

RADIAN GROUP INC
Form 10-Q
November 13, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2012

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
(State or other jurisdiction of incorporation or organization)

23-2691170
(I.R.S. Employer Identification No.)

1601 Market Street, Philadelphia, PA
(Address of principal executive offices)
(215) 231-1000
(Registrant's telephone number, including area code)

19103
(Zip 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 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 Non-accelerated filer Smaller reporting company
(Do not check if a 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

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: 133,642,414 shares of common stock, \$0.001 par value per share, outstanding on November 1, 2012.

Radian Group Inc.
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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 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 significant downturn in the global economy, a lack of meaningful liquidity in the capital or 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, legislative activity or inactivity or 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 developments in the private mortgage insurance and financial guaranty industries in which certain of our former competitors have ceased writing new insurance business and have been placed under supervision or receivership by insurance regulators;

- catastrophic events or economic changes in geographic regions, including those affecting governments and municipalities, where our mortgage insurance exposure is more concentrated or where we have financial guaranty exposure;

- our ability to maintain sufficient holding company liquidity to meet our short- and long-term liquidity needs, including in particular, the repayment of our long-term debt and additional capital contributions that may be required to support our mortgage insurance business;

- 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, and general reduced housing demand in the U.S., which may be further exacerbated by regulations impacting home mortgage originations, including the risk retention requirements established under the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”);

- the potential adverse impact on the mortgage origination market and on private mortgage insurers due to increases in capital requirements for banks and bank holding companies for mortgage loans under proposed interagency rules to implement the third Basel Capital Accord (“Basel III”), including in particular, the possibility that loans insured by the Federal Housing Administration (“FHA”) will receive a more favorable regulatory capital treatment than loans with private mortgage insurance;

- our ability to maintain an adequate risk-to-capital position and surplus requirements in our mortgage insurance business, including if necessary, our ability to write new mortgage insurance while maintaining a capital position that is in excess of risk-based capital limitations imposed in certain states, either through waivers of these limitations or through use of another mortgage insurance subsidiary, and the possibility that state regulators could pursue regulatory actions or proceedings, including possible supervisory or receivership actions, against Radian Guaranty Inc. (“Radian Guaranty”), in the event Radian Guaranty’s risk-to-capital position exceeds levels that are acceptable to such regulators;
- 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;

a more rapid than expected decrease in the level of insurance rescissions and claim denials from the current elevated levels, which have reduced our paid losses and resulted in a significant reduction in our loss reserves, including a decrease in rescissions or denials resulting from an increase in the number of successful challenges to previously rescinded policies or claim denials, or caused by the government-sponsored entities (“GSEs”) intervening in mortgage insurers’ loss mitigation practices, including settlements of disputes;

the negative impact our insurance rescissions and claim denials or claim curtailments 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, denials or claim curtailments, to increase our loss reserves for, and reassume risk on, rescinded or denied loans, and to pay additional claims, including amounts previously curtailed;

any disruption in the servicing of mortgages covered by our insurance policies caused by poor servicer performance;

adverse changes in the severity or frequency of losses associated with certain products that we formerly offered (and which remain in our insured portfolio) that are riskier than traditional mortgage insurance or financial guaranty insurance policies;

a decrease in persistency rates of our mortgage insurance policies, which has the effect of reducing our premium income without a corresponding decrease in incurred losses;

- an increase in the risk profile of our existing mortgage insurance portfolio due to the refinancing of existing mortgage loans for 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 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;

heightened competition for our mortgage insurance business from others such as the FHA, the Department of Veterans Affairs (“VA”) and other private mortgage insurers (in particular, the FHA and those private mortgage insurers that have been assigned higher ratings than we have, that may have access to greater amounts of capital than we do, or that are new entrants to the industry and are therefore 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 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 effect or 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 the possibility that the ultimate definitions of “qualified residential mortgages” and “qualified mortgages” could reduce the size of the mortgage market and potentially reduce the number of insurable loans;

the application of existing federal or state laws and regulations, or changes in these laws and regulations or the way they are interpreted, including, without limitation: (i) the resolution of existing, or the possibility of additional, lawsuits or investigations; and (ii) legislative and regulatory changes (a) impacting the demand for private mortgage insurance, (b) limiting or restricting the products we may offer or increasing the amount of capital we are required to hold, (c) affecting the form in which we execute credit protection, or (d) impacting our existing financial guaranty portfolio;

the amount and timing of potential payments or adjustments associated with federal or other tax examinations;

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;
- 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;
- changes in GAAP or statutory accounting principles, rules and guidance, or their interpretation; 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, 2011, as amended by the Company's Annual Reports on Form 10-K/A for the fiscal year ended December 31, 2011, as filed with the SEC on March 2, 2012 and November 6, 2012, Item 1A of Part II of our Quarterly Reports on Form 10-Q filed in 2012, and subsequent reports and registration statements filed from time to time with the U.S. Securities and Exchange Commission. 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)

(In thousands, except share and per share amounts)	September 30, 2012	December 31, 2011
ASSETS		
Investments		
Fixed-maturities held to maturity—at amortized cost (fair value \$1,273 and \$2,748)	\$1,233	\$2,640
Fixed-maturities available for sale—at fair value (amortized cost \$64,795 and \$120,756)	56,412	118,733
Equity securities available for sale—at fair value (cost \$88,260 and \$114,425)	112,884	128,424
Trading securities—at fair value (including variable interest entity (“VIE”) securities of \$0 and \$94,521)	4,145,380	4,211,059
Short-term investments—at fair value (including VIE investments of \$0 and \$149,981)	1780,164	1,261,703
Other invested assets (including VIE assets of \$75,623 and \$0)	133,045	61,000
Total investments	5,239,118	5,783,559
Cash	28,162	35,589
Restricted cash	24,515	27,020
Deferred policy acquisition costs	91,271	139,906
Accrued investment income	30,107	32,262
Accounts and notes receivable	89,712	102,647
Property and equipment, at cost (less accumulated depreciation of \$98,640 and \$96,403)	6,673	11,044
Derivative assets (including VIE derivative assets of \$1,829 and \$1,602)	14,857	17,212
Deferred income taxes, net	15,975	15,975
Reinsurance recoverables	94,584	157,985
Receivable for securities sold	52,438	18,702
Other assets (including VIE other assets of \$100,575 and \$105,903)	353,945	314,864
Total assets	\$6,041,357	\$6,656,765
LIABILITIES AND STOCKHOLDERS' EQUITY		
Unearned premiums	\$614,455	\$637,372
Reserve for losses and loss adjustment expenses (“LAE”)	3,119,597	3,310,902
Reserve for premium deficiency	5,149	3,644
Long-term debt	659,119	818,584
VIE debt—at fair value	109,651	228,240
Derivative liabilities (including VIE derivative liabilities of \$71,089 and \$19,501)	267,323	126,006
Accounts payable and accrued expenses (including VIE accounts payable of \$372 and \$530)	350,810	349,726
Total liabilities	5,126,104	5,474,474
Commitments and Contingencies (Note 16)		
Stockholders' equity		
Common stock: par value \$.001 per share; 325,000,000 shares authorized;		
151,126,371 and 150,666,446 shares issued at September 30, 2012 and December 31, 2011, respectively; 133,642,414 and 133,199,159 shares outstanding at September 30, 2012 and December 31, 2011, respectively	151	151
Treasury stock, at cost: 17,483,957 and 17,467,287 shares at September 30, 2012 and December 31, 2011, respectively	(892,094)	(892,052)
Additional paid-in capital	1,967,245	1,966,565
Retained (deficit) earnings	(177,939)	96,227
Accumulated other comprehensive income	17,890	11,400

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Total stockholders' equity	915,253	1,182,291
Total liabilities and stockholders' equity	\$6,041,357	\$6,656,765

See notes to unaudited condensed consolidated financial statements.

Radian Group Inc.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(In thousands, except per share amounts)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Revenues:				
Premiums written—insurance:				
Direct	\$232,086	\$187,726	\$650,188	\$552,575
Assumed	(918)	(251)	(89,434)	(10,415)
Ceded	(21,891)	(9,188)	(91,867)	(28,346)
Net premiums written	209,277	178,287	468,887	513,814
Decrease (increase) in unearned premiums	(18,314)	1,368	76,220	57,798
Net premiums earned—insurance	190,963	179,655	545,107	571,612
Net investment income	25,635	38,763	91,225	124,826
Net gains on investments	84,659	81,640	178,537	163,311
Total other-than-temporary impairment (“OTTI”) losses	—	(20)	—	(31)
Losses recognized in other comprehensive income (loss)	—	—	—	—
Net impairment losses recognized in earnings	—	(20)	—	(31)
Change in fair value of derivative instruments	(41,056)	126,008	(146,937)	558,626
Net (losses) gains on other financial instruments	(740)	80,602	(80,454)	160,900
Gain on sale of affiliate	—	—	7,708	—
Other income	1,328	1,404	4,163	4,048
Total revenues	260,789	508,052	599,349	1,583,292
Expenses:				
Provision for losses	176,352	249,598	653,374	940,537
Change in reserve for premium deficiency	966	(1,942)	1,505	(6,427)
Policy acquisition costs	12,927	11,449	51,778	39,967
Other operating expenses	50,429	45,240	140,776	137,413
Interest expense	12,520	14,094	39,249	47,197
Total expenses	253,194	318,439	886,682	1,158,687
Equity in net (loss) income of affiliates	—	—	(13)	65
Pretax (loss) income	7,595	189,613	(287,346)	424,670
Income tax (benefit) provision	(6,730)	6,045	(13,180)	981
Net (loss) income	\$14,325	\$183,568	\$(274,166)	\$423,689
Basic net (loss) income per share	\$0.11	\$1.39	\$(2.07)	\$3.20
Diluted net (loss) income per share	\$0.11	\$1.37	\$(2.07)	\$3.16
Weighted-average number of common shares outstanding—basic	132,521	132,364	132,530	132,366
Weighted-average number of common and common equivalent shares outstanding—diluted	134,033	133,513	132,530	133,867
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 COMPREHENSIVE (LOSS) INCOME (UNAUDITED)

(In thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net (loss) income	\$ 14,325	\$ 183,568	\$(274,166)	\$ 423,689
Other comprehensive (loss) income, net of tax (see Note 12):				
Foreign currency translation adjustments:				
Unrealized foreign currency translation adjustment	1	(1)	(7)	6,519
Less: Reclassification adjustment for net gains (losses) included in net (loss) income	—	(355)	—	27,599
Net foreign currency translation adjustments	1	354	(7)	(21,080)
Unrealized gains (losses) on investments:				
Unrealized holding gains (losses) arising during the period	(1,618)	(23,471)	14,177	(9,856)
Less: Reclassification adjustment for net gains (losses) included in net (loss) income	(1,189)	1,489	7,680	(33,449)
Net unrealized gains (losses) on investments	(429)	(24,960)	6,497	23,593
Other comprehensive income (loss)	(428)	(24,606)	6,490	2,513
Comprehensive (loss) income	\$ 13,897	\$ 158,962	\$(267,676)	\$ 426,202

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, 2011	\$ 150	\$(892,012)	\$1,963,092	\$ (204,926)	\$ 21,094	\$(27,857)	\$239	\$859,780
Net income	—	—	—	423,689	—	—	—	423,689
Net foreign currency translation adjustment, net of tax	—	—	—	—	(21,080)	—	—	(21,080)
Net unrealized gain on investments, net of tax	—	—	—	—	—	23,593	—	23,593
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
BALANCE, JANUARY 1, 2012	\$ 151	\$(892,052)	\$1,966,565	\$ 96,227	\$ 54	\$ 11,471	\$(125)	\$1,182,291
Net loss	—	—	—	(274,166)	—	—	—	(274,166)
Net foreign currency translation adjustment, net of tax	—	—	—	—	(7)	—	—	(7)
Net unrealized gain on investments, net of tax	—	—	—	—	—	6,497	—	6,497
Repurchases of common stock under incentive plans	—	(42)	—	—	—	—	—	(42)
Issuance of common stock under benefit plans	—	—	468	—	—	—	—	468
Amortization of restricted stock	—	—	1,311	—	—	—	—	1,311
Stock-based compensation expense	—	—	(98)	—	—	—	—	(98)
Dividends declared	—	—	(1,001)	—	—	—	—	(1,001)
BALANCE, SEPTEMBER 30, 2012	\$ 151	\$(892,094)	\$1,967,245	\$ (177,939)	\$ 47	\$ 17,968	\$(125)	\$915,253

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,	
	2012	2011
Cash flows used in operating activities	\$(441,769	) \$(766,120
Cash flows from investing activities:		
Proceeds from sales of fixed-maturity investments available for sale	54,456	136,123
Proceeds from sales of equity securities available for sale	31,235	644
Proceeds from sales of trading securities	5,008,003	4,462,041
Proceeds from redemptions of fixed-maturity investments available for sale	4,459	30,746
Proceeds from redemptions of fixed-maturity investments held to maturity	1,505	7,250
Purchases of trading securities	(4,933,850	) (4,184,608
Sales and redemptions of short-term investments, net	481,673	481,969
Purchases of other invested assets, net	(73,684	) (2,817
Proceeds from sale of investment in affiliate	14,700	—
Sales (purchases) of property and equipment, net	118	(2,776
Net cash provided by investing activities	588,615	928,572
Cash flows used in financing activities:		
Dividends paid	(1,001	) (1,001
Redemption of long-term debt	(153,261	) (160,000
Net cash used in financing activities	(154,262	) (161,001
Effect of exchange rate changes on cash	(11	) 78
(Decrease) increase in cash	(7,427	) 1,529
Cash, beginning of period	35,589	20,334
Cash, end of period	\$28,162	\$21,863
Supplemental disclosures of cash flow information:		
Income taxes paid (received)	\$1,530	\$(69
Interest paid	\$24,531	\$34,660

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, exercise significant influence (generally ownership interests ranging from 20% to 50%), are accounted for in accordance with the equity method of accounting. VIEs for which we are the primary beneficiary are consolidated, as described in Note 5. 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 set forth in 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 the fair statement of the financial position, results of operations, comprehensive income and cash flows for the interim periods presented. Such adjustments are of a normal recurring nature. 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, 2011, as amended by the Company’s Annual Reports on Form 10-K/A for the fiscal year ended December 31, 2011, as filed with the SEC on March 2, 2012 and November 6, 2012 (as amended, the “2011 Form 10-K”).

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 (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 stock equivalents that would be issuable upon the exercise of stock options and other stock-based compensation. For the three months ended September 30, 2012, 2,479,966 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, 2012, 5,890,581 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 as of such date because they were anti-dilutive. 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.

Effective January 1, 2012, we adopted the Financial Accounting Standards Board (“FASB”) update to the accounting standard regarding fair value measurements and disclosure. This update changes the language used to describe the requirements in GAAP for measuring fair value and for disclosing information about fair value measurements. The amendments: (i) clarify the FASB’s intent about the application of existing fair value measurement and disclosure requirements, and (ii) change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. The amendments in this update do not require additional fair value measurements and are not intended to establish valuation standards or affect valuation practices outside of financial reporting. The adoption of this update did not have a significant impact on our fair value measurements. Additional

disclosures regarding unobservable market inputs related to our Level III instruments required under this update are presented in Note 4.

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

Effective January 1, 2012, we adopted the FASB update to the accounting standard regarding comprehensive income. This update provides an entity with the option to present the components of net income, other comprehensive income and total comprehensive income, either in a single continuous statement of comprehensive income or in two separate but consecutive statements. We elected to present this information in a separate statement of comprehensive income, and have modified our condensed consolidated statements of changes in common stockholders' equity for certain items that are presented in the condensed consolidated statements of comprehensive income. Regardless of which option an entity chooses, the entity is required to present, on the face of the consolidated financial statements, reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statements where the components of net income and the components of other comprehensive income are presented. In December 2011, the FASB deferred the effective date for the requirement to present reclassification adjustments on the face of the consolidated financial statements for the reclassification of items out of comprehensive income to net income. Effective January 1, 2012, we adopted the FASB update to the accounting standard regarding accounting for costs associated with acquiring or renewing insurance contracts on a prospective basis. This update redefines acquisition costs as costs that are related directly to the successful acquisition of new, or the renewal of existing, insurance contracts. Previously, acquisition costs were defined as costs that vary with and are primarily related to the acquisition of insurance contracts. The effect of this revised definition of acquisition costs resulted in additional expenses in our mortgage insurance business being charged to earnings when incurred, rather than being deferred. There is no change to the amortization requirements due to this update. This adoption did not impact the financial guaranty business as we have adopted the update prospectively and are not deferring any acquisition costs. The implementation of this new guidance has materially reduced the amount of policy acquisition costs that we defer associated with acquiring new mortgage insurance contracts. The lower amount of acquisition costs deferred will result in decreased amortization expense over time, which should partially offset the impact to our results of operations from the additional expenses charged to income when incurred at the origination of an insurance contract. While the timing of when certain costs are reflected in our results of operations will change as a result of the adoption of this update, there will be no effect on the total acquisition costs recognized over time or on our cash flows. For the three and nine months ended September 30, 2012, amounts deferred as acquisition costs were \$5.0 million and \$13.7 million, respectively, under this update. Under our previous method of accounting for acquisition costs, amounts deferred as acquisition costs for the three and nine months ended September 30, 2012, would have been \$9.4 million and \$25.2 million, respectively. Amounts deferred as acquisition costs for the three and nine months ended September 30, 2012, also reflect a reduction for ceding commissions on risk ceded under a quota share reinsurance transaction.

