RADIAN GROUP INC
Form 10-Q
November 09, 2011

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, 2011

OR

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

For the transition period from to

Commission File Number 1-11356

Radian Group Inc.
(Exact name of registrant as specified in its charter)

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

(215) 231-1000
(Registrant's telephone number, including area code)

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

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 x No o

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o 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: 133,199,159 shares of common stock, $0.001 par value per share, outstanding on November 4, 2011.

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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," "project," "potential," "continue," or the 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 statement. The forward-looking statements, as well as our prospects as a whole, are subject to risks and uncertainties that could cause actual results to differ materially from those set forth in the forward-looking statements, including the following:

- changes in general economic and political conditions, including high unemployment rates and continued weakness in the U.S. housing and mortgage credit markets, the U.S. economy reentering a recessionary period, a lack of meaningful liquidity in the capital markets or in the credit markets, changes or volatility in interest rates or consumer confidence and changes in credit spreads, each of which may be accelerated or intensified by, among other things, further actual or threatened downgrades of U.S. credit ratings;
- changes in the way customers, investors, regulators or legislators perceive the strength of private mortgage insurers or financial guaranty providers, in particular in light of recent developments in the private mortgage insurance industry in which certain of our former competitors have ceased writing new mortgage insurance business and, in one case, has been placed under supervision or receivership by its insurance regulator;
- catastrophic events or further economic changes in geographic regions, including governments and municipalities, where our mortgage insurance or financial guaranty insurance exposure 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 our mortgage insurance business and the long-term liquidity needs of our holding company;
- a further reduction in, or prolonged period of depressed levels of, home mortgage originations due to reduced liquidity in the lending market, tighter underwriting standards, general reduced housing demand in the U.S., and the risk retention requirements established under the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act");
- our ability to maintain an adequate risk-to-capital position and surplus requirements in our mortgage insurance business in light of ongoing losses in this business and potential further deterioration and losses in our financial guaranty portfolio which, in the absence of new capital, could depend on our ability to execute strategies for which regulatory and other approvals are required and may not be obtained (see Item 1A of Part II of this Quarterly Report on Form 10-Q);
- our ability to continue to effectively mitigate our mortgage insurance and financial guaranty losses;
- 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;
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a more rapid than expected decrease in the level of insurance rescissions and claim denials from the current elevated levels (including as a result of successful challenges to previously rescinded policies or claim denials), which rescissions and denials have reduced 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 and potential customers, including the potential loss of business and the heightened risk of disputes and litigation;

- the need, in the event that we are unsuccessful in defending our rescissions or denials, to increase our loss reserves for, and reassume risk on, rescinded or denied loans, and to pay additional claims;

- the concentration of our mortgage insurance business among a relatively small number of large customers;
- any disruption in the servicing of mortgages covered by our insurance policies and poor servicer performance;
- adverse changes in severity or frequency of losses associated with certain products that we formerly offered 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 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, which would reduce our premium income;
- an increase in the risk profile of our existing mortgage insurance portfolio as refinancing of existing mortgage loans generally is available to only the most qualified borrowers in the current mortgage and housing market;
- changes in the criteria for assigning credit or similar ratings, 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, including in particular, the credit ratings of Radian Group Inc. ("Radian Group") and the financial strength ratings assigned to Radian Guaranty Inc. ("Radian Guaranty");
- heightened competition for our mortgage insurance business from others such as the Federal Housing Administration (the "FHA"), the Veteran's Administration and other private mortgage insurers (in particular, the FHA and those private mortgage insurers that have been assigned higher ratings from the major rating agencies that may have access to greater amounts of capital than we do, or new entrants to the industry that are not burdened by legacy obligations);
- changes in the charters or business practices of, or rules or regulations applicable to, Federal National Mortgage Association ("Fannie Mae") and Freddie Mac, the largest purchasers of mortgage loans that we insure, and our ability to remain an eligible provider to both Fannie Mae and Freddie Mac;
- changes to the current system or regulatory structure of housing finance, including the possibility of a new system in which private mortgage insurers are not required or their products are significantly limited in scope;
- the effect of the Dodd-Frank Act on the financial services industry in general, and on our mortgage insurance and financial guaranty businesses in particular, including whether and to what extent loans with mortgage insurance are considered "qualified residential mortgages" for purposes of the Dodd-Frank Act securitization provisions or "qualified mortgages" for purposes of the ability to repay provisions of the Dodd-Frank Act and potential obligations to post collateral on our existing insured derivatives portfolio (see Item 1A of Part II of this Quarterly Report on Form 10-Q);
- 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, including the possibility that the current federal tax deduction for mortgage insurance will not be extended beyond the expiration of the program on December 31, 2011, (b) limiting or restricting our use of (or increasing 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 determining gains and losses on these instruments;

- volatility in our earnings caused by changes in the fair value of our assets and liabilities carried at fair value, including our derivative instruments, and our need to reevaluate the possibility of a premium deficiency in our mortgage insurance business on a quarterly basis;

- our ability to realize the tax benefits associated with our gross deferred tax assets, which will depend on our ability to generate sufficient sustainable taxable income in future periods;

- our ability to successfully develop and implement a strategy to utilize the recently acquired Municipal and Infrastructure Assurance Corporation (the "FG Insurance Shell") in the public finance financial guaranty market, which strategy may depend on, among other items, our ability to obtain further necessary regulatory or other approvals, to attract third-party capital and to obtain ratings sufficient to support such a strategy;

- 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 I of our Annual Report on Form 10-K for the year ended December 31, 2010, and in Item 1A of Part II of our Quarterly Reports on Form 10-Q filed in 2011. 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.

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements. (Unaudited)

Radian Group Inc.

