RADIAN GROUP INC
Form 10-Q
November 08, 2010
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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, 2010

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	**(I.R.S. Employer**
incorporation or organization)	**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.

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: 132,942,783 shares of common stock, $0.001 par value per share, outstanding on October 29, 2010.

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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, will, could, should, would, expect, intend, plan, goal, contemplate, believe, estimate, predict, pr negative or other variations on these words and other similar expressions. These statements, which may 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 or significant delay of the U.S. economy to recover from the most recent recession or the U.S. economy reentering a recessionary period following a brief period of stabilization or even growth, the lack of meaningful liquidity in the capital markets or in the credit markets, a prolonged period of high unemployment rates and limited home price appreciation or further depreciation (which has resulted in some borrowers voluntarily defaulting on their mortgages when their mortgage balances exceed the value of their homes), 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, or 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 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;

a further decrease in the volume of home mortgage originations due to reduced liquidity in the lending market, tighter underwriting standards and the decrease in housing demand 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 and financial guaranty losses;

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

a decrease in the level of future insurance rescissions and claim denials from the current elevated levels, which rescissions and denials have materially mitigated our paid losses and resulted in a significant reduction in our loss reserves;

the negative impact our insurance rescissions and claim denials may have on our relationships with customers, including the potential loss of customers and heightened risk of disputes and litigation; and, in the event that we are unsuccessful in defending our rescissions or denials, the need to reestablish loss reserves for, and reassume risk on, rescinded loans and pay additional claims;

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

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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;

a decrease 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, the FHA and those private mortgage insurers that have been assigned higher ratings from the major rating agencies or new entrants to the industry);

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

changes to the current system of housing finance, including the possibility of a new system in which private mortgage insurers are not required or their services are significantly limited in scope;

the effect of the Dodd-Frank Wall Street Reform and Consumer Protection Act on the financial services industry in general, and on our mortgage insurance and financial guaranty businesses in particular;

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, or the possibility of additional, lawsuits or investigations, and (ii) legislative and regulatory changes (a) affecting demand for private mortgage insurance, (b) limiting or restricting our use of (or requirements for) additional capital and the products we may offer, or (c) affecting the form in which we execute credit protection or affecting our existing financial guaranty portfolio;

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 business, or to estimate accurately the fair value amounts of derivative instruments 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 possibility of a 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; and

- 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.

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 of 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.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements. (Unaudited)

Radian Group Inc.

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

($ in thousands, except per share amounts)	September 30 2010	December 31 2009
ASSETS		
Investments		
Fixed-maturities held to maturity at amortized cost (fair value $13,630 and $20,308)	$ 12,893	$ 19,283
Fixed-maturities available for sale at fair value (amortized cost $349,431 and $1,667,108)	309,567	1,555,827
Trading securities at fair value (including variable interest entity (VIE) securities of $86,500 and $0)	4,027,767	2,679,532
Equity securities available for sale at fair value (cost $162,959 and $173,418)	170,466	176,251
Hybrid securities at fair value	432,183	279,406
Short-term investments (including VIE investments of $149,977 and $99,918)	1,381,187	1,401,157
Other invested assets at cost	54,197	25,739
Total investments	6,388,260	6,137,195
Cash	19,559	41,574
Restricted cash	31,085	35,607
Investment in affiliates	133	121,480
Deferred policy acquisition costs	146,475	160,281
Accrued investment income	38,507	38,151
Accounts and notes receivable (less allowance of $91,105 and $77,476)	148,561	173,331
Property and equipment, at cost (less accumulated depreciation of $91,080 and $89,062)	13,743	16,197
Derivative assets (including VIE derivative assets of $11,502 and $12,182)	26,995	68,534
Deferred income taxes, net	728,230	440,948
Reinsurance recoverables	586,370	628,572
Receivable for securities	134,538	5,141
Other assets (including VIE other assets of $115,704 and $0)	320,195	209,295
Total assets	$ 8,582,651	$ 8,076,306
LIABILITIES AND STOCKHOLDERS EQUITY		
Unearned premiums	$ 707,265	$ 823,621
Reserve for losses and loss adjustment expenses (LAE)	3,592,973	3,578,982
Reserve for premium deficiency	25,399	25,357
Long-term debt	664,901	698,222
VIE debt at fair value (including $12,758 and $18,493 of non-recourse debt)	496,293	296,080
Derivative liabilities (including VIE derivative liabilities of $23,340 and $0)	530,688	238,697
Payable for securities purchased	282,477	28,921
Accounts payable and accrued expenses (including VIE accounts payable of $770 and $0)	351,035	381,432
Total liabilities	6,651,031	6,071,312
Commitments and Contingencies (Note 16)		
Stockholders equity		

Common stock: par value $.001 per share; 325,000,000 shares authorized; 150,398,463 and 99,989,972 shares issued at September 30, 2010 and December 31, 2009, respectively; 132,942,783 and 82,768,856 shares outstanding at September 30, 2010 and December 31, 2009, respectively	150	100
Treasury stock, at cost: 17,455,680 and 17,221,116 shares at September 30, 2010 and December 31, 2009, respectively	(891,989)	(889,496)
Additional paid-in capital	1,896,068	1,363,255
Retained earnings	928,025	1,602,143
Accumulated other comprehensive loss	(634)	(71,008)
Total stockholders equity	1,931,620	2,004,994
Total liabilities and stockholders equity	$ 8,582,651	$ 8,076,306

See notes to unaudited condensed consolidated financial statements.

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Radian Group Inc.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(In thousands, except per share amounts)	Three Months Ended September 30 2010	2009	Nine Months Ended September 30 2010	2009
Revenues:				
Premiums written insurance:				
Direct	$ 200,820	$ 201,571	$ 579,855	$ 593,794
Assumed	575	(206,560)	(8,596)	(203,362)
Ceded	(26,588)	(33,071)	(81,050)	(109,835)
Net premiums written	174,807	(38,060)	490,209	280,597
Decrease in unearned premiums	29,130	247,547	115,442	333,734
Net premiums earned insurance	203,937	209,487	605,651	614,331
Net investment income	46,554	54,032	140,531	163,566
Change in fair value of derivative instruments	229,783	(30,857)	(372,777)	(42,955)
Net gains on other financial instruments	99,140	96,508	49,586	175,962
Total other-than-temporary impairment losses	(34)	(3)	(90)	(873)
Losses recognized in other comprehensive income (loss)				
Net impairment losses recognized in earnings	(34)	(3)	(90)	(873)
Gain on sale of affiliate			34,815	
Other income	1,951	2,467	5,654	10,487
Total revenues	581,331	331,634	463,370	920,518
Expenses:				
Provision for losses	344,389	404,904	1,323,435	864,408
Provision for premium deficiency	8,628	(31,569)	43	(77,569)
Policy acquisition costs	11,054	14,193	42,719	54,114
Other operating expenses	43,052	54,034	143,273	161,271
Interest expense	9,502	11,296	28,551	35,890
Total expenses	416,625	452,858	1,538,021	1,038,114
Equity in net income of affiliates		7,946	14,668	23,608
Pretax (loss) income	164,706	(113,278)	(1,059,983)	(93,988)
Income tax (benefit) provision	52,521	(42,828)	(386,733)	(37,976)
Net (loss) income	$ 112,185	$ (70,450)	$ (673,250)	$ (56,012)
Basic net (loss) income per share	$ 0.85	$ (0.86)	$ (6.20)	$ (0.69)
Diluted net (loss) income per share	$ 0.84	$ (0.86)	$ (6.20)	$ (0.69)
Weighted-average number of common shares outstanding basic	132,324	81,749	108,608	81,761

Weighted-average number of common and common equivalent shares outstanding diluted	133,520	81,749	108,608	81,761
Dividends per share	$ 0.0025	$ 0.0025	$ 0.0075	$ 0.0075

See notes to unaudited condensed consolidated financial statements.

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Radian Group Inc.