Business Overview

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

Radian Group

Radian Group serves as the holding company for our insurance subsidiaries and does not have any significant operations of its own. At September 30, 2012, Radian Group had immediately available unrestricted cash and liquid investments of \$368.3 million. Radian Group's principal liquidity demands for the next 12 months are expected to include: (i) the payment of corporate expenses; (ii) interest payments on our outstanding long-term debt; (iii) the repayment of \$79.4 million of principal amount of our 5.625% Senior Notes due February 2013 (the "2013 Notes") that currently remains outstanding; (iv) potential capital support for our mortgage insurance subsidiaries; (v) potential payments to the Internal Revenue Service ("IRS") resulting from its examination of our 2000 through 2007 tax years; and (vi) the payment of dividends on our common stock. Radian Group also has \$250 million of principal amount of debt due in 2015 and \$450 million of principal amount of convertible debt due in 2017. See "Business Conditions—Holding Company Liquidity" below.

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

Mortgage Insurance

Our mortgage insurance segment provides credit-related insurance coverage, principally through private mortgage insurance, and risk management services to mortgage lending institutions. We provide these products and services mainly through our wholly-owned subsidiary, Radian Guaranty Inc. (“Radian Guaranty”). Private mortgage insurance protects mortgage lenders from all or a portion of default-related losses on residential mortgage loans made to home buyers who generally make downpayments of less than 20% of the home’s purchase price. Private mortgage insurance also facilitates the sale of these mortgage loans in the secondary mortgage market, most of which are sold to Freddie Mac and Federal National Mortgage Association (“Fannie Mae”). We refer to Freddie Mac and Fannie Mae together as “Government Sponsored Enterprises” or “GSEs.”

Our mortgage insurance segment offers primary mortgage insurance coverage on residential first-lien mortgages (“first-liens”). At September 30, 2012, primary insurance on first-liens comprised approximately 94.2% of our \$35.1 billion of total risk in force (“RIF”). Prior to 2009, we also wrote pool insurance, which at September 30, 2012, comprised approximately 5.3% of our total RIF. In addition to first-lien mortgage insurance, in the past, we provided other forms of credit enhancement on residential mortgage assets. These products included mortgage insurance on second-lien mortgages (“second-liens”), credit enhancement on net interest margin securities (“NIMS”), and primary mortgage insurance on international mortgages (collectively, we refer to the risk associated with these transactions as “non-traditional”). We stopped writing non-traditional business in 2007, other than a small amount of international mortgage insurance, which we discontinued writing in 2008. Our non-traditional RIF was \$167 million as of September 30, 2012, representing 0.5% of our total RIF.

Financial Guaranty

Our financial guaranty segment has provided direct insurance and reinsurance on credit-based risks through Radian Asset Assurance Inc. (“Radian Asset Assurance”), a wholly-owned subsidiary of Radian Guaranty. In 2008, in light of market conditions and the downgrade of the financial strength ratings of our financial guaranty insurance subsidiaries, we discontinued writing new financial guaranty business, including accepting new financial guaranty reinsurance, other than as necessary to commute, restructure, hedge or otherwise mitigate losses or reduce exposure in our existing portfolio. Since 2008, we have significantly reduced our financial guaranty operations and have reduced our financial guaranty exposures through commutations in order to mitigate uncertainty, maximize the ultimate capital available for our mortgage insurance business and accelerate our access to that capital.

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. Despite recent signs of improvement in the United States (“U.S.”) housing market, the overall market and related credit markets remain weak compared to historical standards, with limited mortgage originations, modest improvement in home prices in certain markets after a prolonged period of significant home price depreciation, mortgage servicing and foreclosure delays, and ongoing deterioration in the credit performance of mortgage and other assets originated prior to 2009. These factors, together with current macroeconomic trends such as limited economic growth, the lack of meaningful liquidity in some sectors of the capital markets, and continued high unemployment, have 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. Because of these factors, there is still a great deal of uncertainty regarding our future performance, despite having written what we believe is high quality, profitable mortgage insurance business since the beginning of 2009.

Capital Preservation and Liquidity Management Initiatives

Since 2008, we have engaged in a number of strategic actions and initiatives designed to increase our financial flexibility, conserve our holding company liquidity and preserve the risk-based capital position of Radian Guaranty.

Radian Group Inc.

Notes to Unaudited Condensed Consolidated Financial Statements — (Continued)

Thus far in 2012, we have continued to make significant progress towards these initiatives by taking the following actions:

In January 2012, we made further progress in our strategic objective of reducing our financial guaranty risk by entering into a three-part transaction (the “Assured Transaction”) with subsidiaries of Assured Guaranty Ltd. (collectively, “Assured”) that included the commutation of \$13.8 billion of financial guaranty net par outstanding that was reinsured by Radian Asset Assurance (the “Assured Commutation”), the cession of \$1.8 billion of direct public finance business to Assured (the “Assured Cession”) and the sale of Municipal and Infrastructure Assurance Corporation (the “FG Insurance Shell”), a New York domiciled financial guaranty insurance company licensed to conduct business in 37 states and the District of Columbia. We completed the sale of the FG Insurance Shell in the second quarter of 2012. The Assured Transaction reduced our financial guaranty net par outstanding by 22.5% and provided a statutory capital benefit to Radian Asset Assurance and Radian Guaranty of \$100.7 million as of September 30, 2012. The following table shows the impact of the Assured Transaction on our unaudited condensed consolidated financial statements in the first nine months of 2012.

Statement of Operations

(In millions)

Decrease in premiums written	\$(119.8)
Decrease in net premiums earned	\$(22.2)
Increase in change in fair value of derivative instruments—gain	1.4	
Gain on sale of affiliate	7.7	
Increase in amortization of policy acquisition costs	(15.7)
Decrease in pre-tax income	\$(28.8)

Balance Sheet

(In millions)

Decrease in:

Cash	\$93.6
Deferred policy acquisition costs	26.2
Accounts and notes receivable	1.1
Derivative assets	0.6
Unearned premiums	71.6
Derivative liabilities	2.1
Increase in other assets	19.1

During the first nine months of 2012, five credit default swap (“CDS”) counterparties in our financial guaranty business exercised their termination rights with respect to 24 corporate collateralized debt obligations (“CDOs”) that we insured and an additional counterparty exercised its termination right with respect to one CDS of an investor-owned utility bond that we insured (collectively, the “2012 CDO Terminations”), which further reduced our financial guaranty net par outstanding by \$10.2 billion in the aggregate. In addition, in October 2012, three of these counterparties and one additional CDS counterparty terminated an additional 11 corporate CDOs and a foreign infrastructure CDS that we insured with an aggregate of \$4.4 billion net par outstanding. There was no material impact on our financial statements as a result of these terminations.

Since December 31, 2011, we have purchased \$170.6 million of principal amount of our 2013 Notes, as discussed in more detail in Note 11.

On April 1, 2012, Radian Guaranty entered into a quota share reinsurance agreement with a third-party reinsurance provider (the “Initial Quota Share Reinsurance Transaction”). In the fourth quarter of 2012, Radian Guaranty and the

same third-party reinsurance provider agreed to the terms of a second quota share reinsurance agreement (the “Second Quota Share Reinsurance Transaction”) that provide for incremental ceded risk. See Note 7 for further details.

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In the second quarter of 2012, Radian Asset Assurance entered into a commutation with one of its derivative counterparties (the “Counterparty”) to commute Radian Asset Assurance’s: (1) only remaining CDO of asset-backed securities (“ABS”) exposure which was related to a directly insured tranche of an extremely distressed CDO of ABS transaction (the “CDO of ABS Transaction”), for which we had expected to pay claims on substantially all of the \$450.2 million net par outstanding; and (2) credit protection through CDS on six directly insured trust preferred securities (“TruPs”) CDO transactions, representing \$699.0 million of net par outstanding at the time of the commutation (the “Terminated TruPs CDOs”). In consideration for these commutations, Radian Asset Assurance paid \$210.0 million (the “Commutation Amount”), a significant portion of which (the “LPV Initial Capital”) has been deposited with a limited purpose vehicle (an “LPV”) to cover the Counterparty’s potential future losses on the TruPs bonds underlying the Terminated TruPs CDOs (the “Terminated TruPs Bonds”). The commutations described in this paragraph are referred to herein as the “Commutation Transactions.”

Also as part of the Commutation Transactions, the LPV entered into a credit default swap (the “Residual CDS”) with the Counterparty to provide for payments to the Counterparty for future losses relating to the Terminated TruPs Bonds. The LPV Initial Capital, together with investment earnings (collectively, the “LPV Capital”), represent the only funds available to pay the Counterparty for amounts due under the Residual CDS. The Residual CDS terminates concurrently with the Terminated TruPs Bonds for which we had provided credit protection and provides for payment to the Counterparty substantially in accordance with the terms of our original CDS protection for the Terminated TruPs Bonds. In addition, pursuant to an agreement with the Counterparty, if any LPV Capital amount is remaining following the maturity of the Residual CDS, Radian Asset Assurance is entitled to these remaining funds. Due to our current expectations regarding future credit losses on the Terminated TruPs Bonds, we established an associated salvage recovery for statutory accounting purposes, which as of September 30, 2012, was approximately \$75.9 million related to the LPV Capital that we expect to ultimately receive upon the expiration of the LPV’s obligations. Although Radian Asset Assurance has no further obligation for claims related to the Terminated TruPs CDOs, the amount of salvage recovery remains at risk, and the actual amount of salvage that we ultimately recover will depend on the future performance of the Terminated TruPs Bonds. If the LPV is required to make payments to the Counterparty pursuant to the terms of the Residual CDS, Radian Asset Assurance’s projected and actual recovery from the LPV may be materially reduced or eliminated. See “Insurance Regulatory—Capital Requirements” below for discussion of the impact of the salvage recoverable on Radian Guaranty’s statutory capital. For GAAP purposes, we have determined that the LPV is a VIE, and it is therefore accounted for as described further in Note 5.

Prior to the Commutation Transactions, the terminated transactions were required to be accounted for at fair value for GAAP purposes. The Commutation Amount exceeded the aggregate fair value liability that we had recorded for such transactions, and as a result, in the second quarter of 2012, we reported a loss for GAAP purposes of \$108 million on the Commutation Transactions. This loss resulted primarily from a significant discount incorporated in the aggregate fair value liability for the commuted transactions related to the market’s perception of our non-performance risk. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies—Fair Value of Financial Instruments—Corporate CDOs” for additional information regarding our fair value methodology.

All of the transactions commuted pursuant to the Commutation Transactions were rated below investment grade internally at the time of the transaction, with \$1.0 billion net par outstanding of the commuted transactions rated B or below internally. In the aggregate, the transactions commuted pursuant to the Commutation Transactions represented approximately 51% of our financial guaranty segment’s aggregate net par outstanding rated B or below internally at the time of the transaction.

In the second quarter of 2012, Radian Asset Assurance released \$54.5 million of contingency reserves, which benefited Radian Guaranty’s statutory surplus by an equal amount.

In July 2012, Radian Asset Assurance paid an ordinary dividend of \$54.0 million to Radian Guaranty. In addition to the actions taken thus far in 2012, consistent with management's plan, we may consider additional reinsurance or negotiated commutations of our mortgage insurance RIF and financial guaranty net par outstanding, and may also pursue further opportunities to retire or restructure our long-term debt or issue securities in one or more private or public offerings. We cannot provide any assurance that we will be successful in pursuing any such alternatives, individually or in the aggregate, and can provide no assurance that if such alternatives are executed that they will be sufficient to maintain adequate capital levels for our insurance subsidiaries and sufficient holding company liquidity. See "Risks and Uncertainties" in this Note 1 below.

Radian Group Inc.

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Insurance Regulatory—Capital Requirements

The GSEs and state insurance regulators impose various capital requirements on our insurance subsidiaries. These include risk-to-capital ratios, risk-based capital measures and surplus requirements that potentially limit the amount of insurance that each of our insurance subsidiaries may write. The GSEs and our state insurance regulators also possess significant discretion with respect to our insurance subsidiaries.

Under state insurance regulations, Radian Guaranty is required to maintain minimum surplus levels and, in certain states, a minimum amount of statutory capital relative to the level of net RIF (as defined in Note 14), or “risk-to-capital.” Sixteen states (the risk-based capital or “RBC States”) currently have a statutory or regulatory risk-based capital requirement (the “Statutory RBC Requirement”), the most common of which requires that a mortgage insurer’s risk-to-capital ratio not exceed 25 to 1. In some of the RBC States (the “MPP States”), Radian Guaranty is required to maintain a minimum policyholder position (the “MPP Requirement”). Unless an RBC State grants a waiver or other form of relief, if a mortgage insurer is not in compliance with the Statutory RBC Requirement of an RBC State, it may be prohibited from writing new mortgage insurance business in that state. Radian Guaranty’s domiciliary state, Pennsylvania, is not one of the RBC States. During the nine months ended September 30, 2012, the RBC States accounted for approximately 54.7% of Radian Guaranty’s total primary new insurance written (“NIW”).

Radian Guaranty’s risk-to-capital ratio has improved to 20.1 to 1 as of September 30, 2012, from 21.5 to 1 as of December 31, 2011. Based on our current projections, we expect Radian Guaranty’s risk-to-capital ratio to increase over time. Absent any further risk-to-capital support, we expect Radian Guaranty to exceed the 25 to 1 risk-to-capital ratio requirement during 2013, and to exceed the MPP Requirement in two states as early as the end of 2012. Each of these MPP States has issued to Radian Guaranty a waiver of its MPP Requirement. These waivers will allow Radian Guaranty to continue writing new business in these states in the event the MPP Requirement is not met.

The ultimate amount of losses and the timing of these losses will depend, in part, on general economic conditions and other factors, including the health of credit markets, home prices and unemployment rates, all of which are difficult to predict and beyond our control. Our mortgage insurance incurred losses are driven primarily by new mortgage insurance defaults and development in the assumptions used to determine our loss reserves. Establishing loss reserves in our businesses requires significant judgment by management with respect to the likelihood, magnitude and timing of anticipated losses. This judgment has been made more difficult in the current period of prolonged economic uncertainty. Our estimate of the percentage of defaults that ultimately will result in a paid claim (the “default to claim rate”) is a significant assumption in our reserving methodology. Our assumed aggregate weighted average default to claim rate (which incorporates the expected impact of rescissions and denials) was approximately 46% and 43% as of September 30, 2012 and December 31, 2011, respectively. Assuming all other factors remain constant, each one percentage point increase in our aggregate weighted average default to claim rate as of September 30, 2012, would have resulted in an approximate \$56 million increase in incurred losses, adversely affecting Radian Guaranty’s statutory capital. The level of incurred losses in our mortgage insurance business also is dependent on our estimate of anticipated rescissions and denials, including our estimate of the likely number of successful challenges to previously rescinded policies or claim denials, among other assumptions. See Note 8 below for further information.

Radian Asset Assurance is a wholly owned subsidiary of Radian Guaranty. If our financial guaranty portfolio performs worse than anticipated, including if we are required to establish (or increase) one or more statutory reserves on defaulted obligations that we insure, or if we make net commutation payments to terminate insured financial guaranty obligations in excess of the then established statutory reserves for such obligations, the statutory capital of Radian Guaranty would also be negatively impacted. We establish statutory financial guaranty reserves at the time of default, whereas for GAAP reporting purposes, loss reserves are established when estimated losses exceed unearned premiums, regardless of whether a default has occurred. We settled our obligations related to our exposure to insured sovereign indebtedness of Greece in the third quarter of 2012, recording a statutory loss of \$23.5 million on this

transaction. Any decrease in the statutory capital in our financial guaranty business would have a negative impact on Radian Guaranty's risk-to-capital position and its ability to remain in compliance with the Statutory RBC Requirements.