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	September 30, 2011	December 31, 2010
(In thousands, except share and per share amounts)		
ASSETS		
Investments		
Fixed-maturities held to maturity—at amortized cost (fair value $4,248 and $11,416)	$4,083	$10,773
Fixed-maturities available for sale—at fair value (amortized cost $123,249 and $340,795)	118,895	273,799
Equity securities available for sale—at fair value (cost $159,959 and $160,242)	163,673	184,365
Trading securities—at fair value (including variable interest entity (“VIE”) securities of $99,435 and $83,184)	4,482,161	4,562,821
Short-term investments—at fair value (including VIE investments of $149,979 and $149,981)	1,055,818	1,537,498
Other invested assets—at cost	62,444	59,627
Total investments	5,887,074	6,628,883
Cash	21,863	20,334
Restricted cash	27,649	31,413
Deferred policy acquisition costs	138,962	148,326
Accrued investment income	38,193	40,498
Accounts and notes receivable (less allowance of $0 and $50,000)	105,382	116,452
Property and equipment, at cost (less accumulated depreciation of $96,314 and $92,451)	11,936	13,024
Derivative assets (including VIE derivative assets of $4,931 and $10,855)	20,315	26,212
Deferred income taxes, net	19,244	27,531
Reinsurance recoverables	166,483	244,894
Receivable for securities sold	504,584	160
Other assets (including VIE other assets of $98,328 and $112,426)	304,600	323,160
Total assets	$7,246,285	$7,620,887
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Unearned premiums	$628,400	$686,364
Reserve for losses and loss adjustment expenses (“LAE”)	3,260,556	3,596,735
Reserve for premium deficiency	4,309	10,736
Long-term debt	814,901	964,788
VIE debt—at fair value (including $3,401 and $9,514 of non-recourse debt)	273,379	520,114
Derivative liabilities (including VIE derivative liabilities of $20,781 and $19,226)	188,921	723,579
Payable for securities purchased	532,451	9,112
Accounts payable and accrued expenses (including VIE accounts payable of $573 and $837)	254,932	249,679
Total liabilities	5,957,849	6,761,107
Commitments and Contingencies (Note 15)		
Stockholders’ equity		
Common stock: par value $.001 per share; 325,000,000 shares authorized; 150,661,461 and 150,507,853 shares issued at September 30, 2011 and December 31, 2010, respectively; 133,194,174 and 133,049,213 shares outstanding at September 30, 2011 and December 31, 2010, respectively	151	150

Treasury stock, at cost: 17,467,287 and 17,458,640 shares at September 30, 2011 and December 31, 2010, respectively	(892,052)	(892,012)
Additional paid-in capital	1,966,253	1,963,092
Retained earnings (deficit)	218,095	(204,926)
Accumulated other comprehensive loss	(4,011)	(6,524)
Total stockholders' equity	1,288,436	859,780
Total liabilities and stockholders' equity	$7,246,285	$7,620,887

See notes to unaudited condensed consolidated financial statements.

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Radian Group Inc.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands, except per share amounts)	2011	2010	2011	2010
Revenues:				
Premiums written—insurance:				
Direct	$187,726	$200,820	$552,575	$579,855
Assumed	(251)	575	(10,415)	(8,596)
Ceded	(9,188)	(26,588)	(28,346)	(81,050)
Net premiums written	178,287	174,807	513,814	490,209
Decrease in unearned premiums	1,368	29,130	57,798	115,442
Net premiums earned—insurance	179,655	203,937	571,612	605,651
Net investment income	38,763	46,554	124,826	140,531
Net gains on investments	81,640	94,258	163,311	209,468
Total other-than-temporary impairment ("OTTI") losses	(20)	(34)	(31)	(90)
Losses recognized in other comprehensive income (loss)	—	—	—	—
Net impairment losses recognized in earnings	(20)	(34)	(31)	(90)
Change in fair value of derivative instruments	126,008	229,783	558,626	(372,777)
Net gains (losses) on other financial instruments	80,602	4,882	160,900	(159,882)
Gain on sale of affiliate	—	—	—	34,815
Other income	1,404	1,951	4,048	5,654
Total revenues	508,052	581,331	1,583,292	463,370
Expenses:				
Provision for losses	249,598	344,389	940,537	1,323,435
Change in reserve for premium deficiency	(1,942)	8,628	(6,427)	43
Policy acquisition costs	11,449	11,054	39,967	42,719
Other operating expenses	45,240	43,052	137,413	143,273
Interest expense	14,094	9,502	47,197	28,551
Total expenses	318,439	416,625	1,158,687	1,538,021
Equity in net income of affiliates	—	—	65	14,668
Pretax income (loss)	189,613	164,706	424,670	(1,059,983)
Income tax provision (benefit)	6,045	52,521	981	(386,733)
Net income (loss)	$183,568	$112,185	$423,689	$(673,250)
Basic net income (loss) per share	$1.39	$0.85	$3.20	$(6.20)
Diluted net income (loss) per share	$1.37	$0.84	$3.16	$(6.20)
Weighted-average number of common shares outstanding—basic	132,364	132,324	132,366	108,608
Weighted-average number of common and common equivalent shares outstanding—diluted	133,513	133,520	133,867	108,608
Dividends per share	$0.0025	$0.0025	$0.0075	$0.0075

See notes to unaudited condensed consolidated financial statements.

