losses) on investments	133,596	(146,839)	183,810	(221,354)
Unrealized foreign currency translation adjustment	3,480	(4,187)	5,695	(54)
Comprehensive income (loss)	$ 66,626	$ (114,327)	$ 133,493	$ (381,595)

13. Income Taxes

We provide for income taxes in accordance with the provisions of the accounting standard regarding accounting for income taxes. As required under this standard, our deferred tax assets and liabilities are recognized under the balance sheet method which recognizes the future tax effect of temporary differences between the amounts recorded in our condensed consolidated financial statements and the tax bases of these amounts. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the periods in which the deferred tax asset or liability is expected to be realized or settled.

Given the uncertainty of the impact of gains and losses on our financial instruments on our pre-tax loss projected for the full year, which directly affects our ability to project an effective tax rate for the full year, we book our income tax expense based on the actual results of operations as of September 30, 2009.

For federal income tax purposes, we have approximately $1,031.7 million of net operating loss carryforwards as of September 30, 2009. To the extent not utilized, approximately $563.0 million and $468.7 million of the net operating loss carryforwards will expire during tax years 2028 and 2029, respectively.

As of September 30, 2009, we have a net deferred tax asset (DTA) in the amount of $351.6 million. We believe that it is more likely than not that these assets will be realized. As such, no valuation allowance was established. The following factors were considered in reaching this conclusion:

Approximately $127.5 million of the net DTA relates to mark-to-market losses on our financial guaranty derivative instruments, which we expect will result in very limited or no claim payments. We have the ability and intent to hold these instruments until maturity and believe that the associated DTA will reverse over time as credit spreads relating to these instruments improve and their duration approaches maturity.

Approximately $28.5 million of the net DTA relates to available for sale securities in our fixed-maturity investment portfolio for which we have recorded unrealized losses as a separate component of other comprehensive income. We have the ability and intent to

hold these securities to recovery or maturity.

We believe that a viable tax planning strategy exists for moving from tax-exempt investments to taxable investments and that such a plan will provide for higher yielding securities with fully taxable interest which would provide a significant source of future taxable income. While we have already reduced the level of tax-exempt investments within our investment portfolio, this strategy would be fully committed

Radian Group Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

to and implemented, if necessary, and could generate a sufficient amount of additional taxable income over the loss carryforward period allowed under the Internal Revenue Code (IRC) to recover our remaining DTA balance.

The need for a valuation allowance will continue to be reviewed on a quarterly basis and no assurances can be made with regard to whether a valuation allowance will be needed in the future.

During the three months ended September 30, 2009, we recorded provision-to-filed tax return adjustments which increased our total income tax benefit by approximately $4.0 million.

Our ability to use tax attributes such as net operating losses and tax credit carryforwards would be substantially limited if we experience an ownership change as defined under Section 382 of the IRC. Section 382 rules governing when a change in ownership occurs are complex and subject to interpretation; however, in general, an ownership change would occur if our five percent shareholders, as defined under Section 382, collectively increase their ownership by more than 50 percentage points over a rolling three-year period. If we were to experience a change in ownership under Section 382, we may be limited in our ability to fully utilize our net operating loss and tax credit carry forwards in future periods.

Effective as of October 8, 2009, we have adopted a Tax Benefit Preservation Plan (the Plan), which is designed to reduce the risk of a Section 382 ownership change by discouraging the acquisition of more than 4.9% of our outstanding shares by any one person or group. Under the Plan, such an acquisition of more than 4.9% of our shares, or an increase in share ownership by an existing 4.9% stockholder, will generally result in the issuance of shares to the other stockholders, thereby substantially diluting the share ownership of the person who triggers the Plan. The Plan is currently in effect, but it will terminate by its terms unless it is approved by vote of our stockholders at our next annual meeting of stockholders, and in certain other circumstances.

14. Recent Accounting Pronouncements

In June 2009, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 166, Accounting for Transfers of Financial Assets, an amendment of FASB Statement No. 140 (SFAS No. 166). SFAS No. 166 improves the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor s continuing involvement in transferred financial assets. Specifically, this statement removes the concept of a qualifying special purpose entity from the accounting standard related to the accounting for transfers and servicing of financial assets and extinguishments of liabilities and removes the exception from applying the accounting standard related to the consolidation of VIEs. Enhanced disclosures are required to provide financial statement users with greater transparency about transfers of financial assets and a transferor s continuing involvement with transferred financial assets. This standard is effective as of the beginning of the first annual reporting period beginning after November 15, 2009. Management is currently evaluating the impact that may result from the adoption of SFAS No. 166.

In June 2009, the FASB issued Statement No. 167, Amendments to FASB Interpretation No. 46R (SFAS No. 167). SFAS No. 167 carries forward the scope of the accounting standard related to the consolidation of variable interest entities with the addition of entities previously considered QSPEs. It also amends certain guidance in the accounting standard related to the consolidation of variable interest entities for determining whether an entity is a VIE. Application of this revised guidance may change an enterprise s assessment of which

Radian Group Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

entities with which it is involved are VIEs. Ongoing reassessment of whether an enterprise is the primary beneficiary of a VIE is required, and the quantitative approach previously required for determining the primary beneficiary of a VIE is eliminated. The quantitative approach was based on determining which enterprise absorbs the majority of the entity s expected losses, receives a majority of the entity s expected residual returns, or both. SFAS No. 167 requires an enterprise to perform an analysis to determine whether the enterprise s variable interest or interests give it a controlling financial interest in a VIE. This analysis identifies the primary beneficiary of a VIE as the enterprise that has both (i) the power to direct the activities of a VIE that most significantly impacts the entity s economic performance and (ii) the obligation to absorb losses of the entity that could potentially be significant to the VIE or the right to receive benefits from the entity that could potentially be significant to the VIE. SFAS No. 167 is effective as of the beginning of the first annual reporting period beginning after November 15, 2009. Management is currently evaluating the impact that may result from the adoption of SFAS No. 167.

In August 2009, the FASB issued an update to the accounting standards regarding fair value measurements and disclosures. This update provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using one or more of the following techniques: 1) a valuation technique that uses the quoted price of the identical liability, the quoted price of a similar liability or a similar liability when traded as an asset or, 2) another valuation technique consistent with the accounting standard regarding fair value measurements and disclosures. This update also clarifies that an entity is not required to include a separate input for restrictions related to the transfer of a liability. This update is effective for the first interim reporting period beginning after August 2009. Management is currently evaluating the impact that may result from the adoption of the update to the accounting standard regarding fair value measurements and disclosures.

In September 2009, the FASB issued an update to the accounting standards regarding fair value measurements and disclosures. This update provides amendments for the fair value measurement of investments in certain entities that calculate net asset value per share. The amendments in this update also require disclosures by major category of investment about the attributes of investments within the scope of the update. The amendments in this update are effective for interim and annual periods ending after December 15, 2009. Management is currently evaluating the impact, if any, that may result from the adoption of this update.

15. Selected Financial Information of Registrant Radian Group Inc.

The following is selected financial information for Radian Group:

(In thousands)	**September 30 2009**	**December 31 2008**
Investment in subsidiaries, at equity in net assets	$ 3,141,666	$ 3,112,028
Total assets	3,310,416	3,226,687
Long-term debt and other borrowings	698,703	857,802
Total liabilities	1,169,546	1,195,977
Total stockholders equity	2,140,870	2,030,710
Total liabilities and stockholders equity	3,310,416	3,226,687

Radian Group Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

16. Commitments and Contingencies

As previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2008, in August and September 2007, two purported stockholder class action lawsuits, Cortese v. Radian Group Inc. and Maslar v. Radian Group Inc., were filed against Radian Group and individual defendants in the U.S. District Court for the Eastern District of Pennsylvania. The complaints, which are substantially similar, allege that we were aware of and failed to disclose the actual financial condition of C-BASS prior to our declaration of a material impairment to our investment in C-BASS. On January 30, 2008, the court ordered that the cases be consolidated into In re Radian Securities Litigation. On April 16, 2008, a consolidated and amended complaint was filed, adding one additional defendant. On June 6, 2008, we filed a motion to dismiss this case, which was granted on April 9, 2009. Plaintiffs filed an amended complaint on July 10, 2009. As was the case with the initial complaint, we do not believe that the allegations in the amended complaint have any merit, and we intend to defend against this action vigorously.

In April 2008, a purported class action lawsuit was filed against Radian Group, the Compensation and Human Resources Committee of our board of directors and individual defendants in the U.S. District Court for the Eastern District of Pennsylvania. The complaint alleges violations of the Employee Retirement Income Securities Act as it relates to our Savings Incentive Plan. The named plaintiff is a former employee of ours. On July 25, 2008, we filed a motion to dismiss this case, which was granted on July 16, 2009, dismissing the complaint without prejudice. The plaintiffs filed an amended complaint on August 17, 2009. As was the case with the initial complaint, we do not believe that the allegations in the amended complaint have any merit, and we intend to defend against this action vigorously.

As previously disclosed, on June 26, 2008, we filed a complaint for declaratory judgment in the United States District Court for the Eastern District of Pennsylvania, naming IndyMac, Deutsche Bank National Trust Company (Deutsche Bank), Financial Guaranty Insurance Company (FGIC), Ambac and MBIA Insurance Corporation (MBIA) as defendants. The suit involves three of our pool policies covering second-lien mortgages, entered into in late 2006 and early 2007 with respect to loans originated by IndyMac. We are in a second loss position behind IndyMac and in front of three defendant financial guaranty companies. We are alleging that the representations and warranties made to us to induce us to issue the policies were materially false, and that as a result, the policies should be void. The total amount of our claim liability for all three pool policies was approximately $77 million, without giving effect to our settlement in August 2009 with Ambac and Deutsche Bank as described below. We have established loss reserves equal to the total amount of our exposure to these transactions. After being stayed for several months as a result of the Federal Deposit Insurance Corporation (FDIC) s seizure of IndyMac, this action resumed in April 2009, at which time the defendants filed motions to dismiss the action.

Also in June 2008, IndyMac filed a suit against us in California State Court in Los Angeles on the same policies, alleging that we have wrongfully denied claims or rescinded coverage on the underlying loans. This action was subsequently dismissed without prejudice.

In March 2009, FGIC, Ambac, and MBIA served us with demands to arbitrate certain issues relating to the same three pool policies that are the subject of our declaratory judgment complaint. In July 2009, the court declined to dismiss our declaratory judgment action, but stayed the action to permit the arbitrations to proceed first. In August 2009, we settled our dispute with Ambac and Deutsche Bank with respect to one of the disputed pool policies, which policy represents approximately $27 million of the approximately $77 million in total claim liability. The settlement resolved the declaratory judgment action as it pertains to Ambac and the arbitration commenced by Ambac was dismissed with prejudice. Arbitration hearings with FGIC and MBIA are expected to be held in the second and third quarters of 2010.

