RADIAN GROUP INC
Form 10-Q
May 04, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2010

OR

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

For the transition period from to

Commission File Number 1-11356

Radian Group Inc.

(Exact name of registrant as specified in its charter)

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

(215) 231-1000

(Registrant s telephone number, including area code)

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

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

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date: 82,985,829 shares of common stock, $0.001 par value per share, outstanding on April 30, 2010.

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Forward Looking Statements Safe Harbor Provisions

All statements in this report that address events, developments or results that we expect or anticipate may occur in the future are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, Section 21E of the Securities Exchange Act of 1934 and the United States (U.S.) Private Securities Litigation Reform Act of 1995. In most cases, forward-looking statements may be identified by words such as anticipate, may, will, could, should, would, expect, intend, plan, goal, contemplate, believe, estimate, predict, pr negative or other variations on these words and other similar expressions. These statements, which include, without limitation, projections regarding our future performance and financial condition are made on the basis of management s current views and assumptions with respect to future events. Any forward-looking statement is not a guarantee of future performance and actual results could differ materially from those contained in the forward-looking information. The forward-looking statements, as well as our prospects as a whole, are subject to risks and uncertainties, including the following:

changes in general financial and political conditions, such as the failure of the U.S. economy to recover from the most recent recession or the U.S. economy reentering a recessionary period following a brief period of stabilization or even growth, the lack of meaningful liquidity in the capital markets or in the credit markets, a prolonged period of high unemployment rates and limited home price appreciation or further depreciation (which has resulted in some borrowers voluntarily defaulting on their mortgages when their mortgage balances exceed the value of their homes), changes or volatility in interest rates or consumer confidence, changes in credit spreads, changes in the way investors perceive the strength of private mortgage insurers or financial guaranty providers, investor concern over the credit quality and specific risks faced by the particular businesses, municipalities or pools of assets covered by our insurance;

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

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

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

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

our ability to continue to effectively mitigate our mortgage insurance and financial guaranty losses;

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

the negative impact our increased levels of insurance rescissions and claim denials may have on our relationships with customers, including the heightened risk of potential disputes and litigation;

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

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

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

the performance of our insured portfolio of higher risk loans, such as Alternative-A (Alt-A) and subprime loans, and of adjustable rate products, such as adjustable rate mortgages and interest-only mortgages;

a decrease in persistency rates of our mortgage insurance policies;

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

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

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

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

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

the application of existing federal or state consumer, lending, insurance, tax, securities and other applicable laws and regulations, or changes in these laws and regulations or the way they are interpreted; including, without limitation: (i) the outcome of existing, or the possibility of additional, lawsuits or investigations, and (ii) legislative and regulatory changes (a) affecting demand for private mortgage insurance, (b) limiting or restricting our use of (or requirements for) additional capital and the products we may offer, or (c) affecting the form in which we execute credit protection or affecting our existing financial guaranty portfolio;

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

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

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

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

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

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

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements. (Unaudited)

Radian Group Inc.