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/(Deficit)	Foreign Currency Translation Adjustment	Unrealized Holding Gains (Losses)	Other	Total
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 of 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	—	—	—	—	—	—	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

BALANCE, JANUARY 1, 2011	$ 150	$ (892,012)	$ 1,963,092	$ (204,926)	$ 21,094	$ (27,857)	$ 239	$ 859,780
Comprehensive income:								
Net income	—	—	—	423,689	—	—	—	423,689
Unrealized foreign currency translation adjustment, net of tax of $0	—	—	—	—	6,519	—	—	
Less: Reclassification adjustment for liquidation of foreign subsidiary and other adjustments included in net income, net of tax of $11,367	—	—	—	—	27,599	—	—	
Net foreign currency translation adjustment, net of tax of $11,367	—	—	—	—	(21,080)	—	—	(21,080)
Unrealized holding losses arising during the period, net of tax of $0	—	—	—	—	—	(9,856)	—	
Less: Reclassification adjustment for net losses included in net income, net of tax of $18,640 (See Note 6)	—	—	—	—	—	(33,449)	—	
Net unrealized gain on investments, net of tax of $18,640	—	—	—	—	—	23,593	—	23,593
Comprehensive income	—	—	—	—	—	—	—	426,202
Repurchases of common stock under incentive plans	—	(40)		—	—	—	—	(40)
Issuance of common stock under benefit plans	1	—	707	—	—	—	—	708
Amortization of restricted stock	—	—	1,665	—	—	—	—	1,665
Additional convertible debt issuance costs, net	—	—	(22)	—	—	—	—	(22)
Stock-based compensation expense	—	—	1,144	—	—	—	—	1,144
Dividends declared	—	—	(333)	(668)	—	—	—	(1,001)
BALANCE, SEPTEMBER 30, 2011	$ 151	$ (892,052)	$ 1,966,253	$ 218,095	$ 14	$ (4,264)	$ 239	$ 1,288,436

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, 2011	2010
Cash flows used in operating activities	$(766,120)	$(947,468)
Cash flows from investing activities:		
Proceeds from sales of fixed-maturity investments available for sale	136,123	1,216,270
Proceeds from sales of equity securities available for sale	644	6,329
Proceeds from sales of trading securities	4,462,041	4,070,396
Proceeds from redemptions of fixed-maturity investments available for sale	30,746	44,939
Proceeds from redemptions of fixed-maturity investments held to maturity	7,250	6,810
Purchases of trading securities	(4,184,608)	(5,128,531)
Sales and redemptions of short-term investments, net	481,969	70,019
Purchases of other invested assets, net	(2,817)	(28,197)
Proceeds from the sale of investment in affiliate	—	172,017
Purchases of property and equipment, net	(2,776)	(1,864)
Net cash provided by investing activities	928,572	428,188
Cash flows from financing activities:		
Dividends paid	(1,001)	(868)
Redemption of long-term debt	(160,000)	(29,348)
Issuance of common stock	—	525,887
Net cash (used in) provided by financing activities	(161,001)	495,671
Effect of exchange rate changes on cash	78	1,594
Increase (decrease) in cash	1,529	(22,015)
Cash, beginning of period	20,334	41,574
Cash, end of period	$21,863	$19,559
Supplemental disclosures of cash flow information:		
Income taxes (received) paid	$(69)	$3,375
Interest paid	$34,660	$27,726

See notes to unaudited condensed consolidated financial statements.

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. Companies in which we, or one of our subsidiaries, own interests ranging from 20% to 50%, are accounted for in accordance with the equity method of accounting. VIEs where we are the primary beneficiary are consolidated. See Note 5 for further information. All intercompany accounts and transactions, and intercompany profits and losses, have been eliminated. 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 for Article 10 of Regulation S-X of the Securities and Exchange Commission ("SEC").

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, 2010. The total assets for our mortgage insurance segment as of September 30, 2010, reflected in Note 2, have been revised to conform to the presentation in the audited financial statement—s for the year ended December 31, 2010. We have reflected in Note 4 the additional disclosures required by the update to the accounting standard regarding fair value measurements, including the disclosures that were effective January 1, 2011, as described in Note 14. The 2010 information has been updated to be consistent with the 2011 disclosure. The year-end condensed balance sheet data was derived from our audited financial statements, but does not include all disclosures required by GAAP.

The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates 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 materially.

Basic net income (loss) per share is based on the weighted-average number of common shares outstanding, while diluted net income (loss) per share is based on the weighted-average number of common shares outstanding and common stock equivalents that would be issuable upon the exercise of stock options and other stock-based compensation. For the three and nine months ended September 30, 2011, 3,152,395 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 as of such date because they were anti-dilutive. 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 as of such date 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 compensations plans were not included in the calculation of diluted net loss per share as of such date because they were anti-dilutive.

Overview and Business Conditions

As a seller of credit protection, our results are subject to macroeconomic conditions and specific events that impact the origination environment and credit performance of our underlying insured assets. While the strong credit quality of our new mortgage insurance business has continued in 2011, the ongoing downturn in the housing and related credit markets, characterized by a decrease in mortgage originations, decline in home prices, mortgage servicing and foreclosure delays, ongoing deterioration in the credit performance of mortgage and other assets originated prior to 2009 and reduced liquidity for many participants in the mortgage and financial services industries, has had, and we believe will continue to have, a significant negative impact on the operating environment and results of operations for each of our businesses. The possibility that the United States ("U.S.") economy may not fully recover from the most recent recession, may experience limited economic growth for a prolonged period of time or may reenter a recessionary period, the lack of meaningful liquidity in some sectors of the capital and credit markets, the potential for continued high unemployment, and limited home price appreciation or further depreciation may add further stress on the performance of our insured assets. Because of these factors, there is a great deal of uncertainty regarding our ultimate loss performance.