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We actively manage Radian Guaranty's risk-to-capital position in various ways, including: (1) through internal and external reinsurance arrangements (which require approval by Freddie Mac and may require approval of our state insurance regulators); (2) by seeking opportunities to reduce our risk exposure through commutations or other negotiated transactions; (3) by contributing additional capital from Radian Group to its mortgage insurance subsidiaries; and (4) by realizing gains in our investment portfolio through open market sales of securities. Radian Group had unrestricted cash and liquid investments of \$368.3 million as of September 30, 2012. Our remaining available liquidity may be used to further support Radian Guaranty's risk-to-capital position. Depending on the extent of our future statutory incurred losses in our mortgage insurance subsidiaries and in Radian Asset Assurance, as well as the level of NIW and other factors, the amount of capital contributions required for Radian Guaranty to remain in compliance with the Statutory RBC Requirements could be substantial and could exceed amounts maintained at Radian Group. In addition, while our financial guaranty insurance subsidiary and other mortgage insurance subsidiaries, which provide reinsurance to Radian Guaranty but do not write direct business of their own, are not subject to Statutory RBC Requirements, these subsidiaries are subject to certain minimum statutory surplus requirements. All of these subsidiaries were in compliance with their respective statutory surplus requirements as of September 30, 2012. Some of our other mortgage insurance subsidiaries may require additional capital contributions in the future to maintain minimum capital levels, in order for Radian Guaranty to continue to utilize reinsurance arrangements with these subsidiaries. See Note 14 and "Holding Company Liquidity" and "Risks and Uncertainties" below in this Note 1 for additional details.

In order to maximize our financial flexibility, we have applied for waivers or similar relief for Radian Guaranty in each of the RBC States. Of the 16 RBC states, New York does not possess the regulatory authority to grant waivers and Iowa, Kansas and Ohio have declined to grant waivers to Radian Guaranty. In addition, Oregon has indicated that it will not consider our waiver application until such time that Radian Guaranty has exceeded its Statutory RBC Requirement. Of the remaining 11 RBC States, Radian Guaranty has received waivers or similar relief from the following ten states: Illinois, Kentucky, Wisconsin, Arizona, Missouri, New Jersey, North Carolina, California, Florida and Texas. Certain of these waivers contain conditions, including requirements that Radian Guaranty's risk-to-capital ratio may not exceed a revised maximum permitted risk-to-capital ratio, ranging from 30 to 1 up to 35 to 1. Radian Guaranty has one remaining application that is pending in Idaho. There can be no assurance that: (1) Radian Guaranty will be granted a waiver in Idaho or Oregon, the remaining RBC States; (2) for any waiver granted, such regulator will not revoke or terminate the waiver, which the regulator generally has the authority to do at any time; (3) for any waiver granted, it will be renewed or extended after its original expiration date, which in the case of four of these waivers is December 31, 2012; or (4) additional requirements will not be imposed as a condition to such waivers or their renewal or extension and, if so, whether we will be able to comply with such conditions.

In addition to filing for waivers in the RBC States, we intend to write new first-lien mortgage insurance business in Radian Mortgage Assurance Inc. ("RMAI"), in any RBC State that does not permit Radian Guaranty to continue writing insurance while it is out of compliance with applicable Statutory RBC Requirements. RMAI is a wholly-owned subsidiary of Radian Guaranty and is licensed to write mortgage insurance in each of the fifty states and the District of Columbia.

In February 2012, RMAI received approval from Fannie Mae to write new mortgage insurance business in any RBC State where Radian Guaranty would be prohibited from writing new business, if it were not in compliance with the state's Statutory RBC Requirement, without a waiver or other similar relief (the "Fannie Mae Approval"). Also in February 2012, Freddie Mac approved RMAI (the "Freddie Mac Approval" and together with the Fannie Mae Approval, the "GSE Approvals") to write business in those RBC States for which we have been denied a waiver (New York, Ohio, Iowa, Kansas and Oregon, subject to our filing for a waiver in Oregon upon breach of the Statutory RBC Requirement

in that state). Because our application for a waiver is pending in Idaho, Freddie Mac has not yet authorized RMAI to write business in that state.

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These approvals are temporary (the Fannie Mae Approval expires on December 31, 2013, and the Freddie Mac Approval expires on December 31, 2012) and are conditioned upon our compliance with a broad range of conditions and restrictions, including without limitation, minimum capital and liquidity requirements, a maximum risk-to-capital ratio of 20 to 1 for RMAI, restrictions on the payment of dividends and restrictions on affiliate transactions involving Radian Guaranty or RMAI. See “Risks and Uncertainties” below in this Note 1. Under the GSE Approvals, Radian Group is also required to contribute \$50 million of additional capital to RMAI (under the current terms of the Fannie Mae Approval, any contributions from Radian Guaranty to RMAI must be made on or before February 27, 2013), if Radian Guaranty’s risk-to-capital ratio exceeds applicable Statutory RBC Requirements. The conditions and restrictions contained in the Freddie Mac Approval include, among others, a requirement that Radian Group make contributions to Radian Guaranty so that Radian Guaranty maintains minimum “Liquid Assets” (as defined in the Freddie Mac Approval and discussed in further detail below) of \$700 million. There can be no assurance that: (1) we will be able to comply with the conditions imposed by the GSEs’ approval for RMAI; (2) the GSEs will not revoke or terminate their approvals, which they generally have the authority to do at any time; (3) the approvals will be renewed or extended after their original expiration dates; or (4) additional requirements will not be imposed as a condition to such on-going approvals, including their renewal or extension.

The GSE Approvals are limited to the RBC States. It is possible that if Radian Guaranty were not able to comply with the Statutory RBC Requirements of one or more states, the insurance regulatory authorities in states other than the RBC States could prevent Radian Guaranty from continuing to write new business in such states. If this were to occur, we would need to seek approval from the GSEs to expand the scope of their approvals to allow RMAI to write business in states other than the RBC States.

Our existing capital resources may not be sufficient to successfully manage Radian Guaranty’s risk-to-capital ratio. Our ability to utilize waivers and RMAI to continue to write business if our risk to capital position is not in compliance with Statutory RBC Requirements is subject to conditions that we may be unable to satisfy. As a result, even if we are successful in implementing this strategy, additional capital contributions or other risk-to-capital support or relief could be necessary, which we may not have the ability to provide. Further, regardless of the waivers and the GSEs’ approval of RMAI, we may choose to use our existing capital at Radian Group to maintain compliance with the Statutory RBC Requirements. Depending on the extent of our future incurred losses along with other factors, the amount of capital contributions that may be required to maintain compliance with the Statutory RBC Requirements could be significant and could exceed all of our remaining available capital. In the event we contribute a significant amount of Radian Group’s available capital to Radian Guaranty and RMAI, our financial flexibility would be significantly reduced, making it more difficult for Radian Group to meet its obligations in the future, including future principal payments on our outstanding debt.

Holding Company Liquidity

Radian Group serves as the holding company for our insurance subsidiaries and does not have any significant operations of its own. At September 30, 2012, Radian Group had immediately available unrestricted cash and liquid investments of \$368.3 million. Radian Group’s principal liquidity demands for the next 12 months are expected to include: (i) the payment of corporate expenses; (ii) interest payments on our outstanding long-term debt; (iii) the repayment of the principal amount remaining of our 2013 Notes; (iv) potential capital support for our mortgage insurance subsidiaries; (v) potential payments to the IRS resulting from its examination of our 2000 through 2007 tax years; and (vi) the payment of dividends on our common stock.

In addition to existing available cash and marketable securities, Radian Group’s principal sources of cash include dividends from Radian Guaranty (to the extent permitted under applicable laws and regulations) and payments made to Radian Group under tax- and expense-sharing arrangements with our subsidiaries. Radian Guaranty’s ability to pay dividends to Radian Group is subject to various conditions imposed by the GSEs and rating agencies, and by

insurance regulations requiring insurance department approval. In general, dividends in excess of prescribed limits are deemed “extraordinary” and require insurance department approval. In light of ongoing losses in Radian Guaranty, we do not anticipate that it will be permitted under applicable insurance laws to issue dividends to Radian Group for the foreseeable future. To the extent Radian Asset Assurance is permitted to pay future dividends, these dividends will be paid to its direct parent, Radian Guaranty, and not to Radian Group.

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We expect to fund Radian Group's short-term liquidity needs with: (i) existing cash and marketable securities; and (ii) cash received under the expense-sharing arrangements with our subsidiaries. If Radian Group's current sources of liquidity are insufficient for Radian Group to fund its obligations, Radian Group may be required to seek additional capital by incurring additional debt, by issuing additional equity, or by selling assets, which we may not be able to do on favorable terms, if at all.

Corporate Expenses and Interest Expense. Radian Group has expense-sharing arrangements in place with its principal operating subsidiaries that require those subsidiaries to pay their share of holding-company-level expenses, including interest payments on our outstanding long-term debt. Payments of such corporate expenses for the next 12 months, excluding interest payments, are expected to be approximately \$60.2 million. For the same period, payments of interest on our long-term debt are expected to be approximately \$29.2 million. These amounts are expected to be reimbursed by our subsidiaries under our existing expense-sharing arrangements. These expense-sharing arrangements, as amended, have been approved by applicable state insurance departments, but such approval may be modified or revoked at any time. In addition, pursuant to the GSEs' approval of RMAI as an eligible mortgage insurer, the consent of the GSEs is required to modify or amend the expense-sharing agreements. Approximately \$38.7 million of future expected corporate expenses and interest payments (approximately \$22.2 million for the next 12 months) have been accrued for and paid by certain subsidiaries to Radian Group as of September 30, 2012, and therefore, the total unrestricted cash and liquid investments held by Radian Group as of September 30, 2012, includes these amounts. A portion of these expenses (approximately \$20.4 million) relates to performance-based compensation expenses that could be reversed in whole or in part, depending on changes in our stock price and other factors. To the extent these expenses are reversed, Radian Group would be required to reimburse the subsidiaries that paid these expenses to Radian Group. In addition, under the Fannie Mae Approval for RMAI, Radian Group is required to contribute to Radian Guaranty the amount of any future interest expense payments made by Radian Guaranty or RMAI to Radian Group pursuant to the terms of the expense-sharing arrangements among these entities. Pursuant to the terms of our expense-sharing arrangements, interest expense payments from Radian Guaranty or RMAI to Radian Group for the next twelve months are expected to be immaterial.

Repayment of 2013 Notes. Since December 31, 2011, we have purchased \$170.6 million of principal amount of our outstanding 2013 Notes and \$79.4 million of principal amount of our 2013 Notes currently remains outstanding. We may from time to time, seek to redeem or purchase, prior to maturity, some or all of the remaining 2013 Notes in the open market, through private transactions, pursuant to one or more tender offers, or through any combination of the foregoing, as circumstances may allow.

Capital Support for Subsidiaries. In light of on-going losses in our mortgage insurance business, Radian Group may be required to make additional capital contributions to Radian Guaranty in order to support Radian Guaranty's ability to continue writing insurance in those states that impose certain risk-based capital requirements and/or to maintain approvals by the GSEs for RMAI as an eligible insurer in certain states. Radian Guaranty's risk-to-capital ratio was 20.1 to 1 as of September 30, 2012. Based on our projections and absent any further risk-to-capital support, we expect that Radian Guaranty will exceed the 25 to 1 risk-to-capital ratio requirement during 2013, and that Radian Guaranty could exceed the MPP Requirement in two states as early as the end of 2012. Each of these MPP States has issued to Radian Guaranty a waiver of its MPP Requirement. These waivers will allow Radian Guaranty to continue writing new business in these states in the event the MPP Requirement is not met. Depending on the extent of our future mortgage insurance losses along with other factors, the amount of capital contributions that may be required to maintain compliance with applicable risk-based capital requirements could be significant and could exceed all of Radian Group's remaining available liquidity. See "Insurance Regulatory—Capital Requirements" above in this Note 1. Radian Group also could be required to provide capital support for Radian Guaranty and our other mortgage insurance subsidiaries if additional capital is required pursuant to insurance laws and regulations. Certain of our mortgage

insurance subsidiaries that provide reinsurance to Radian Guaranty currently are operating at or near minimum capital levels and have required, and in the future may continue to require, additional capital contributions from Radian Group.

Radian Group Inc.
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Radian Group and Commonwealth Mortgage Assurance Company of Texas (“CMAC of Texas”) are parties to an Assumption and Indemnification Agreement with regard to certain proposed adjustments resulting from the examination by the IRS for the 2000 through 2007 tax years. Through this agreement, Radian Group agreed to indemnify CMAC of Texas for the amount of any tax payments ultimately due to the IRS for the proposed adjustments, which relate to the recognition of certain tax losses and deductions that were generated through our investment in a portfolio of residual interests in Real Estate Mortgage Investment Conduits (“REMICs”) currently held by CMAC of Texas. This indemnification agreement was made in lieu of an immediate capital contribution to CMAC of Texas that otherwise may have been required as a result of our remeasurement of uncertain tax positions related to the portfolio of REMIC residual interests. There remains significant uncertainty with regard to the amount and timing of any resolution with the IRS, and we are currently contesting the proposed adjustments related to the REMICs.

Dividends. Our quarterly common stock dividend is \$0.0025 per share, and based on our current outstanding common stock, we would require approximately \$1.3 million in the aggregate to pay our quarterly dividends for the next 12 months. Radian Group is not subject to any limitations on its ability to pay dividends except those generally applicable to corporations, such as Radian Group, that are incorporated in Delaware. Delaware corporation law provides that dividends are only payable out of a corporation’s capital surplus or (subject to certain limitations) recent net profits. As of September 30, 2012, our capital surplus was \$914.1 million, representing our dividend limitation under Delaware law.

Tax Payments. Under our current tax-sharing agreement between Radian Group and its subsidiaries, our subsidiaries are required to pay to Radian Group, on a quarterly basis, amounts representing their estimated separate company tax liability for the current tax year. Radian Group is required to refund to each subsidiary, any amount that such subsidiary overpaid to Radian Group for a taxable year, as well as any amount that the subsidiary could utilize through existing carryback provisions of the Internal Revenue Code had such subsidiary filed its federal tax return on a separate company basis. Any payments that we expect to make during the next twelve months under the tax-sharing agreement are not expected to have a material impact on Radian Group’s available liquidity. Our tax-sharing agreement may not be changed without the pre-approval of the applicable state insurance departments for certain of the insurance subsidiaries that are parties to the agreement. In addition, pursuant to the GSEs’ approval of RMAI as an eligible mortgage insurer, the consent of the GSEs is required to modify or amend the tax-sharing agreement.

Long-Term Liquidity Needs

Our most significant needs for liquidity beyond the next 12 months are: (i) the repayment of the principal amount of our outstanding long-term debt, including approximately \$250 million of principal amount due in 2015 and \$450 million of principal amount of convertible debt due in 2017; (ii) potential additional capital contributions to our mortgage insurance subsidiaries; and (iii) potential payments to the IRS resulting from its examination of our 2000 through 2007 tax years, which may not be resolved in the next 12 months. We may, from time to time, seek to redeem, purchase, or exchange for other securities, prior to maturity, some or all of our outstanding debt in the open market, through private transactions, pursuant to one or more tender offers, or through any combination of the foregoing, as circumstances may allow. The timing or amount of any potential transactions, which may or may not occur, will depend on a number of factors, including our capital and liquidity needs. If necessary, we may seek to refinance all or a portion of our long-term debt, which we may not be able to do on favorable terms, if at all.

As of the balance sheet date, certain of our insurance subsidiaries, including Radian Guaranty, have incurred net operating losses (“NOLs”) that could not be carried back and utilized on a separate company tax return basis. As a result, we are not currently obligated to reimburse these subsidiaries for their separate company NOL carryforward. However, if in a future period our consolidated NOL is fully utilized before a subsidiary has utilized its share of NOL on a separate entity basis, then Radian Group may be obligated to fund such subsidiary’s share of our consolidated tax liability to the IRS. Currently, we do not expect to fund material obligations under the provisions described in this

paragraph with regard to subsidiary NOLs incurred to date.

We expect to fund the long-term liquidity needs of Radian Group with a combination of: (i) available cash and marketable securities; (ii) potential private or public issuances of debt or equity securities, which we may not be able to do on favorable terms, if at all; (iii) cash received under expense-sharing arrangements with our subsidiaries; (iv) the potential sale of assets; and (v) dividends from our subsidiaries, to the extent available. See “Risks and Uncertainties” below in this Note 1.

Radian Group Inc.