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

($ in thousands)	March 31 2010	December 31 2009
ASSETS		
Investments		
Fixed maturities held to maturity at amortized cost (fair value $18,033 and $20,308)	$ 17,079	$ 19,283
Fixed maturities available for sale at fair value (amortized cost $1,643,395 and $1,667,108)	1,548,622	1,555,827
Trading securities at fair value (including variable interest entity (VIE) securities of $89,390 and $0)	2,878,992	2,679,532
Equity securities available for sale at fair value (cost $168,335 and $173,418)	181,011	176,251
Hybrid securities at fair value	372,999	279,406
Short-term investments (including VIE investments of $99,963 and $99,918)	975,089	1,401,157
Other invested assets at cost	28,493	25,739
Total investments	6,002,285	6,137,195
Cash (including restricted cash of $34,208 and $35,607)	68,103	77,181
Investment in affiliates	127,535	121,480
Deferred policy acquisition costs	156,931	160,281
Accrued investment income	46,524	38,151
Accounts and notes receivable (less allowance of $88,085 and $77,476)	144,502	173,331
Property and equipment, at cost (less accumulated depreciation of $90,447 and $89,062)	15,049	16,197
Derivative assets (including VIE derivative assets of $11,697 and $12,182)	66,766	68,534
Deferred income taxes, net	621,590	440,948
Reinsurance recoverables	606,089	628,572
Other assets (including VIE assets of $121,035 and $0)	375,952	214,436
Total assets	$ 8,231,326	$ 8,076,306
LIABILITIES AND STOCKHOLDERS EQUITY		
Unearned premiums	$ 780,561	$ 823,621
Reserve for losses and loss adjustment expenses (LAE)	3,735,824	3,578,982
Reserve for premium deficiency	24,126	25,357
Long-term debt	665,863	698,222
VIE debt at fair value (including $17,303 and $18,493 of non-recourse debt)	596,061	296,080
Derivative liabilities (including VIE derivative liabilities of $17,369 and $0)	234,504	238,697
Accounts payable and accrued expenses (including VIE accounts payable of $567 and $0)	482,026	410,353
Total liabilities	6,518,965	6,071,312
Commitments and Contingencies (Note 15)		
Stockholders equity		
Common stock: par value $.001 per share; 325,000,000 shares authorized; 100,213,764 and 99,989,972 shares issued at March 31, 2010 and December 31, 2009, respectively; 82,915,064 and 82,768,856 shares outstanding at March 31, 2010 and December 31, 2009, respectively	100	100
Treasury stock, at cost: 17,298,700 and 17,221,116 shares at March 31, 2010 and December 31, 2009, respectively	(890,245)	(889,496)

Additional paid-in capital	1,367,599	1,363,255
Retained earnings	1,291,583	1,602,143
Accumulated other comprehensive loss	(56,676)	(71,008)
Total stockholders equity	1,712,361	2,004,994
Total liabilities and stockholders equity	$ 8,231,326	$ 8,076,306

See notes to unaudited condensed consolidated financial statements.

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Radian Group Inc.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(In thousands, except per-share amounts)	Three Months Ended March 31 2010	2009
Revenues:		
Premiums written insurance:		
Direct	$ 184,278	$ 198,369
Assumed	(1,248)	(4,929)
Ceded	(27,529)	(36,684)
Net premiums written	155,501	156,756
Decrease in unearned premiums	42,767	54,459
Net premiums earned insurance	198,268	211,215
Net investment income	45,358	56,283
Change in fair value of derivative instruments	(77,954)	(284,416)
Net (losses) gains on other financial instruments	(43,616)	25,070
Total other-than-temporary impairment (OTTI) losses	(18)	(824)
Losses recognized in other comprehensive income (loss)		
Net impairment losses recognized in earnings	(18)	(824)
Other income	5,775	4,132
Total revenues	127,813	11,460
Expenses:		
Provision for losses	543,880	326,754
Provision for premium deficiency	(1,231)	(48,184)
Policy acquisition costs	14,868	13,954
Other operating expenses	65,056	51,602
Interest expense	10,804	12,299
Total expenses	633,377	356,425
Equity in net income of affiliates	8,098	10,552
Pretax loss	(497,466)	(334,413)
Income tax benefit	(187,111)	(116,976)
Net loss	$ (310,355)	$ (217,437)
Basic net loss per share	$ (3.77)	$ (2.69)
Diluted net loss per share	$ (3.77)	$ (2.69)
Weighted-average number of common shares outstanding basic	82,341	80,902
Weighted-average number of common and common equivalent shares outstanding diluted	82,341	80,902
Dividends per share	$ 0.0025	$ 0.0025

See notes to unaudited condensed consolidated financial statements.

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Radian Group Inc.