Radian Group Inc.
Notes to Unaudited Condensed Consolidated Financial Statements - (Continued)

Our businesses have been significantly affected by, and our future success may depend upon, legislative and regulatory developments impacting the housing finance industry. The Government Sponsored Enterprises (“GSEs”) are the primary beneficiaries of the majority of our mortgage insurance policies, and the Federal Housing Authority ("FHA") remains our primary competitor outside of the private mortgage insurance industry. The GSEs federal charters generally prohibit them from purchasing any mortgage with a loan amount that exceeds 80% of a home's value, unless that mortgage is insured by a qualified insurer or the mortgage seller retains at least a 10% participation in the loan or agrees to repurchase the loan in the event of a default. As a result, high-loan-to-value ("LTV") mortgages purchased by the GSEs generally are insured with private mortgage insurance. Changes in the charters or business practices of the GSEs, including pursuing new products for purchasing high-LTV loans that are not insured by private mortgage insurance, could reduce the number of mortgages they purchase that are insured by us and consequently diminish our franchise value. In September 2008, the Federal Housing Finance Agency ("FHFA") was appointed as the conservator of the GSEs to control and direct the operations of the GSEs. The continued role of the conservator may increase the likelihood that the business practices of the GSEs will be changed in ways that may have a material adverse effect on us. In particular, if the private mortgage insurance industry does not have the ability, due to capital constraints, to continue to write sufficient business to meet the needs of the GSEs, the GSEs may seek alternatives other than private mortgage insurance to conduct their business.

Various regulatory agencies are now in the process of developing new rules under the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") that are expected to have a significant impact on the housing finance industry, and the U.S. Congress is planning for the reform of the housing finance market, including the future roles of the GSEs. We cannot predict the requirements of the rules ultimately adopted under the Dodd-Frank Act or the effect such rules will have on financial markets generally, or on our mortgage insurance and financial guaranty businesses specifically, the additional costs associated with compliance with such regulations, and any changes to our operations that may be necessary to comply with the Dodd-Frank Act, any of which could have a material adverse effect on our businesses, business prospects, financial condition and results of operations.

Our future performance and financial condition is subject to significant risks and uncertainties that could cause actual results to be materially different from our estimates and forward-looking statements, including but not limited to, the following:

- Potential adverse effects of the failure or significant delay of the U.S. economy to fully recover from the most recent recession and prolonged economic downturn, including ongoing uncertainty in the housing and related credit markets and high unemployment, which could increase our mortgage insurance or financial guaranty losses beyond existing expectations. (See Notes 7, 8 and 9).
- Our ability to estimate accurately the likelihood, magnitude and timing of losses in connection with establishing loss reserves or premium deficiency reserves for our mortgage insurance or financial guaranty businesses. (See Notes 7, 8 and 9).
- Our ability to effectively manage our capital and liquidity, including:
- Potential adverse effects on us 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 Group had immediately available, directly or through an unregulated direct subsidiary, unrestricted cash and liquid investments of $726.4 million at September 30, 2011, which includes $150 million of investments contained in our committed preferred custodial trust securities ("CPS"). (See Note 5 for additional information regarding CPS).
- Potential adverse effects if Radian Guaranty's regulatory risk-based capital position fails to comply with applicable state statutory or regulatory risk-based capital requirements, including if its risk-to-capital ratio were to increase above 25 to 1, without obtaining waivers or similar relief from the states that impose such statutory or regulatory risk-based capital requirements. These risks include the possibility that: (i) insurance regulators or the GSEs may limit or cause

Radian Guaranty to cease writing new mortgage insurance; (ii) the GSEs may terminate or otherwise restrict Radian Guaranty's eligibility to insure loans purchased by the GSEs; and (iii) Radian Guaranty's customers may decide not to insure loans with Radian Guaranty or may otherwise limit the type or amount of business done with Radian Guaranty. (See Note 13 for additional information regarding our statutory capital and Note 17 regarding a subsequent event).

Radian Group Inc.
Notes to Unaudited Condensed Consolidated Financial Statements - (Continued)

- Factors adversely affecting Radian Group's capital and liquidity that could cause Radian Group to have insufficient sources of capital and liquidity to meet all of its expected obligations, including our failure to estimate accurately the likelihood and potential effects of the various risks and uncertainties described in this report, as well as potential regulatory, legal or other changes to our tax or expense allocation agreements among Radian Group and its subsidiaries. During October 2011, Radian Group paid approximately $84 million to Radian Guaranty and other subsidiaries within its consolidated group under its tax-sharing agreements.
- Potential adverse effects from legislative efforts to reform the housing finance market, including the possibility that new federal legislation could reduce or eliminate the requirement for private mortgage insurance or place additional significant obligations or restrictions on mortgage insurers.
- Potential impact on our businesses as a result of the implementation of regulations under the Dodd-Frank Act, including whether and to what extent loans with mortgage insurance are considered "qualified residential mortgages" for purposes of the Dodd-Frank Act securitization provisions or "qualified mortgages" for purposes of the ability to repay provisions of the Dodd-Frank Act, and potential obligations to post collateral on our existing insured derivatives portfolio.

If actual results differ materially from one or more of our estimates or forward-looking statements, or if one or more possible adverse outcomes were realized, our actual results could prove to be materially different than our estimates and it could have a material adverse effect on our financial position, statutory capital, results of operations and cash flows.

2. Segment Reporting

Our mortgage insurance and financial guaranty segments are strategic business units that are managed separately on an operating basis. 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 allocate corporate cash and investments to our segments based on internally allocated capital. The results for each segment for each reporting period can cause significant volatility in allocated capital.