Notes to Unaudited Condensed Consolidated Financial Statements — (Continued)

Freddie Mac Approval

Pursuant to the Freddie Mac Approval of RMAI as a special purpose mortgage insurer, Radian Group is required to make contributions to Radian Guaranty as may be necessary so that the “Liquid Assets” of Radian Guaranty, as defined in the Freddie Mac Approval, are at least \$700 million throughout the term of the approval. As defined in the Freddie Mac Approval, “Liquid Assets” are equal to the sum of (i) aggregate cash and cash equivalents, and (ii) the fair market value of the following investments: (a) residential mortgage-backed securities guaranteed by Fannie Mae, Freddie Mac or Government National Mortgage Association (“Ginnie Mae”); (b) securities rated single A or higher by either Moody’s Investor Service, Standard & Poor’s Rating System or Fitch Ratings with a remaining maturity of five years or less; and (c) U.S. Treasury securities with maturities not to exceed ten years, provided that U.S. Treasury securities with remaining maturities in excess of five years may not exceed ten percent of the Liquid Assets. As of September 30, 2012, Radian Guaranty’s Liquid Assets under the Freddie Mac Approval were approximately \$1.4 billion. Although we do not expect that Radian Guaranty’s Liquid Assets will fall below \$700 million before December 31, 2012, we do expect the amount of Radian Guaranty’s Liquid Assets to continue to decline through the remainder of 2012 (and thereafter) as Radian Guaranty’s claim payments and other uses of cash continue to exceed cash generated from operations. In the event Radian Guaranty’s Liquid Assets fall below \$700 million, Radian Guaranty maintains significant additional liquid investments that may be converted into Liquid Assets to ensure ongoing compliance with the Freddie Mac Approval.

Risks and Uncertainties

Radian Group and its subsidiaries are subject to risks and uncertainties that could affect amounts reported in our financial statements in future periods. Adverse business and economic conditions have resulted in incurred losses that have reduced our insurance subsidiaries’ statutory capital, requiring contributions that have reduced holding company liquidity. Further, statutory capital requirements are subject to regulatory discretion and approval. Our future performance and financial condition are 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 high unemployment, uncertainty in the housing, municipal, foreign sovereign and related credit markets, which could increase our mortgage insurance or financial guaranty losses beyond existing expectations. (See Notes 8, 9 and 10).

Potential adverse effects if there are adverse developments with respect to our estimates related to 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 8, 9 and 10).

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.

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 waivers or similar relief from the states that impose such statutory or regulatory risk-based capital requirements are not obtained or renewed, or are revoked.

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 or RMAI’s eligibility to insure loans purchased by the GSEs; (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; and (iv) state or federal regulators could pursue regulatory actions or proceedings, including possible supervision or receivership actions, against us in the future. (See Note 14 for additional information regarding our statutory capital).

Potential adverse effects if we fail to comply with applicable debt covenants, which could result in a default under our long-term debt and accelerate our obligation to repay our outstanding debt. Regulatory action that results in the

appointment of a receiver for one or more of our significant insurance subsidiaries could constitute an event of default under our long-term debt.

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 in the near-term, including \$79.4 million of principal amount currently outstanding on our 2013 Notes that mature in February 2013, our failure to estimate accurately the likelihood and potential effects of the various risks and uncertainties described in this report and our other filings with the SEC, as well as potential regulatory, legal or other changes to our tax- or expense-allocation agreements among Radian Group and its subsidiaries.

Potential adverse effects resulting from the final determination or settlement of tax audits and examinations and any potential related litigation, as well as changes in tax laws, rates, regulations and policies, or interpretations of any of the foregoing that could have a material impact on our tax liabilities, tax assets and our results of operations or financial condition.

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 and the possibility that loans insured by the Federal Housing Administration ("FHA") will receive more favorable regulatory treatment than loans with private mortgage insurance.

Potential adverse effects on our businesses as a result of the implementation of regulations under the Dodd-Frank Wall Street Reform and Consumer Protection Act (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. Our businesses have been significantly affected by, and our future success may depend upon, legislative and regulatory developments impacting the housing finance industry. The GSEs are the primary beneficiaries of the majority of our mortgage insurance policies, and the 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 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. Management believes that it will be able to maintain adequate liquidity to meet Radian Group's short-term liquidity needs, and accordingly, management has prepared these financial statements on the basis that Radian Group will continue to operate as a going concern. However, in light of the risks and uncertainties mentioned above, we may be unable to continue to execute on our plan as discussed above under "Capital Preservation and Liquidity Management Initiatives," which could have a material adverse effect on our financial position (including holding company liquidity), statutory capital, results of operations and cash flows. Our failure to maintain adequate levels of capital, among other things, could lead to intervention by the various insurance regulatory authorities, which could materially and adversely affect our business, business prospects, financial condition and our ability to continue as a going concern.

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, which is based on relative GAAP equity. The results for each segment for each reporting period can cause significant volatility in internally allocated capital based on GAAP equity.

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

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

(In thousands)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Mortgage Insurance				
Net premiums written—insurance	\$209,890	\$178,215	\$589,261	\$523,255
Net premiums earned—insurance	\$178,685	\$163,436	\$522,899	\$513,895
Net investment income	14,758	21,642	50,377	73,328
Net gains on investments	43,379	53,263	102,219	98,450
Net impairment losses recognized in earnings	—	(20	) —	(31
Change in fair value of derivative instruments	(1	) 200	(32	) 64
Net (losses) gains on other financial instruments	(1,960	) 2,486	(2,627	) 4,321
Gain on sale of affiliate	—	—	—	—
Other income	1,280	1,357	3,928	3,881
Total revenues	236,141	242,364	676,764	693,908
Provision for losses	171,805	276,599	614,612	960,564
Change in reserve for premium deficiency	966	(1,942	) 1,505	(6,427
Policy acquisition costs	10,126	7,834	26,662	26,651
Other operating expenses	40,250	36,082	107,787	104,132
Interest expense	1,910	2,015	5,355	11,950
Total expenses	225,057	320,588	755,921	1,096,870
Equity in net (loss) income of affiliates	—	—	—	—
Pretax (loss) income	11,084	(78,224	) (79,157	) (402,962
Income tax (benefit) provision	(20,316	) (36,033	) (42,324	) (27,158
Net (loss) income	\$31,400	\$(42,191	) \$(36,833	) \$(375,804)
Cash and investments	\$3,192,341	\$3,176,860		
Deferred policy acquisition costs	39,148	47,863		
Total assets	3,651,849	3,731,978		
Unearned premiums	333,144	206,477		
Reserve for losses and LAE	3,046,706	3,214,854		
VIE debt	9,448	31,164		
Derivative liabilities	—	—		
New Insurance Written (in millions)	\$10,598	\$4,107	\$25,398	\$8,973

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

(In thousands)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Financial Guaranty				
Net premiums written—insurance	\$ (613)	\$ 72	\$ (120,374)	\$ (9,441)
Net premiums earned—insurance	\$ 12,278	\$ 16,219	\$ 22,208	\$ 57,717
Net investment income	10,877	17,121	40,848	51,498
Net gains on investments	41,280	28,377	76,318	64,861
Net impairment losses recognized in earnings	—	—	—	—
Change in fair value of derivative instruments	(41,055)	125,808	(146,905)	558,562
Net (losses) gains on other financial instruments	1,220	78,116	(77,827)	156,579
Gain on sale of affiliate	—	—	7,708	—
Other income	48	47	235	167
Total revenues	24,648	265,688	(77,415)	889,384
Provision for losses	4,547	(27,001)	38,762	(20,027)
Change in reserve for premium deficiency	—	—	—	—
Policy acquisition costs	2,801	3,615	25,116	13,316
Other operating expenses	10,179	9,158	32,989	33,281
Interest expense	10,610	12,079	33,894	35,247
Total expenses	28,137	(2,149)	130,761	61,817
Equity in net (loss) income of affiliates	—	—	(13)	65
Pretax (loss) income	(3,489)	267,837	(208,189)	827,632
Income tax provision	13,586	42,078	29,144	28,139
Net (loss) income	\$ (17,075)	\$ 225,759	\$ (237,333)	\$ 799,493
Cash and investments	\$ 2,099,454	\$ 2,759,726		
Deferred policy acquisition costs	52,123	91,099		
Total assets	2,389,508	3,514,307		
Unearned premiums	281,311	421,923		
Reserve for losses and LAE	72,891	45,702		
VIE debt	100,203	242,215		
Derivative liabilities	267,323	188,921		

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

(In thousands)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Consolidated				
Net (loss) income:				
Mortgage Insurance	\$ 31,400	\$ (42,191)	\$ (36,833)	\$ (375,804)
Financial Guaranty	(17,075)	225,759	(237,333)	799,493
Total	\$ 14,325	\$ 183,568	\$ (274,166)	\$ 423,689

Radian Group Inc.

Notes to Unaudited Condensed Consolidated Financial Statements — (Continued)

3. Derivative Instruments

In the past, we provided credit protection in the form of CDS within our financial guaranty segment whereby we had guaranteed the holder of a financial obligation the full and timely payment of principal and interest when due, or in excess of specified levels of losses. These derivatives have various maturity dates, but the majority of the underlying CDS mature within five years.

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, 2012	December 31, 2011
Balance Sheets		
Derivative assets:		
Financial Guaranty credit derivative assets	\$ 13.0	\$ 15.4
NIMS related and other	1.8	1.8
Total derivative assets	14.8	17.2
Derivative liabilities:		
Financial Guaranty credit derivative liabilities	196.2	106.5
Financial Guaranty VIE derivative liabilities	71.1	(1) 19.5
Total derivative liabilities	267.3	126.0
Total derivative liabilities, net	\$252.5	\$108.8

(1) As a result of the Commutation Transactions described in Note 1, we established a VIE. See Note 5 for further details.

The notional value of our derivative contracts at September 30, 2012 and December 31, 2011, was \$24.0 billion and \$36.5 billion, respectively.

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

(In millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Statements of Operations				
Net premiums earned—derivatives	\$7.1	\$10.3	\$23.0	\$31.7
Financial Guaranty credit derivatives	(51.8)	120.1	(171.2)	536.6
Financial Guaranty VIE derivatives	3.7	(4.5)	1.3	(9.4)
NIMS related and other	—	0.1	—	(0.3)
Change in fair value of derivative instruments	\$(41.0)	\$126.0	\$(146.9)	\$558.6

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 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, 2012		
	Number of Contracts	Par/Notional Exposure	Total Net Asset/(Liability)
Product			
NIMS related and other (1)	—	\$—	\$ 1.8
Corporate CDOs	47	18,391.4	1.1
Non-Corporate CDOs and other derivative transactions:			
TruPs	13	1,122.6	(11.3)
CDOs of commercial mortgage-backed securities (“CMBS”)	4	1,831.0	(79.9)
Other:			
Structured finance	8	709.0	(40.3)
Public finance	23	1,457.6	(38.8)
Total Non-Corporate CDOs and other derivative transactions	48	5,120.2	(170.3)
Assumed financial guaranty credit derivatives:			
Structured finance	35	249.3	(12.9)
Public finance	8	129.3	(1.1)
Total Assumed	43	378.6	(14.0)
Financial Guaranty VIE derivative liabilities (2)	1	75.9	(71.1)
Grand Total	139	\$23,966.1	\$ (252.5)

Represents NIMS derivative assets related to consolidated NIMS VIEs. Also includes common stock warrants.

(1) Because none of these investments represent financial guaranty contracts that we issued, they cannot become liabilities, and therefore, do not represent additional par exposure.

Represents the fair value of a CDS included in a VIE which we consolidate relating to the Terminated TruPs CDOs. The assets in the VIE represent the only funds available to pay the CDS Counterparty for amounts due (2) under the contract; therefore, the notional exposure presented for the CDS is limited to the current trust assets. See Notes 1 and 5 for information on the underlying reference securities and on our maximum exposure to loss from this consolidated financial guaranty transaction.

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 reasonably 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, changes in credit spreads and benchmark interest rates, market volatility and declines in the value of underlying collateral, could cause actual results to differ materially from our estimated fair value measurements. Fair value is defined as the current amount that would be received 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 our recorded fair value and the settlement or termination value with a counterparty based upon consideration of information that may not be available to another market participant. Those differences,

which may be material, are recorded as transaction realized gains/(losses) in our condensed consolidated statements of operations in the period in which the transaction occurs. There were no significant changes to our fair value methodologies during the nine months ended September 30, 2012.

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. Our 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 our 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, 2012	December 31, 2011	September 30, 2011	December 31, 2010
Radian Group's five-year CDS spread	1,089	2,732	2,238	465
	Fair Value Liability before Consideration of Radian Non-Performance Risk September 30, 2012		Impact of Radian Non-Performance Risk September 30, 2012	Fair Value (Asset) Liability Recorded September 30, 2012
(In millions)				
Product				
Corporate CDOs	\$ 136.4	\$ 137.5		\$(1.1)
Non-Corporate CDO-related (1)	803.3	633.0		170.3
NIMS-related (2)	13.0	5.3		7.7
Total	\$ 952.7	\$ 775.8		\$ 176.9
	Fair Value Liability before Consideration of Radian Non-Performance Risk December 31, 2011		Impact of Radian Non-Performance Risk December 31, 2011	Fair Value Liability Recorded December 31, 2011
(In millions)				
Product				
Corporate CDOs	\$ 463.1	\$ 458.0		\$ 5.1
Non-Corporate CDO-related (1)	1,520.2	1,405.3		114.9
NIMS-related (2)	17.4	9.6		7.8
Total	\$ 2,000.7	\$ 1,872.9		\$ 127.8

(1) Includes the net fair value liability recorded within derivative assets and derivative liabilities, and the net fair value liabilities included in our consolidated VIEs.

(2) Includes NIMS VIE debt and NIMS derivative assets.

Radian Group's five-year CDS spread at September 30, 2012, implies a market view that there is a 54.3% probability that Radian Group will default in the next five years, as compared to an 83.5% implied probability of default at December 31, 2011. The cumulative impact attributable to the market's perception of our non-performance risk decreased by \$1.1 billion during the first nine months of 2012, as presented in the table above. This decrease was primarily the result of the tightening 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 to determine 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. We provide a qualitative description of the valuation technique(s) and inputs used for Level II recurring and non-recurring fair value measurements in our audited annual financial statements as of December 31, 2011. For a complete understanding of those valuation techniques and inputs used as of September 30, 2012, these unaudited condensed consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto included in our 2011 Form 10-K.

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 necessary, 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. For fair value measurements categorized within Level III of the fair value hierarchy, we use certain significant unobservable inputs in estimating fair value. Those inputs primarily relate to the probability of default, the expected loss upon default, and our own non-performance risk as it relates to our liabilities. The following table summarizes the significant unobservable inputs used in our recurring Level III fair value measurements as of September 30, 2012:

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

(In millions)	Fair Value September 30, 2012 (1)	Valuation Technique	Unobservable Input	Range/ Weighted Average		
Level III Investments:						
State and municipal obligations	\$ 18.8	Discounted cash flow	Discount rate		8.5	%
			Expected loss		19.0	%
Other investments	75.6	Discounted cash flow	Discount rate		2.6	%
Level III Derivative Assets:						
Corporate CDOs	9.7	Base correlation model	Radian correlation to corporate index		85.0	%
			Average credit spread	<0.1%	- 2.9	%
			Own credit spread (2)	8.5	%-	11.5 %
			Radian correlation to			
CDOs of CMBS	1.6	Discounted cash flow	CMBS transaction index	72.0	%-	85.0 %
			Own credit spread (2)	8.5	%-	11.5 %
TruPs CDOs	1.6	Discounted cash flow	Principal recovery		60.0	%
			Principal recovery (stressed)		55.0	%
			Probability of conditional liquidity payment	0.8	%-	32.0 %
			Own credit spread (2)	8.5	%-	11.5 %
NIMS derivative assets	1.8	Discounted cash flow	NIMS credit spread		43.6	%
			Own credit spread		10.9	%
Level III Derivative Liabilities:						
Corporate CDOs	8.6	Base correlation model	Radian correlation to corporate index		85.0	%
			Average credit spread	<0.1%	- 2.9	%
			Own credit spread (2)	8.5	%-	11.5 %
			Radian correlation to			
CDOs of CMBS	81.5	Discounted cash flow	CMBS transaction index	72.0	%-	85.0 %
			Own credit spread (2)	8.5	%-	11.5 %
TruPs CDOs and TruPs-related VIE liabilities	12.9	Discounted cash flow	Principal recovery		60.0	%
			Principal recovery (stressed)		55.0	%
			Probability of conditional liquidity payment	0.8	%-	32.0 %
			Own credit spread (2)	8.5	%-	11.5 %
Other non-corporate CDOs and derivative transactions	164.2	Risk-based model	Average life (in years)	<1	- 20	
			Own credit spread (2)	8.5	%-	11.5 %

Level III VIE Liabilities:

NIMS VIE	9.5	Discounted cash flow	NIMS credit spread	43.6	%
			Own credit spread (2)	11.0	%- 11.3 %

Excludes certain assets and liabilities for which we do not develop quantitative unobservable inputs. The fair value (1) estimates for these assets and liabilities are developed using third-party pricing information, generally without adjustment.