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

(In thousands)	Common Stock	Treasury Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss): Foreign Currency Translation Adjustment	Accumulated Other Comprehensive Income (Loss): Unrealized Holding Gains (Losses)	Accumulated Other Comprehensive Income (Loss): Other	Total
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 Guaranty Contracts				(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				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
BALANCE, JANUARY 1, 2010	$ 100	$ (889,496)	$ 1,363,255	$ 1,602,143	$ 18,285	$ (72,802)	$ (16,491)	$ 2,004,994
Comprehensive loss:								
Net loss				(673,250)				(673,250)
Unrealized foreign currency translation adjustment, net of tax of $1,171					2,280			
Less: Reclassification adjustment for liquidation of foreign subsidiary, net of tax benefit of $240					(447)			
Net foreign currency translation adjustment, net of tax of $931					1,833			1,833
Unrealized holding gains arising during the period, net of tax of $26,214						48,681		
Less: Reclassification adjustment for net losses included in net loss, net of tax benefit of $1,668						3,099		
Net unrealized gain on investments, net of tax of $27,882						51,780		51,780

Comprehensive loss								(619,637)
Sherman unrealized loss included in net loss, net of tax of $9,025							16,761	16,761
Repurchases of common stock under incentive plans		(2,493)	108					(2,385)
Issuance of common stock stock offering	50		525,837					525,887
Issuance of common stock under benefit plans			3,035					3,035
Amortization of restricted stock			3,084					3,084
Stock-based compensation expense			749					749
Dividends declared				(868)				(868)
BALANCE, SEPTEMBER 30, 2010	$ 150	$ (891,989)	$ 1,896,068	$ 928,025	$ 20,118	$ (21,022)	$ 270	$ 1,931,620

See notes to unaudited condensed consolidated financial statements.

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Radian Group Inc.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(In thousands)	Nine Months Ended September 30 2010	2009
Cash flows used in operating activities	$ (947,468)	$ (1,750,774)
Cash flows from investing activities:		
Proceeds from sales of fixed-maturity investments available for sale	1,216,270	1,965,290
Proceeds from sales of equity securities available for sale	6,329	33,373
Proceeds from sales of hybrid securities	122,171	178,672
Proceeds from sales of trading securities	3,948,225	
Proceeds from redemptions of hybrid securities		33,686
Proceeds from redemptions of fixed-maturity investments available for sale	44,939	178,522
Proceeds from redemptions of fixed-maturity investments held to maturity	6,810	15,020
Purchases of fixed-maturity investments available for sale		(309,632)
Purchases of trading securities	(4,875,313)	
Purchases of equity securities available for sale		(2,908)
Purchases of hybrid securities	(253,218)	(209,112)
Sales (purchases) of short-term investments, net	70,019	(17,370)
Purchases of other invested assets, net	(28,197)	(1,293)
Proceeds from sale of investment in affiliate	172,017	
Purchases of property and equipment, net	(1,864)	(3,274)
Net cash provided by investing activities	428,188	1,860,974
Cash flows from financing activities:		
Dividends paid	(868)	(618)
Paydown of other borrowings		(100,000)
Redemption of long-term debt	(29,348)	(57,669)
Issuance of common stock	525,887	
Net cash provided by (used in) financing activities	495,671	(158,287)
Effect of exchange rate changes on cash	1,594	337
Decrease in cash	(22,015)	(47,750)
Cash, beginning of period	41,574	75,829
Cash, end of period	$ 19,559	$ 28,079
Supplemental disclosures of cash flow information:		
Income taxes paid (received)	$ 3,375	$ (338,305)
Interest paid	$ 27,726	$ 34,975
Supplemental disclosures of non-cash items:		
Stock-based compensation, net of tax	$ 11,621	$ 11,525

See notes to unaudited condensed consolidated financial statements.

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Radian Group Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

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, 2009. 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.

Our future performance and financial condition is subject to significant risks and uncertainties, including but not limited to, the following:

- Potential adverse effects on us of the failure or significant delay of the United States (U.S.) economy to recover from deterioration in the housing and related credit markets and economic instability, which could increase our mortgage insurance or financial guaranty incurred losses beyond existing reserves (See Notes 8, 9 and 10).

- Potential adverse effects if the capital and liquidity levels of Radian Group or our regulated subsidiaries statutory capital levels are deemed inadequate to support current business operations and strategies. Radian Guaranty Inc. s (Radian Guaranty) statutory policyholders surplus and contingency reserves declined from $1.5 billion at December 31, 2009 to $1.3 billion at September 30, 2010. Radian Group has contributed $122 million to Radian Guaranty during the first nine months of 2010. Radian Guaranty also received a dividend of $69.2 million from Radian Asset Assurance Inc. (Radian Asset Assurance) in the second quarter of 2010. As a result of losses generated in the first nine months of 2010, and in order to maintain the minimum surplus requirements for two subsidiaries that reinsure risk from Radian Guaranty, Radian Group and Radian Guaranty contributed $101 million and $65 million, respectively, of capital to Commonwealth Mortgage Assurance Company (CMAC) of Texas and Radian Mortgage Insurance Inc. during the first nine months of 2010, including $8.5 million from Radian Guaranty to Radian Mortgage Insurance Inc. in the third quarter of 2010.

- Potential adverse effects if Radian Guaranty s regulatory risk-to-capital ratio was to increase above 25 to 1, including the possibility that regulators or the Government Sponsored Enterprises (GSEs) may limit or cause Radian Guaranty to cease underwriting new mortgage insurance risk. If we are then unable to continue writing new first-lien mortgage insurance business through Amerin Guaranty

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Radian Group Inc.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

Corporation (Amerin Guaranty), it will significantly impair our franchise value and reduce our cash flow associated with new business while we continue to honor and settle all valid claims and related expenses. At September 30, 2010 this ratio was 17.2 to 1.

Potential adverse effects if Radian Guaranty were to lose its eligibility status with the GSEs, which could occur at any time at the discretion of the GSEs. Loss of GSE eligibility would likely result in a significant curtailment of our ability to write new mortgage insurance business, which would significantly impair our franchise value and limit our cash flow arising from new business while we continue to honor and settle all valid claims and related expenses.

Potential adverse effects on Radian Group liquidity if regulators or the GSEs limit, disallow or terminate our expense allocation agreements among Radian Group and its subsidiaries. In the first nine months of 2010, Radian Group received $81 million in reimbursements from its subsidiaries under these agreements.

It is possible that the actual outcome of one or more of our plans or forecasts could be materially different, or that one or more of our estimates about the potential effects of the risks and uncertainties above or described elsewhere in these financial statements, in particular, our estimate of losses, could prove to be materially different than our actual results. If one or more possible adverse outcomes were realized, there could be material adverse effects on our financial position, results of operations and cash flows.

Basic net (loss) income per share is based on the weighted-average number of common shares outstanding, while diluted net (loss) 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. For the three months ended September 30, 2010, 2,790,978 shares of our common stock equivalents issued under our stock-based compensation plans were not included in the calculation of diluted net income per share because they were anti-dilutive. As a result of our net loss for the nine months ended September 30, 2010, 4,386,697 shares of our common stock equivalents issued under our stock-based compensation plans were not included in the calculation of diluted net loss per share because they were anti-dilutive. 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.

Effective January 1, 2010, we adopted the update to the accounting standard regarding accounting for transfers of financial assets. This update is intended to improve the relevance 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 update removes the concept of a qualified special purpose entity (QSPE) 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. See Note 5 for further information regarding this standard and its financial statement impact.

Effective January 1, 2010, we adopted the accounting standard update regarding improvements to financial reporting by enterprises involving VIEs. See Note 5 for further information regarding this standard and its financial statement impact.

Effective January 1, 2010, we adopted the update to the accounting standard regarding fair value measurements and disclosures. This update requires new disclosures regarding significant transfers in and out of

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Radian Group Inc.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

Level I and Level II fair value measurements. Additional disclosures regarding the reconciliation of Level III fair value measurements are not required until 2011.

Effective July 1, 2010, we adopted the update to the accounting standard regarding derivatives and hedging. This update clarifies how to determine whether embedded credit derivatives, including those interests held in collateralized debt obligations and synthetic collateralized debt obligations, should be bifurcated and accounted for separately. The adoption of this standard did not have a significant impact on our results of operations.