Prior to January 1, 2011, we also had a third reportable segment—financial services. Our financial services segment had consisted mainly of our ownership interest in Credit-Based Asset Servicing and Securitization LLC ("C-BASS"), which was a credit-based consumer asset business. We wrote off our entire investment in C-BASS in 2007. C-BASS filed for Chapter 11 bankruptcy protection on November 12, 2010, and was subsequently liquidated. Our equity interest in C-BASS, and a related note receivable from C-BASS that had also been previously written off, were extinguished pursuant to the Plan of Liquidation that was confirmed on April 25, 2011. In addition, until May 3, 2010, when we sold our remaining interest therein, our financial services segment included our interest in Sherman Financial Group LLC, a consumer asset and servicing firm specializing in credit card and bankruptcy-plan consumer assets. Consequently, as of January 1, 2011, we no longer had any on-going activity in this reporting segment.

Summarized financial information concerning our current and previous operating segments, as of and for the periods indicated, are as follows:

Radian Group Inc.
Notes to Unaudited Condensed Consolidated Financial Statements - (Continued)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2011	2010	2011	2010
Mortgage Insurance				
Net premiums written—insurance	$178,215	$174,419	$523,255	$499,360
Net premiums earned—insurance	$163,436	$181,731	$513,895	$539,062
Net investment income	21,642	26,658	73,328	81,561
Net gains on investments	53,263	62,326	98,450	125,548
Net impairment losses recognized in earnings	(20)	(34)	(31)	(90)
Change in fair value of derivative instruments	200	6,772	64	5,739
Net gains (losses) on other financial instruments	2,486	(6,591)	4,321	(44,764)
Other income	1,357	1,870	3,881	5,292
Total revenues	242,364	272,732	693,908	712,348
Provision for losses	276,599	347,800	960,564	1,304,513
Change in reserve for premium deficiency	(1,942)	8,628	(6,427)	43
Policy acquisition costs	7,834	6,444	26,651	29,061
Other operating expenses	36,082	31,690	104,132	103,562
Interest expense	2,015	3,251	11,950	6,920
Total expenses	320,588	397,813	1,096,870	1,444,099
Equity in net income of affiliates	—	—	—	—
Pretax loss	(78,224)	(125,081)	(402,962)	(731,751)
Income tax benefit	(36,033)	(50,090)	(27,158)	(267,700)
Net loss	$(42,191)	$(74,991)	$(375,804)	$(464,051)
Cash and investments	$3,176,860	$3,722,189		
Deferred policy acquisition costs	47,863	37,144		
Total assets	3,731,978	5,293,768		
Unearned premiums	206,477	199,764		
Reserve for losses and LAE	3,214,854	3,504,181		
VIE debt	31,164	156,811		
Derivative liabilities	—	178		

Radian Group Inc.
Notes to Unaudited Condensed Consolidated Financial Statements - (Continued)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2011	2010	2011	2010
Financial Guaranty				
Net premiums written—insurance	$72	$388	$(9,441)	$(9,151)
Net premiums earned—insurance	$16,219	$22,206	$57,717	$66,589
Net investment income	17,121	19,896	51,498	58,970
Net gains on investments	28,377	31,932	64,861	83,920
Net impairment losses recognized in earnings	—	—	—	—
Change in fair value of derivative instruments	125,808	223,011	558,562	(378,516)
Net gains (losses) on other financial instruments	78,116	11,473	156,579	(115,118)
Other income	47	81	167	299
Total revenues	265,688	308,599	889,384	(283,856)
Provision for losses	(27,001)	(3,411)	(20,027)	18,922
Change in reserve for premium deficiency	—	—	—	—
Policy acquisition costs	3,615	4,610	13,316	13,658
Other operating expenses	9,158	11,362	33,281	39,511
Interest expense	12,079	6,251	35,247	21,631
Total expenses	(2,149)	18,812	61,817	93,722
Equity in net income of affiliates	—	—	65	78
Pretax income (loss)	267,837	289,787	827,632	(377,500)
Income tax provision (benefit)	42,078	102,611	28,139	(136,278)
Net income (loss)	$225,759	$187,176	$799,493	$(241,222)
Cash and investments	$2,759,726	$2,716,715		
Deferred policy acquisition costs	91,099	109,331		
Total assets	3,514,307	3,257,829		
Unearned premiums	421,923	507,501		
Reserve for losses and LAE	45,702	88,792		
VIE debt	242,215	339,482		
Derivative liabilities	188,921	530,510		

Radian Group Inc.
Notes to Unaudited Condensed Consolidated Financial Statements - (Continued)

(In thousands)	Nine Months Ended September 30, 2010
Financial Services	
Net premiums written—insurance	$—
Net premiums earned—insurance	$—
Net investment income	—
Net gains on investments	—
Net impairment losses recognized in earnings	—
Change in fair value of derivative instruments	—
Net gains (losses) on other financial instruments	—
Gain on sale of affiliate	34,815
Other income	63
Total revenues	34,878
Provision for losses	—
Change in reserve for premium deficiency	—
Policy acquisition costs	—
Other operating expenses	200
Interest expense	—
Total expenses	200
Equity in net income of affiliates	14,590
Pretax income	49,268
Income tax provision	17,245
Net income	$32,023
Cash and investments	
Deferred policy acquisition costs	
Total assets	
Unearned premiums	
Reserve for losses and LAE	
VIE debt	
Derivative liabilities	

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2011	2010	2011	2010
Consolidated				
Net income (loss):				
Mortgage Insurance	$(42,191)	$(74,991)	$(375,804)	$(464,051)
Financial Guaranty	225,759	187,176	799,493	(241,222)
Financial Services	—	—	—	32,023
Total	$183,568	$112,185	$423,689	$(673,250)

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Radian Group Inc.
Notes to Unaudited Condensed Consolidated Financial Statements - (Continued)

3. Derivative Instruments

The following table sets forth our gross unrealized gains and gross unrealized losses on derivative assets and liabilities as of the dates indicated. Certain contracts are in an asset position because the net present value of the contractual premium we receive exceeds the net present value of our estimate of the expected future premiums that a financial guarantor of similar credit quality to us would charge to provide the same credit protection, assuming a transfer of our obligation to such financial guarantor as of the measurement date.