(2) Represents the range of our CDS spread that a typical market participant might use in the valuation analysis based on the remaining term of the investment.

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

The significant unobservable inputs in the fair value measurement of our investment securities noted above include an interest rate used to discount the projected cash flows and an expected loss assumption. This expected loss assumption generally represents the principal shortfall we expect on our security as a result of the obligor's failure to pay. In addition, our other invested assets include a guaranteed investment contract for which the Counterparty's non-performance risk is considered in the discount rate. Significant increases (decreases) in either the discount rates or loss estimates in isolation would result in a lower (higher) fair value measurement. Changes in these assumptions are independent and may move in either similar or opposite directions.

The significant unobservable inputs used in the fair value measurement of our derivative assets, derivative liabilities and VIE debt relate primarily to projected losses. In addition, 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, if applicable, as discussed below.

For our corporate CDOs, we estimate the correlation of the default probability between the corporate entities and Radian—the higher the correlation percentage, the higher the probability that both the corporate entities and Radian will default together. In addition, a widening of the average credit spread increases the expected loss for our transactions, and therefore, increases the related liability.

For our CDOs of CMBS transactions, we use the CMBX index that most directly correlates to our transaction with respect to vintage and credit rating, and then we estimate losses by applying a correlation factor. Because we own the senior tranche, an increase in this factor generally increases the expected loss for our transactions, and therefore increases our related liability.

For our TruPs CDOs, the performance of each underlying reference obligation is measured by a standard and distressed pricing, which indicates the expected principal recovery. An increase in the standard and stressed principal recovery decreases the loss severity of the transaction, and therefore, in isolation, decreases the related liability. We also assign these transactions a probability that we will be required to pay a conditional liquidity claim, which generally would increase our related liability. For our TruPs-related VIE liabilities, the fair value is estimated using similar inputs as in the estimated fair value of our TruPs CDOs, except there is no non-performance risk adjustment as the derivative liability is limited to the segregated assets already held by the VIE.

For our other non-corporate CDOs, we utilize the internal credit rating, average remaining life, and current par outstanding for each transaction to project both expected losses and an internally developed risk-based capital amount. An increase in the average remaining life typically increases the expected loss of the transactions, and therefore, increases our related liability. An upgrade (downgrade) in the internal credit rating typically decreases (increases) the expected loss of the transactions, and therefore, decreases (increases) our related liability.

For all fair value measurements where we project our non-performance risk, including VIE debt, we utilize a market observed credit spread for Radian, which we believe is the best available indicator of the market's perception of our non-performance risk. In isolation, a widening (tightening) of this credit spread typically decreases (increases) our related liability. The assumption used to project our own non-performance risk is independent from the other unobservable inputs used in our fair value measurements. The net impact on our reported assets and liabilities from increases or decreases in our own credit spread and from increases or decreases in other unobservable inputs depends upon the magnitude and direction of the changes in each input; such changes may result in offsetting effects to our recorded fair value measurements, or they may result in directionally similar impacts, which may be material. 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, 2012, our total Level III assets were approximately 4.0% 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 condensed consolidated balance sheets as either derivative assets or derivative liabilities. All changes in fair value of trading securities, VIE debt, derivative instruments, and certain other assets are included in our condensed consolidated statements of operations. All changes in the fair value of available for sale securities are recorded in accumulated other comprehensive income (loss).

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, 2012:

(In millions)	Level I	Level II	Level III	Total
Assets and Liabilities at Fair Value				
Investment Portfolio:				
U.S. government and agency securities	\$286.8	\$780.7	\$—	\$1,067.5
State and municipal obligations	—	622.2	18.8	641.0
Money market instruments	491.7	—	—	491.7
Corporate bonds and notes	—	821.1	—	821.1
Residential mortgage-backed securities (“RMBS”)	—	931.8	—	931.8
CMBS	—	190.3	—	190.3
Other ABS	—	220.1	—	220.1
Foreign government securities	—	115.6	—	115.6
Hybrid securities	—	359.8	—	359.8
Equity securities (1)	100.0	160.9	1.6	262.5
Other investments (2)	—	2.4	76.7	79.1
Total Investments at Fair Value (3)	878.5	4,204.9	97.1	5,180.5
Derivative Assets	—	—	14.8	14.8
Other Assets (4)	—	—	100.6	100.6
Total Assets at Fair Value	\$878.5	\$4,204.9	\$212.5	\$5,295.9
Derivative Liabilities	\$—	\$—	\$267.3	\$267.3
VIE debt (5)	—	—	109.7	109.7
Total Liabilities at Fair Value	\$—	\$—	\$377.0	\$377.0

(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 TruPs (\$0.8 million) and short-term CDs (\$1.6 million) included within Level II, and lottery annuities (\$1.1 million) and a guaranteed investment contract held by a consolidated VIE (\$75.6 million) within Level III.

Does not include fixed-maturities held to maturity (\$1.2 million) and certain other invested assets (\$57.4 million), (3) primarily invested in limited partnerships, accounted for as cost-method investments and not measured at fair value.

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

(5) Comprising consolidated debt related to NIMS VIEs (\$9.5 million) and amounts related to financial guaranty VIEs (\$100.2 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, 2011:

(In millions)	Level I	Level II	Level III	Total
Assets and Liabilities at Fair Value				
Investment Portfolio:				
U.S. government and agency securities	\$386.9	\$723.6	\$—	\$1,110.5
State and municipal obligations	—	985.0	62.5	1,047.5
Money market instruments	723.2	—	—	723.2
Corporate bonds and notes	—	700.5	—	700.5
RMBS	—	884.7	45.5	930.2
CMBS	—	190.4	35.4	225.8
CDO	—	—	5.5	5.5
Other ABS	—	97.0	2.9	99.9
Foreign government securities	—	102.9	—	102.9
Hybrid securities	—	341.5	4.8	346.3
Equity securities (1)	116.0	152.4	0.8	269.2
Other investments (2)	—	151.6	6.8	158.4
Total Investments at Fair Value (3)	1,226.1	4,329.6	164.2	5,719.9
Derivative Assets	—	0.2	17.0	17.2
Other Assets (4)	—	—	104.0	104.0
Total Assets at Fair Value	\$1,226.1	\$4,329.8	\$285.2	\$5,841.1
Derivative Liabilities	\$—	\$—	\$126.0	\$126.0
VIE debt (5)	—	—	228.2	228.2
Total Liabilities at Fair Value	\$—	\$—	\$354.2	\$354.2

(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 Committed Preferred Custodial Trust Securities (“CPS”) trusts (\$150.0 million) and short-term CDs (\$1.6 million) included within Level II, and lottery annuities (\$1.6 million) and TruPs held by consolidated VIEs (\$5.2 million) included within Level III.

(3) Does not include fixed-maturities held to maturity (\$2.6 million) and other invested assets (\$61.0 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 (\$9.4 million) and amounts related to financial guaranty VIEs (\$218.8 million).

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, 2012:

(In millions)	Beginning Balance at July 1, 2012	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, 2012
Investments:								
State and municipal obligations	\$19.6	\$ 0.4	\$—	\$—	\$—	\$ 1.2	\$ —	\$ 18.8
Other ABS	4.8	—	—	—	—	0.5	(4.3)	—
Equity securities	2.0	(0.4)	—	0.1	—	—	0.1	1.6
Other investments	76.5	(0.6)	0.9	0.1	—	—	—	76.7
Total Level III Investments	102.9	(0.6)	0.9	0.2	—	1.7	(4.2)	97.1
NIMS derivative assets	1.7	—	0.1	—	—	—	—	1.8
Other assets	100.7	6.1	—	—	—	6.2	—	100.6
Total Level III Assets	\$205.3	\$ 5.5	\$ 1.0	\$0.2	\$—	\$ 7.9	\$ (4.2)	\$ 199.5
Derivative liabilities, net	\$207.5	\$ (41.0)	\$—	\$—	\$—	\$ (5.8)	\$ —	\$ 254.3
VIE debt	107.8	(6.8)	—	—	—	4.9	—	109.7
Total Level III Liabilities, net	\$315.3	\$ (47.8)	\$—	\$—	\$—	\$ (0.9)	\$ —	\$ 364.0

(1) Includes unrealized gains (losses) for the quarter ended September 30, 2012, relating to assets and liabilities still held at September 30, 2012, as follows: \$(1.1) million for investments, \$3.5 million for other assets, \$(48.0) million for derivative liabilities, and \$(5.8) 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. During the period, pricing from a third-party pricing source became available for one bond, accounting for a majority of the transfer out of Level III and into Level II.

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, 2012:

(In millions)	Beginning Balance at January 1, 2012	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, 2012
Investments:								
State and municipal obligations	\$62.5	\$ (3.6)	\$—	\$—	\$—	\$ 12.3	\$ (27.8)	\$18.8
RMBS	45.5	6.1	—	—	—	51.6	—	—
CMBS	35.4	(11.4)	—	—	—	24.0	—	—
CDO	5.5	0.8	—	—	—	6.3	—	—
Other ABS	2.9	0.8	5.2	—	—	4.6	(4.3)	—
Hybrid securities	4.8	0.1	0.1	4.9	—	—	(0.1)	—
Equity securities	0.8	0.1	—	0.1	—	—	0.8	1.6
Other investments	6.8	0.6	75.9	0.6	—	6.0	—	76.7
Total Level III Investments	164.2	(6.5)	81.2	5.6	—	104.8	(31.4)	97.1
NIMS derivative assets	1.6	—	0.2	—	—	—	—	1.8
Other assets	104.0	15.4	—	—	—	18.8	—	100.6
Total Level III Assets	\$269.8	\$ 8.9	\$81.4	\$5.6	\$—	\$ 123.6	\$ (31.4)	\$199.5
Derivative liabilities, net	\$110.6	\$ (146.9)	\$—	\$—	\$—	\$ 3.2	\$ —	\$254.3
VIE debt	228.2	(111.2)	—	—	—	229.7	(3) —	109.7
Total Level III Liabilities, net	\$338.8	\$ (258.1)	\$—	\$—	\$—	\$ 232.9	\$ —	\$364.0

Includes unrealized gains (losses) for the nine months ended September 30, 2012, relating to assets and liabilities (1) still held at September 30, 2012, as follows: \$(0.1) million for investments, \$7.3 million for other assets, \$(188.3) million for derivative liabilities, and \$(12.9) million for VIE debt.

Transfers are recognized at the end of the period as the availability of market observed inputs change from period (2) to period. During the period, pricing from a third-party pricing source became available for two bonds, accounting for a majority of the transfers out of Level III and into Level II.

(3) Primarily represents the settlement of our CDO of ABS.

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)	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

Includes unrealized gains (losses) for the quarter ended September 30, 2011, relating to assets and liabilities still (1) held at 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.

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

Includes unrealized gains (losses) for the nine months ended September 30, 2011, relating to assets and liabilities (1) still held at 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 2012 or 2011.

Radian Group Inc.

Notes to Unaudited Condensed Consolidated Financial Statements — (Continued)

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 as of the dates indicated:

(In millions)	September 30, 2012		December 31, 2011	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets:				
Fixed-maturities held to maturity (1)	\$1.2	\$1.3	\$2.6	\$2.7
Other invested assets (1)	57.4	65.2	61.0	62.8
Liabilities:				
Long-term debt (1)	659.1	613.5	818.6	471.3
Non-derivative financial guaranty liabilities (2)	250.2	312.1	342.3	425.7

(1) These estimated fair values would be classified in Level II of the fair value hierarchy.

(2) These estimated fair values would be classified in Level III of the fair value hierarchy.

5. VIEs

The following additional information relates to our consolidated and unconsolidated VIEs.

Financial Guaranty Insurance Contracts

Our interests in VIEs for which we are not the primary beneficiary may be accounted for as insurance, reinsurance or credit derivatives. For insurance and reinsurance contracts, we record reserves for losses and LAE, and for derivative interests, we record cumulative changes in fair value as a derivative asset or liability. The underlying collateral in the VIEs includes manufactured housing loans and other financial assets held by a VIE and repackaged into securities or similar beneficial interests.

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 for a limited number of our transactions. The occurrence of 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. 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. Therefore, additional VIEs may be consolidated by us if these events were to occur. Prior to the occurrence of these contingent conditions, another party (typically the collateral manager, servicer or equity holder) involved with the transaction holds the power to manage the VIE's assets and to impact the economic performance of the VIE, without our ability to control or direct such powers.

As a result of the Commutation Transactions described in Note 1, we have deconsolidated the CDO of ABS VIE, and we have consolidated the LPV VIE that was formed upon execution of the Commutation Transactions.

For GAAP accounting purposes, we evaluated the LPV (a VIE) to determine if we would be considered the primary beneficiary of the VIE. We have the obligation to absorb the majority of the VIE's losses and the right to receive the majority of any remaining funds through our residual interest agreement. In addition, we have the ability to impact the activities of the VIE in certain limited ways that could impact the economic performance of this VIE. As a result of these obligations and rights, we have concluded that we are the primary beneficiary of the VIE. The consolidated assets of the LPV primarily consist of a guaranteed investment contract that is presented within other invested assets,

which would be used to settle any obligations of this VIE under the Residual CDS. The Residual CDS represents the liability of the VIE, for which the Counterparty does not have recourse to our general credit for this consolidated liability. The Residual CDS held by the LPV is carried at fair value and we have also elected to carry the investments at fair value.

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

We also consolidate the assets and liabilities associated with two other financial guaranty transactions. In these transactions, we provide guarantees for VIEs that own manufactured housing loans. Prior to their consolidation, these transactions had 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 the 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 assets of these VIEs may only be used to settle the obligations of the VIEs, 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 the bonds we insure 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 net liability recorded for these transactions as of September 30, 2012.

The following tables provide 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 condensed consolidated statements of cash flows as of and for the periods indicated, as it relates to our consolidated and unconsolidated financial guaranty insurance contracts and credit derivative VIEs:

(In millions)	Consolidated		Unconsolidated	
	September 30, 2012	December 31, 2011	September 30, 2012	December 31, 2011
Balance Sheet:				
Trading securities	\$—	\$ 94.5	\$—	\$ —
Other invested assets	75.6	—	—	—
Derivative assets	—	—	3.2	4.1
Premiums receivable	—	—	3.0	3.6
Other assets	100.6	105.9	—	—
Unearned premiums	—	—	3.1	3.8
Reserve for losses and LAE	—	—	14.4	7.9
Derivative liabilities	71.1	19.5	172.7	79.5
VIE debt—at fair value	100.2	218.8	—	—
Accounts payable and accrued expenses	0.4	0.5	—	—
Maximum exposure (1)	128.3	580.0	5,188.9	6,126.3

(1) The difference between the carrying amounts of the net asset/liability position and maximum exposure related to VIEs is primarily due to the difference between the face amount of the obligation and the recorded fair values, which include an adjustment for our non-performance risk, as applicable. For those VIEs that have recourse to our general credit, the maximum exposure is based on the net par amount of our insured obligation. For any VIEs that do not have recourse to our general credit, the maximum exposure is generally based on the recorded net assets of the VIE, as of the reporting date.

Radian Group Inc.

Notes to Unaudited Condensed Consolidated Financial Statements — (Continued)

(In millions)	Consolidated		Unconsolidated	
	Nine Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Statement of Operations:				
Premiums earned	\$—	\$—	\$ 1.3	\$ 2.2
Net investment income	2.9	6.2	—	—
Net (loss) gain on investments	(3.1	) 19.3	—	—
Change in fair value of derivative instruments—(loss) gain	1.3	(9.4	) (166.4	) 457.3
Net (loss) gain on other financial instruments	(91.3	) 124.0	—	—
Provision for losses—increase (decrease)	—	—	5.9	(3.1
Other operating expenses	1.8	2.3	—	—
Net Cash (Outflow) Inflow	(134.6	) 0.6	(70.5	) 6.3

NIMS VIEs

We consolidate all of the assets and liabilities associated with NIMS VIEs, due to provisions in our contracts that allow us to purchase assets of these VIEs and thus direct the activities that most significantly impact the economic performance of each VIE. 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 also 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.