Radian Group Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

In addition to the above litigation, we are involved in litigation that has arisen in the normal course of our business. We are contesting the allegations in each such pending action and believe, based on current knowledge and after consultation with counsel, that the outcome of such litigation will not have a material adverse effect on our consolidated financial position and results of operations.

In October 2007, we received a letter from the staff of the Chicago Regional Office of the SEC stating that the staff is conducting an investigation involving Radian Group and requesting production of certain documents. The staff has also requested that certain of our employees provide voluntary testimony in this matter. We believe that the investigation generally relates to the previously proposed merger with MGIC and Radian Group s investment in C-BASS. We are cooperating with the requests of the SEC. The SEC staff has informed us that this investigation should not be construed as an indication by the SEC or its staff that any violation of the securities laws has occurred, or as a reflection upon any person, entity or security.

Securities regulations became effective in 2005 that impose enhanced disclosure requirements on issuers of asset-backed (including mortgage-backed) securities. To allow our customers to comply with these regulations, we typically are required, depending on the amount of credit enhancement we are providing, to provide (1) audited financial statements for the insurance subsidiary participating in the transaction or (2) a full and unconditional holding-company-level guarantee for our insurance subsidiaries obligations in such transactions. To date, Radian Group has guaranteed two structured transactions for Radian Guaranty involving approximately $230 million of remaining credit exposure.

Under our change of control agreements with our executive officers, upon a change of control of Radian Group or Radian Asset Assurance, as the case may be, we are required to fund an irrevocable rabbi trust to the extent of our obligations under these agreements. The total maximum amount that we would be required to place in trust is approximately $19.1 million as of September 30, 2009. In addition, in the event of a change of control under our existing cash-based incentive plans, we would be required to pay approximately $10.9 million as of September 30, 2009.

As part of the non-investment-grade allocation component of our investment program, we have committed to invest $55.0 million in alternative investments ($18.9 million of unfunded commitments at September 30, 2009) that are primarily private equity securities. These commitments have capital calls over a period of at least the next six years, and certain fixed expiration dates or other termination clauses.

We also utilize letters of credit to back assumed reinsurance contracts, medical insurance policies and an excise tax-exemption certificate used for ceded premiums from our domestic operations to our international operations. These letters of credit are with various financial institutions, have terms of one year and will automatically renew unless we specify otherwise. The letters of credit outstanding at September 30, 2009 and December 31, 2008 were $2.7 million and $4.7 million, respectively.

Our mortgage insurance business utilizes its underwriting skills to provide an outsourced underwriting service to our customers known as contract underwriting. We give recourse to our customers on loans we underwrite for compliance. Typically, we agree that if we make a material error in underwriting a loan, we will provide a remedy to the customer, by purchasing or placing additional mortgage insurance coverage on the loan, or by indemnifying the customer against loss. In the third quarter of 2009, we processed requests for remedies on less than 1% of the loans underwritten. We paid losses for sales and remedies during the third quarter of 2009 of approximately $3.2 million. Providing these remedies means we assume some credit risk and interest rate risk if an error is found during the limited remedy period in the agreements governing our provision of contract

Radian Group Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

underwriting services. At September 30, 2009, our reserve for contract underwriting obligations was $11.3 million. In the fourth quarter of 2009, we paid approximately $7.0 million in respect of several contract underwriting agreements, included in our contract underwriting reserve. There was no impact on our results of operations related to this payment. This payment released Radian Guaranty from its obligations under these specific contract underwriting agreements including any mortgage insurance on these loans. We closely monitor this risk and negotiate our underwriting fee structure and recourse agreements on a client-by-client basis. We also routinely audit the performance of our contract underwriters to ensure that customers receive quality underwriting services.

As a result of S&P s downgrades of our financial guaranty insurance subsidiaries in June and August 2008 (the S&P Downgrades), approximately $65.0 billion of our total financial guaranty net par outstanding as of September 30, 2009 remains subject to recapture or termination at the option of our reinsurance customers, our credit derivative counterparties or other insured parties. All of our unaffiliated reinsurance customers have the right to recapture business previously ceded to us under their reinsurance agreements with us due to the S&P Downgrades. As of September 30, 2009, up to $26.8 billion of our net assumed par outstanding (included in total net par outstanding) was subject to recapture. Assuming all of this business was recaptured as of September 30, 2009, Radian Asset Assurance statutory surplus would have increased by approximately $154.0 million.

As of September 30, 2009, as a result of the S&P Downgrades, the counterparties to 138 of our financial guaranty transactions currently have the right to terminate these transactions without our having an obligation to settle the transaction on a mark-to-market basis. If all of these counterparties had terminated these transactions as of September 30, 2009, our net par outstanding would have been reduced by $38.2 billion, with a corresponding decrease in unearned premium reserves of $11.0 million (of which only $0.9 million would be required to be refunded to counterparties) and a decrease in the present value of expected future installment premiums of $153.0 million. Net unrealized losses of $323.4 million would also have been reversed as a result of these recaptures. In addition, the counterparty to one of our synthetic CDO transactions, with an aggregate net par outstanding of $27.6 million as of September 30, 2009, had the right to terminate this transaction, due to the S&P Downgrades, with settlement on a mark-to-market basis, subject to a maximum payment amount as of September 30, 2009 of $14.6 million. In October 2009, the net par outstanding for this transaction was reduced to zero. As a result, we no longer have any transactions where our counterparty has the right to terminate the transaction with settlement on a mark-to-market basis due to the S&P Downgrades.

Following the June 2008 downgrades of our financial guaranty insurance subsidiaries, in July 2008, we initiated a plan to reduce our financial guaranty workforce. In order to maintain a portion of the workforce needed to effectively manage our existing business, we have put into place retention and severance agreements for all remaining personnel at an estimated cost of $27.3 million, of which $11.4 million was incurred in 2008 and $15.1 million is expected to be incurred in 2009. The remaining expense will be incurred in 2010 through 2012.

17. Subsequent Events

We have evaluated all events subsequent to September 30, 2009 through the date the accompanying condensed consolidated financial statements were issued on November 9, 2009. There were no subsequent events to report except the following:

In October 2009, we received notice of an interest shortfall and made a claim payment with respect to a directly insured TruPs CDO with $212.5 million net par outstanding. Because the fair value liability of this directly insured TruPs CDO derivative as of September 30, 2009 of $68.4 million reflected the likelihood of an

Table of Contents

Radian Group Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

event of default, this event of default had no impact on our reported results. We are in the process of determining our expected future net claim liability for statutory reporting purposes. We currently anticipate that this statutory net claim liability will be significantly less than our current net par outstanding related to this directly insured TruPs CDO.

In the fourth quarter of 2009, we intend to offer to purchase at a discount to their face value the CPS securities issued by each of the three custodial trusts as discussed in Note 5 above under Put Options. The offer with respect to each trust is expected to be conditioned upon, among other things, the purchase of a majority of the securities issued by that trust and the consent by the holders of a majority of the outstanding securities of such trust to certain amendments necessary to permit the purchase by Radian Group (or a subsidiary). Such an offer to purchase the securities issued by a trust will not be conditioned upon the success of the offers for the securities of either of the other trusts. Following these offers, we may cause Radian Asset Assurance and Radian Asset Securities to exercise their respective rights under certain options and issue their preferred stock to Radian Asset Securities and the custodial trusts. Whether or not Radian Asset Assurance or Radian Asset Securities issues their preferred stock, we may cause Radian Asset Assurance to take such action as is necessary to cause the dissolution of the custodial trusts and the distribution of the assets of the custodial trusts to the holders of the securities. We may also elect not to take any action following the tender offers or to take different actions with respect to each custodial trust.

As discussed above, we adopted a Tax Benefit Preservation Plan, effective October 8, 2009, designed to protect our net operating loss carryforwards by reducing the risk of ownership change under Section 382 of the IRC. See Note 13, Income Taxes for further information.

In the fourth quarter of 2009, we paid $6.5 million to terminate one of our two remaining international mortgage insurance CDS transactions, with approximately $3.0 billion of exposure at September 30, 2009. The fair value liability for this transaction at September 30, 2009 was approximately $17.0 million.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations.

The following analysis should be read in conjunction with our condensed consolidated financial statements and the notes thereto included in this report and our audited financial statements, notes thereto and Management s Discussion and Analysis of Financial Condition and Results of Operations included in our Form 10-K for the fiscal year ended December 31, 2008 for a more complete understanding of our financial position and results of operations. In addition, investors should review the Forward-Looking Statements-Safe Harbor Provisions above and the Risk Factors detailed in Item 1A of Part I of this Quarterly Report on Form 10-Q for a discussion of those risks and uncertainties that have the potential to affect our business, financial condition, results of operations, cash flows or prospects in a material and adverse manner.

Business Summary

We are a credit enhancement company with a primary strategic focus on domestic first-lien residential mortgage insurance. Our business segments are mortgage insurance, financial guaranty and financial services.

Mortgage Insurance

Our mortgage insurance segment provides credit-related insurance coverage, principally through private mortgage insurance, and risk management services to mortgage lending institutions located throughout the United States (U.S.) and in limited, select countries outside the U.S. We have provided these products and services mainly through our wholly-owned subsidiaries, Radian Guaranty Inc., Amerin Guaranty Corporation, and Radian Insurance Inc. (which we refer to as Radian Guaranty, Amerin Guaranty, and Radian Insurance, respectively). Private mortgage insurance protects mortgage lenders from all or a portion of default-related losses on residential mortgage loans made mostly to home buyers who make down payments of less than 20% of the home s purchase price. Private mortgage insurance also facilitates the sale of these mortgage loans in the secondary mortgage market, most of which are sold to Freddie Mac and Federal National Mortgage Association (Fannie Mae). We refer to Freddie Mac and Fannie Mae as Government-Sponsored Enterprises or GSEs.

Traditional Mortgage Insurance. Our mortgage insurance segment, through Radian Guaranty, offers primary and pool mortgage insurance coverage on residential first-lien mortgages. At September 30, 2009, primary insurance on domestic first-lien mortgages comprised approximately 92.5% of our total domestic first-lien mortgage insurance risk in force, and pool insurance on domestic first-lien mortgages comprised approximately 7.5% of our total domestic first-lien mortgage insurance risk in force. Our primary business focus is traditional primary mortgage insurance on domestic residential first-lien mortgages.

Non-Traditional Mortgage Credit Enhancement. In addition to traditional mortgage insurance, in the past we have used Radian Insurance or Amerin Guaranty to provide other forms of credit enhancement on residential mortgage assets. These products include mortgage insurance on second-lien mortgages, credit enhancement on net interest margin securities (which we refer to as NIMS), credit default swaps (CDS) on domestic and international mortgages and primary mortgage insurance on international mortgages (collectively, we refer to the risk associated with these transactions as other risk). These non-traditional or other risk products were once a growing part of our total mortgage insurance business. However, in light of the deterioration in housing and related credit markets, we stopped writing all non-traditional business in 2007, other than a small amount of international mortgage insurance, which we have also now discontinued writing.