2. Segment Reporting

We have three reportable segments: mortgage insurance, financial guaranty and financial services. Our reportable segments are strategic business units that are managed separately because each business has different characteristics and strategies. 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. As a result of the sale of our remaining interest in Sherman Financial Group LLC (Sherman) in May 2010, our financial services segment consists solely of our 46% interest in C-BASS, whose operations are currently in run-off. As a result, this segment had no impact on our results of operations for the third quarter of 2010. 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)	**2010**	**2009**	**2010**	**2009**
Net premiums written insurance	$ 174,419	$ 149,000	$ 499,360	$ 465,878
Net premiums earned insurance	$ 181,731	$ 186,859	$ 539,062	$ 534,789
Net investment income	26,658	33,822	81,561	97,465
Change in fair value of derivative instruments	6,772	6,678	5,739	(28,455)
Net gains on other financial instruments	55,735	38,583	80,784	64,250
Net impairment losses recognized in earnings	(34)	(3)	(90)	(850)
Gain on sale of affiliate				
Other income	1,870	2,299	5,292	9,865
Total revenues	272,732	268,238	712,348	677,064
Provision for losses	347,800	376,488	1,304,513	840,974
Provision for premium deficiency	8,628	(31,569)	43	(77,569)
Policy acquisition costs	6,444	8,672	29,061	22,332
Other operating expenses	31,690	39,440	103,562	110,724
Interest expense	3,251	3,739	6,920	12,052
Total expenses	397,813	396,770	1,444,099	908,513
Equity in net income of affiliates				
Pretax loss	(125,081)	(128,532)	(731,751)	(231,449)
Income tax benefit	(50,090)	(45,912)	(267,700)	(73,048)
Net loss	$ (74,991)	$ (82,620)	$ (464,051)	$ (158,401)

Cash and investments	$ 3,722,189	$ 4,093,265
Deferred policy acquisition costs	37,144	30,528
Total assets	5,324,822	5,231,755
Unearned premiums	199,764	266,122
Reserve for losses and LAE	3,504,181	3,387,740
VIE debt	156,811	328,986
Derivative liabilities	178	17,018

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Radian Group Inc.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

	Three Months Ended September 30		Nine Months Ended September 30	
Financial Guaranty (In thousands)	**2010**	**2009**	**2010**	**2009**
Net premiums written insurance	$ 388	$ (187,060)	$ (9,151)	$ (185,281)
Net premiums earned insurance	$ 22,206	$ 22,628	$ 66,589	$ 79,542
Net investment income	19,896	20,209	58,970	66,098
Change in fair value of derivative instruments	223,011	(37,535)	(378,516)	(14,500)
Net (losses) gains on other financial instruments	43,405	57,925	(31,198)	111,712
Net impairment losses recognized in earnings				(23)
Gain on sale of affiliate				
Other income	81	97	299	316
Total revenues	308,599	63,324	(283,856)	243,145
Provision for losses	(3,411)	28,416	18,922	23,434
Provision for premium deficiency				
Policy acquisition costs	4,610	5,521	13,658	31,782
Other operating expenses	11,362	18,877	39,511	54,619
Interest expense	6,251	7,557	21,631	23,838
Total expenses	18,812	60,371	93,722	133,673
Equity in net income of affiliates			78	
Pretax (loss) income	289,787	2,953	(377,500)	109,472
Income tax (benefit) provision	102,611	(1,245)	(136,278)	25,004
Net (loss) income	$ 187,176	$ 4,198	$ (241,222)	$ 84,468
Cash and investments	$ 2,716,715	$ 2,373,262		
Deferred policy acquisition costs	109,331	128,285		
Total assets	3,257,829	3,015,532		
Unearned premiums	507,501	606,253		
Reserve for losses and LAE	88,792	125,259		
VIE debt	339,482			
Derivative liabilities	530,510	377,368		

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Radian Group Inc.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

Financial Services (In thousands)	**Three Months Ended September 30**	**Nine Months Ended September 30**	
	2009	**2010**	**2009**
Net premiums written insurance	$	$	$
Net premiums earned insurance	$	$	$
Net investment income	1		3
Change in fair value of derivative instruments			
Net gains on other financial instruments			
Net impairment losses recognized in earnings			
Gain on sale of affiliate		34,815	
Other income	71	63	306
Total revenues	72	34,878	309
Provision for losses			
Provision for premium deficiency			
Policy acquisition costs			
Other operating expenses	(4,283)	200	(4,072)
Interest expense			
Total expenses	(4,283)	200	(4,072)
Equity in net income of affiliates	7,946	14,590	23,608
Pretax income	12,301	49,268	27,989
Income tax provision	4,329	17,245	10,068
Net income	$ 7,972	$ 32,023	$ 17,921
Cash and investments	$		
Deferred policy acquisition costs			
Total assets	117,125		
Unearned premiums			
Reserve for losses and LAE			
Derivative liabilities			
VIE debt			

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

Consolidated (In thousands)	**Three Months Ended September 30**		**Nine Months Ended September 30**	
	2010	**2009**	**2010**	**2009**
Net (loss) income:				
Mortgage Insurance	$ (74,991)	$ (82,620)	$ (464,051)	$ (158,401)
Financial Guaranty	187,176	4,198	(241,222)	84,468

Financial Services		7,972	32,023	17,921
Total	$ 112,185	$ (70,450)	$ (673,250)	$ (56,012)

3. Derivative Instruments

A summary of our derivative assets and liabilities, as of and for the periods indicated, is listed below. Certain contracts are in an asset position because the net present value of the contractual premium exceeds the

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Radian Group Inc.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

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 2010**	**December 31 2009**
Derivative assets:		
Financial Guaranty credit derivative assets	$ 15.5	$ 23.8
Net interest margin securities (NIMS) assets	11.5	12.2
Put options on money market committed preferred custodial trust securities (CPS)		32.5
Total derivative assets	27.0	68.5
Derivative liabilities:		
Financial Guaranty credit derivative liabilities	507.2	238.7
Financial Guaranty VIE derivative liabilities	23.3	
Mortgage Insurance international credit default swaps (CDS)	0.2	
Total derivative liabilities	530.7	238.7
Total derivative liabilities, net	$ (503.7)	$ (170.2)

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, 2010 and December 31, 2009 was $42.0 billion and $46.1 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**	
	2010	**2009**	**2010**	**2009**
Net premiums earned derivatives	$ 11.5	$ 13.4	$ 35.6	$ 42.6
Financial Guaranty credit derivatives	223.7	(20.9)	(384.6)	(22.9)
Financial Guaranty VIE derivative liabilities	(5.2)		(15.9)	
NIMS	(0.9)	0.7	(1.4)	(8.8)
Mortgage Insurance domestic and international CDS	0.2	6.5	(0.2)	(15.0)
Put options on CPS		(29.8)	(6.3)	(31.6)
Other	0.5	(0.8)		(7.3)
Change in fair value of derivative instruments	$ 229.8	$ (30.9)	$ (372.8)	$ (43.0)

The valuation of derivative instruments may result in significant 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 asset-backed securities (ABS). Any incurred gains or losses on our financial guaranty contracts that are accounted for as derivatives are recognized as a change in fair value of derivative instruments. 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. See Note 4 for information on our fair value of financial instruments. Changes in our fair value estimates may also result in significant volatility in our financial position or results of operations for future periods.

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Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

The following table shows selected information about our derivative contracts:

	September 30, 2010		
Product	**Number of Contracts**	**Par/ Notional Exposure**	**Total Net Asset/ (Liability)**
		($ in millions)	
NIMS related (1)		$	$ 11.5
Corporate collateralized debt obligations (CDOs)	85	33,700.9	(128.4)
Non-Corporate CDOs and other derivative transactions:			
Trust Preferred Securities (TruPs)	20	2,139.2	(228.9)
CDO of commercial mortgage-backed securities (CMBS)	4	1,831.0	(80.0)
Other:			
Structured finance	10	811.2	(12.0)
Public finance	28	1,933.5	(19.4)
Total Non-Corporate CDOs and other derivative transactions	62	6,714.9	(340.3)
Assumed financial guaranty credit derivatives:			
Structured finance	289	1,133.9	(18.2)
Public finance	14	306.2	(4.8)
Total Assumed	303	1,440.1	(23.0)
Financial Guaranty VIE derivative liabilities (2)			(23.3)
Mortgage Insurance international CDS	1	121.4	(0.2)
Grand Total	451	$ 41,977.3	$ (503.7)

(1) NIMS derivative assets relate to consolidated NIMS VIEs and do not represent additional par exposure.
(2) Interest rate swap included in the consolidation of one of our financial guaranty transactions, effective January 1, 2010. The notional amount of the interest rate swap does not represent additional par exposure, and therefore, is not presented in this table. See Note 5 for information on our maximum exposure to loss from our consolidated financial guaranty transactions.

4. Fair Value of Financial Instruments

Our fair value measurements are intended to 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. 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. In the event that our investments or derivative contracts were sold or transferred in a forced liquidation, the amounts received or paid may be materially different than those determined in accordance with this standard. Effective January 1, 2010, we adopted the update to the accounting standard regarding fair value measurements and disclosures. This update requires new disclosures regarding significant transfers in and out of Level I and Level II fair value measurements. Additional disclosures regarding the reconciliation of Level III fair value measurements are not required until 2011.

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 CDS spread tightens or widens, the fair value of our liabilities increases or decreases, respectively.