In total, our net cash outflow related to NIMS during 2012 has been primarily as a result of claim payments. We have two remaining NIMS transactions, which mature in December 2013 and May 2035, respectively. The following tables provide 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 condensed consolidated statements of cash flows as of and for the periods indicated, as it relates to our consolidated NIMS VIEs:

(In millions)	September 30, 2012	December 31, 2011
Balance Sheet:		
Derivative assets	\$ 1.8	\$ 1.6
VIE debt—at fair value	9.5	9.4
Maximum exposure (1)	14.1	18.5

(1) The difference between the carrying amounts of the net asset/liability position and maximum exposure related to VIEs is primarily due to the difference between the face amount of the obligation and the recorded fair values, which include an adjustment for our non-performance risk. The maximum exposure is based on the net par amount of our insured obligation as of the reporting date.

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

(In millions)	Nine Months Ended September 30,	
	2012	2011
Statement of Operations:		
Net investment income	\$0.4	\$0.4
Change in fair value of derivative instruments—loss	—	(1.3
Net (loss) gain on other financial instruments	(4.5	) 3.1
Net Cash Outflow	4.3	99.9

Put Options on CPS

Radian Group and its subsidiaries have purchased all of the CPS issued by custodial trusts with which one of its subsidiaries had previously entered into contingent capital transactions. During the first quarter of 2012, Radian Group and its subsidiaries converted the custodial trusts to corporations that are now wholly-owned consolidated subsidiaries of Radian Group. Prior to the conversion of the trusts to corporations, these trusts had been accounted for as VIEs. As of December 31, 2011, the amount of short-term investments and our maximum exposure for this VIE were \$150 million, respectively. The maximum exposure was based on our carrying amounts of the investments. The amount of income and expense associated with these trusts was immaterial during the first nine months of 2012 and 2011.

6. Investments

Our held to maturity and available for sale securities within our investment portfolio consisted of the following as of the dates indicated:

(In thousands)	September 30, 2012			
	Amortized Cost	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
Fixed-maturities held to maturity:				
Bonds and notes:				
State and municipal obligations	\$1,233	\$1,273	\$47	\$7
	\$1,233	\$1,273	\$47	\$7
Fixed-maturities available for sale:				
U.S. government and agency securities	\$4,953	\$5,329	\$376	\$—
State and municipal obligations	43,004	43,488	842	358
Corporate bonds and notes	15,788	16,475	994	307
RMBS	53	55	3	1
Other investments	997	1,065	68	—
	\$64,795	\$66,412	\$2,283	\$666
Equity securities available for sale (1)	\$88,260	\$112,884	\$24,624	\$—
Total debt and equity securities	\$154,288	\$180,569	\$26,954	\$673

(1) Comprising broadly diversified domestic equity mutual funds (\$100.0 million fair value) and various preferred and common stocks invested across numerous companies and industries (\$12.9 million fair value).

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

(In thousands)	December 31, 2011		Gross Unrealized Gains	Gross Unrealized Losses
	Amortized Cost	Fair Value		
Fixed-maturities held to maturity:				
Bonds and notes:				
State and municipal obligations	\$2,640	\$2,748	\$115	\$7
	\$2,640	\$2,748	\$115	\$7
Fixed-maturities available for sale:				
U.S. government and agency securities	\$10,931	\$13,630	\$2,699	\$—
State and municipal obligations	87,083	82,692	485	4,876
Corporate bonds and notes	17,267	16,610	390	1,047
RMBS	1,308	1,360	53	1
CMBS	1,660	1,669	25	16
Other ABS	1,019	1,177	158	—
Other investments	1,489	1,595	106	—
	\$120,757	\$118,733	\$3,916	\$5,940
Equity securities available for sale (1)	\$114,425	\$128,424	\$14,868	\$869
Total debt and equity securities	\$237,822	\$249,905	\$18,899	\$6,816

(1) Comprising broadly diversified domestic equity mutual funds (\$116.0 million fair value) and various preferred and common stocks invested across numerous companies and industries (\$12.4 million fair value).

The trading securities within our investment portfolio, which are recorded at fair value, consisted of the following as of the dates indicated:

(In thousands)	September 30, 2012	December 31, 2011
Trading securities:		
U.S. government and agency securities	\$775,329	\$710,006
State and municipal obligations	597,449	964,748
Corporate bonds and notes	804,592	683,864
RMBS	931,817	928,887
CMBS	190,280	224,180
CDO	—	5,467
Other ABS	220,074	98,729
Foreign government securities (1)	115,652	102,851
Hybrid securities	359,762	346,338
Equity securities	149,647	140,764
Other investments	778	5,225
Total	\$4,145,380	\$4,211,059

(1) Our largest concentrations of foreign government securities as of September 30, 2012 and December 31, 2011, were Germany (\$21.5 million and \$42.6 million fair value, respectively) and Japan (\$62.8 million and \$28.0 million fair value, respectively). As of September 30, 2012 and December 31, 2011, nearly all of our foreign

government securities were rated A or higher by a nationally recognized statistical rating organization. As of September 30, 2012 and December 31, 2011, our trading portfolio included no foreign sovereign or sub-sovereign securities of the six European countries (Portugal, Ireland, Italy, Greece, Spain, and Hungary) whose sovereign and sub-sovereign obligations have been under particular stress due to economic uncertainty, potential restructuring and ratings downgrades, or securities of any other countries under similar stress.

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Notes to Unaudited Condensed Consolidated Financial Statements — (Continued)

For trading securities that were still held at September 30, 2012 and December 31, 2011, we had net gains during 2012 and 2011 associated with those securities in the amount of \$41.9 million and \$112.1 million, respectively.

The following tables show the gross unrealized losses and fair value of our available for sale and held to maturity investments, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of the dates indicated:

September 30, 2012:	Less Than 12 Months			12 Months or Greater			Total		
(\$ in thousands) Description of Securities	# of securities	Fair Value	Unrealized Losses	# of securities	Fair Value	Unrealized Losses	# of securities	Fair Value	Unrealized Losses
State and municipal obligations	—	\$—	\$—	4	\$6,202	\$365	4	\$6,202	\$365
Corporate bonds and notes	—	—	—	7	5,492	307	7	5,492	307
RMBS	1	35	1	—	—	—	1	35	1
Total	1	\$35	\$1	11	\$11,694	\$672	12	\$11,729	\$673

December 31, 2011:	Less Than 12 Months			12 Months or Greater			Total		
(\$ in thousands) Description of Securities	# of securities	Fair Value	Unrealized Losses	# of securities	Fair Value	Unrealized Losses	# of securities	Fair Value	Unrealized Losses
State and municipal obligations	1	\$525	\$17	9	\$72,653	\$4,866	10	\$73,178	\$4,883
Corporate bonds and notes	6	2,457	97	18	8,902	950	24	11,359	1,047
RMBS	2	354	1	—	—	—	2	354	1
CMBS	—	—	—	1	527	16	1	527	16
Equity securities	1	9,284	869	—	—	—	1	9,284	869
Total	10	\$12,620	\$984	28	\$82,082	\$5,832	38	\$94,702	\$6,816

During the first nine months of 2012 and 2011, there were no credit losses recognized in earnings.

At September 30, 2012, we did not have the intent to sell any debt securities in an unrealized loss position, and we determined that it is more likely than not, that we will not be required to sell the securities before recovery of their cost basis.

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

We have securities in an unrealized loss position that we did not consider to be other-than-temporarily impaired as of September 30, 2012. For all investment categories, the unrealized losses of 12 months or greater duration as of September 30, 2012, were generally caused by interest rate or credit spread movements since purchase date. As of September 30, 2012, we expected the present value of cash flows to be collected from these securities to be sufficient to recover the amortized cost basis of these securities. As of September 30, 2012, we did not intend to sell these investments, nor did we believe that it was more likely than not that we will be required to sell these investments before recovery of our amortized cost basis, which may be at maturity; therefore, we did not consider these investments to be other-than-temporarily impaired at September 30, 2012.

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Notes to Unaudited Condensed Consolidated Financial Statements — (Continued)

The contractual maturities of fixed-maturity investments are as follows:

(In thousands)	September 30, 2012		Available for Sale	
	Held to Maturity		Amortized	Fair
	Amortized	Fair		
	Cost	Value	Cost	Value
Due in one year or less (1)	\$492	\$532	\$7,461	\$7,578
Due after one year through five years (1)	434	441	11,456	11,834
Due after five years through ten years (1)	—	—	3,046	3,163
Due after ten years (1)	307	300	42,779	43,782
RMBS (2)	—	—	53	55
Total	\$1,233	\$1,273	\$64,795	\$66,412

(1) Actual maturities may differ as a result of calls before scheduled maturity.

(2) RMBS are shown separately as they are not due at a single maturity date.

7. Reinsurance

In our mortgage insurance business, we use reinsurance as a risk management tool to reduce our net risk and strengthen our regulatory risk-to-capital ratio. We have primarily used reinsurance in our financial guaranty business to the extent necessary in specific transactions to comply with applicable single risk limits. Although the use of reinsurance does not discharge an insurer from its primary liability to the insured, the reinsuring company assumes the related liability under these arrangements. Included in other assets are unearned premiums on risk that we have ceded of \$54.1 million and \$0.8 million at September 30, 2012 and December 31, 2011, respectively.

The effect of reinsurance on net premiums written and earned is as follows:

(In thousands)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Net premiums written-insurance:				
Direct	\$232,086	\$187,726	\$650,188	\$552,575
Assumed	(918)	(251)	(89,434)	(10,415)
Ceded	(21,891)	(9,188)	(91,867)	(28,346)
Net premiums written-insurance	\$209,277	\$178,287	\$468,887	\$513,814
Net premiums earned-insurance:				
Direct	\$201,988	\$183,028	\$590,016	\$574,126
Assumed	3,408	6,130	(5,573)	26,824
Ceded	(14,433)	(9,503)	(39,336)	(29,338)
Net premiums earned-insurance	\$190,963	\$179,655	\$545,107	\$571,612

Radian Group Inc.

Notes to Unaudited Condensed Consolidated Financial Statements — (Continued)

During the second quarter of 2012, Radian Guaranty entered into the Initial Quota Share Reinsurance Transaction. Through the Initial Quota Share Reinsurance Transaction, Radian Guaranty agreed to cede 20% of its new insurance written beginning with the business written in the fourth quarter of 2011. As of September 30, 2012, the amount ceded pursuant to this transaction was \$1.4 billion of Radian Guaranty's RIF. The amount of risk that ultimately may be ceded is limited to \$1.6 billion. At a 25 to 1 risk-to-capital ratio, the equivalent initial capital benefit associated with ceding this amount of risk will be \$62.5 million. Radian Guaranty has the ability, at its option, to commute two-thirds of the reinsurance ceded as part of this transaction on December 31, 2014, which would result in Radian Guaranty reassuming the related RIF in exchange for a predefined commutation amount.

Under the Initial Quota Share Reinsurance Transaction, for the three and nine months ended September 30, 2012, ceded premiums written were \$16.4 million and \$41.9 million, respectively, and ceded premiums earned were \$5.3 million and \$8.4 million, respectively. Ceding commissions under this transaction for the three and nine months ended September 30, 2012 were \$4.1 million and \$10.5 million, respectively.

In the fourth quarter of 2012, Radian Guaranty and the same third-party reinsurance provider agreed to the terms of the Second Quota Share Reinsurance Transaction that provide for incremental reinsurance for Radian Guaranty's new insurance written, as further described below. This agreement, which is subject to final documentation and Freddie Mac approval, is expected to be effective in the fourth quarter of 2012. The limitation on ceded risk is expected to be \$750 million initially, and the parties have the ability to mutually increase the amount of ceded risk up to a maximum of \$2 billion. The agreed upon terms also provide that, effective as of December 31, 2015, Radian Guaranty will have the ability, at its option (the "Commutation Option"), to commute one-half of the reinsurance ceded with respect to conventional GSE loans, which would result in Radian Guaranty reassuming the related risk in force in exchange for a predefined commutation amount. Pursuant to the agreed upon terms:

Radian Guaranty will cede to the reinsurer 20% of all premiums and losses incurred with respect to conventional GSE loans and will initially receive a 35% ceding commission; provided, that if we do not exercise our (i) Commutation Option, the ceding commission will be reduced to 30% for the portion of the ceded risk in force that was subject to the Commutation Option; and

Radian Guaranty will have the ability to cede 100% of all premiums and losses incurred with respect to (ii) non-conventional, portfolio loans and will receive a 25% ceding commission. We do not expect the volume of portfolio loans to be material.

In the second quarter of 2012, we terminated one of our remaining reinsurance transactions under our Smart Home program that was scheduled to mature in November 2012. The early termination did not have a material impact on our financial or risk-to-capital position, statutory capital, results of operations or cash flows. The final remaining Smart Home transaction is scheduled to mature in June 2013.

See Note 1 for the impact of the Assured Transaction, executed in the quarter ended March 31, 2012, on net premiums written and earned.

8. Losses and LAE

Our reserve for losses and LAE, as of the dates indicated, consisted of:

(In thousands)	September 30, 2012	December 31, 2011
Mortgage insurance reserves	\$3,046,706	\$3,247,900
Financial guaranty reserves	72,891	63,002
Total reserve for losses and LAE	\$3,119,597	\$3,310,902

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

The following table presents information relating to our mortgage insurance reserves for losses and LAE as of the dates indicated:

(In thousands)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Balance at beginning of period	\$3,155,343	\$3,268,582	\$3,247,900	\$3,524,971
Less reinsurance recoverables (1)	97,845	160,664	151,569	223,254
Balance at beginning of period, net of reinsurance recoverables	3,057,498	3,107,918	3,096,331	3,301,717
Add losses and LAE incurred in respect of default notices reported and unreported in:				
Current year (2)	248,806	338,360	686,080	775,479
Prior years	(77,001)	(61,761)	(71,468)	185,085
Total incurred	171,805	276,599	614,612	960,564
Deduct paid claims and LAE related to:				
Current year (2)	2,912	59,693	3,185	61,894
Prior years	269,486	270,203	750,853	1,145,766
Total paid	272,398	329,896	754,038	1,207,660
Balance at end of period, net of reinsurance recoverables	2,956,905	3,054,621	2,956,905	3,054,621
Add reinsurance recoverables (1)	89,801	160,233	89,801	160,233
Balance at end of period	\$3,046,706	\$3,214,854	\$3,046,706	\$3,214,854

(1) Related to ceded losses on captive reinsurance transactions, Smart Home and quota share reinsurance transactions.

Related to underlying defaulted loans with a most recent date of default notice in the year indicated. For example, (2) if a loan had defaulted in a prior year, but then subsequently cured and later re-defaulted in the current year, that default would be considered a current year default.

Our mortgage insurance loss reserves declined in the third quarter of 2012, primarily as a result of a decrease in our total inventory of defaults, as the volume of paid claims, cures, and insurance rescissions and claim denials outpaced new default notices received during the quarter. Additionally, we experienced positive reserve development on prior year defaults, as described below. Total paid claims declined for the three and nine months ended September 30, 2012, from the comparable periods in 2011, driven by an increase in the number of claims received that we are still reviewing for non-compliance with our insurance policies, which has lengthened the claim resolution period and resulted in an increase in rescissions and denials, as well as by delays created by foreclosure slowdowns, servicer issues, and loan modification programs. We cannot be certain of the ultimate impact of these programs on our business or results of operations, or the timing of this impact. Reserves established for new default notices received in the current quarter were the primary driver of our total incurred loss for the three months ended September 30, 2012. The losses incurred from new default notices in 2012 have been partially mitigated by positive reserve development on prior year defaults, primarily relating to higher actual insurance rescissions and claim denials than previously assumed in our loss reserve estimates. In addition, our results for the nine months ended September 30, 2012, were impacted by a \$43.6 million decrease in our estimated reinsurance recoverable from our Smart Home transactions resulting from recent trends of lower claims paid and higher insurance rescissions and claim denials than were previously estimated to occur, which has in turn reduced the estimated amounts recoverable. In the second quarter of 2012, we terminated one of our remaining Smart Home transactions that was scheduled to mature in November 2012. The remaining Smart Home transaction is scheduled to mature in 2013.