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

					Accumulated Other Comprehensive Income (Loss)			
(In thousands)	**Common Stock**	**Treasury Stock**	**Additional Paid-in Capital**	**Retained Earnings**	**Foreign Currency Translation Adjustment**	**Unrealized Holding Gains (Losses)**	**Other**	**Total**
BALANCE prior to implementation effects JANUARY 1, 2009	$ 98	$ (888,057)	$ 1,350,704	$ 1,766,946	$ 13,966	$ (196,480)	$ (16,467)	$ 2,030,710
Cumulative effect of adoption of Accounting for Financial Guaranty Contracts (see Note 1), net of tax				(37,587)				(37,587)
BALANCE, JANUARY 1, 2009, as adjusted	98	(888,057)	1,350,704	1,729,359	13,966	(196,480)	(16,467)	1,993,123
Comprehensive loss:								
Net loss				(217,437)				(217,437)
Unrealized foreign currency translation adjustment, net of tax benefit of $2,117					(3,931)			(3,931)
Unrealized holding gains arising during the period, net of tax of $18,639						34,616		
Less: Reclassification adjustment for net gains included in net loss, net of tax of $3,942						(7,321)		
Net unrealized gain on investments, net of tax of $14,697						27,295		27,295
Comprehensive loss								(194,073)
Repurchases of common stock under incentive plans		(450)	450					
Issuance of stock under benefit plans	1	(1)	1,045					1,045
Amortization of restricted stock			422					422
Stock-based compensation expense			592					592
Dividends declared				(203)				(203)
BALANCE, MARCH 31, 2009	$ 99	$ (888,508)	$ 1,353,213	$ 1,511,719	$ 10,035	$ (169,185)	$ (16,467)	$ 1,800,906
BALANCE, JANUARY 1, 2010	$ 100	$ (889,496)	$ 1,363,255	$ 1,602,143	$ 18,285	$ (72,802)	$ (16,491)	$ 2,004,994
Comprehensive loss:								
Net loss				(310,355)				(310,355)
Unrealized foreign currency translation adjustment, net of tax of $1,512					(2,006)			
Less: Reclassification adjustment for net gains included in net loss, net of tax of $240					(447)			
Net foreign currency translation adjustment, net of tax of $1,272					(2,453)			(2,453)
Unrealized holding gains arising during the period, net of tax of $9,077						16,857		
Less: Reclassification adjustment for net gains included in net loss, net of tax of $39						(72)		
Net unrealized gain on investments, net of tax of $9,038						16,785		16,785
Comprehensive loss								(296,023)
		(749)	108					(641)

Repurchases of common stock under incentive plans								
Issuance of common stock under benefit plans			1,155					1,155
Amortization of restricted stock			1,624					1,624
Stock-based compensation expense			1,457					1,457
Dividends declared				(205)				(205)
BALANCE, MARCH 31, 2010	$ 100	$ (890,245)	$ 1,367,599	$ 1,291,583	$ 15,832	$ (56,017)	$ (16,491)	$ 1,712,361

See notes to unaudited condensed consolidated financial statements.

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Radian Group Inc.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(In thousands)	Three Months Ended March 31 2010	2009
Cash flows (used in) provided by operating activities	$ (287,011)	$ 27,104
Cash flows from investing activities:		
Proceeds from sales of fixed-maturity investments available for sale	6,555	267,834
Proceeds from sales of equity securities available for sale	5,353	221
Proceeds from sales of hybrid securities	12,592	39,620
Proceeds from sales of trading securities	216,757	
Proceeds from redemptions of hybrid securities		9,304
Proceeds from redemptions of fixed-maturity investments available for sale	12,799	77,915
Proceeds from redemptions of fixed-maturity investments held to maturity	2,320	5,005
Purchases of fixed-maturity investments available for sale		(32,199)
Purchases of trading securities	(271,879)	
Purchases of equity securities available for sale		(2,710)
Purchases of hybrid securities	(99,271)	(58,790)
Sales (purchases) of short-term investments, net	425,848	(334,592)
Purchases of other invested assets, net	(2,684)	(816)
Purchases of property and equipment, net	(296)	(814)
Net cash provided by (used in) investing activities	308,094	(30,022)
Cash flows from financing activities:		
Dividends paid	(205)	(203)
Redemption of long-term debt	(29,348)	
Net cash used in financing activities	(29,553)	(203)
Effect of exchange rate changes on cash	(608)	1,517
Decrease in cash	(9,078)	(1,604)
Cash, beginning of period	77,181	79,048
Cash, end of period	$ 68,103	$ 77,444
Supplemental disclosures of cash flow information:		
Income taxes paid (received)	$ 1,453	$ (226,128)
Interest paid	$ 7,414	$ 8,382
Supplemental disclosures of non-cash items:		
Stock-based compensation, net of tax	$ 11,867	$ 1,055
Consolidated VIE debt	$ 299,981	$ 46,471