(In millions)	September 30, 2011	December 31, 2010
Balance Sheets		
Derivative assets:		
Financial Guaranty credit derivative assets	$15.1	$14.5
Net interest margin securities ("NIMS") assets	4.9	10.9
Other	0.3	0.8
Total derivative assets	20.3	26.2
Derivative liabilities:		
Financial Guaranty credit derivative liabilities	168.1	704.4
Financial Guaranty VIE derivative liabilities	20.8	19.2
Total derivative liabilities	188.9	723.6
Total derivative liabilities, net	$168.6	$697.4

The notional value of our derivative contracts at September 30, 2011, and December 31, 2010, was $37.9 billion and $41.6 billion, respectively.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2011	2010	2011	2010
Statements of Operations				
Net premiums earned—derivatives	$10.3	$11.5	$31.7	$35.6
Financial Guaranty credit derivatives	120.1	223.7	536.6	(384.6)
Financial Guaranty VIE derivatives	(4.5)	(5.2)	(9.4)	(15.9)
NIMS	0.2	(0.9)	(1.3)	(1.4)
Put options on CPS	—	—	—	(6.3)
Other	(0.1)	0.7	1.0	(0.2)
Change in fair value of derivative instruments	$126.0	$229.8	$558.6	$(372.8)

The valuation of derivative instruments may result in significant volatility from period to period in gains and losses as reported on our consolidated statements of operations. Generally, these gains and losses result, in part, 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"). Additionally, when determining the fair value of our liabilities, we are required to incorporate into the fair value of those liabilities an adjustment that reflects our own non-performance risk and consequently, changes in the market's perception of our non-performance risk also result in gains and losses on our derivative instruments. Any incurred gains or losses (which include any claim payments) on our financial guaranty contracts that are accounted for as derivatives are recognized as a change in fair value of derivative instruments. Because our fair value determinations for derivative and other financial instruments in our mortgage insurance and financial guaranty businesses are based on assumptions and estimates that are inherently subject to risk and uncertainty, our fair value amounts could vary significantly from period to period. See Note 4 for information on our fair value of financial instruments.

Radian Group Inc.
Notes to Unaudited Condensed Consolidated Financial Statements - (Continued)

The following table shows selected information about our derivative contracts:

($ in millions)	September 30, 2011 Number of Contracts	Par/ Notional Exposure	Total Net Asset/ (Liability)
Product			
NIMS related and other (1)	—	$—	$ 5.2
Corporate collateralized debt obligations ("CDOs")	76	30,554.3	(9.1)
Non-Corporate CDOs and other derivative transactions:			
Trust Preferred Securities ("TruPs")	19	1,932.0	(32.4)
CDOs of commercial mortgage-backed securities ("CMBS")	4	1,831.0	(50.9)
Other:			
Structured finance	9	777.3	(32.3)
Public finance	27	1,695.5	(13.2)
Total Non-Corporate CDOs and other derivative transactions	59	6,235.8	(128.8)
Assumed financial guaranty credit derivatives:			
Structured finance	245	988.5	(13.5)
Public finance	10	168.1	(1.6)
Total Assumed	255	1,156.6	(15.1)
Financial Guaranty VIE derivative liabilities (2)	—	—	(20.8)
Grand Total	390	$37,946.7	$ (168.6)

(1) Represents NIMS derivative assets related to consolidated NIMS VIEs. Also includes common stock warrants. Because none of these investments represent financial guaranty contracts that we issued, they cannot become liabilities, and therefore, do not represent additional par exposure.

(2) Represents the fair value of an interest rate swap included in the consolidation of one of our financial guaranty transactions. The notional amount of the interest rate swap does not represent additional par exposure, and therefore, is excluded from 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 estimated 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 the risks inherent in the inputs to the model. Changes in economic conditions and capital market conditions, including but not limited to, credit spread changes, benchmark interest rate changes, market volatility and declines in the value of underlying collateral could cause actual results to differ materially from our estimated fair value measurements. We define fair value as the current amount that would be exchanged to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In the event that our investments or derivative contracts were sold, commuted, terminated or settled with a counterparty, or transferred in a forced liquidation, the amounts received or paid may be materially different from those determined in accordance with the accounting standard regarding fair value measurements. Differences may arise between the Company's recorded fair value and the settlement or termination value with a counterparty. Those differences, which may be material, are recorded as transaction realized gains/(losses) in our consolidated statements of operations in the period in which the transaction occurs. There have been no significant changes to our fair value methodologies during the nine months ended September 30, 2011.

Radian Group Inc.
Notes to Unaudited Condensed Consolidated Financial Statements - (Continued)

When determining the fair value of our liabilities, we are required to incorporate into the fair value of those liabilities an adjustment that reflects our own non-performance risk. Radian Group's credit default swap ("CDS") spread is an observable quantitative measure of our non-performance risk and is used by typical market participants to determine the likelihood of our default. As Radian Group's CDS spread tightens or widens, it has the effect of increasing or decreasing, respectively, the fair value of our liabilities.
The following table quantifies the impact of our non-performance risk on our derivative assets and liabilities (in aggregate by type, excluding assumed financial guaranty derivatives) and VIE liabilities presented in our condensed consolidated balance sheets. Radian Group's 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 fair value liabilities is typically based on the remaining term of the instrument.