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Notes to Unaudited Condensed Consolidated Financial Statements — (Continued)

For the three and nine months ended September 30, 2012, the incurred losses related primarily to default notices reported in the current year. Partially offsetting those effects in 2012 was positive reserve development on default notices reported in prior years, primarily relating to higher actual insurance rescissions and claim denials than previously assumed in our loss reserve estimates. Due to continuing uncertainty over whether these trends will continue, we did not adjust our estimated rates of future rescissions and denials during this period. For the three months ended September 30, 2011, an increase in our actual and estimated amount of insurance rescissions and claim denials for certain aged defaults positively impacted our losses incurred on prior year defaults. For the nine months ended September 30, 2011, these effects were offset by an increase in both our actual and estimated reinstatements of policies and claims previously rescinded or denied in prior years, as well as a greater than anticipated aging of underlying defaulted loans, which had the effect of increasing our default to claim rate.

While the aging of defaulted loans and other changes in the composition of our delinquent loan inventory, including the rate of claims being submitted, continued to impact our reserves and incurred losses during the three and nine months ended September 30, 2012, the magnitude of such impacts has declined compared to prior periods. Adjustments are made to loss reserves as defaulted loans age, and therefore, are considered to be closer to foreclosure and more likely to result in a claim payment. With continuing declines in home values in certain markets, persistently high unemployment and delays by servicers in either modifying loans or foreclosing on properties, the time it has taken to cure or otherwise resolve a delinquent loan has been prolonged. Consequently, in recent years, our default inventory has experienced an increase in its weighted average age, and because we apply higher estimated default to claim rates on our more aged delinquent loans, this has resulted in a higher reserve per default. As a consequence, our aggregate weighted average default to claim rate assumption (net of rescissions and denials) used in estimating our reserve for losses was 46% at September 30, 2012, compared to 43% at December 31, 2011. Our default to claim rate estimate varies depending on the age of the underlying defaulted loans, as measured by the number of monthly payments missed. As of September 30, 2012, our aggregate weighted average default to claim rate estimate excluding pending claims, net of our estimate for insurance rescissions and claim denials was 39%, and ranged from 20% for insured loans that had missed two to three monthly payments, to 45% for such loans that had missed 12 or more monthly payments.

With respect to loans that are in default, considerable judgment is exercised as to the adequacy of reserve levels. In the past, as the default proceeded towards foreclosure, there was generally more certainty around these estimates. However, in light of existing foreclosure slowdowns and efforts to increase loan modifications among defaulted borrowers, significant uncertainty remains with respect to the ultimate resolution of later stage defaults. This uncertainty requires management to use considerable judgment in estimating the rate at which these loans will result in claims.

Our reserve for losses includes the impact of our estimate of future rescissions and denials, which remain elevated compared to levels experienced before 2009. The elevated levels of our rate of insurance rescissions and claim denials have reduced our paid losses and have resulted in a significant reduction in our loss reserves. The impact of our estimate of future rescissions and denials reduced our loss reserves as of September 30, 2012 and December 31, 2011, by approximately \$477 million and \$631 million, respectively. Conversely, the impact of our estimate of future reinstatements of previously rescinded policies and denied claims increased our loss reserves as of September 30, 2012 and December 31, 2011, by approximately \$239 million and \$129 million, respectively, as further described below. The amount of estimated rescissions and denials incorporated into our reserve analysis at any point in time is affected by a number of factors, including not only our estimated rate of rescissions and denials on future claims, but also the volume and attributes of our defaulted insured loans, our estimated default to claim rate, and our estimated claim severity, among other assumptions. We expect the amount of estimated rescissions and denials embedded within our reserve analysis to decrease over time, as the defaults related to the poor underwriting periods of 2005 through

2008 decline as a proportion of our total default portfolio and as we realize the results through actual rescissions and denials, or the commutations of insured loans. In the event that we experience a more rapid than expected decrease in the level of future insurance rescissions and claim denials from the current levels, it could have a material adverse effect on our paid losses and loss reserves.

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Our reported rescission and denial activity in any given period is subject to future challenges by our lender customers. Recent insurance rescission and claim denial activity reflects a significant relative shift toward more claim denials, which has resulted primarily from the failure of our lender customers to provide the documentation required to perfect a claim. Subsequent to our initial claim denials, lenders have demonstrated an ability to produce the additional information needed to perfect a claim for a significant portion of previously denied claims. As a result of these trends and recent increases in claim denial activity, we expect that a large portion of previously rescinded policies will be reinstated and previously denied claims will be resubmitted with the required documentation and ultimately paid, and we have considered this expectation in developing our incurred but not reported (“IBNR”) reserve estimate. This IBNR estimate, which consists primarily of our estimate of the future reinstatements of previously rescinded policies and denied claims, was \$261.6 million and \$170.6 million at September 30, 2012 and December 31, 2011, respectively. The following table illustrates the amount of first-lien claims submitted to us for payment that were rescinded or denied, during the periods indicated, net of reinstatements within each period:

(In millions)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Rescissions—first loss position	\$75.8	\$93.2	\$164.1	\$313.6
Denials—first loss position	105.8	35.4	456.6	74.2
Total first loss position (1)	181.6	128.6	620.7	387.8
Rescissions—second loss position	20.0	28.5	29.6	100.7
Denials—second loss position	26.1	8.4	80.5	22.1
Total second loss position (2)	46.1	36.9	110.1	122.8
Total first-lien claims submitted for payment that were rescinded or denied (3)	\$227.7	\$165.5	\$730.8	\$510.6

(1) Related to claims from policies in which we were in a first loss position and would have paid the claim absent the rescission or denial.

(2) Related to claims from policies in which we were in a second loss position. These claims may not have resulted in a claim payment obligation absent the rescission or denial, due to deductibles and other exposure limitations included in our policies.

(3) Includes an amount related to a small number of submitted claims that were subsequently withdrawn by the insured.

The following table illustrates the total amount of first-lien claims submitted to us for payment that have been rescinded since January 1, 2009, and then subsequently were challenged (“rebutted”) by the lenders and policyholders, but have not been reinstated, for the period from January 1, 2009 through September 30, 2012. Prior to January 1, 2009, rebutted claims were not material.

(In millions)	As of September 30, 2012
First loss position	\$566.9
Second loss position	201.8
Total non-overtured rebuttals on rescinded first-lien claims	\$768.7

While the total potential claim amount of non-overtured rebuttals outstanding represents all challenged rescissions for which coverage has not been reinstated, our ongoing, active discussions with our lender customers typically involve only a small number of these non-overtured rebuttals. Accordingly, we expect that only some portion of these rescinded claims may be reinstated in future periods. Absent litigation or other legal proceedings in which we

are not successful, we do not expect that these discussions are likely to result in settlements that would materially impact our liquidity or results of operations.

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We also accrue for the premiums that we expect to refund to our lender customers in connection with our estimated insurance rescission activity. Our accrued liability for such refunds, which is included within accounts payable and accrued expenses on our condensed consolidated balance sheets, was \$50.6 million and \$57.2 million as of September 30, 2012 and December 31, 2011, respectively.

Rescission and denial rates in 2011 and 2012 have been affected by an increase in the number of claims received that we are reviewing for potential non-compliance with our insurance policies. The following table shows the projected net cumulative denial and rescission rates in our total first-lien portfolio, net of both actual and expected reinstatements, as of September 30, 2012, with respect to claims received in each quarter indicated below:

Claim Received Quarter	Projected Net Cumulative Rescission/Denial Rates for Each Quarter (1)	Percentage of Claims Resolved (2)
Q1 2010	18.3%	100%
Q2 2010	17.4%	100%
Q3 2010	15.7%	100%
Q4 2010	17.1%	99%
Q1 2011	20.6%	99%
Q2 2011	24.4%	97%
Q3 2011	29.5%	95%
Q4 2011	28.4%	90%
Q1 2012	25.7%	76%

Projected net cumulative rescission/denial rates represent the ratio of claims rescinded or denied to claims received (by claim count). Rescissions and denials are net of actual reinstatements, plus our current estimate for expected reinstatements of previously rescinded or denied claims. These amounts represent the cumulative rates for each (1) quarter as of September 30, 2012. Until all of the claims received during the periods shown have been internally resolved, the rescission/denial rates for each quarter will be subject to change. As discussed in footnote (2) below, these rates also will remain subject to change based on differences between estimated and actual reinstatements of previously rescinded policies or denied claims.

The percentage of claims resolved for each quarter presented in the table above, represents the number of claims that have been internally resolved as a percentage of the total number of claims received for that specific quarter. A claim is considered internally resolved when it is either paid or it is concluded that the claim should be denied or (2) rescinded, though such denials or rescissions could be challenged and, potentially reinstated or overturned, respectively. For the second and third quarters of 2012, a significant portion of claims received for those quarters have not been internally resolved; therefore, we do not believe the cumulative rescission/denial rates for those periods are presently meaningful and therefore they are not presented.

We considered the sensitivity of first-lien loss reserve estimates at September 30, 2012, by assessing the potential changes resulting from a parallel shift in severity and default to claim rate. For example, assuming all other factors remain constant, for every one percentage point change in primary claim severity (which we estimate to be 27% of unpaid principal balance at September 30, 2012), we estimated that our loss reserves would change by approximately \$88 million at September 30, 2012. For every one percentage point change in pool claim severity (which we estimate to be 45% of unpaid principal balance at September 30, 2012), we estimated that our loss reserves would change by approximately \$4 million at September 30, 2012. For every one percentage point change in our overall default to claim rate (which we estimate to be 46% at September 30, 2012, including our assumptions related to rescissions and denials), we estimated a \$56 million change in our loss reserves at September 30, 2012.

Estimating our loss reserves involves significant reliance upon assumptions and estimates with regard to the likelihood, magnitude and timing of each potential loss. The models, assumptions and estimates that we use to establish loss reserves may not prove to be accurate, especially during an extended economic downturn or a period of extreme market volatility and uncertainty such as currently exists. As such, we cannot be certain that our reserve estimate will be adequate to cover ultimate losses on incurred defaults.

See Note 10 for information regarding our financial guaranty net claim liabilities.

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9. Reserve for Premium Deficiency

Insurance enterprises are required to establish a premium deficiency reserve (“PDR”) if the net present value of the expected future losses and expenses for a particular product exceeds the net present value of expected future premiums and existing reserves for that product. We reassess our expectations for premiums, losses and expenses for our financial guaranty and mortgage insurance businesses at least quarterly and update our premium deficiency analysis accordingly. Expected future expenses include consideration of maintenance costs associated with maintaining records relating to insurance contracts and with the processing of premium collections. We also consider investment income in the premium deficiency calculation through the use of our pre-tax investment yield to discount certain cash flows for this analysis.

For our financial guaranty business, to determine whether a premium deficiency charge is necessary, we compare projected earned premiums and investment income to projected future losses, LAE, unamortized deferred acquisition costs and maintenance costs. If the sum of the costs exceeds the amount of the revenues, the excess is first charged against deferred acquisition costs and is referred to as a premium deficiency charge. For our financial guaranty business, no PDR was necessary as of September 30, 2012 or December 31, 2011.

For our mortgage insurance business, we group our mortgage insurance products into two categories, first-lien and second-lien.

Numerous factors affect our ultimate default to claim rates, including home price changes, unemployment and the impact of our loss mitigation efforts and interest rates, as well as potential benefits associated with lender and governmental initiatives to modify loans and ultimately reduce foreclosures. To assess the need for a PDR on our first-lien insurance portfolio, we develop loss projections based on modeled loan defaults related to our current RIF. This projection is based on recent trends in default experience, severity, and rates of defaulted loans moving to claim (such default to claim rates are net of our estimates of rescissions and denials), as well as recent trends in the rate at which loans are prepaid.

For our first-lien insurance business, because the combination of the net present value of expected premiums and already established reserves (net of reinsurance recoverables) exceeds the net present value of expected losses and expenses, a first-lien PDR was not required as of September 30, 2012 or December 31, 2011. Our pre-tax investment yield used as the discount rate in these present value calculations was 1.73% and 2.62% as of September 30, 2012 and December 31, 2011, respectively. Expected losses are based on an assumed paid claim rate of approximately 12.4% on our total first-lien insurance portfolio (7% on performing loans and 46% on defaulted loans). Assuming all other factors remained constant, if our assumed paid claim rate increased to 14.4%, we would be required to establish a PDR. New business originated since the beginning of 2009 is expected to be profitable, which has contributed to the overall expected net profitability of our first-lien portfolio. In addition, estimated rescissions and denials on insured loans are expected to partially offset the impact of expected defaults and claims.

For our second-lien mortgage insurance business, we project future premiums and losses for this business using historical results to help determine future performance for both repayments and claims. An estimated expense factor is then applied, and the result is discounted using a rate of return that approximates our pre-tax investment yield. This net present value, less any existing reserves, is recorded as a premium deficiency and the reserve is updated at least quarterly based on actual results for that quarter, along with updated transaction level projections.

In the third quarter of 2007, we established a reserve for premium deficiency on our second-lien business. We were required to establish a PDR because the net present value of the expected future losses and expenses exceeded our expected future premiums and existing reserves for that business. Since that time, our PDR has been reduced as the risk has been reduced (through either attrition or terminations of transactions), claims have been paid, or changes have occurred to our initial assumptions.

Evaluating the expected profitability of our existing mortgage insurance business and the need for a premium deficiency reserve for our first-lien business involves significant reliance upon assumptions and estimates with regard to the likelihood, magnitude and timing of potential losses and premium revenues. The models, assumptions and estimates we use to evaluate the need for a PDR may not prove to be accurate, especially during an extended economic downturn or a period of extreme market volatility and uncertainty as currently exists. We cannot be certain that we have correctly estimated the expected profitability of our existing first-lien mortgage portfolio or that the second-lien PDR established will be adequate to cover ultimate losses on our second-lien business.

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

10. Financial Guaranty Insurance Contracts

The following table includes information as of September 30, 2012, regarding our financial guaranty claim liabilities, segregated by the surveillance categories that we use in monitoring the risks related to these contracts:

(\$ in millions)	Surveillance Categories				Total
	Performing	Special Mention	Intensified Surveillance	Case Reserve	
Number of policies	12	120	75	107	314
Remaining weighted-average contract period (in years)	16	18	20	27	20
Insured contractual payments outstanding:					
Principal	\$38.8	\$924.5	\$695.0	\$334.2	\$1,992.5
Interest	10.6	537.1	379.7	163.8	1,091.2
Total	\$49.4	\$1,461.6	\$1,074.7	\$498.0	\$3,083.7
Gross claim liability	\$0.4	\$18.4	\$278.9	\$89.9	\$387.6
Less:					
Gross potential recoveries	0.1	0.9	319.3	67.3	387.6
Discount, net	—	2.8	(91.2)	2.4	(86.0)
Net claim liability (prior to reduction for unearned premium)	\$0.3	\$14.7	\$50.8	\$20.2	\$86.0
Unearned premium revenue	\$0.2	\$23.0	\$13.0	\$—	\$36.2
Net claim liability reported in the balance sheet	\$0.2	\$6.8	\$43.4	\$20.2	\$70.6
Reinsurance recoverables	\$—	\$—	\$—	\$—	\$—

A net claim liability is established for a performing credit if there is evidence that credit deterioration has occurred and the expected loss on the credit exceeds the unearned premium revenue for the contract based on the present value of the expected net cash outflows. Included in accounts and notes receivable and unearned premiums on our condensed consolidated balance sheets are the present value of premiums receivable and unearned premiums that are received on an installment basis. The premiums receivable is net of commissions on assumed reinsurance business. The present values of premiums receivable and unearned premiums that are received on an installment basis were \$29.2 million and \$34.8 million, respectively, as of September 30, 2012, and \$34.3 million and \$39.8 million, respectively, as of December 31, 2011.

The accretion of these balances is included in either premiums written and premiums earned (for premiums receivable) or policy acquisition costs (for commissions) on our condensed consolidated statements of operations. The accretion included in premiums earned for the three and nine months ended September 30, 2012, was \$0.2 million and \$0.8 million, respectively, compared to \$0.3 million and \$0.9 million, respectively, for the comparable periods in 2011. There was an immaterial amount of accretion recorded in policy acquisition costs for the three and nine months ended September 30, 2012 and 2011.

The nominal (non-discounted) premiums, net of commissions that are expected to be collected on financial guaranty contracts with installment premiums, included in premiums receivable as of September 30, 2012, was \$38.0 million and is expected to be collected on a declining basis due to no new business being written. The activity related to the net present value of premiums receivable during the three and nine months ended September 30, 2012 and 2011, was not material. The weighted-average risk-free rate used to discount the premiums receivable and premiums to be collected was 2.6% at September 30, 2012.