See notes to unaudited condensed consolidated financial statements.

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Radian Group Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

1. Condensed Consolidated Financial Statements Basis of Presentation

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

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

The financial information presented for interim periods is unaudited; however, such information reflects all adjustments that are, in the opinion of management, necessary for a fair statement of the financial position, results of operations, and cash flows for the interim periods. These interim financial statements should be read in conjunction with the audited financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2009. The results of operations for interim periods are not necessarily indicative of results to be expected for the full year or for any other period. The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP.

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

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

- Potential adverse effects on us of continued deterioration in the housing and related credit markets and economic instability, which could increase our incurred losses beyond existing reserves (See Notes 8, 9 and 10).

- Potential adverse effects if the capital and liquidity levels of Radian Group or our regulated subsidiaries statutory capital levels are deemed inadequate to support current business operations and strategies. Radian Guaranty s statutory policyholders surplus and contingency reserves declined from $1.5 billion at December 31, 2009 to $1.3 billion at March 31, 2010. As a result of losses generated in the first quarter of 2010, and in order to maintain the minimum surplus requirements for two subsidiaries that reinsure risk from Radian Guaranty, Radian Group and Radian Guaranty contributed $56 million and $30 million, respectively, of capital to these subsidiaries.

- Potential adverse effects if Radian Guaranty s regulatory risk-to-capital ratio was to increase above 25 to 1, including the possibility that regulators may limit or cause Radian Guaranty to cease underwriting new mortgage insurance risk, which in the event we are unable to then continue writing new first-lien mortgage insurance business through Amerin Guaranty, will significantly impair our franchise value and reduce our cash flow associated with new business while we continue to honor and settle all valid claims and related expenses. At March 31, 2010 this ratio was 16.9 to 1.

- Potential adverse effects if Radian Guaranty were to lose its GSE eligibility status, which could occur at any time at the discretion of the GSEs. Loss of GSE eligibility would likely result in a significant

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Radian Group Inc.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

curtailment of our ability to write new mortgage insurance business, which would significantly impair our franchise value and limit our cash flow arising from new business while we continue to honor and settle all valid claims and related expenses.

Potential adverse effects on Radian Group liquidity if regulators limit, disallow or terminate our expense allocation agreements among Radian Group and its subsidiaries. In the first quarter of 2010, Radian Group received $37.0 million in reimbursements from its subsidiaries under these agreements.

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

Basic net income per share is based on the weighted-average number of common shares outstanding, while diluted net income per share is based on the weighted-average number of common shares outstanding and common share equivalents that would be issuable upon the exercise of stock options and other stock-based compensation. As a result of our net loss for the three months ended March 31, 2010 and 2009, 4,278,010 and 4,600,512 shares, respectively, of our common stock equivalents issued under our stock-based compensations plans were not included in the calculation of diluted net loss per share because they were anti-dilutive.