Radian Group Inc.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

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

	September 30 2010	December 31 2009	September 30 2009	December 31 2008
Radian Group five-year CDS spread (in basis points)	625	1,530	1,323	2,466

Product (In millions)	Fair Value Liability before Consideration of Radian Non-Performance Risk September 30, 2010	Impact of Radian Non-Performance Risk September 30, 2010	Fair Value Liability Recorded September 30, 2010
Corporate CDOs	$ (606.5)	$ 478.1	$ (128.4)
Non-Corporate CDO-related (1)	(1,595.1)	1,095.1	(500.0)
NIMS-related and other (2)	(172.9)	28.3	(144.6)
Total	$ (2,374.5)	$ 1,601.5	$ (773.0)

Product (In millions)	Fair Value Liability before Consideration of Radian Non-Performance Risk December 31, 2009	Impact of Radian Non-Performance Risk December 31, 2009	Fair Value Liability Recorded December 31, 2009
Corporate CDOs	$ (631.5)	$ 629.0	$ (2.5)
Non-Corporate CDO-related (1)	(1,924.8)	1,730.9	(193.9)
NIMS-related and other (2)	(384.5)	108.7	(275.8)
Total	$ (2,940.8)	$ 2,468.6	$ (472.2)

(1) Includes derivative liabilities and VIE debt. Effective January 1, 2010, any transaction previously reported as a derivative liability that has been consolidated is reported as VIE debt.

(2) Includes NIMS VIE debt, NIMS derivative assets and mortgage insurance CDS.

The cumulative impact attributable to the market s perception of our non-performance risk decreased by $867.1 million during the first nine months of 2010, as presented in the table above. This decrease was primarily the result of the tightening of our CDS spreads.

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 or valuations in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

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

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

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Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

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, 2010, our total Level III assets were approximately 3.9% of total assets measured at fair value and total Level III liabilities accounted for 100% of total liabilities measured at fair value.

Trading securities, hybrid securities, VIE debt, derivative instruments, and certain other assets are recorded at fair value. All derivative instruments and contracts are recognized on our condensed consolidated balance sheets as either derivative assets or derivative liabilities. All changes in fair value of trading securities, hybrid securities, VIE debt, derivative instruments and certain other assets are included in the statements of operations.

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 either in Level I or in Level II of the fair value hierarchy.

State and municipal obligations The fair value of state and municipal obligations is estimated using recent transaction activity, including market and market-like observations. 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. 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. The fair value of the Level III securities is generally estimated by discounting estimated future cash flows.

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. The fair value of the Level III securities is generally estimated by discounting estimated future cash flows.

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

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. The fair value of the Level III securities is generally estimated by discounting estimated future cash flows.

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. The estimated fair value is derived, in part, by utilizing dealer quotes and observed bond and stock prices. 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. These securities are categorized in Level II 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 primarily consist of short-term commercial paper within CPS trusts, which are categorized in Level II of the fair value hierarchy. The fair value of the remaining securities is categorized in Level III of the fair value hierarchy, and is generally estimated by discounting estimated future cash flows.

Derivative Instruments and Related VIE Assets/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 instruments primarily 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

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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.

We make an adjustment to our derivative liabilities valuation methodology to account for our own non-performance risk by incorporating our observable CDS spread into the determination of the fair value of our derivative liabilities. 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 and Consolidated CPS VIE Debt

The fair value of our put options on CPS and the CPS VIE debt, in the absence of observable market data, 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 any relevant market observations that are available. Subsequent to our tender and purchase of the majority of the securities of two of the three trusts to which our put options relate, we consolidated the assets and liabilities of those two trusts effective January 1, 2010. We have purchased the majority of the securities issued by the remaining CPS trust, and we consolidated the assets and liabilities of that trust during the second quarter of 2010. The consolidated CPS VIE debt is categorized in Level III of the fair value hierarchy. See Note 5 for further information regarding our put options on CPS and CPS VIE debt.

NIMS Credit Derivatives, NIMS Derivative Assets and NIMS VIE Debt

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. NIMS VIE debt represents the debt of consolidated NIMS trusts, which we account for at fair value. 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, NIMS derivative assets, or NIMS VIE debt 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 estimate the rate of prepayments on the underlying collateral in each securitization, incorporating historical prepayment experience. The estimated loss and rate of prepayments 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 CDS spread, results in a significant reduction of the derivative liability. Since 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, NIMS derivative assets and NIMS VIE debt are all categorized in Level III of the fair value hierarchy. As a result of our having to consolidate our NIMS VIEs, the

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Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

fair value of derivative assets held by the NIMS VIEs and the NIMS VIE debt are determined by using the same internally-generated valuation model.

Changes in expected principal credit losses on NIMS could have a significant impact on our fair value estimate. The gross expected principal credit losses were $154.9 million as of September 30, 2010, which is our best estimate of settlement value at that date and represents substantially all of our total risk in force. The recorded fair value of our total net liabilities related to NIMS as of September 30, 2010 was $144.4 million, of which $11.5 million relates to derivative assets and $155.9 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 CDS spread, which has resulted in a fair value amount that is $10.5 million less than the expected principal credit losses. 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.

Present Value of Expected Future Contractual Premiums Our contractual premiums are subject to change primarily for two reasons: (1) all of our contracts provide our counterparties with the right to terminate upon our default and (2) 85% of the aggregate net par outstanding of our corporate CDO transactions (as of September 30, 2010) 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 CDS 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).

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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, CDS 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 comprises 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 the referenced corporate entities, the term, the attachment point and the 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 CDS credit spreads of the referenced corporate entities, the correlations between each of the referenced corporate entities, and the term of the transaction.

For each referenced corporate entity in our corporate CDO transactions, the CDS 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.

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Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

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 CDS 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 CDS 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.

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, which in turn has a positive impact on the fair value of these derivatives.

Non-Corporate CDOs and Other Derivative Transactions

Our non-corporate CDO transactions include our guaranty of TruPs CDOs, CDOs of ABS, CDOs of CMBS, and CDOs backed by other asset classes such as (i) municipal securities, (ii) synthetic financial guarantees of ABS (such as 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 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.

TruPs CDOs Our TruPs transactions are CDS on CDOs where the collateral consists primarily of deeply subordinated securities issued by banks, insurance companies, real estate investment trusts and other financial institutions whose individual spreads are not observable. In each case, we provide credit protection on a specific tranche of each CDO. We use a discounted cash flow valuation approach to determine fair value for these transactions 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 present value of the expected cash flows to the TruPs transaction is then determined using a discount rate derived from the observed market pricing for a TruPs transaction with similar characteristics. The present value of the insured cash flows is determined using a discount rate that is equal to our CDS rate plus a risk-free rate.

Radian Group Inc.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

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 has occurred and remains outstanding as of the termination date of our CDS coverage (the Conditional Liquidity Claim). For these transactions, an additional fair value 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 Conditional Liquidity Claim. A discounted cash flow valuation is also 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.

CDOs of ABS, including Related VIE Liabilities The fair value amounts for our CDO of ABS transactions are derived using standard market indices and discounted cash flows, to the extent expected losses can be estimated.

For one CDO of ABS transaction, the credit quality of the underlying referenced obligations was reasonably similar to that which was included in the AAA-rated ABX.HE index, a standardized list of RMBS reference obligations. Accordingly, the fair premium amount for a typical market participant for this transaction was derived directly from the observed spreads of this index. This transaction matured during the quarter ended March 31, 2010.

Prior to January 1, 2010, our guaranty on our sole outstanding directly insured CDO of ABS transaction was accounted for as a derivative. Upon the adoption of the accounting standard update regarding improvements to financial reporting by enterprises involving VIEs, we determined that we are the primary beneficiary for this CDO of ABS transaction and consolidated the VIE assets and liabilities as of January 1, 2010. Upon consolidation, we elected the fair value option for all financial assets and financial liabilities held by this VIE, which primarily consist of trading securities, interest rate swaps and VIE debt to note holders in the trust. The fair value election results in a net fair value of the VIE assets and VIE liabilities that is equal to the fair value liability of our exposure as previously accounted for as a derivative. See Note 5 for further discussion of the primary beneficiary analysis and the related financial impact to our financial position, financial performance and cash flows.

The investment securities in this consolidated CDO of ABS transaction have experienced significant credit deterioration. Fair value for these securities is estimated using a discounted cash flow analysis. We estimate cash flows based on our internal credit analysis, which is based on the current performance of each security. The present value of the expected cash flows from the securities is then determined using a discount rate derived from the BBB- ABX.HE index. The present value of the insured cash flows (which represents the VIE debt) is determined using a discount rate that is equal to our CDS rate plus a risk-free rate. We continue to utilize this model to estimate the fair value of our exposure, and to derive the fair value of this consolidated VIE debt.