International Mortgage Insurance. Through Radian Insurance, we have written (i) credit protection in the form of CDS primarily on AAA rated tranches of mortgage-backed securities, (ii) primary mortgage insurance in Hong Kong and (iii) several mortgage reinsurance transactions in Australia.

Ratings downgrades of Radian Insurance have significantly reduced our ability to continue to write international mortgage insurance business. As a result of the downgrades, the counterparties to each of our active

Table of Contents

international transactions have the right to terminate these transactions, which could require us to return unearned premiums or transfer unearned premiums to a replacement insurer. On March 4, 2008, Standard Chartered Bank in Hong Kong informed us that they wished to terminate their contract for new business with Radian Insurance. While we are no longer writing new business in Hong Kong, we continue to service the existing book of business. In addition, all of our Australian transactions were terminated in the second and third quarters of 2009.

Financial Guaranty

Our financial guaranty business has mainly provided direct insurance and reinsurance on credit-based risks through Radian Asset Assurance Inc. (Radian Asset Assurance), a wholly-owned subsidiary of Radian Guaranty, and through Radian Asset Assurance s wholly-owned subsidiary, Radian Asset Assurance Limited (RAAL), located in the United Kingdom.

Financial guaranty insurance typically provides an unconditional and irrevocable guaranty to the holder of a financial obligation of full and timely payment of principal and interest when due. Financial guaranty insurance may be issued at the inception of an insured obligation or may be issued for the benefit of a holder of an obligation in the secondary market. Historically, financial guaranty insurance has been used to lower an issuer s cost of borrowing when the insurance premium is less than the value of the spread (commonly referred to as the credit spread) between the market yield required to be paid on the insured obligation (carrying the credit rating of the insurer) and the market yield required to be paid on the obligation if sold on the basis of its uninsured credit rating. Financial guaranty insurance also has been used to increase the marketability of obligations issued by infrequent or unknown issuers or obligations with complex structures. Until recently, investors generally have benefited from financial guaranty insurance through increased liquidity in the secondary market, reduced exposure to price volatility caused by changes in the credit quality of the underlying insured issue, and added protection against loss in the event of the obligor s default on its obligation. Recent market developments, including ratings downgrades of most financial guaranty insurance companies (including Radian Asset Assurance and RAAL), have significantly reduced the benefits of financial guaranty insurance.

We have provided direct financial guaranty credit protection either through the issuance of a financial guaranty insurance policy or through CDS. Either form of credit enhancement can provide the purchaser of such credit protection a guaranty of the timely payment of interest and scheduled principal when due on a covered financial obligation. By providing credit protection through CDS, we have been able to participate in transactions involving asset classes (such as corporate collateralized debt obligations (CDOs)) that may not have been available to us through the issuance of a traditional financial guaranty insurance policy. Either form of credit enhancement requires substantially identical underwriting and surveillance skills.

We have traditionally offered the following financial guaranty products:

Public Finance Insurance of public finance obligations, including tax-exempt and taxable indebtedness of states, counties, cities, special service districts, other political subdivisions, of enterprises such as airports, public and private higher education and health care facilities, and for project finance and private finance initiative assets in sectors such as education, healthcare and infrastructure projects. The issuers of our insured public finance obligations were generally rated investment-grade at the time we issued our insurance policy, without the benefit of our insurance;

Structured Finance Insurance of structured finance obligations, including CDOs and asset-backed securities (ABS), consisting of funded and non-funded (referred to herein as synthetic) executions that are payable from or tied to the performance of a specific pool of assets or covered reference entities. Examples of the pools of assets that underlie structured finance obligations include corporate loans, bonds or other borrowed money, residential and commercial mortgages, trust preferred securities, diversified payment rights, a variety of consumer loans, equipment receivables, real and personal property leases or a combination of asset classes or securities backed by one or more of these pools of assets. We have also guaranteed excess clearing losses of securities exchange clearinghouses. The

structured finance obligations we insure were generally rated investment-grade at the time we issued our insurance policy, without the benefit of our insurance; and

Reinsurance Reinsurance of domestic and international public finance obligations, including those issued by sovereign and sub-sovereign entities, and structured finance obligations.

In October 2005, we exited the trade credit reinsurance line of business. Accordingly, this line of business was placed into run-off and we ceased initiating new trade credit reinsurance contracts. We have also novated or canceled several of the trade credit insurance agreements that were in place.

In June 2008, both Standard & Poor s Ratings Service (S&P) and Moody s Investor Service (Moody s) downgraded the financial strength ratings of our financial guaranty insurance subsidiaries, and in August 2008, S&P again lowered the financial strength ratings on our financial guaranty insurance subsidiaries. These downgrades, combined with the difficult market conditions for financial guaranty insurance, severely limited our ability to write profitable new direct financial guaranty insurance and reinsurance both domestically and internationally. Accordingly, in the third quarter of 2008, we decided to discontinue, for the foreseeable future, writing any new financial guaranty business, including accepting new financial guaranty reinsurance, other than as may be necessary to commute, restructure, hedge or otherwise mitigate losses or reduce exposure in our existing portfolio. We initiated plans to reduce our financial guaranty operations, including a reduction of our workforce, commensurate with this decision. We also contributed the outstanding capital stock of Radian Asset Assurance to Radian Guaranty, thereby strengthening Radian Guaranty s statutory capital. We continue to maintain a large insured financial guaranty portfolio.

On July 20, 2009, Radian Asset Assurance entered into a commutation and release agreement with Ambac Assurance Corporation and Ambac Assurance UK Limited (collectively, Ambac). Under this agreement, in addition to payment of outstanding amounts owed by Radian Asset Assurance to Ambac, on July 24, 2009, Radian Asset Assurance paid a $100 million settlement payment to Ambac to commute $9.8 billion of Radian Asset Assurance net par outstanding assumed from Ambac (the Ambac Commutation). The risk commuted under this agreement represented 99.7% of Radian Asset Assurance s reinsured portfolio with Ambac, 26.2% of Radian Asset Assurance s total reinsurance portfolio and 9.8% of Radian Asset Assurance s total insured portfolio, in each case as of June 30, 2009. The Ambac Commutation also reduced Radian Asset Assurance s financial guaranty exposure to mortgage-backed securities (MBS) by 41.9%.

Financial Guaranty Exposure Subject to Recapture or Termination. As a result of S&P s downgrades of our financial guaranty insurance subsidiaries in June and August 2008 (the S&P Downgrades), approximately $65.0 billion of our total net par outstanding as of September 30, 2009, remains subject to recapture or termination at the option of our reinsurance customers, our credit derivative counterparties or other insured parties.

Table of Contents

All of our unaffiliated reinsurance customers have the right to recapture business previously ceded to us under their reinsurance agreements with us due to the S&P Downgrades. As of September 30, 2009, up to $26.8 billion of our net assumed par outstanding (included in total net par outstanding) was subject to recapture. If all of this business was recaptured as of September 30, 2009, the impact on our financial statements would have been as follows:

Statement of Operations (In millions)	
Increase (decrease) in:	
Net premiums written	$ (284.8)
Net premiums earned	$ (29.6)
Changes in fair value of derivative instruments	12.8
Policy acquisition costs	1.3
Provision for losses	25.4
Pre-tax income	$ 9.9

Balance Sheet (In millions)	
Decrease in:	
Cash	$ 200.1
Deferred policy acquisition costs	85.7
Accounts and notes receivable	38.7
Derivative assets	0.8
Unearned premiums	255.9
Reserve for losses and loss adjustment expenses (LAE)	65.1
Derivative liabilities	14.2

Assuming all of this business was recaptured as of September 30, 2009, Radian Asset Assurance s statutory surplus would have increased by approximately $154.0 million.

As of September 30, 2009, as a result of the S&P Downgrades, the counterparties to 138 of our financial guaranty transactions currently have the right to terminate these transactions without our having an obligation to settle the transaction on a mark-to-market basis. If all of these counterparties had terminated these transactions as of September 30, 2009, our net par outstanding would have been reduced by $38.2 billion, with a corresponding decrease in unearned premium reserves of $11.0 million (of which only $0.9 million would be required to be refunded to counterparties) and a decrease in the present value of expected future installment premiums of $153.0 million. Net unrealized losses of $323.4 million would also have been reversed as a result of these recaptures. We have no transactions where our counterparty has the right to terminate the transaction with settlement on a mark-to-market basis due to the S&P Downgrades.

Financial Services

Our financial services segment mainly consists of our 28.7% equity interest in Sherman Financial Group LLC (Sherman), a consumer asset and servicing firm. In August 2008, our equity interest in Sherman increased to 28.7% from 21.8% as a result of a reallocation of the equity ownership of Sherman following a sale by Mortgage Guaranty Insurance Corporation (MGIC) of its remaining interest in Sherman to Sherman s management. Our financial services segment also includes our 46% interest in Credit-Based Asset Servicing and Securitization LLC (C-BASS), a mortgage investment company which we wrote off completely in 2007 and whose operations are currently in run-off.

Sherman. Sherman is a consumer asset and servicing firm specializing in charged-off and bankruptcy plan consumer assets, which are generally unsecured, that Sherman typically purchases at deep discounts from national financial institutions and major retail corporations and subsequently seeks to collect. In addition,

Sherman originates subprime credit card receivables through its subsidiary CreditOne and has certain other similar ventures related to consumer assets. Sherman is expected to use much of its operating cash flow to significantly reduce its total outstanding debt balance throughout 2009. Consequently, we currently expect to receive limited, if any, dividends from Sherman for the remainder of 2009. In October 2009, Radian Group transferred its equity interest in Sherman to Radian Guaranty in full satisfaction of Radian Group s October 2009 tax payment obligation to Radian Guaranty.

Ratings

Our holding company, Radian Group Inc. (Radian Group), currently is rated CCC (Stable) by S&P and B3 (Outlook developing) by Moody s. Our principal operating subsidiaries have been assigned the following financial strength ratings:

	MOODY S (1)	S&P (2)
Radian Guaranty	Ba3	BB-
Radian Insurance	B1	BB-
Amerin Guaranty	Ba3	BB-
Radian Asset Assurance	Ba1	BBB-
Radian Asset Assurance Limited	Ba1	BBB-

(1) Moody s outlook for our mortgage insurance subsidiaries is developing, reflecting Moody s view of the potential for further deterioration in our insured mortgage insurance portfolio as well as certain positive factors that could occur over the near to medium term. Moody s outlook for our financial guaranty subsidiaries is stable.