(In basis points)	September 30, 2011	December 31, 2010	September 30, 2010	December 31, 2009
Radian Group's five-year CDS spread	2,238	465	625	1,530

(In millions)	Fair Value Liability before Consideration of Radian Non-Performance Risk September 30, 2011	Impact of Radian Non-Performance Risk September 30, 2011	Fair Value Liability Recorded September 30, 2011
Product			
Corporate CDOs	$ 678.8	$ 669.7	$ 9.1
Non-Corporate CDO-related (1)	1,632.6	1,437.9	194.7
NIMS-related (2)	37.0	10.7	26.3
Total	$ 2,348.4	$ 2,118.3	$ 230.1

(In millions)	Fair Value Liability before Consideration of Radian Non-Performance Risk December 31, 2010	Impact of Radian Non-Performance Risk December 31, 2010	Fair Value Liability Recorded December 31, 2010
Product			
Corporate CDOs	$ 387.1	$ 281.5	$ 105.6
Non-Corporate CDO-related (1)	1,696.2	934.1	762.1
NIMS-related (2)	134.1	4.8	129.3
Total	$ 2,217.4	$ 1,220.4	$ 997.0

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(1) Includes the net liability recorded within derivative assets and derivative liabilities, and the net liability recorded within VIE debt and other financial statement line items for consolidated VIEs.
(2) Includes NIMS VIE debt and NIMS derivative assets.

Radian Group's five-year CDS spread at September 30, 2011, implies a market view that there is a 79% probability that Radian Group will default in the next five years as compared to a 32% implied probability of default at December 31, 2010. The cumulative impact attributable to the market's perception of our non-performance risk increased by $897.9 million during the first nine months of 2011, as presented in the table above. This increase was primarily the result of the widening of Radian Group's CDS spreads during this period.

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

Level II—Prices or valuations based on observable inputs other than quoted prices in active markets for identical assets and liabilities; and

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

Radian Group Inc.
Notes to Unaudited Condensed Consolidated Financial Statements - (Continued)

The level of market activity used 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. Given the level of judgment, another market participant may derive a materially different estimate of fair value. 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, 2011, our total Level III assets were approximately 4.8% of total assets measured at fair value and total Level III liabilities accounted for 100% of total liabilities measured at fair value.
Available for sale securities, trading securities, VIE debt, derivative instruments, and certain other assets are recorded at fair value. All derivative instruments and contracts are recognized in our consolidated balance sheets as either derivative assets or derivative liabilities. All changes in the fair value of trading securities, VIE debt, derivative instruments and certain other assets are included in our consolidated statements of operations. All changes in the fair value of available for sale securities are recorded in accumulated other comprehensive income (loss).
The following is a list of those assets and liabilities that are measured at fair value by hierarchy level as of September 30, 2011:

(In millions)	Level I	Level II	Level III	Total
Assets and Liabilities at Fair Value				
Investment Portfolio:				
U.S. government and agency securities	$405.1	$737.2	$—	$1,142.3
State and municipal obligations	—	1,066.7	62.6	1,129.3
Money market instruments	499.0	—	—	499.0
Corporate bonds and notes	—	766.7	—	766.7
Residential mortgage-backed securities ("RMBS")	—	983.0	48.8	1,031.8
CMBS	—	189.0	38.0	227.0
CDO	—	—	5.4	5.4
Other ABS	—	112.4	2.7	115.1
Foreign government securities	—	100.4	—	100.4
Hybrid securities	—	324.6	—	324.6
Equity securities (1)	149.1	169.2	2.8	321.1
Other investments (2)	—	151.6	6.2	157.8
Total Investments at Fair Value (3)	1,053.2	4,600.8	166.5	5,820.5
Derivative Assets	—	0.3	20.0	20.3
Other Assets (4)	—	—	96.8	96.8
Total Assets at Fair Value	$1,053.2	$4,601.1	$283.3	$5,937.6
Derivative Liabilities	$—	$—	$188.9	$188.9
VIE debt (5)	—	—	273.4	273.4
Total Liabilities at Fair Value	$—	$—	$462.3	$462.3

(1) Comprising broadly diversified domestic equity mutual funds included within Level I and various preferred and common stocks invested across numerous companies and industries included within Levels II and III.
(2) Comprising short-term commercial paper within CPS trusts ($150.0 million) and short-term CDs ($1.6 million) included within Level II, and lottery annuities ($1.7 million) and TruPs held by consolidated VIEs ($4.5 million)

included within Level III.

(3) Does not include fixed-maturities held to maturity ($4.1 million) and other invested assets ($62.4 million), primarily invested in limited partnerships, accounted for as cost-method investments and not measured at fair value.

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

(5) Comprising consolidated debt related to NIMS VIEs ($31.2 million) and amounts related to financial guaranty VIEs ($242.2 million).

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, 2010:

(In millions)	Level I	Level II	Level III	Total
Assets and Liabilities at Fair Value				
Investment Portfolio:				
U.S. government and agency securities	$1,075.0	$731.4	$—	$1,806.4
State and municipal obligations	—	1,159.7	23.2	1,182.9
Money market instruments	310.9	—	—	310.9
Corporate bonds and notes	—	1,060.4	—	1,060.4
RMBS	—	913.5	52.5	966.0
CMBS	—	173.6	23.0	196.6
CDO	—	—	2.4	2.4
Other ABS	—	131.1	3.3	134.4
Foreign government securities	—	83.5	—	83.5
Hybrid securities	—	318.9	—	318.9
Equity securities (1)	168.4	168.6	2.9	339.9
Other investments (2)	—	150.0	4.6	154.6
Total Investments at Fair Value (3)	1,554.3	4,890.7	111.9	6,556.9
Derivative Assets	—	—	26.2	26.2
Other Assets (4)	—	—	109.7	109.7
Total Assets at Fair Value	$1,554.3	$4,890.7	$247.8	$6,692.8
Derivative Liabilities	$—	$—	$723.6	$723.6
VIE debt (5)	—	—	520.1	520.1
Total Liabilities at Fair Value	$—	$—	$1,243.7	$1,243.7

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

(2) Comprising short-term commercial paper within CPS trusts included within Level II, and lottery annuities ($2.6 million) and TruPs held by consolidated VIEs ($2.0 million) included within Level III.