The VIE debt and derivative liability within this CDO of ABS transaction are categorized in Level III of the fair value hierarchy. Our maximum principal exposure to loss from this CDO of ABS transaction is $455.9 million at September 30, 2010. The recorded net fair value of our consolidated assets and liabilities related to this consolidated CDO of ABS as of September 30, 2010 was less than our maximum principal exposure. The fair value of the VIE debt and other liabilities exceeds the net value of the assets of the VIE; however, because our fair value estimate of the VIE debt incorporates a discount rate that is based on our CDS spread, the fair value is substantially less than our expected ultimate claim payments.

CDOs of CMBS The fair premium amounts for our CDO of CMBS transactions for a typical market participant are derived first by observing the spreads of the CMBX indices that match the underlying reference

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Radian Group Inc.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

obligations of our transactions. A mezzanine tranche, which represents our insured tranche, is then priced through a standard CDO model. The CMBX indices represent standardized lists of CMBS reference obligations. A different CMBX index exists for different types of underlying referenced obligations based on vintages and credit rating. For each of our CDO of CMBS transactions, we use the CMBX index that most directly correlates to our transaction with respect to vintage and credit rating. Because the observable CMBS indices do not have a similar mezzanine tranche, we use an internal CDO pricing model in order to adjust fair value for this structural feature. A standard CDO pricing model was calibrated to establish the market pricing at inception. This CDO pricing model is then applied to the current valuation period to derive the fair premium for the mezzanine tranche. The typical fair premium amount represents the estimated fair value of the expected future fair premiums determined by using a discount rate equal to the CDS spread of a typical market participant plus a risk-free rate.

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. The fair premium amount is calculated such that the expected profit (fair premium amount net of expected losses and other expenses) is proportional to an internally-developed risk-based capital amount. Expected losses and our internally developed risk-based capital amounts are projected by our model using the internal credit rating, term, and current par outstanding for each transaction.

For each of the non-corporate CDOs and other derivative transactions discussed above, with the exception of our CDOs of ABS and 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 CDOs of ABS and our TruPs transactions 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 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, 2010, is based on the most recent available financial information, which is reported on a quarterly lag. The lag in reporting is consistent from period to period. The fair value is based on credit spreads obtained by the primaries from market data sources published by third parties (e.g., dealer spread tables for collateral similar to assets within the transactions being valued) as well as collateral-specific spreads provided by trustees or obtained from market sources if such data is available. If observable market spreads are not available or reliable for the underlying reference obligations, then the primaries valuations are predominantly based on market indices that most closely resemble the underlying reference obligations, considering asset class, credit quality rating and maturity of the underlying reference obligations. In addition, these valuations incorporate an adjustment for non-performance risk. The primaries models used to estimate the fair value of these instruments include a number of factors, including credit spreads, changes in interest rates and the credit ratings of referenced entities. In establishing our fair value 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) analyzing and 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. These credit derivatives are categorized in Level III of the fair value hierarchy.

Radian Group Inc.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

Other Financial Guaranty VIE Consolidated Assets/Liabilities

Upon the adoption of the accounting standard update regarding improvements to financial reporting by enterprises involving VIEs, we determined that we are the primary beneficiary for two other VIEs as of January 1, 2010, for which we have provided financial guarantees. Upon consolidation, we elected the fair value option for all financial assets and financial liabilities held by these two VIEs, which primarily consist of manufactured housing loans and VIE debt to note holders in the trust. The fair value election allows us to offset the changes in fair value of the assets and liabilities of the trust, providing a better representation of our net exposure to the VIEs. See Note 5 for further discussion of the primary beneficiary analysis and the related financial impacts to our financial position, financial performance and cash flows.

The fair value of the VIE debt related to these other financial guaranty VIEs is estimated based on prices of comparable securities and spreads observed in the market. The overall net fair value for this transaction is determined using a discounted cash flow analysis. We do not currently estimate any projected claims based on our internal credit analysis, which is based on the current performance of the underlying collateral and the remaining subordination available to support the transaction. The present value of the insured cash flows is determined by using a discount rate that is equal to our CDS rate plus a risk-free rate. We utilize this model to determine the fair value of our exposure to these VIEs, and to derive the fair value of the assets in these VIEs, which are reported within other assets on our condensed consolidated balance sheets.

The assets and VIE debt related to these transactions are categorized in Level III of the fair value hierarchy. Our maximum principal exposure to loss from these transactions is $131.0 million; however, we do not currently expect to pay any claims related to these two VIEs. At September 30, 2010, we recorded $112.6 million of other assets, $112.0 million of VIE debt and $0.6 million of accounts payable and accrued expenses associated with these two VIEs.

Mortgage Insurance International and Domestic CDS

In determining the estimated fair value of our mortgage insurance international and domestic CDS, we use the following information: (1) non-binding fair value quotes from our counterparties on each respective transaction, 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 quarterly 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. We make an adjustment to the fair value amount 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.* Our international CDS transaction is categorized in Level III of the fair value hierarchy. In the second quarter of 2009, we terminated our remaining mortgage insurance domestic CDS.

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Radian Group Inc.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

The following is a list of those assets and liabilities that are measured at fair value by hierarchy level as of September 30, 2010:

(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	$ 757.4	$ 665.4	$	$ 1,422.8	$	$ 1,422.8
State and municipal obligations		1,009.6	24.4	1,034.0		1,034.0
Money market instruments	473.1			473.1		473.1
Corporate bonds and notes		1,133.4		1,133.4		1,133.4
RMBS		881.2	55.9	937.1		937.1
CMBS		176.6	23.0	199.6		199.6
CDO			2.4	2.4		2.4
Other ABS		150.3	3.3	153.6		153.6
Foreign government securities		85.1		85.1		85.1
Hybrid securities		432.2		432.2		432.2
Equity securities (1)	151.6	138.8	2.2	292.6		292.6
Other investments (2)		150.0	4.7	154.7		154.7
Other investments not carried at fair value (3)					67.7	67.7
Total Investments	1,382.1	4,822.6	115.9	6,320.6	$ 67.7	$ 6,388.3
Derivative Assets			27.0	27.0		
Other Assets (4)			112.6	112.6		
Total Assets at Fair Value	$ 1,382.1	$ 4,822.6	$ 255.5	$ 6,460.2		
Derivative Liabilities	$	$	$ 530.7	$ 530.7		
VIE debt (5)			496.3	496.3		
Total Liabilities at Fair Value	$	$	$ 1,027.0	$ 1,027.0		

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

(2) Comprised of short-term commercial paper within CPS trusts included within Level II and lottery annuities ($2.7 million) and TruPs held by consolidated VIEs ($2.0 million) included within Level III.

(3) Comprised of fixed-maturities held to maturity ($12.9 million), short-term investments ($0.6 million), primarily invested in time deposits, and other invested assets ($54.2 million), primarily invested in limited partnerships, accounted for as cost-method investments and not measured at fair value.

(4) Comprised of manufactured housing loan collateral related to two consolidated financial guaranty VIEs.

(5) Comprised of consolidated debt related to NIMS VIEs ($155.9 million) and CPS trusts ($2.6 million). Also includes amounts related to financial guaranty VIEs ($337.8 million) that required consolidation as of January 1, 2010 under the accounting standard update regarding

improvements to financial reporting by enterprises involving VIEs.

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Radian Group Inc.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

The following is a list of those assets and liabilities that are measured at fair value by hierarchy level as of December 31, 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	$	$ 581.6	$	$ 581.6	$	$ 581.6
State and municipal obligations		1,545.1	24.4	1,569.5		1,569.5
Money market instruments	1,300.6			1,300.6		1,300.6
Corporate bonds and notes		976.9		976.9		976.9
RMBS		785.7		785.7		785.7
CMBS		46.2		46.2		46.2
Other ABS		106.8		106.8		106.8
Foreign government securities		86.1		86.1		86.1
Hybrid securities		278.8	0.6	279.4		279.4
Equity securities (1)	146.8	106.5	1.7	255.0		255.0
Other investments (2)		99.9	3.8	103.7		103.7
Other investments not carried at fair value (3)					45.7	45.7
Total Investments	1,447.4	4,613.6	30.5	6,091.5	$ 45.7	$ 6,137.2
Derivative Assets			68.5	68.5		
Total Assets at Fair Value	$ 1,447.4	$ 4,613.6	$ 99.0	$ 6,160.0		
Derivative Liabilities	$	$	$ 238.7	$ 238.7		
VIE debt (4)			296.1	296.1		
Total Liabilities at Fair Value	$	$	$ 534.8	$ 534.8		

(1) Comprised of broadly diversified domestic equity mutual funds included within Level I, and various preferred and common stocks invested across numerous companies and industries included within Level II and III.
(2) Comprised of short-term commercial paper within CPS trusts included in Level II and lottery annuities included in Level III.
(3) Comprised of fixed-maturities held to maturity ($19.3 million), short-term investments ($0.6 million), primarily invested in time deposits, and other invested assets ($25.8 million), primarily invested in limited partnerships, accounted for as cost-method investments and not measured at fair value.
(4) Comprised of consolidated debt related to NIMS VIEs ($288.0 million) and CPS trusts ($8.1 million).