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

Premiums earned were affected by the following for the periods indicated:

(In millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Refundings	\$7.3	\$4.6	\$26.0	\$18.7
Recaptures/commutations	—	—	(16.3)	2.8
Unearned premium acceleration upon establishment of case reserves	0.7	1.8	0.7	3.1
Reinsurance agreements	—	—	(6.0)	—
Foreign exchange revaluation, gross of commissions	0.6	—	(0.2)	2.0
Adjustments to installment premiums, gross of commissions	(2.4)	—	(2.3)	0.3
Total adjustment to premiums earned	\$6.2	\$6.4	\$1.9	\$26.9

The following table shows the expected contractual premium revenue from our existing financial guaranty portfolio, assuming no prepayments (“refundings”) of any financial guaranty obligations, as of September 30, 2012:

(In millions)	Ending Net Unearned Premiums	Unearned Premium Amortization	Accretion	Total Premium Revenue
Fourth Quarter 2012	\$254.0	\$6.9	\$0.2	\$7.1
2013	227.3	26.7	0.9	27.6
2014	203.5	23.9	0.8	24.7
2015	184.1	19.4	0.8	20.2
2016	167.0	17.1	0.7	17.8
2012 – 2016	167.0	94.0	3.4	97.4
2017 – 2021	96.6	70.4	2.8	73.2
2022 – 2026	49.0	47.5	1.8	49.3
2027 – 2031	21.3	27.7	1.1	28.8
After 2031	—	21.3	1.3	22.6
Total	\$—	\$260.9	\$10.4	\$271.3

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

The following table shows the significant components of the change in our financial guaranty net claim liability for the periods indicated:

(In millions)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Net claim liability at beginning of period	\$92.6	\$70.8	\$60.5	\$67.4
Incurring losses and LAE:				
Increase in gross claim liability	37.6	15.0	199.3	56.7
Increase in gross potential recoveries	(69.6)	(50.7)	(261.3)	(83.9)
Decrease in discount	36.4	8.4	102.5	2.6
(Increase)/decrease in unearned premiums	0.1	0.3	(1.8)	4.3
Incurring losses and LAE	4.5	(27.0)	38.7	(20.3)
Paid losses and LAE:				
Current years	0.3	—	—	—
Prior years	(26.8)	(2.3)	(28.6)	(5.6)
Paid losses and LAE:	(26.5)	(2.3)	(28.6)	(5.6)
Net claim liability at end of period	\$70.6	\$41.5	\$70.6	\$41.5
Components of incurred losses and LAE:				
Net claim liability established in current period	\$8.7	\$1.0	\$8.8	\$1.0
Changes in existing claim liabilities	(4.2)	(28.0)	29.9	(21.3)
Total incurred losses and LAE	\$4.5	\$(27.0)	\$38.7	\$(20.3)
Components of decrease in discount:				
Decrease in discount related to net claim liabilities established in current period	\$36.1	\$1.2	\$101.8	\$1.1
Decrease in discount related to existing net claim liabilities	0.3	7.2	0.7	1.5
Total decrease in discount	\$36.4	\$8.4	\$102.5	\$2.6

In the first nine months of 2012, we significantly increased our estimated gross claim liability associated with a project finance credit within our public finance insured portfolio, with net par outstanding of \$70 million at September 30, 2012, based primarily on refinancing risk upon the maturity or scheduled principal amortization of the insured obligations beginning in 2017. Revenues for the project, however, serve as collateral for our insured risk, and we have also projected a full recovery of the gross claim over time, which has resulted in an increase in our potential recovery and a decrease in our discount amount for the nine months ended September 30, 2012. We paid \$23.5 million to settle our obligations related to our exposure to insured sovereign indebtedness of Greece in the third quarter of 2012.

Our financial guaranty loss reserve estimate involves significant judgment surrounding the estimated probability of the likelihood, magnitude and timing of each potential loss based upon different loss scenarios. The probabilities, assumptions and estimates we use to establish our financial guaranty loss reserves are subject to uncertainties, particularly given the current economic and credit environments, including uncertainties regarding our public finance municipal exposures and international sovereign risk exposures. We continue to monitor the uncertainties surrounding our portfolio, and it is possible that the actual losses paid could differ materially from our present estimates.

The weighted-average risk-free rates used to discount the gross claim liability and gross potential recoveries were as follows as of the dates indicated:

September 30, 2012	1.94	%
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December 31, 2011	2.80	%
September 30, 2011	3.28	%
December 31, 2010	3.69	%

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

11. Long-Term Debt

The composition of our long-term debt at September 30, 2012 and December 31, 2011, was as follows:

(In thousands)		September 30, 2012	December 31, 2011
5.625	% Senior Notes due 2013	\$79,609	\$252,267
5.375	% Senior Notes due 2015	249,855	249,819
3.000	% Convertible Senior Notes due 2017 (1)	329,655	316,498
	Total Long-Term Debt	\$659,119	\$818,584

(1) The principal amount of these notes is \$450 million.

On February 23, 2012, Radian Group commenced a “Modified Dutch Auction” tender offer (the “Tender Offer”) to purchase a portion of its outstanding 2013 Notes. We acquired \$146.5 million in aggregate principal amount of the 2013 Notes as a result of the Tender Offer for a price of \$900 per \$1,000 principal amount of Notes, which represented 59% of the principal amount of the 2013 Notes outstanding. The transaction resulted in a realized gain of \$15.2 million, representing the excess of carrying value over the purchase price. During the second and third quarters of 2012, Radian Group purchased an additional \$24.1 million in aggregate principal amount of the outstanding 2013 Notes resulting in an additional gain of \$1.0 million.

As of September 30, 2012 and December 31, 2011, we were in compliance with all provisions of each of our indentures for our outstanding notes.

Radian Group Inc.

Notes to Unaudited Condensed Consolidated Financial Statements — (Continued)

12. Other Comprehensive Income (Loss)

The following table shows our total other comprehensive income (loss) as of the periods indicated:

(In thousands)	Three Months Ended September 30, 2012			Nine Months Ended September 30, 2012		
	Before tax	Tax effect	Net of tax	Before tax	Tax effect	Net of tax
Other comprehensive income (loss):						
Foreign currency translation adjustments:						
Unrealized foreign currency translation adjustment	\$1	\$—	\$1	\$(11)	\$(4)	\$(7)
Less: Reclassification adjustment	—	—	—	—	—	—
Net foreign currency translation adjustments	1	—	1	(11)	(4)	(7)
Unrealized gains (losses) on investments:						
Unrealized holding gains (losses) arising during the period	(2,489)	(871)	(1,618)	21,811	7,634	14,177
Less: Reclassification adjustment for net gains (losses) included in net (loss) income	(6,100)	(4,911)	(1,189)	7,545	(135)	7,680
Net unrealized gains (losses) on investments	3,611	4,040	(429)	14,266	7,769	6,497
Other comprehensive income (loss)	\$3,612	\$4,040	\$(428)	\$14,255	\$7,765	\$6,490

(In thousands)	Three Months Ended September 30, 2011			Nine Months Ended September 30, 2011		
	Before tax	Tax effect	Net of tax	Before tax	Tax effect	Net of tax
Other comprehensive income (loss):						
Foreign currency translation adjustments:						
Unrealized foreign currency translation adjustment	\$(1)	\$—	\$(1)	\$6,519	\$—	\$6,519
Less: Reclassification adjustment for net gains (losses)	(605)	(250)	(355)	38,966	11,367	27,599
Net foreign currency translation adjustments	604	250	354	(32,447)	(11,367)	(21,080)
Unrealized gains (losses) on investments:						
Unrealized holding losses arising during the period	(23,471)	—	(23,471)	(9,856)	—	(9,856)
Less: Reclassification adjustment for net (losses) gains included in net income	156	(1,333)	1,489	(52,089)	(18,640)	(33,449)
Net unrealized gains (losses) on investments	(23,627)	1,333	(24,960)	42,233	18,640	23,593
Other comprehensive income (loss)	\$(23,023)	\$1,583	\$(24,606)	\$9,786	\$7,273	\$2,513

13. Income Taxes

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

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

Given the impact on our pre-tax results of net gains or losses resulting from our derivative transactions and our investment portfolio, and the continued uncertainty around our ability to rely on short-term financial projections, which directly affects our ability to estimate an effective tax rate for the full year, we record our interim-period income tax expense (benefit) based on actual results of operations.

For federal income tax purposes, we have approximately \$1.8 billion of NOL carryforwards as of September 30, 2012. To the extent not utilized, the NOL carryforwards will expire during tax years 2028 through 2030. To protect our ability to utilize our NOLs and other tax assets from an “ownership change” under U.S. federal income tax rules, we adopted certain tax benefit preservation measures, including amendments to our certificate of incorporation and by-laws and the adoption of a tax benefit preservation plan.

As of September 30, 2012, before consideration of our valuation allowance, we had deferred tax assets (“DTA”), net of deferred tax liabilities, of approximately \$934.2 million.

We are required to establish a valuation allowance against our DTA when it is more likely than not that all or some portion of our DTA will not be realized. At each balance sheet date, we assess our need for a valuation allowance and this assessment is based on all available evidence, both positive and negative, and requires management to exercise judgment and make assumptions regarding whether such DTA will be realized in future periods. Future realization of our DTA will ultimately depend on the existence of sufficient taxable income of the appropriate character (ordinary income or capital gains) within the applicable carryback and carryforward periods provided under the tax law. The primary sources of negative evidence that we considered are our cumulative losses in recent years, and the continued uncertainty around our future operating results. We also considered several sources of positive evidence when assessing the need for a valuation allowance such as future reversals of existing taxable temporary differences, future projections of taxable income, taxable income within the applicable carryback periods, and potential tax planning strategies. In making our assessment of the more likely than not standard, the weight assigned to the effect of both negative and positive evidence is commensurate with the extent to which such evidence can be objectively verified. A valuation allowance of approximately \$918.2 million and \$797.7 million was recorded against our net DTA of approximately \$934.2 million and \$813.7 million at September 30, 2012 and December 31, 2011, respectively. The remaining DTA of approximately \$16.0 million represents our NOL carryback, which we expect to utilize against the adjustments proposed by the IRS relating to tax years 2000 through 2007, as discussed below.

We are currently contesting proposed adjustments resulting from the examination by the IRS for the 2000 through 2007 tax years. The IRS opposes the recognition of certain tax losses and deductions that were generated through our investment in a portfolio of residual interests in REMICs and has proposed adjustments denying the associated tax benefits of these items. The proposed adjustments relating to the 2000 through 2007 tax years, if sustained, will increase our tax liability for those years by approximately \$128 million, in addition to any associated penalties and interest. We appealed these proposed adjustments to the IRS Office of Appeals (“Appeals”) and made “qualified deposits” with the U.S. Department of the Treasury in the amount of approximately \$85 million in June 2008 relating to the 2000 through 2004 tax years, and approximately \$4 million in May 2010 relating to the 2005 through 2007 tax years, to avoid the accrual of above-market-rate interest with respect to the proposed adjustments. In late December 2010, we reached a tentative settlement agreement with Appeals. However, because we had claimed a refund of approximately \$105 million with respect to our 2006 and 2007 taxable years based on a carryback of a net operating loss generated from our 2008 taxable year, review of the tentative settlement agreement by the Joint Committee on Taxation (“JCT”) was required. Based on its review, the JCT has indicated that it is opposed to the currently structured settlement agreement and has recommended that Appeals reconsider the settlement agreement. Following the JCT review, Appeals has now indicated that it is reconsidering the terms of our settlement.

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Notes to Unaudited Condensed Consolidated Financial Statements — (Continued)

We are currently attempting to address the concerns raised by Appeals and the JCT, but there is a substantial risk that we may not be able to settle the proposed adjustments with the IRS or, alternatively, that the terms of any final settlement will be significantly less favorable to us than the tentative settlement, which we agreed to in December 2010. Additionally, we would be required to litigate the proposed adjustments to our taxable income, if we are unable to reach any settlement, in order to avoid a full concession of the proposed tax liabilities, penalties, and interest to the IRS. If we determine that we cannot reach a settlement with the IRS and determine that our interests may be better served through litigation of the proposed adjustments, then we may incur substantial legal expenses and the litigation process may be lengthy. Based on the indication that Appeals will reconsider the proposed settlement agreement, we remeasured our tax provision and liabilities associated with these proposed IRS adjustments during the fourth quarter of 2011. After discussions with outside counsel about the issues raised in the examination and the issues surrounding our settlement efforts, we believe that an adequate provision for income taxes has been made for potential liabilities that may result. However, if the ultimate settlement or the litigation process produces a result that differs materially from our current expectations, there could be a material impact on our effective tax rate, results of operations and cash flows.

14. Statutory Information

Radian Guaranty's statutory net loss and statutory surplus as of or for the periods indicated were as follows:

(In millions)	As of or for the Nine Months Ended September 30, 2012	As of or for the Year Ended December 31, 2011
Statutory net loss	\$(48.9	) \$(545.1
Statutory surplus	1,022.2	843.2

Radian Guaranty's risk-to-capital calculation appears in the table below. For purposes of the risk-to-capital requirements imposed by certain states, statutory capital is defined as the sum of statutory policyholders' surplus (i.e., statutory capital and surplus) plus statutory contingency reserves.

(\$ in millions)	September 30, 2012	December 31, 2011
Risk in force, net (1)	\$20,552.3	\$18,095.7
Statutory surplus	1,022.2	843.2
Risk-to-capital	20.1	:1 21.5 :1

(1) Risk in force, net excludes risk ceded through reinsurance contracts and risk in force on defaulted loans.

The improvement in Radian Guaranty's risk-to-capital ratio in the first nine months of 2012 was primarily due to: (1) the release of contingency reserves at Radian Asset Assurance as a result of the Assured Transaction, which benefited Radian Guaranty's surplus; (2) realized investment gains; and (3) the impact of the Initial Quota Share Reinsurance Transaction entered into in April 2012. This benefit was partially offset by a statutory net loss incurred by Radian Guaranty.

As described in Note 7, Radian Guaranty entered into the Initial Quota Share Reinsurance Transaction effective April 1, 2012, and in the fourth quarter of 2012 agreed to the terms of the Second Quota Share Reinsurance Transaction. The Initial Quota Share Reinsurance Transaction is expected to ultimately provide Radian Guaranty with an initial capital benefit of \$62.5 million. We expect to cede \$1.6 billion of risk, which is the maximum amount associated with the Initial Quota Share Reinsurance Transaction. The agreed upon terms of the Second Quota Share Reinsurance

Transaction provide for incremental ceded risk of \$750 million initially, and the parties have the ability to mutually increase the amount of ceded risk up to a maximum of \$2 billion.

As of September 30, 2012, Radian Asset Assurance maintained claims paying resources of \$1.8 billion, including statutory surplus of approximately \$1.1 billion. In July 2012, Radian Asset Assurance paid an ordinary dividend of \$54 million to Radian Guaranty. We expect that Radian Asset Assurance will have the capacity to pay another ordinary dividend of approximately \$40 million to Radian Guaranty in 2013.

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Notes to Unaudited Condensed Consolidated Financial Statements — (Continued)

Due to current expectations with respect to the credit performance of the Terminated TruPs Bonds, we have established an associated salvage recovery for statutory accounting purposes, which as of September 30, 2012, was approximately \$75.9 million related to the LPV Capital, which is included in Radian Asset Assurance's and Radian Guaranty's statutory surplus as of September 30, 2012. Although Radian Asset Assurance has no further obligation for claims related to the Terminated TruPs CDOs, the amount of salvage recovery remains at risk, and the actual amount of salvage that we ultimately recover will depend on the future performance of the Terminated TruPs Bonds, including, in the case of four of the Terminated TruPs CDOs, the risk that an event of default occurs and is continuing after 2016 or 2017, as applicable. If such event of default were to occur, it would result in a loss for such Terminated TruPs CDO that would be determined based on the difference between the par value and the market value thereof. If the LPV is required to make payments to the Counterparty pursuant to the terms of the Residual CDS, Radian Asset Assurance's projected and actual salvage recovery from the LPV may be materially reduced or eliminated.

Under Texas insurance regulations, to be an authorized insurer, CMAC of Texas, an affiliated reinsurer of Radian Guaranty, is required to maintain a minimum statutory surplus of \$20 million. CMAC of Texas had a statutory net income of \$24.3 million for the nine months ended September 30, 2012 and statutory surplus of \$50.6 million as of September 30, 2012.

Radian Guaranty's other two affiliated reinsurers, Radian Insurance Inc. ("Radian Insurance") and Radian Mortgage Insurance Inc. ("Radian Mortgage Insurance"), also must maintain a minimum statutory surplus of \$20.0 million in order to remain an authorized reinsurer. As of September 30, 2012, the statutory surplus of Radian Insurance and Radian Mortgage Insurance was \$199.6 million and \$20.8 million, respectively. Radian Mortgage Insurance's reported statutory surplus includes the benefit of a