(3) Does not include fixed-maturities held to maturity ($10.8 million), certain short-term investments ($1.6 million), primarily invested in CDs and time deposits, and other invested assets ($59.6 million), primarily invested in limited partnerships, accounted for as cost-method investments and not measured at fair value.

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

(5) Comprising consolidated debt related to NIMS VIEs ($141.0 million) and amounts related to financial guaranty VIEs ($379.1 million) that required consolidation as of January 1, 2010, under the accounting standard update regarding improvements to financial reporting by enterprises involving VIEs.

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, 2011:

(In millions)	Beginning Balance at July 1, 2011	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, 2011
Investments:								
State and municipal obligations	$23.6	$ 0.2	$39.1	$—	$—	$ 0.3	$ —	$62.6
RMBS	61.4	(12.0)	—	(1.6)	—	2.2	—	48.8
CMBS	29.4	8.6	—	—	—	—	—	38.0
CDO	3.9	1.4	—	0.1	—	(0.2)	—	5.4
Other ABS	2.0	0.7	—	—	—	—	—	2.7
Equity securities	5.6	(0.9)	0.5	0.4	—	—	(2.0)	2.8
Other investments	5.8	0.6	—	0.1	—	0.1	—	6.2
Total Level III Investments	131.7	(1.4)	39.6	(1.0)	—	2.4	(2.0)	166.5
NIMS derivative assets	4.7	0.1	0.1	—	—	—	—	4.9
Other assets	113.7	(10.3)	—	—	—	6.6	—	96.8
Total Level III Assets	$250.1	$ (11.6)	$39.7	$(1.0)	$—	$ 9.0	$ (2.0)	$268.2
Derivative liabilities, net	$291.5	$ 125.8	$—	$—	$—	$ (8.1)	$ —	$173.8
VIE debt	393.7	92.2	—	—	—	28.1	—	273.4
Total Level III Liabilities, net	$685.2	$ 218.0	$—	$—	$—	$ 20.0	$ —	$447.2

(1) Includes unrealized gains (losses) relating to assets and liabilities still held as of September 30, 2011, as follows: $(1.5) million for investments, $0.2 million for NIMS derivative assets, $(13.3) million for other assets, $117.1 million for derivative liabilities, and $92.3 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.

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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, 2011:

(In millions)	Beginning Balance at January 1, 2011	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, 2011
Investments:								
State and municipal obligations	$23.2	$ 0.6	$39.1	$—	$—	$ 0.3	$ —	$62.6
RMBS	52.5	(0.4)	—	—	—	3.3	—	48.8
CMBS	23.0	15.0	—	—	—	—	—	38.0
CDO	2.4	2.7	—	—	—	(0.3)	—	5.4
Other ABS	3.3	(0.6)	—	—	—	—	—	2.7
Hybrid securities	—	(0.1)	0.7	—	—	—	(0.6)	—
Equity securities	2.9	(1.2)	3.7	0.6	—	—	(2.0)	2.8
Other investments	4.6	2.6	—	0.6	—	0.4	—	6.2
Total Level III Investments	111.9	18.6	43.5	1.2	—	3.7	(2.6)	166.5
NIMS derivative assets	11.7	(1.9)	0.2	—	—	4.7	(0.4)	4.9
Other assets	109.7	8.0	—	—	—	20.9	—	96.8
Total Level III Assets	$233.3	$ 24.7	$43.7	$1.2	$—	$ 29.3	$ (3.0)	$268.2
Derivative liabilities, net	$709.1	$ 558.8	$—	$—	$—	$ (23.5)	$ —	$173.8
VIE debt	520.1	121.1	—	—	—	125.6	—	273.4
Total Level III Liabilities, net	$1,229.2	$ 679.9	$—	$—	$—	$ 102.1	$ —	$447.2

(1) Includes unrealized gains (losses) relating to assets and liabilities still held as of September 30, 2011, as follows: $17.1 million for investments, $(1.8) million for NIMS derivative assets, $(1.3) million for other assets, $515.9 million for derivative liabilities, and $144.6 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.

There were no investment transfers between Level I and Level II during the first nine months of 2011 or 2010.

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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:

(In millions)	Beginning Balance at July 1, 2010	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, 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	$244.5	$ 5.6	$0.7	$3.7	$—	$7.2	$ 0.1	$240.0
Derivative liabilities, net	$737.4	$ 230.0	$—	$—	$—	$(7.8)	$ —	$515.2
VIE debt	627.6	11.1	—	—	—	120.2	—	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: $1.5 million for investments, $(0.3) million for NIMS and CPS derivative assets, $0.3 million for other assets, $221.3 million for derivative liabilities, and $(4.1) 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.

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:

(In millions)	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	Settlements	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)	—	0.9	—	0.2	—	4.7
Total Level III Investments	30.5	79.1	16.6	0.2	10.1	—	0.2	(0.2)	115.9
NIMS and CPS derivative assets	44.7	—	(7.8)	0.9	0.1	—	26.2	—	11.5
Other assets	—	119.7	14.6	—	—	—	21.7	—	112.6
Total Level III Assets	$ 75.2	$ 198.8	$ 23.4	$ 1.1	$ 10.2	$—	$ 48.1	$ (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)						