(2) S&P s ratings for all of our subsidiaries are currently on CreditWatch with negative implications.

Recent Ratings Actions S&P

On October 27, 2009, S&P placed its ratings on several private mortgage insurance companies, including our mortgage insurance subsidiaries, on CreditWatch with negative implications. The actions were the result of S&P s view that macroeconomic conditions may have become more difficult for mortgage insurers since they last conducted an extensive review of the sector in April, 2009. S&P believes that mortgage insurers are experiencing a sharper and more rapid transition of delinquencies into prime books of business than previously anticipated. S&P s ratings for Radian Insurance and our financial guaranty insurance subsidiaries have been on CreditWatch with negative implications since April 8, 2009.

Overview of Business Results

As a seller of credit protection, our results are subject to macroeconomic conditions and specific events that impact the production environment and credit performance of our underlying insured assets. The prolonged downturn in the housing and related credit markets, characterized by a continuing decline in home prices in certain markets, deteriorating credit performance of mortgage and other assets and reduced liquidity for many participants in the mortgage and financial services industries, has had, and we believe will continue to have, a significant negative impact on the operating environment and results of operations for each of our business segments. There is a great deal of uncertainty regarding our ultimate loss performance. The potential for a deepening and prolonged recession in the U.S., including rising unemployment rates, may add further stress on the performance of our insured assets. Conversely, our performance may be positively impacted by private and governmental initiatives to support homeowners and to stimulate the economy and by a stabilization of the economy and the housing market.

Table of Contents

Mortgage Insurance

Traditional Mortgage Insurance

Defaults. Ongoing deterioration in the U.S. housing and mortgage credit markets resulted in a 12.8% increase in total first-lien defaults during the third quarter of 2009, compared to an 11.1% and 9.7% increase in total first-lien defaults during the second quarter of 2009 and first quarter of 2009, respectively. Overall, the underlying trend of higher defaults continues to be driven by poor performance of our late 2005 through the first half of 2008 books of business. Defaults have been increasing across our entire mortgage insurance product lines, including our insured portfolio of prime, first-lien mortgages. In addition, we have observed a slowdown in foreclosures, and subsequently a slowdown in claims submitted to us, due to the moratoriums imposed by various government entities and lenders, which has contributed to the increase in our overall default inventory. In light of current market trends, we expect defaults on first-lien mortgages to continue to increase throughout the remainder of 2009.

Loss Provision. Our mortgage insurance loss provision at September 30, 2009 continued to be negatively impacted by an increase in new defaults, generally higher average loan balances on delinquent loans and the aging of existing defaults moving toward claim. Claims paid in the third quarter of 2009 (excluding the impact of captive terminations and second-lien commutations) were $220.9 million, compared to $240.1 million and $167.7 million for the first and second quarter of 2009, respectively. Claims paid in the third quarter of 2009, net of recoveries from the termination of certain captive reinsurance transactions of $107.7 million and payments on second-lien terminations of $22.3 million, were $135.5 million. We expect to pay mortgage insurance claims (including second-liens) of approximately $290 million in the fourth quarter of 2009. Recent legislation and loan modification programs by the U.S. Treasury and certain of our lender-customers aimed at mitigating the current housing downturn had a positive impact on our business by reducing the number of defaults going to claim. Many of these programs are still being implemented and we cannot be certain of their ultimate impact on our business, results of operations, or the timing of this impact. In addition, various government entities and lenders have imposed moratoriums on foreclosures, some of which have recently been lifted. We expect to experience an increase in claims paid as these moratoriums expire or are lifted.

Partially offsetting the increase in defaults, higher average loan balances and aging of defaults, our mortgage insurance loss provision for the third quarter of 2009 continued to be positively impacted by our loss management efforts. Our loss reserve estimate for the third quarter of 2009 incorporates our recent experience with respect to the number of claims that we are denying and the number of insurance certificates that we are rescinding due to fraud or other factors. Our current level of rescissions and denials is significantly higher than historical levels, which we believe reflects the larger concentration of poorly underwritten loans (primarily originated during late 2005 through the first half of 2008) that are in our default inventory as well as our efforts to examine more claims. We expect the increased rescissions and denials to continue in the current environment, in particular with respect to our late 2005 through the first half of 2008 insured portfolios. See Part II, Item 1A, *Insurance rescissions and claim denials may not continue at the levels we have recently experienced* in this Quarterly Report on Form 10-Q.

Smart Home/Captives. We protected against some of our losses relating to riskier primary mortgage insurance products that we insured by reinsuring our exposure through transactions (referred to as Smart Home) that effectively transferred risk to investors in the capital markets. Approximately 3.4% of our primary mortgage insurance risk in force was included in Smart Home transactions at September 30, 2009. Our mortgage insurance provision for losses for the nine months ended September 30, 2009 was reduced by $17.7 million due to recoverables from Smart Home. Ceded losses recoverable related to Smart Home were $108.8 million at September 30, 2009. In addition to Smart Home, we have transferred a substantial portion of our primary mortgage insurance risk to captive reinsurance companies affiliated with our lender-customers. We currently have 53 captive reinsurance

arrangements operating on a run-off basis, meaning that no new business is being placed in these captives. We expect that some of the captives that are now in run-off will be terminated. We also currently have four active captive reinsurance arrangements in which new business continues to be placed; however, we expect that these arrangements may be placed into run-off in the near future. Our mortgage insurance provision for losses for the nine months ended September 30, 2009 was reduced by $67.3 million due to recoverables from captive transactions. Ceded losses recoverable related to captives were $483.1 million at September 30, 2009.

We have ceded losses recoverable of $591.9 million and have received total reinsurance recoveries from Smart Home and captive reinsurance of approximately $20.7 million. In some instances, we anticipate that the recoveries from the captive reinsurers will be greater than the assets currently held by the segregated trusts established for each captive reinsurer. Recorded recoverables, however, are limited to the current trust balance. We are approaching the maximum amount that we may book as recoverables under our Smart Home and captive arrangements; therefore, we expect a limited amount of capital relief from these arrangements in future quarters. Most of the actual cash recoveries, however, will be received over the next few years as claims are paid.

New Insurance Written. We experienced a 54.2% and 44.5% decrease in traditional flow business written during the three and nine month periods ended September 30, 2009, respectively, compared to the same periods in 2008. Overall, primary new insurance written decreased by 54.3% and 47.0% in the three and nine month periods ended September 30, 2009, respectively, compared to the same periods of 2008. This decrease is mainly the result of a decrease in the volume of mortgage originations during the current housing and economic downturn, our more restrictive underwriting guidelines, a reduction of new business writings due to our mortgage insurance capital limitations, the absence of a secondary market for mortgage securitizations (other than the GSEs) and increased competition from the Federal Housing Administration (FHA), where most of the low down payment mortgage market is now being insured. Throughout 2008 and to date in 2009, we have implemented a series of changes to our underwriting guidelines aimed at improving the long-term risk profile and profitability of our business. As a result of these changes, we have experienced a positive shift in our overall business mix. For the quarter ended September 30, 2009, 99.9% of our new business production was categorized as prime business, compared to 98.4% and 70.0% for the quarters ended September 30, 2008 and 2007, respectively. In addition, Fair Isaac and Company (FICO) scores for the borrowers of these insured mortgages have increased, while the loan-to-value (LTV) on these mortgages have decreased, meaning that borrowers generally are making larger down payments in connection with the more recent mortgages that we are insuring.

Persistency. The persistency rate was 87.0% for the 12 months ended September 30, 2009, compared to 83.9% for the 12 months ended September 30, 2008. Persistency is the percentage of insurance in force that remains on our books after any 12 month period. This increase was mainly due to a decline in refinancing activity as a result of home price depreciation, tighter underwriting standards and an overall decrease in the lending capacity among mortgage originators. We expect that persistency rates will continue to remain at elevated levels as long as the current disruption in the housing and mortgage credit markets continues.

Discontinued Non-Traditional Products

NIMS. Our total principal exposure to NIMS was $418.2 million at September 30, 2009, all of which we expect to result in credit losses. We began paying principal claims on our insured NIMS during the first quarter of 2009 and expect that most claim payments will be made in 2011 and 2012. The fair value of our total net liabilities related to NIMS as of September 30, 2009 was $317.8 million and is recorded as variable interest entity (VIE) debt and derivative assets. Our carrying value includes the net present value of our total expected credit losses and incorporates the market s perception of our non-performance risk, in accordance with the accounting standard regarding fair value measurements. The difference between our actual losses and our current net liability is expected to be recognized over the remaining life of the NIMS as the discount is accreted.

Second-lien Mortgages. Our second-lien loss reserves declined during the first nine months of 2009 to approximately $81.5 million. Our premium deficiency reserve for second-liens also decreased during the first nine months of 2009 by approximately $77.6 million, resulting in a premium deficiency reserve for second-liens of approximately $9.3 million at September 30, 2009. As of September 30, 2009, our total exposure to second-liens was approximately $284.5 million, down from $622.1 million at December 31, 2008, primarily due to the negotiated settlement of certain second-lien mortgage insurance transactions in 2009. As of September 30, 2009, we had total reserves (comprised of loss reserves and premium deficiency reserves) of approximately $90.8 million against our second-lien portfolio, or approximately 32% of the total exposure. Our remaining exposure to second-liens primarily represents the seasoned portion of our portfolio, with most of our worst performing risk having been eliminated as part of the negotiated settlements in 2009.

Mortgage Insurance CDS. We no longer have any exposure to domestic mortgage insurance CDS. In the second quarter of 2009, we paid an aggregate of $63.9 million to terminate all of our five remaining domestic CDS transactions. The settlement payments were approximately equal to the fair value of these terminated transactions.

Our exposure to international mortgage insurance CDS at September 30, 2009 consisted of two CDS referencing residential mortgage-backed securities (RMBS) bonds related to mortgage loans in Germany and the Netherlands. The first CDS contains prime, low LTV mortgages originated in Germany. Our remaining exposure to this transaction, which is rated AAA, was approximately $3.0 billion as of September 30, 2009, with remaining subordination of approximately $252.6 million. This transaction was terminated in the fourth quarter of 2009 at a cost of approximately $6.5 million. The second transaction contains prime, low LTV mortgages originated in the Netherlands. Our remaining exposure to this transaction was approximately $130.2 million as of September 30, 2009, with remaining subordination of $16.1 million. We have insured several tranches in the Netherlands transaction, which are rated between BBB and AAA, with over half of our exposure in the AAA category. This transaction is performing well. We do not currently expect to pay claims on this transaction. As of September 30, 2009, we had a fair value liability of $17.0 million on these two transactions.