Effective January 1, 2010, we adopted the update to the accounting standard regarding accounting for transfers of financial assets. This update is intended to improve the relevance and comparability of the information that a reporting entity provides in its financial reports about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor s continuing involvement in transferred financial assets. Specifically, this update removes the concept of a qualified special purpose entity (QSPE) from the accounting standard related to the accounting for transfers and servicing of financial assets and extinguishments of liabilities and removes the exception from applying the accounting standard related to the consolidation of VIEs. Enhanced disclosures are required to provide financial statement users with greater transparency about transfers of financial assets and a transferor s continuing involvement with transferred financial assets. See Note 5 for further information regarding this standard and its financial statement impact.

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

Effective January 1, 2010, we adopted the update to the accounting standard regarding fair value measurements and disclosures. This update requires new disclosures regarding significant transfers in and out of Level I and Level II fair value measurements. Additional disclosures regarding the reconciliation of Level III fair value measurements are not required until 2011.

Radian Group Inc.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

2. Segment Reporting

We have three reportable segments: mortgage insurance, financial guaranty and financial services. Our reportable segments are strategic business units that are managed separately because each business has different characteristics and strategies. We allocate corporate income and expenses to our mortgage insurance and financial guaranty segments based on either an allocated percentage of time spent or internally allocated capital. We evaluate operating segment performance based principally on net income. Summarized financial information concerning our operating segments, as of and for the periods indicated, are as follows:

	March 31, 2010			
(In thousands)	Mortgage Insurance	Financial Guaranty	Financial Services	Consolidated
Net premiums written insurance	$ 157,032	$ (1,531)	$	$ 155,501
Net premiums earned insurance	$ 177,339	$ 20,929	$	$ 198,268
Net investment income	26,359	18,999		45,358
Change in fair value of derivative instruments	277	(78,231)		(77,954)
Net losses on other financial instruments	(1,419)	(42,197)		(43,616)
Net impairment losses recognized in earnings	(18)			(18)
Other income	1,799	3,913	63	5,775
Total revenues	204,337	(76,587)	63	127,813
Provision for losses	529,091	14,789		543,880
Provision for premium deficiency	(1,231)			(1,231)
Policy acquisition costs	10,504	4,364		14,868
Other operating expenses	46,233	18,673	150	65,056
Interest expense	2,120	8,684		10,804
Total expenses	586,717	46,510	150	633,377
Equity in net income of affiliates		78	8,020	8,098
Pretax (loss) income	(382,380)	(123,019)	7,933	(497,466)
Income tax (benefit) provision	(145,847)	(44,041)	2,777	(187,111)
Net (loss) income	$ (236,533)	$ (78,978)	$ 5,156	$ (310,355)
Cash and investments	$ 3,546,637	$ 2,523,751	$	$ 6,070,388
Deferred policy acquisition costs	36,762	120,169		156,931
Total assets	4,942,261	3,161,663	127,402	8,231,326
Unearned premiums	219,753	560,808		780,561
Reserve for losses and LAE	3,597,035	138,789		3,735,824
Derivative liabilities		234,504		234,504

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Radian Group Inc.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

	March 31, 2009			
(In thousands)	Mortgage Insurance	Financial Guaranty	Financial Services	Consolidated
Net premiums written insurance	$ 161,959	$ (5,203)	$	$ 156,756
Net premiums earned insurance	$ 177,883	$ 33,332	$	$ 211,215
Net investment income	31,345	24,938		56,283
Change in fair value of derivative instruments	(28,576)	(255,840)		(284,416)
Net gains on other financial instruments	13,077	11,993		25,070
Net impairment losses recognized in earnings	(801)	(23)		(824)
Other income	3,818	153	161	4,132
Total revenues	196,746	(185,447)	161	11,460
Provision for losses	321,684	5,070		326,754
Provision for premium deficiency	(48,184)			(48,184)
Policy acquisition costs	5,739	8,215		13,954
Other operating expenses	35,694	15,833	75	51,602
Interest expense	5,694	6,605		12,299
Total expenses	320,627	35,723	75	356,425
Equity in net income of affiliates			10,552	10,552
Pretax (loss) income	(123,881)	(221,170)	10,638	(334,413)
Income tax (benefit) provision	(35,084)	(85,770)	3,878	(116,976)
Net (loss) income	$ (88,797)	$ (135,400)	$ 6,760	$ (217,437)
Cash and investments	$ 4,141,601	$ 2,356,614	$	$ 6,498,215
Deferred policy acquisition costs	26,391	195,878		222,269
Total assets	5,241,881	3,344,269	117,460	8,703,610
Unearned premiums	319,785	832,767		1,152,552
Reserve for losses and LAE	3,116,553	216,089		3,332,642
Derivative liabilities	127,472	614,166		741,638