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Radian Group Inc.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

The following is a rollforward of Level III assets and liabilities measured at fair value for the quarter ended September 30, 2010:

	Beginning Balance at July 1 2010	Realized and Unrealized Gains (Losses) Recorded in Earnings (1)	Purchases, Sales, Issuances & Settlement	Transfers Into (Out of) Level III (2)	Ending Balance at September 30 2010
Investments:					
State and municipal obligations	$ 24.4	$	$	$	$ 24.4
RMBS	57.3	2.3	(3.7)		55.9
CMBS	23.2	(0.2)			23.0
CDO	2.4	(0.1)	0.1		2.4
Other ABS	3.3				3.3
Hybrid securities					
Equity securities	1.7	0.4		0.1	2.2
Other investments	4.8		(0.1)		4.7
Total Level III Investments	117.1	2.4	(3.7)	0.1	115.9
NIMS and CPS derivative assets	11.3	(0.5)	0.7		11.5
Other assets	116.1	3.7	(7.2)		112.6
Total Level III Assets, net	$ 244.5	$ 5.7	$ (10.2)	$ 0.1	$ 240.0
Derivative liabilities, net	$ (737.4)	$ 230.0	$ (7.8)	$	$ (515.2)
VIE debt	(627.6)	11.1	120.2(3)		(496.3)
Total Level III liabilities, net	$ (1,365.0)	$ 241.1	$ 112.4	$	$ (1,011.5)

(1) Includes unrealized gains (losses) relating to assets and liabilities still held as of September 30, 2010 as follows: $7.5 million for investments, $(0.4) million for NIMS derivative assets, $0.3 million for other assets, $213.3 million for derivative liabilities, and $(4.2) million for VIE debt.

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

(3) Includes $95.6 million related to NIMS purchases, $10.9 million related to financial guaranty VIE debt paydowns, and $13.7 million for CPS VIE debt purchases.

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Radian Group Inc.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

The following is a rollforward of Level III assets and liabilities measured at fair value for the nine months ended September 30, 2010:

	Beginning Balance at January 1 2010	VIE Consolidation at January 1 2010 (1)	Realized and Unrealized Gains (Losses) Recorded in Earnings (2)	Purchases, Sales, Issuances & Settlement	Transfers Into (Out of) Level III (3)	Ending Balance at September 30 2010
Investments:						
State and municipal obligations	$ 24.4	$	$	$	$	$ 24.4
RMBS		44.3	21.0	(9.4)		55.9
CMBS		23.8	(0.8)			23.0
CDO		3.8	(1.6)	0.2		2.4
Other ABS		3.5	(0.2)			3.3
Hybrid securities	0.6				(0.6)	
Equity securities	1.7		(0.1)	0.2	0.4	2.2
Other investments	3.8	3.7	(1.7)	(1.1)		4.7
Total Level III Investments	30.5	79.1	16.6	(10.1)	(0.2)	115.9
NIMS and CPS derivative assets	44.7		(7.8)	(25.4)(4)		11.5
Other assets		119.7	14.6	(21.7)		112.6
Total Level III Assets, net	$ 75.2	$ 198.8	$ 23.4	$ (57.2)	$ (0.2)	$ 240.0
Derivative liabilities, net	$ (214.9)	$ 51.8	$ (365.2)	$ 13.1	$	$ (515.2)
VIE debt	(296.1)	(253.5)	(159.3)	212.6(5)		(496.3)
Total Level III liabilities, net	$ (511.0)	$ (201.7)	$ (524.5)	$ 225.7	$	$ (1,011.5)

(1) Represents the impact of our adoption of the accounting standard update regarding improvements to financial reporting by enterprises involving VIEs.
(2) Includes unrealized gains (losses) relating to assets and liabilities still held as of September 30, 2010 as follows: $27.5 million for investments, $(0.8) million for NIMS derivative assets, $3.7 million for other assets, $(396.9) million for derivative liabilities, and $(28.7) million for VIE debt.
(3) Transfers are recognized at the end of the period as the availability of market observed inputs change from period to period.
(4) Includes impact of consolidation of VIE from CPS Trust I as of June 30, 2010, in the amount of $27.1 million.
(5) Includes impact of consolidation of VIE from CPS Trust I in the amount of $11.1 million. Offsetting this increase was $169.1 million related to NIMS purchases, $28.2 million related to financial guaranty VIE debt paydowns, and $26.4 million for CPS VIE debt purchases.

There were no investment transfers between Level I and Level II during the third quarter or first nine months of 2010.

Radian Group Inc.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

The following 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 (1)	Purchases, Sales, Issuances & Settlements	Transfers Into (Out of) Level III (2)	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
NIMS and CPS derivative assets	160.4	(29.1)	1.0		132.3
Total Level III Assets, net	$ 173.5	$ (28.8)	$ 49.3	$ (7.5)	$ 186.5
Derivative liabilities, net	$ (359.9)	$ (1.2)	$ (12.5)	$	$ (373.6)
VIE debt	(283.2)	(45.5)	(0.3)		(329.0)
Total Level III liabilities, net	$ (643.1)	$ (46.7)	$ (12.8)	$	$ (702.6)

(1) Includes unrealized gains (losses) relating to assets and liabilities still held as of September 30, 2009 as follows: $(0.4) million for investments, $(27.9) million for NIMS and CPS derivative assets, $(13.7) million for derivative liabilities, and $(45.7) million for VIE debt.

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

The following 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 (1)	Purchases, Sales, Issuances & Settlements	Transfers Into (Out of) Level III (2)	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
NIMS and CPS derivative assets	155.8	(30.1)	6.6		132.3
Total Level III Assets, net	$ 166.2	$ (24.4)	$ 51.6	$ (6.9)	$ 186.5
Derivative liabilities, net	$ (495.6)	$ (3.8)	$ 125.8(3)	$	$ (373.6)
VIE debt	(160.0)	(72.5)	(96.5)(3)		(329.0)
Total Level III liabilities, net	$ (655.6)	$ (76.3)	$ 29.3	$	$ (702.6)

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Radian Group Inc.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

(1) Includes unrealized gains (losses) relating to assets and liabilities still held as of September 30, 2009 as follows: $(26.4) million for NIMS and CPS derivative assets, $(34.4) million for derivative liabilities, and $(88.1) million for VIE debt.
(2) Transfers are recognized at the end of the period.
(3) These amounts primarily represent derivative liabilities transferred to VIE debt related to NIMS trusts that we were required to consolidate during the period.

Other Fair Value Disclosure

The carrying value and estimated fair value of other selected assets and liabilities not carried at fair value on our condensed consolidated balance sheets were as follows:

	September 30, 2010		December 31, 2009	
(In millions)	**Carrying Amount**	**Estimated Fair Value**	**Carrying Amount**	**Estimated Fair Value**
Assets:				
Fixed-maturities held to maturity	$ 12.9	$ 13.6	$ 19.3	$ 20.3
Short-term investments (carried at cost)	0.6	0.6	0.6	0.6
Other invested assets	54.2	50.5	25.8	25.8
Liabilities:				
Long-term debt	664.9	601.9	698.2	499.4
Non-derivative financial guaranty liabilities	438.0	561.0	526.3	627.1

Fixed-Maturities 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 These investments are primarily time deposits that are near maturity, and are carried at cost, which approximates fair value for these short-term instruments.

Other Invested Assets The fair value of these assets, primarily invested in limited partnerships, is estimated based on information within the financial statements provided by the limited partnerships. These interests are accounted for and carried as cost-method investments.

Long-Term Debt 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 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.

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Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

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 guaranty 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 disruption in the credit markets and significant rating agency downgrades. 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 estimates. Variables not currently incorporated into 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 guaranty 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.