Financial Guaranty

Net Par Outstanding. Our financial guaranty net par outstanding decreased 11.3% to $89.3 billion at September 30, 2009 from $100.7 billion at December 31, 2008, and by 19.5% year-over-year from $111.0 billion as of September 30, 2008. This reduction in net par outstanding was primarily due to the Ambac Commutation ($9.8 billion) and recaptures of reinsurance business by certain of our primary reinsurance customers in the second half of 2008 ($7.3 billion), along with negotiated settlements of certain CDO obligations, prepayments or refundings of public finance transactions and the amortization or scheduled maturity of our insured portfolio, partially offset by the implementation of the accounting standard regarding accounting for financial guarantee insurance contracts in the first quarter of 2009, which added $2.4 billion of net par outstanding for legal defeasances. In light of our decision in 2008 to discontinue writing new business for the foreseeable future, we expect our net par outstanding to continue to decrease as our financial guaranty portfolio matures and as we seek to prudently reduce our financial guaranty risk in force.

Credit Performance. The credit quality of our financial guaranty insurance portfolio deteriorated during the first nine months of 2009.

Our internal ratings on our total CDO portfolio migrated downward during the first nine months of 2009 with 11.7% of our net par exposure rated BBB or below internally as of September 30, 2009, compared to 3.7% as of December 31, 2008.

Our directly insured corporate CDO portfolio, representing 84.2% of the net par outstanding of our total CDO portfolio at September 30, 2009, remains highly rated based on our internal ratings. Based on our

internal ratings as of September 30, 2009, 81.3% of our aggregate net par exposure with respect to our directly insured corporate CDOs was AAA rated, while only 2.2% of such exposure was below investment-grade.

Our portfolio of CDO transactions with predominantly trust preferred securities (TruPs) as collateral (Direct TruPs CDOs) further deteriorated during the third quarter, with subordination levels in these transactions being reduced by a significant number of defaults and interest deferrals by issuers of TruPs in the CDO collateral pools. As a result of this deterioration, one of our Direct TruPs CDOs defaulted on the payment of interest in October 2009. See Results of Operations Financial Guaranty Financial Guaranty Exposure Information below for additional information regarding material changes in the credit performance of our Direct TruPs CDO portfolio.

Our two CDOs of ABS transactions have also shown deterioration since December 31, 2008. One $150.0 million transaction, which was downgraded internally from AAA to AA- in the first quarter of 2009, matures in March 2010. The other $468.3 million CDO of ABS transaction, which has experienced significant deterioration in its underlying collateral and is expected to experience an interest shortfall in the near future, is further discussed in Results of Operations Financial Guaranty Financial Guaranty Exposure Information below.

Exposure to all four categories of domestic RMBS outside of our insured CDO portfolio was reduced over the past nine months, primarily due to the Ambac Commutation. In particular, exposure to RMBS supported by home equity lines of credit collateral pools declined from $180 million to $99 million. Our below investment-grade exposure (based on our internal ratings) to domestic RMBS outside of our insured CDO portfolio also was reduced during the third quarter of 2009 due to the Ambac Commutation (a reduction from 62.6% of net par outstanding as of June 30, 2009 to 48.5% as of September 30, 2009). All below investment-grade domestic RMBS exposure is on our Watch List and reserves have been established for these transactions, as appropriate.

Our insured public finance portfolio continued to experience credit deterioration during the first nine months of 2009. In particular, our insured healthcare and senior care portfolios have continued to experience credit deterioration, and our insured education portfolio continues to experience stress due to declining philanthropy and investment returns. States and municipalities included within our government-related insured credits are also experiencing stress from the economic downturn.

See Results of Operations Financial Guaranty Financial Guaranty Exposure Information below for additional information regarding material changes in the credit performance of our insured financial guaranty portfolio.

Financial Services

Net income for Sherman decreased by approximately 49.8% for the first nine months of 2009, compared to the comparable period of 2008. Reduced business volumes led to a decrease in revenues from Sherman s credit card origination business, which was partially offset by a decrease in operating and servicing expenses. Our share of Sherman s net income was $23.6 million for the first nine months of 2009, compared to $44.0 million for the comparable period of 2008. Included in our results for the first nine months of 2009 was a write-off of the remaining $5.7 million intangible asset related to our acquisition of an additional interest in Sherman in 2006.

Table of Contents

Results of Operations Consolidated

Quarter and Nine Months Ended September 30, 2009 Compared to Quarter and Nine Months Ended September 30, 2008

The following table summarizes our consolidated results of operations for the three and nine months ended September 30, 2009 and 2008:

($ in millions)	Three Months Ended September 30 2009	Three Months Ended September 30 2008	% Change 2009 vs. 2008	Nine Months Ended September 30 2009	Nine Months Ended September 30 2008	% Change 2009 vs. 2008
Net (loss) income	$ (70.5)	$ 36.7	n/m	$ (56.0)	$ (160.2)	(65.0)%
Net premiums written insurance	(38.1)	202.5	n/m	280.6	669.4	(58.1)
Net premiums earned insurance	209.5	249.7	(16.1)%	614.3	740.8	(17.1)
Net investment income	54.0	65.2	(17.2)	163.6	196.3	(16.7)
Change in fair value of derivative instruments	(30.9)	164.8	n/m	(43.0)	928.8	n/m
Net gains (losses) on other financial instruments	96.5	(48.6)	n/m	176.0	(74.7)	n/m
Net impairment losses recognized in earnings		(15.1)	n/m	(0.9)	(52.2)	(98.3)
Other income	2.5	2.8	(10.7)	10.5	9.6	9.4
Provision for losses	404.9	544.9	(25.7)	864.4	1,586.5	(45.5)
Provision for premium deficiency	(31.6)	(252.2)	(87.5)	(77.6)	135.7	n/m
Policy acquisition costs	14.2	20.8	(31.7)	54.1	120.6	(55.1)
Other operating expenses	54.0	80.8	(33.2)	161.3	199.8	(19.3)
Interest expense	11.3	13.9	(18.7)	35.9	40.2	(10.7)
Equity in net income of affiliates	7.9	15.8	(50.0)	23.6	44.0	(46.4)
Income tax benefit	(42.8)	(10.3)	n/m	(38.0)	(130.0)	(70.8)

n/m not meaningful

Net (Loss) Income. Our net loss for the three and nine months ended September 30, 2009 was $70.5 million and $56.0 million, respectively, or $0.86 and $0.69 per share (diluted), respectively, compared to net income of $36.7 million and a net loss of $160.2 million, or $0.46 and $2.01 per share (diluted), respectively, for the corresponding periods of 2008. The increase in net loss for the third quarter of 2009 compared to the third quarter of 2008 was mainly due to a decrease in change in fair value of derivative instruments. This was partially offset by net gains on other financial instruments and a reduction in our mortgage insurance provision for losses due mainly to an increase in our expected rates of insurance rescissions and claim denials and captive reinsurance termination recoveries. The results for the third quarter of 2008 include a $271.7 million reduction of the $421.8 million reserve for first-lien premium deficiency reserve which was established in the second quarter of 2008. The decrease in net loss for the nine months ended September 30, 2009 was primarily due to net gains on other financial instruments, the reduction in the provision for losses and the lack of a provision for first-lien premium deficiency, which was present in 2008. Partially offsetting these was a significant decrease in change in fair value of derivative instruments.

Net Premiums Written and Earned. Consolidated net premiums written for the three and nine months ended September 30, 2009 were ($38.1) million and $280.6 million, respectively, compared to $202.5 million and $669.4 million, respectively, for the corresponding periods of 2008. Consolidated net premiums earned for the three and nine months ended September 30, 2009 were $209.5 million and $614.3 million, respectively, compared to $249.7 million and $740.8 million, respectively, for the corresponding periods of 2008. Premiums written and earned in our mortgage insurance segment decreased as a result of an industry-wide decline in the amount of new mortgage insurance written. In addition, we discontinued writing new financial guaranty business in the second half of 2008, which further contributed to the decrease in 2009 premiums written and earned. Our net premiums earned were adversely affected for the three and nine months ended September 30, 2009, by $7.8

Table of Contents

million and $51.3 million, respectively, as a result of a significant increase in estimated premium refunds associated with our expectation of increased rescissions. As a result of the Ambac Commutation, premiums written for the three and nine months ended September 30, 2009 decreased by $185.6 million and premiums earned for the nine months ended September 30, 2009, decreased by $15.3 million.

Net Investment Income. Net investment income was $54.0 million and $163.6 million, respectively, for the three and nine months ended September 30, 2009, compared to $65.2 million and $196.3 million, respectively, for the corresponding periods of 2008. This decrease in net investment income was due to a decrease in yields on invested assets, primarily as a result of a significant re-allocation of our investment portfolio to shorter term investments in anticipation of increasing claim payments in our mortgage insurance segment.

Change in Fair Value of Derivative Instruments. For the three and nine months ended September 30, 2009, the change in fair value of derivative instruments was a net loss of $30.9 million and $43.0 million, respectively, compared to net gains of $164.8 million and $928.8 million, respectively, for the corresponding periods of 2008. The change in fair value of derivative instruments for the three and nine months ended September 30, 2009 and 2008 is detailed as follows:

Statements of Operations (In millions)	Three Months Ended September 30		Nine Months Ended September 30	
	2009	2008	2009	2008
Net premiums earned derivatives	$ 13.4	$ 18.7	$ 42.6	$ 64.8
Financial Guaranty credit derivative liabilities	(20.9)	156.9	(22.9)	724.7
NIMS	0.7	(35.9)	(8.8)	119.1
Mortgage Insurance domestic and international CDS	6.5	40.7	(15.0)	(30.5)
Put options on Money Market committed preferred custodial trust securities (CPS)	(29.8)	(14.4)	(31.6)	57.6
Other	(0.8)	(1.2)	(7.3)	(6.9)
Change in fair value of derivative instruments	$ (30.9)	$ 164.8	$ (43.0)	$ 928.8

The results for the third quarter and nine months ended September 30, 2008 reflect the prospective impact of the adoption of the accounting standard regarding fair value measurements on January 1, 2008, which incorporates the market s perception of our non-performance risk into the valuation. The cumulative unrealized gain attributable to the market s perception of our non-performance risk decreased by approximately $2.6 billion during the first nine months of 2009 as presented in the table below. The decrease was primarily the result of the tightening of our credit default swap spread, which decreased by 1,143 basis points during the first nine months of 2009. Credit spreads on our insured transactions, particularly corporate CDOs, tightened during the quarter, which resulted in unrealized gains on these transactions that offset the reduction of the cumulative unrealized gain related to our non-performance risk.

The following table quantifies the impact of our non-performance risk on our derivative assets and liabilities (in aggregate by type) presented in our condensed consolidated balance sheets.

	January 1 2008	September 30 2008	December 31 2008	September 30 2009
Radian Group five-year credit default swap spread (in basis points)	628	2,312	2,466	1,323

Product (In millions)	Cumulative Unrealized Gain at December 31, 2008	Cumulative Unrealized Gain at September 30, 2009
Corporate CDOs	$ 4,197.1	$ 901.2
Non-Corporate CDOs	948.7	1,880.3
NIMS and other	440.0	183.7
Total	$ 5,585.8	$ 2,965.2

66

Table of Contents

Net Gains (Losses) on Other Financial Instruments. Net gains on other financial instruments for the three and nine months ended September 30, 2009 were $96.5 million and $176.0 million, respectively, compared to net losses of $48.6 million and $74.7 million, respectively, for the three months and nine months ended September 30, 2008. Included in net gains for the nine months ended September 30, 2009 were: (i) $185.9 million of net unrealized gains related to the change in fair value of hybrid securities, convertible bonds and trading securities in our investment portfolio and (ii) $71.9 million of net realized gains on sales of available for sale securities in our investment portfolio. During the third quarter, we recorded a gain of $12.0 million related to the repurchase of $57.7 million of outstanding principal on our long-term debt due in 2011. These gains were partially offset by $70.4 million of losses related to the change in fair value of NIMS VIE debt, a $16.8 million realized loss related to claim payments on NIMS and $21.7 million of net losses on the sale of hybrid securities in our investment portfolio. Included in the net loss for the nine months ended September 30, 2008 were $118.0 million of net unrealized losses related to changes in the fair value of hybrid securities, primarily convertible bonds and trading securities, which were partially offset by $20.3 million of net realized gains on the sales of hybrid securities and $21.5 million of gains related to the change in fair value of the NIMS VIE debt.

Net Impairment Losses Recognized in Earnings. For the three and nine months ended September 30, 2009, there was a negligible amount of impairment losses recognized in earnings. Net impairment losses recognized in earnings for the three and nine months ended September 30, 2008, were $15.1 million and $52.2 million, respectively. The amounts reported for the third quarter and first nine months of 2009 reflect the adoption of the accounting standard regarding recognition and presentation of other-than-temporary impairments effective April 1, 2009.

Other Income. Other income was $2.5 million and $10.5 million, respectively, for the three and nine months ended September 30, 2009 compared to $2.8 million and $9.6 million, respectively, for the corresponding periods of 2008. Other income increased during the first nine months of 2009, primarily due to an increase in pricing for our mortgage insurance contract underwriting.

Provision for Losses. The provision for losses for the three and nine months ended September 30, 2009 was $404.9 million and $864.4 million, respectively, compared to $544.9 million and $1,586.5 million, respectively, for the corresponding periods of 2008. The decrease in the provision for losses for 2009 was primarily driven by a decrease in our mortgage insurance provision for losses as a result of increased levels of estimated insurance rescissions and claim denials, which resulted in a lower default to claim rate used in determining our loss reserve estimate. Also impacting the mortgage insurance provision for losses in the third quarter of 2009 was an $80.1 million reduction due to the termination of certain captive reinsurance and second-lien transactions. See Results of Operations Mortgage Insurance Quarter and Nine Months Ended September 30, 2009 Compared to Quarter and Nine Months Ended September 30, 2008 Provision for Losses below. The provision for losses for the nine months ended September 30, 2009 also included a reduction in financial guaranty loss reserves as a result of the Ambac Commutation and favorable developments in our structured finance direct financial guaranty insurance business, which was partially offset by an increase in expected losses in our public finance direct business.

Provision for Premium Deficiency. The reserve for premium deficiency decreased by $31.6 million and $77.6 million, respectively, for the three and nine months ended September 30, 2009, all related to our second-lien mortgage insurance business. In the first nine months of 2009, we recorded a decrease in the provision for second-lien premium deficiency due to the transfer of premium deficiency reserves to loss reserves. No provision for premium deficiency existed for our first-lien mortgage insurance portfolio during the first nine months of 2009. For the three and nine months ended September 30, 2008, the provision for premium deficiency decreased by $252.2 million and $135.7 million, respectively, primarily as a result of the establishment of a first-lien premium deficiency reserve in the second quarter of 2008 and the reduction of a portion of that reserve in the third quarter of 2008. For the three months ended September 30, 2008 we reduced our previously established first-lien premium deficiency reserve by $271.7 million, primarily as a result of the transfer of first-lien premium deficiency reserves to loss reserves and premiums earned as actual losses were incurred. We reassess our expectations for future premiums and losses and expenses each quarter and update our premium deficiency accordingly.

Policy Acquisition Costs. Policy acquisition costs were $14.2 million and $54.1 million, respectively, for the three and nine months ended September 30, 2009, compared to $20.8 million and $120.6 million, respectively, for the corresponding periods of 2008. In our mortgage insurance segment, estimates of expected gross profit, which are driven in part by estimated persistency and loss development for each underwriting year and product type, are used as a basis for amortization and are evaluated regularly. The total amortization recorded to date is adjusted by a charge or credit to our condensed consolidated statements of operations if actual experience or other evidence suggests that earlier estimates should be revised. In the second quarter of 2009, we accelerated $8.9 million of policy acquisition costs in connection with the Ambac Commutation. During the second quarter of 2008, we wrote-off $50.8 million of deferred policy acquisition costs on our domestic first-lien mortgage insurance business originated prior to July 2008, in connection with the establishment of a first-lien premium deficiency reserve for this business, which reduced the base asset to be amortized.

Other Operating Expenses. Other operating expenses were $54.0 million and $161.3 million, respectively, for the three and nine months ended September 30, 2009, compared to $80.8 million and $199.8 million, respectively, for the corresponding periods of 2008. The decrease in other operating expenses in 2009 compared to 2008 was primarily due to a reduction in employee costs in our financial guaranty business and other outside consulting services. The first nine months of 2008 also included a $9.0 million increase in the reserve for contract underwriting. See Results of Operations Mortgage Insurance Quarter and Nine Months Ended September 30, 2009 Compared to Quarter and Nine Months Ended September 30, 2008 Other Operating Expenses below.

Interest Expense. Interest expense was $11.3 million and $35.9 million, respectively, for the three and nine months ended September 30, 2009, compared to $13.9 million and $40.2 million, respectively, for the corresponding periods of 2008. During the first nine months of 2008, we reduced the outstanding principal amount of our revolving credit facility from $200 million to $100 million, which resulted in a decrease in interest expense in the first nine months of 2009 compared to the corresponding period in 2008. On August 6, 2009 we terminated our revolving credit facility and paid down the remaining balance of $100 million. In addition, during the third quarter of 2009 we repurchased approximately $57.7 million of outstanding principal on our 7.75% debentures due 2011.

Equity in Net Income of Affiliates. Equity in net income of affiliates was $7.9 million and $23.6 million, respectively, for the three and nine months ended September 30, 2009, compared to $15.8 million and $44.0 million, respectively, for the corresponding periods of 2008. The results for the nine months ended September 30, 2009 reflect the write-off of the remaining $5.7 million intangible asset related to our acquisition of an additional interest in Sherman in 2006.

Income Tax Benefit. We recorded an income tax benefit of $42.8 million and $38.0 million, respectively, for the three and nine months ended September 30, 2009, compared to an income tax benefit of $10.3 million and $130.0 million, respectively, for the corresponding periods of 2008. The consolidated effective tax rate was 37.8% and 40.4%, respectively, for the three and nine months ended September 30, 2009, compared to 39.2% and 44.8%, respectively, for the corresponding periods of 2008. The lower effective tax rate for the first nine months of 2009 reflects the increase in tax expense relating to the accounting standard regarding accounting for uncertainty in income taxes.

Table of Contents

Results of Operations Mortgage Insurance

Quarter and Nine Months Ended September 30, 2009 Compared to Quarter and Nine Months Ended September 30, 2008

The following table summarizes our mortgage insurance segment s results of operations for the three and nine months ended September 30, 2009 and 2008:

($ in millions)	Three Months Ended September 30 2009	Three Months Ended September 30 2008	% Change 2009 vs. 2008	Nine Months Ended September 30 2009	Nine Months Ended September 30 2008	% Change 2009 vs. 2008
Net loss	$ (82.6)	$ (47.0)	75.7%	$ (158.4)	$ (707.6)	(77.6)%
Net premiums written insurance	149.0	188.6	(21.0)	465.9	598.9	(22.2)
Net premiums earned insurance	186.9	196.2	(4.7)	534.8	605.6	(11.7)
Net investment income	33.8	38.0	(11.1)	97.5	115.8	(15.8)
Change in fair value of derivative instruments	6.7	8.6	(22.1)	(28.5)	105.5	n/m
Net gains (losses) on other financial instruments	38.6	(36.6)	n/m	64.3	(48.0)	n/m
Net impairment losses recognized in earnings		(3.3)	n/m	(0.9)	(18.2)	(95.1)
Other income	2.3	2.6	(11.5)	9.9	9.1	8.8
Provision for losses	376.5	519.3	(27.5)	841.0	1,539.6	(45.4)
Provision for premium deficiency	(31.6)	(252.2)	(87.5)	(77.6)	135.7	n/m
Policy acquisition costs	8.7	5.3	64.2	22.3	82.5	(73.0)
Other operating expenses	39.4	43.8	(10.0)	110.7	126.6	(12.6)
Interest expense	3.7	6.7	(44.8)	12.1	21.1	(42.7)
Income tax benefit	(45.9)	(70.5)	(34.9)	(73.0)	(428.2)	(83.0)

n/m not meaningful

Net Loss. Our mortgage insurance segment had a net loss for the three and nine months ended September 30, 2009 of $82.6 million and $158.4 million, respectively, compared to a net loss of $47.0 million and $707.6 million, respectively, for the corresponding periods of 2008. The significant reduction in net loss for the nine months ended September 30, 2009 compared to 2008 was the result of a reduction in the provision for losses, primarily due to increased levels of estimated insurance rescissions and claim denials and also due to a reduction in our provision for premium deficiency. In the second quarter of 2008, we recorded a first-lien premium deficiency reserve of $421.8 million. We reduced our first-lien premium deficiency reserve by $271.7 million in the third quarter of 2008 as actual incurred losses were transferred to the provision for losses in our statement of operations, and premiums were transferred to earned premiums. No provision for premium deficiency existed for our first-lien portfolio during the first nine months of 2009.

Net Premiums Written and Earned. Net premiums written for the three and nine months ended September 30, 2009 were $149.0 million and $465.9 million, respectively, compared to $188.6 million and $598.9 million, respectively, for the corresponding periods of 2008. Net premiums earned for the three and nine months ended September 30, 2009 were $186.9 million and $534.8 million, respectively, compared to $196.2 million and $605.6 million, respectively, for the corresponding periods of 2008. Premiums written and earned decreased during 2009 primarily as the result of the overall industry-wide decrease in the volume of new primary insurance written during 2008 and 2009. In addition, we ceased writing second-lien business in the second half of 2007, which resulted in a decrease in premiums written and earned from this product in 2008 and 2009 as this business runs off. Our net premiums earned were adversely affected for the three and nine months ended September 30, 2009, by $7.8 million and $51.3 million, respectively, as a result of a significant increase in estimated premium refunds associated with our expectation of increased rescissions.