5. VIEs

Effective January 1, 2010, we adopted the accounting standard update regarding improvements to financial reporting by enterprises involving VIEs. As a provider of credit enhancement, we have entered into insurance contracts with VIEs and derivative contracts with counterparties where we have provided credit protection directly on variable interests and, in some cases, obtained the contractual rights of our counterparties with respect to the VIEs. The credit protection we provide to these VIEs is described in detail below. VIEs are entities as defined by the accounting standard and include corporations, trusts or partnerships in which equity investors do not have a controlling financial interest or do not have sufficient equity at risk to finance activities without additional subordinated financial support. In addition, as a result of the update to the standard regarding accounting for transfers of financial assets, effective January 1, 2010, special purpose entities that were previously considered QSPEs are to be considered in the VIE accounting framework as prescribed by the standard regarding financial reporting by enterprises involving VIEs.

An entity is considered the primary beneficiary and is required to consolidate a VIE if its variable interest: (i) gives it the power to most significantly impact the economic performance of the VIE and (ii) has the obligation to absorb losses or the right to receive residual benefits that could potentially be significant to the VIE. For all VIEs in which we have a variable interest, we determine whether we are the primary beneficiary. In determining whether we are the primary beneficiary, a number of factors are considered, including the structure of the entity, contractual provisions that grant us additional rights to influence or control the economic performance of the VIE upon the occurrence of an event of default or a servicer termination event, or the breach of a performance trigger, and our obligation to absorb significant losses. Due to the continued deterioration of the performance of many of our financial guaranty transactions, the breach of these performance tests and events could occur. When we obtain control rights, we perform an analysis to reassess our involvement with these VIEs to determine whether we have become the primary beneficiary. As of January 1, 2010, we determined that we were the primary beneficiary of all of our NIMS transactions, two of our CPS transactions and certain financial guaranty structured transactions discussed below. While the implementation of this accounting standard impacted the classification of our assets, liabilities, and certain line items in our statement of operations, we recorded no

Radian Group Inc.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

transition adjustment since the net liabilities associated with these transactions remained unchanged. We have purchased the majority of the securities issued by the remaining CPS trust, and we consolidated the assets and liabilities of that trust during the second quarter of 2010. We recognized a loss of $13.9 million within net (losses) gains on other financial instruments upon consolidation, based on the difference between the consideration paid for the CPS trust securities and the net amount of the trust s identifiable assets and liabilities recognized and measured at fair value at the date of consolidation.

When evaluating whether we are the primary beneficiary of a VIE, we determine which activities most significantly impact the economic performance of the VIE. As part of our qualitative analysis, we consider whether we have any contractual rights that would allow us to direct those activities. As a result of the adoption of this accounting standard, in addition to the VIEs we had consolidated prior to January 1, 2010, we concluded that we are the primary beneficiary of two additional VIEs with respect to which we provided credit protection pursuant to financial guaranty insurance contracts and one additional VIE with respect to which we have provided credit protection pursuant to a financial guaranty derivative contract. Our control rights in these VIEs, which we obtained due to an event of default or breach of a performance trigger as defined in the transaction, generally provide us with either a right to replace the VIE servicer, or, in some cases, the right to direct the sale of the VIE assets. In those instances where we have determined that we are the primary beneficiary, we consolidate the assets and liabilities of the VIE. We have elected to carry the financial assets and financial liabilities of these VIEs at fair value. For all VIEs, the maximum exposure is based on the net par amount of our insured obligation as of the reporting date, except for the put options on CPS, which is based on our carrying amounts.

The following table provides a summary of our maximum exposure to losses, and the financial impact on our condensed consolidated balance sheets and our condensed consolidated statements of operations as of and for the nine months ended September 30, 2010, as it relates to our consolidated VIEs:

	September 30, 2010 Interests in Consolidated VIEs		
(In millions)	**NIMS**	**Put Options on CPS**	**Financial Guaranty Insurance Contracts**
Balance Sheet:			
Trading securities	$	$	$ 86.5
Short-term investments		150.0	
Derivative assets	11.5		
Other assets			115.7
Derivative liabilities			23.3
VIE debt at fair value	155.9	2.6	337.8
Accounts payable and accrued expenses			0.8
Statement of Operations:			
Net investment income			8.1
Change in fair value of derivative instruments loss	(1.4)		(15.9)
Net (loss) gain on other financial instruments	(37.1)	(23.5)	(81.4)
Other operating expenses		0.3	2.6
Maximum exposure (1)	156.6	147.4	586.9

(1) The difference between the carrying amounts of the net asset/liability position and maximum exposure related to VIEs is primarily driven by the difference between the face amount of the obligation and the recorded fair values, which includes an adjustment for our non-performance risk.

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Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

NIMS VIEs

We consolidate all of the assets and liabilities associated with NIMS VIEs, due to contractual provisions that allow us to purchase assets of the VIEs and thus direct the activities that most significantly impact the economic performance of each VIE. For this reason, we have concluded that we have the power to most significantly impact the economic performance of these VIEs as described in this standard. As the guarantor of either all or a significant portion of the debt issued by each NIMS VIE, we have the obligation to absorb losses that are significant to the VIEs. As a result, we have concluded that we are the primary beneficiary of these VIEs. The consolidated NIMS assets are accounted for as derivatives and represent assets to be used to settle the obligation of the VIEs. We elected the fair value option as it relates to the NIMS VIE debt, and therefore, the consolidated NIMS VIE debt is recorded at fair value. Our VIE debt includes amounts for which third parties do not have recourse to us. Due to the fact that both prior to, and after the implementation of this standard, the assets and liabilities were recorded at fair value, and the value at December 31, 2009 was equivalent to the net fair value of the consolidated assets and liabilities on January 1, 2010, there was no transition adjustment at the date of adoption.

Our continued involvement with the NIMS VIEs also includes a risk mitigation initiative, under which we purchased $178 million face value of NIMS bonds during the first nine months of 2010, at a purchase price of $151 million, which effectively eliminates the guarantee that we had issued to the VIE with respect to such bonds and limits our liability to the discounted purchase price. In total, our net cash outflow related to NIMS during 2010 has been $169.7 million, primarily as a result of these purchases. The maximum principal exposure related to NIMS consolidated VIE assets and liabilities was $156.6 million at September 30, 2010, and comprises 26 transactions. The average remaining maturity of our existing NIMS transactions is approximately two years.

Put Options on CPS

In September 2003, Radian Asset Assurance entered into a contingent capital transaction pursuant to which three custodial trusts issued an aggregate of $150 million in CPS ($50 million by each custodial trust) to various holders. Commencing in the fourth quarter of 2009 and continuing into 2010, Radian Group and its subsidiaries have purchased by tender offer and privately negotiated transactions all of the face amount of the CPS issued by the custodial trusts. As of September 30, 2010, Radian Group and its subsidiaries had purchased $50.0 million, $45.0 million and $50.0 million face amount of the CPS issued by each of these custodial trusts at a weighted average purchase price equal to approximately 54% of the face amount of such CPS. Our total net cash outflow related to CPS during the nine months ended September 30, 2010 has been $78.4 million, primarily as a result of these purchases. In October 2010, Radian Group purchased the remaining $5 million face amount of CPS. Our continued involvement with these VIEs also includes the payment of a put premium representing the spread between the assets of the trust and the auction rate notes, which has typically been de minimis. We eliminate the premium associated with the purchased CPS.

Based on our additional involvement in these trusts, combined with the put options Radian Asset Assurance holds on these trusts (which together are considered in the determination of the primary beneficiary), we concluded that we are the party that directs the activities that most significantly influence the economic performance of these VIEs and has the right to receive benefits that would be significant to these VIEs. This determination was based on a qualitative analysis which demonstrates that we have a variable interest in each of these VIEs, and therefore, we concluded that we are the primary beneficiary. As such, the assets and liabilities of these trusts were consolidated at their respective fair values, net of liabilities to us. The assets of the consolidated trusts, which are reported in short-term investments, may only be used to settle obligations of the trusts, and there are no liabilities of the trusts for which creditors have recourse to our general credit.

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Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

Financial Guaranty Insurance Contracts

We consolidate the assets and liabilities associated with one CDO of ABS transaction. Due to contractual provisions that allow us to direct the collateral manager to sell the underlying assets of the transaction, we concluded that this provision gives us the power to direct the activities that most significantly impact the economic performance of this VIE. In addition, as the guarantor of certain classes of debt issued by this VIE, we have the obligation to absorb losses that are significant to this VIE. The consolidated CDO of ABS VIE assets are accounted for as trading securities and measured at fair value and represent assets to be used to settle the obligation of this VIE. We also elected the fair value option as it relates to the VIE debt, and as such, the consolidated VIE debt is recorded at fair value. While the assets of this VIE may only be used to settle the obligations of the trust, due to our guarantee, the creditors have recourse to our general credit for this consolidated VIE debt. At January 1, 2010, the net fair value of the assets and liabilities of this VIE was equal to the fair value of the derivative liability prior to consolidation; as such, no transition adjustment was necessary. During 2010, our net cash inflow was $0.2 million related to our involvement with this VIE.