Table of Contents

The following table provides additional information related to premiums written and earned for the three and nine month periods indicated:

	Three Months Ended		Nine Months Ended	
	September 30 2009	September 30 2008	September 30 2009	September 30 2008
Premiums written (in thousands)				
Primary and Pool Insurance	$ 169,180	$ 186,524	$ 483,872	$ 578,770
Second-lien	(1,493)	2,044	(750)	8,430
International	(18,687)	15	(17,244)	11,664
Total premiums written insurance	$ 149,000	$ 188,583	$ 465,878	$ 598,864
Premiums earned (in thousands)				
Primary and Pool Insurance	$ 182,582	$ 187,596	$ 517,770	$ 575,017
Second-lien	1,264	3,250	4,649	14,378
International	3,013	5,361	12,370	16,173
Total premiums earned insurance	$ 186,859	$ 196,207	$ 534,789	$ 605,568
Smart Home (in thousands)				
Ceded premiums written	$ 2,482	$ 3,099	$ 8,041	$ 9,953
Ceded premiums earned	$ 2,482	$ 3,099	$ 8,041	$ 9,953

Net Investment Income. Net investment income was $33.8 million and $97.5 million, respectively, for the three and nine months ended September 30, 2009, compared to $38.0 million and $115.8 million, respectively, for the corresponding periods of 2008. The decrease in investment income in the third quarter and first nine months of 2009 compared to the comparable periods of 2008 reflects a decrease in yields related to invested assets as a result of a reallocation of our investment portfolio to shorter term investments in anticipation of future claim payments.

Change in Fair Value of Derivative Instruments. For the three and nine months ended September 30, 2009, the change in fair value of derivative instruments was a net gain of $6.7 million and a net loss of $28.5 million, respectively, compared to net gains of $8.6 million and $105.5 million, respectively, for the corresponding periods of 2008. The results for the first nine months of 2009 reflect a $8.8 million net loss on NIMS and a $15.0 million net loss on domestic and international CDS, compared to a $119.1 million net gain on NIMS and a $30.5 million net loss on domestic and international CDS in the first nine months of 2008. The 2008 amounts reflect the initial implementation of a new accounting standard regarding fair value measurements.

Net Gains (Losses) on Other Financial Instruments. Net gains on other financial instruments for the three and nine months ended September 30, 2009 were $38.6 million and $64.3 million, respectively, compared to net losses of $36.6 million and $48.0 million, respectively, for the three and nine months ended September 30, 2008. Included in net gains for the nine months ended September 30, 2009 were unrealized gains related to the change in fair value of hybrid securities and trading securities in our investment portfolio of $134.3 million and net realized gains on sales of available for sale securities of $29.3 million. This was partially offset by unrealized losses of $70.4 million related to the change in fair value of the NIMS VIE debt and a $16.8 million realized loss related to claim payments on NIMS. Included in the nine months ended September 30, 2008 were unrealized losses related to changes in fair value of hybrid and trading securities of $99.8 million, partially offset by net realized gains on the sales of hybrid securities of approximately $14.8 million and $21.5 million in gains related to the change in fair value of the NIMS VIE debt.

Net Impairment Losses Recognized in Earnings. There was a negligible amount of impairment losses recognized in earnings for the three months ended September 30, 2009. Net impairment losses recognized in earnings for the nine months ended September 30, 2009 were $0.9 million compared to $3.3 million and $18.2 million, respectively, for the three and nine months ended September 30, 2008, respectively.

Table of Contents

Other Income. Other income for the three and nine months ended September 30, 2009 was $2.3 million and $9.9 million, respectively, compared to $2.6 million and $9.1 million, respectively, for the corresponding periods of 2008. Other income mostly includes income related to contract underwriting services, which was higher in the first nine months of 2009, primarily as a result of increased pricing.

Provision for Losses. The provision for losses for the three and nine months ended September 30, 2009 was $376.5 million and $841.0 million, respectively, compared to $519.3 million and $1,539.6 million, respectively, for the corresponding periods of 2008. Our mortgage insurance loss provision continues to be negatively impacted by an increase in new defaults, generally higher average loan balances on delinquent loans and an aging of existing defaults. The provision for losses for 2009 includes increased levels of estimated insurance rescissions and claim denials, which resulted in a lower default to claim rate used in determining our loss reserve estimate. In the third quarter and the first nine months of 2009, we rescinded or denied approximately $307.0 million and $956.9 million, respectively, of claims submitted to us for payment (submitted claims), compared to $138.9 million and $355.8 million, respectively, for the comparable periods of 2008. These amounts include a small amount of submitted claims that were subsequently withdrawn by the insured. In addition, due to deductibles and other exposure limitations included in our transactions, the amount of submitted claims rescinded or denied does not necessarily reflect the amounts we would have had to pay absent such rescissions and denials. Our mortgage insurance loss provision was also reduced by $80.1 million due to the termination of certain captive reinsurance and second-lien transactions.

The following table shows the cumulative rescission rates in the quarter the claims were received through the periods indicated.

Quarter Claim Received		Cumulative Rescission Rate for each quarter (1)	Percentage of Review Completed (2)
Structured	Q1 2008	17.2%	100%
	Q2 2008	17.4%	99%
	Q3 2008	24.0%	97%
	Q4 2008	28.5%	92%
	Q1 2009	21.4%	63%
Flow	Q1 2008	8.9%	99%
	Q2 2008	9.9%	98%
	Q3 2008	16.5%	95%
	Q4 2008	15.0%	91%
	Q1 2009	10.6%	66%
Total	Q1 2008	12.8%	100%
	Q2 2008	13.6%	99%
	Q3 2008	20.0%	96%
	Q4 2008	21.3%	91%
	Q1 2009	15.5%	65%

(1) Rescission rates represent the ratio of claims rescinded or denied to claims received (by claim count) and represent the cumulative rate for each quarter as of September 30, 2009 based on number of claims received during that quarter. Until all of the claims received during the periods shown have been resolved, the rescission rates for each quarter will be subject to change.

(2) For each quarter, represents the number of claims that have been reviewed to completion as a percentage of the total number of claims received for the quarter. For the second and third quarters of 2009, the review has not yet been completed for a significant portion of claims received in those quarters; therefore, we do not believe the cumulative rescission rates for those periods are presently meaningful and are therefore not presented here.

Table of Contents

Provision for Premium Deficiency. The reserve for premium deficiency decreased by $31.6 million and $77.6 million, respectively, for the three and nine months ended September 30, 2009. In the first nine months of 2009, we recorded a decrease in the provision for second-lien premium deficiency due to the transfer of premium deficiency reserves to loss reserves. No provision for premium deficiency existed for our first-lien mortgage insurance portfolio during the first nine months of 2009. For the three and nine months ended September 30, 2008, the provision for premium deficiency was ($252.2) million and $135.7 million, respectively, primarily resulting from the establishment of a first-lien premium deficiency reserve in the second quarter of 2008. We reduced our reserve for first-lien premium deficiency established in the second quarter of 2008 by $271.7 million in the third quarter of 2008, primarily as a result of the transfer of the first-lien premium deficiency reserves to loss reserves and premiums earned as actual losses were incurred and premiums were earned. We reassess our expectations for future premiums and losses and expenses each quarter and update our premium deficiency accordingly. See Critical Accounting Policies Reserve for Premium Deficiency below for a description of our reserving process.

Policy Acquisition Costs. Policy acquisition costs were $8.7 million and $22.3 million, respectively, for the three and nine months ended September 30, 2009, compared to $5.3 million and $82.5 million, respectively, for the corresponding periods of 2008. The decrease in policy acquisition costs in the first nine months of 2009 compared to 2008 is primarily attributed to the write-off of $50.8 million of deferred policy acquisition costs in June 2008 in connection with the establishment of a first-lien premium deficiency reserve, which reduced the base asset to be amortized.

Other Operating Expenses. Other operating expenses were $39.4 million and $110.7 million, respectively, for the three and nine months ended September 30, 2009, compared to $43.8 million and $126.6 million, respectively, for the corresponding periods of 2008. The decrease in other operating expenses in 2009 was primarily due to lower employee costs and lower contract underwriting costs. Contract underwriting expenses for the three and nine months ended September 30, 2009, including the impact of reserves for remedies, were $0.1 million and $9.6 million, respectively, compared to $3.3 million and $24.6 million, respectively, for the corresponding periods of 2008. During the first nine months of 2009, loans underwritten via contract underwriting for flow business accounted for 14.8% of applications, 13.2% of commitments for insurance and 13.1% of insurance certificates issued, compared to 11.9%, 11.2% and 10.1%, respectively, for the comparable period of 2008.

Interest Expense. Interest expense was $3.7 million and $12.1 million, respectively, for the three and nine months ended September 30, 2009, compared to $6.7 million and $21.1 million, respectively, for the corresponding periods of 2008. Both periods include an allocation to the mortgage insurance segment of interest on our long-term debt and other borrowings, based on allocated capital.

Income Tax Benefit. We recorded an income tax benefit of $45.9 million and $73.0 million, respectively, for the three and nine months ended September 30, 2009, compared to an income tax benefit of $70.5 million and $482.2 million, respectively, for the corresponding periods of 2008. The effective tax rate was 35.7% and 31.6%, respectively, for the three and nine months ended September 30, 2009, compared to 60.0% and 37.7%, respectively, for the corresponding periods of 2008. The increase in tax expense relating to uncertain tax positions has caused a lower effective tax rate for the nine months ended September 30, 2009. The higher effective tax rate for the three months ended September 30, 2008 reflects the higher ratio of income generated from tax-advantaged investment securities compared to our loss generated from operations and the additional benefit realized upon the completion and filing of our 2007 consolidated federal income tax return.

The following tables provide selected information as of and for the periods indicated for our mortgage insurance segment. Certain statistical information included in the following tables is recorded based on information received from lenders and other third parties.