We also consolidate the assets and liabilities associated with two other financial guaranty transactions, in which we provided guarantees for VIEs that own manufactured housing loans, and which had previously been accounted for as insurance contracts. Due to the contractual provisions that allow us to replace and appoint the servicer who manages the collateral underlying the assets of the transactions, we concluded that we have power to direct the activities of these VIEs. In addition, as the guarantor of certain classes of debt issued by these VIEs, we have the obligation to absorb losses that could be significant to these VIEs. The consolidated assets associated with these VIEs are recorded at fair value in accordance with the fair value option and classified in other assets on our condensed consolidated balance sheets. The liabilities of these VIEs are also recorded at fair value in accordance with the fair value option. The assets of these VIEs may only be used to settle the obligations of the trusts, while due to the nature of our guarantees, creditors have recourse to our general credit as it relates to the VIE debt. However, due to the seniority of our insured bonds in these transactions, we do not expect to incur a loss from our involvement with these two VIEs; as such, we did not have a reserve recorded for these transactions as of December 31, 2009. At January 1, 2010, we determined that the fair value of the VIE assets equaled the fair value of the liabilities of these VIEs such that there was no net liability to us from our involvement with these VIEs; therefore, no transition adjustment was necessary. During 2010, our net cash inflow was $0.5 million related to our involvement with these VIEs.

Our interests in VIEs for which we are not the primary beneficiary may be accounted for as insurance, reinsurance or credit derivatives. For insurance contracts, we record reserves for losses and LAE, and for derivative interests, we record cumulative changes in fair value as a corresponding derivative asset or derivative liability. Our primary involvement with VIEs relates to transactions in which we provide a financial guaranty to one or more classes of beneficial interest holders in the VIE. Underlying collateral in the VIEs includes residential and commercial mortgages, manufactured housing loans, consumer receivables and other financial assets sold to a VIE and repackaged into securities or similar beneficial interests. For all VIEs, the maximum exposure is based on the net par amount of our insured obligation as of the reporting date, except for the put options on CPS, which is based on our carrying amounts.

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Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

The following table provides a summary of our maximum exposure to losses, and the financial impact on our condensed consolidated balance sheets, our condensed consolidated statements of operations and our cash flows as of and for the nine months ended September 30, 2010, as it relates to unconsolidated VIEs:

	September 30, 2010 Interests in Unconsolidated VIEs	
(In millions)	**Put Options on CPS (1)**	**Financial Guaranty Insurance Contracts and Credit Derivatives**
Balance Sheet:		
Derivative assets	$	$ 5.2
Premiums receivable		6.7
Unearned premiums		7.5
Reserves for losses and LAE		14.8
Derivative liabilities		366.8
Statement of Operations:		
Net premiums earned		2.3
Change in fair value of derivative instruments loss	(6.3)	(283.1)
Increase in provision for losses		5.7
Cash Inflow (Outflow):		
Net payments related to credit derivatives	(0.9)	(32.8)
Losses paid		(3.4)
Premiums received		2.5
Maximum exposure		6,979.8

(1) Activity displayed above reflects the impact for the periods prior to June 30, 2010, for one CPS custodial trust that was not consolidated prior to that date.

In continually assessing our involvement with VIEs, we consider certain events such as the VIE s failure to meet certain contractual conditions, such as performance tests and triggers, servicer termination events and events of default, that should they occur, may provide us with additional control rights over the VIE. These events would cause us to reassess our initial determination of whether we are the primary beneficiary of a VIE. In addition, changes to its governance structure that would allow us to direct the activities of a VIE or our acquisition of additional financial interests in the VIE would also cause us to reassess our determination of whether we are the primary beneficiary of a VIE. Because many of our financial guaranty contracts provide us with substantial control rights over the activities of VIEs upon the occurrence of default or other performance triggers described above, we expect that additional VIEs may be consolidated by us if these events occur.

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Radian Group Inc.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

The following table provides a summary of the financial statement impact on our condensed consolidated balance sheets, our condensed consolidated statements of operations and our cash flows as of and for the nine months ended September 30, 2009, as it relates to consolidated and unconsolidated entities in which we had a significant variable interest:

		Significant Interests in VIEs		
(In millions)	**NIMS**	**Financial Guaranty Insurance Contracts and Credit Derivatives**	**Put Options on CPS**	**International CDS**
Balance Sheet:				
Derivative assets (1)	$ 11.2	$	$ 121.1	$
Unearned premiums		10.3		
Reserves for losses and LAE		8.3		
Derivative liabilities				17.0
VIE debt at fair value (1)	329.0			
Other comprehensive loss				(0.3)
Statement of Operations:				
Change in fair value of derivative instruments loss	(8.5)		(31.6)	(3.8)
Decrease in provision for losses		5.3		
Net loss on other financial instruments	(70.4)			
Net premiums earned	0.9	2.7		0.7
Cash Inflow (Outflow) Impact:				
Net payments related to credit derivatives	(17.8)(2)		(2.7)	
Net receipts related to VIE consolidated debt	0.7			
Premiums received		2.5		0.7
Losses paid		(6.1)		

(1) The amount included in derivative assets related to the consolidation of NIMS trusts was $10.2 million. All of the VIE debt relates to the consolidation of NIMS trusts.
(2) Represents the amount paid for interest and the amount paid for the purchase of NIMS bonds we insure, offset by premiums received.

International CDS

We provided credit enhancement in the form of CDS for foreign mortgage collateral and had one international CDS transaction at September 30, 2009 involving a VIE in which we had a significant interest. This transaction was terminated in the fourth quarter of 2009, for a payment of $6.5 million. The financial impact of our one remaining international CDS contract, for which we are not the primary beneficiary, is immaterial to our condensed consolidated balance sheets and condensed consolidated statements of operations. The maximum principal exposure related to this international CDS VIE was $121.4 million as of September 30, 2010.

Radian Group Inc.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

6. Investments

Our held to maturity and available for sale investment portfolio consisted of the following at September 30, 2010 and December 31, 2009:

	September 30, 2010			
	Amortized Cost	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
	(In thousands)			
Fixed-maturities held to maturity:				
Bonds and notes:				
State and municipal obligations	$ 12,893	$ 13,630	$ 757	$ 20
	$ 12,893	$ 13,630	$ 757	$ 20
Fixed-maturities available for sale:				
U.S. government and agency securities	$ 25,092	$ 28,402	$ 3,310	$
State and municipal obligations	272,625	228,207	620	45,038
Corporate bonds and notes	28,261	28,235	548	574
RMBS	13,021	13,755	736	2
CMBS	3,333	3,398	88	23
Other ABS	4,599	4,841	248	6
Other investments	2,500	2,729	229	
	$ 349,431	$ 309,567	$ 5,779	$ 45,643
Equity securities available for sale (1)	$ 162,959	$ 170,466	$ 7,618	$ 111
Total debt and equity securities	$ 525,283	$ 493,663	$ 14,154	$ 45,774

(1) Comprised of broadly diversified domestic equity mutual funds ($151.6 million fair value) and broadly diversified preferred and common stocks ($18.9 million fair value).

	December 31, 2009			
	Amortized Cost	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
	(In thousands)			
Fixed-maturities held to maturity:				
Bonds and notes:				
State and municipal obligations	$ 19,283	$ 20,308	$ 1,060	$ 35

	$ 19,283	$ 20,308	$ 1,060	$ 35
Fixed-maturities available for sale:				
U.S. government and agency securities	$ 25,023	$ 27,321	$ 2,355	$ 57
State and municipal obligations	1,400,739	1,286,287	9,664	124,116
Corporate bonds and notes	99,032	98,625	1,917	2,324
RMBS	14,942	15,629	687	
CMBS	48,511	46,195	107	2,423
Other ABS	18,049	19,321	1,275	3
Foreign government securities	57,282	58,649	1,513	146
Other investments	3,530	3,800	270	
	$ 1,667,108	$ 1,555,827	$ 17,788	$ 129,069
Equity securities available for sale (1)	$ 173,418	$ 176,251	$ 2,833	$
Total debt and equity securities	$ 1,859,809	$ 1,752,386	$ 21,681	$ 129,104

(1) Comprised of broadly diversified domestic equity mutual funds ($146.8 million fair value) and broadly diversified preferred and common stocks ($29.4 million fair value).