	Three Months Ended					
	September 30 2009		June 30 2009		September 30 2008	
			($ in millions)			
Primary new insurance written (NIW)						
Flow	$ 3,446	100.0%	$ 5,499	100.0%	$ 7,524	99.8%
Structured					16	0.2
Total Primary	$ 3,446	100.0%	$ 5,499	100.0%	$ 7,540	100.0%
Flow						
Prime	$ 3,441	99.9%	$ 5,492	99.9%	$ 7,405	98.4%
Alt-A	1		1		96	1.3
A minus and below	4	0.1	6	0.1	23	0.3
Total Flow	$ 3,446	100.0%	$ 5,499	100%	$ 7,524	100.0%
Structured						
Prime	$	%	$	%	$ 16	100.0%
Alt-A						
Total Structured	$	%	$	%	$ 16	100.0%
Total						
Prime	$ 3,441	99.9%	$ 5,492	99.9%	$ 7,421	98.4%
Alt-A	1		1		96	1.3
A minus and below	4	0.1	6	0.1	23	0.3
Total Primary	$ 3,446	100.0%	$ 5,499	100.0%	$ 7,540	100.0%

	Nine Months Ended			
	September 30 2009		September 30 2008	
	($ in millions)			
Primary new insurance written				
Flow	$ 14,555	100.0%	$ 26,240	95.5%
Structured			1,234	4.5
Total Primary	$ 14,555	100.0%	$ 27,474	100.0%
Flow				
Prime	$ 14,530	99.8%	$ 24,356	92.8%
Alt-A	11	0.1	1,154	4.4
A minus and below	14	0.1	730	2.8
Total Flow	$ 14,555	100.0%	$ 26,240	100.0%
Structured				

Prime	$	%	$ 1,232	99.8%
Alt-A			2	0.2
Total Structured	$	%	$ 1,234	100.0%
Total				
Prime	$ 14,530	99.8%	$ 25,588	93.1%
Alt-A	11	0.1	1,156	4.2
A minus and below	14	0.1	730	2.7
Total Primary	$ 14,555	100.0%	$ 27,474	100.0%

Table of Contents

	Three Months Ended					
	September 30 2009		June 30 2009		September 30 2008	
	($ in millions)					
Total primary new insurance written by FICO score						
Flow						
>=740	$ 2,570	74.6%	$ 4,009	72.9%	$ 4,082	54.2%
680-739	831	24.1	1,402	25.5	2,662	35.4
620-679	45	1.3	87	1.6	773	10.3
<=619			1		7	0.1
Total Flow	$ 3,446	100.0%	$ 5,499	100.0%	$ 7,524	100.0%
Structured						
>=740	$	%	$	%	$ 12	75.0%
680-739					4	25.0
Total Structured	$	%	$	%	$ 16	100.0%
Total						
>=740	$ 2,570	74.6%	$ 4,009	72.9%	$ 4,094	54.3%
680-739	831	24.1	1,402	25.5	2,666	35.3
620-679	45	1.3	87	1.6	773	10.3
<=619			1		7	0.1
Total Primary	$ 3,446	100.0%	$ 5,499	100.0%	$ 7,540	100.0%

	Three Months Ended					
	September 30 2009		June 30 2009		September 30 2008	
Percentage of primary new insurance written						
Refinances		30%		46%		20%
95.01% LTV and above		<1%		<1%		3%
Adjustable rate mortgages (ARMs)						
Less than five years		<1%		<1%		1%
Five years and longer		2%		<1%		10%
Primary risk written ($ in millions)						
Flow	$ 756	100.0%	$ 1,178	100.0%	$ 1,770	99.9%
Structured					2	0.1
Total	$ 756	100.0%	$ 1,178	100.0%	$ 1,772	100.0%

74

Table of Contents

	Nine Months Ended			
	September 30 2009		September 30 2008	
	($ in millions)			
Total primary new insurance written by FICO score				
Flow				
>=740	$ 10,464	71.9%	$ 11,912	45.4%
680-739	3,822	26.3	9,729	37.1
620-679	268	1.8	4,223	16.1
<=619	1		376	1.4
Total Flow	$ 14,555	100.0%	$ 26,240	100.0%
Structured				
>=740	$	%	$ 780	63.2%
680-739			437	35.4
620-679			17	1.4
Total Structured	$	%	$ 1,234	100.0%
Total				
>=740	$ 10,464	71.9%	$ 12,692	46.2%
680-739	3,822	26.3	10,166	37.0
620-679	268	1.8	4,240	15.4
<=619	1		376	1.4
Total Primary	$ 14,555	100.0%	$ 27,474	100.0%
Percentage of primary new insurance written				
Refinances		43%		33%
95.01% LTV and above		<1%		13%
ARMs				
Less than five years		<1%		1%
Five years and longer		<1%		9%
Primary risk written ($ in millions)				
Flow	$ 3,130	100.0%	$ 6,317	95.2%
Structured			316	4.8
Total	$ 3,130	100.0%	$ 6,633	100.0%

Table of Contents

	September 30 2009		June 30 2009 ($ in millions)		September 30 2008	
Primary insurance in force						
Flow	$ 122,912	79.9%	$ 123,412	79.5%	$ 119,593	77.5%
Structured	30,876	20.1	31,845	20.5	34,699	22.5
Total Primary	$ 153,788	100.0%	$ 155,257	100.0%	$ 154,292	100.0%
Prime	$ 113,518	73.8%	$ 113,749	73.3%	$ 109,432	70.9%
Alt-A	30,012	19.5	30,918	19.9	33,404	21.7
A minus and below	10,258	6.7	10,590	6.8	11,456	7.4
Total Primary	$ 153,788	100.0%	$ 155,257	100.0%	$ 154,292	100.0%
Primary risk in force						
Flow	$ 30,388	88.0%	$ 30,574	87.7%	$ 29,968	86.4%
Structured	4,131	12.0	4,272	12.3	4,701	13.6
Total Primary	$ 34,519	100.0%	$ 34,846	100.0%	$ 34,669	100.0%
Flow						
Prime	$ 25,253	83.1%	$ 25,269	82.7%	$ 24,242	80.9%
Alt-A	3,257	10.7	3,372	11.0	3,674	12.3
A minus and below	1,878	6.2	1,933	6.3	2,052	6.8
Total Flow	$ 30,388	100.0%	$ 30,574	100.0%	$ 29,968	100.0%
Structured						
Prime	$ 2,152	52.1%	$ 2,231	52.2%	$ 2,451	52.1%
Alt-A	1,305	31.6	1,340	31.4	1,451	30.9
A minus and below	674	16.3	701	16.4	799	17.0
Total Structured	$ 4,131	100.0%	$ 4,272	100.0%	$ 4,701	100.0%
Total						
Prime	$ 27,405	79.4%	$ 27,500	78.9%	$ 26,693	77.0%
Alt-A	4,562	13.2	4,712	13.5	5,125	14.8
A minus and below	2,552	7.4	2,634	7.6	2,851	8.2
Total Primary	$ 34,519	100.0%	$ 34,846	100.0%	$ 34,669	100.0%

Table of Contents

	September 30 2009		June 30 2009 ($ in millions)		September 30 2008	
Total primary risk in force by FICO score						
Flow						
>=740	$ 10,449	34.4%	$ 10,225	33.4%	$ 8,999	30.0%
680-739	11,002	36.2	11,152	36.5	11,101	37.0
620-679	7,561	24.9	7,780	25.5	8,318	27.8
<=619	1,376	4.5	1,417	4.6	1,550	5.2
Total Flow	$ 30,388	100.0%	$ 30,574	100.0%	$ 29,968	100.0%
Structured						
>=740	$ 1,114	27.0%	$ 1,153	27.0%	$ 1,254	26.7%
680-739	1,314	31.8	1,349	31.6	1,452	30.9
620-679	1,083	26.2	1,125	26.3	1,255	26.7
<=619	620	15.0	645	15.1	740	15.7
Total Structured	$ 4,131	100.0%	$ 4,272	100.0%	$ 4,701	100.0%
Total						
>=740	$ 11,563	33.5%	$ 11,378	32.7%	$ 10,253	29.6%
680-739	12,316	35.7	12,501	35.9	12,553	36.2
620-679	8,644	25.0	8,905	25.6	9,573	27.6
<=619	1,996	5.8	2,062	5.8	2,290	6.6
Total Primary	$ 34,519	100.0%	$ 34,846	100.0%	$ 34,669	100.0%
Percentage of primary risk in force						
Refinances		31%		31%		31%
95.01% LTV and above		21%		21%		23%
ARMs						
Less than five years		8%		8%		9%
Five years and longer		8%		9%		9%

	September 30 2009		June 30 2009 ($ in millions)		September 30 2008	
Total primary risk in force by LTV						
85.00% and below	$ 3,556	10.3%	$ 3,608	10.4%	$ 3,659	10.6%
85.01% to 90.00%	12,690	36.7	12,709	36.5	12,045	34.7
90.01% to 95.00%	11,142	32.3	11,195	32.1	11,003	31.7
95.01% and above	7,131	20.7	7,334	21.0	7,962	23.0
Total Primary	$ 34,519	100.0%	$ 34,846	100.0%	$ 34,669	100.0%
Total primary risk in force by policy year						
2005 and prior	$ 10,140	29.4%	$ 10,576	30.3%	$ 11,983	34.6%
2006	4,650	13.4	4,807	13.8	5,342	15.4
2007	9,823	28.4	10,091	29.0	10,896	31.4
2008	6,887	20.0	7,054	20.2	6,448	18.6
2009	3,019	8.8	2,318	6.7		
Total Primary	$ 34,519	100.0%	$ 34,846	100.0%	$ 34,669	100.0%

77

Table of Contents

	September 30 2009		June 30 2009 ($ in millions)		September 30 2008	
Pool risk in force						
Prime	$ 1,973	70.3%	$ 1,997	70.3%	$ 2,096	70.7%
Alt-A	284	10.1	287	10.1	290	9.8
A minus and below	549	19.6	557	19.6	577	19.5
Total pool risk in force	$ 2,806	100.0%	$ 2,841	100.0%	$ 2,963	100.0%

	September 30 2009	June 30 2009 ($ in millions)	September 30 2008
Other risk in force			
Second-lien			
1st loss	$ 184	$ 223	$ 289
2nd loss	100	131	407
NIMS	418	418	456
International			
1st loss-Hong Kong primary mortgage insurance	316	358	442
Reinsurance		171	139
CDS	3,132	3,247	7,567
Other			
Domestic CDS			162
Total other risk in force	$ 4,150	$ 4,548	$ 9,462

78

Table of Contents

	September 30 2009	June 30 2009	September 30 2008
Default Statistics			
Primary insurance:			
Flow			
Prime			
Number of insured loans	621,794	625,528	619,035
Number of loans in default	69,287	58,012	33,330
Percentage of total loans in default	11.14%	9.27%	5.38%
Alt-A			
Number of insured loans	62,860	64,977	70,814
Number of loans in default	21,563	19,969	13,853
Percentage of total loans in default	34.30%	30.73%	19.56%
A minus and below			
Number of insured loans	55,657	57,311	60,946
Number of loans in default	19,885	17,988	13,436
Percentage of total loans in default	35.73%	31.39%	22.05%
Total Flow			
Number of insured loans	740,311	747,816	750,795
Number of loans in default	110,735	95,969	60,619
Percentage of total loans in default	14.96%	12.83%	8.07%