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3. Derivative Instruments

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

Balance Sheets (In millions)	March 31 2010	December 31 2009
Derivative assets:		
Financial Guaranty credit derivative assets	$ 24.3	$ 23.8
Net interest margin securities (NIMS) assets	11.7	12.2
Put options on Money Market committed preferred custodial trust securities (CPS)	30.8	32.5
Total derivative assets	66.8	68.5
Derivative liabilities:		
Financial Guaranty credit derivative liabilities	217.1	238.7
Financial Guaranty VIE derivative liabilities	17.4	
Total derivative liabilities	234.5	238.7
Total derivative liabilities, net	$ (167.7)	$ (170.2)

Amounts set forth in the table above represent gross unrealized gains and gross unrealized losses on derivative assets and liabilities. The notional value of our derivative contracts at March 31, 2010 and December 31, 2009 was $44.6 billion and $46.1 billion, respectively.

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

Statements of Operations (In millions)	Three Months Ended March 31 2010	2009
Net premiums earned derivatives	$ 12.1	$ 14.7
Financial Guaranty credit derivatives	(84.1)	(267.8)
Financial Guaranty VIE derivative liabilities	(3.2)	
NIMS	(0.2)	(4.3)
Mortgage Insurance domestic and international credit default swaps (CDS)		(21.4)
Put options on CPS	(2.1)	(0.9)
Other	(0.5)	(4.7)
Change in fair value of derivative instruments	$ (78.0)	$ (284.4)

The valuation of derivative instruments may result in significant volatility from period to period in gains and losses as reported on our condensed consolidated statements of operations. Generally, these gains and losses result from changes in corporate credit or asset-backed spreads and changes in the creditworthiness of underlying corporate entities or the credit performance of the assets underlying asset-backed securities (ABS).

Any incurred gains or losses on our financial guaranty contracts that are accounted for as derivatives are recognized as a change in fair value of derivative instruments. We also incorporate our own non-performance risk into our fair valuation methodology. Changes in our fair value estimates may also result in significant volatility in our financial position or results of operations for future periods.

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Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

The following table shows selected information about our derivative contracts:

Product	Number of Contracts	March 31, 2010 Par/ Notional Exposure ($ in millions)	Total Net Asset/ (Liability)
Put options on CPS	1	$ 50.0	$ 30.8
NIMS related (1)			11.7
Corporate collateralized debt obligations (CDOs)	92	35,956.6	(17.7)
Non-Corporate CDOs and other derivative transactions:			
Trust Preferred Securities (TruPs)	20	2,184.3	(113.5)
CDO of commercial mortgage-backed securities (CMBS)	4	1,831.0	(35.9)
Other:			
Structured finance	11	1,140.3	(6.5)
Public finance	28	1,747.0	(7.0)
Total Non-Corporate CDOs and other derivative transactions	63	6,902.6	(162.9)
Assumed financial guaranty credit derivatives:			
Structured finance	289	1,248.4	(8.2)
Public finance	16	370.6	(4.0)
Total Assumed	305	1,619.0	(12.2)
Financial Guaranty VIE derivative liabilities (2)			(17.4)
Mortgage Insurance international CDS	1	120.2	
Grand Total	462	$ 44,648.4	$ (167.7)

(1) NIMS related derivative assets represent assets associated with the consolidation of NIMS VIEs and does not represent additional exposure.

(2) Financial Guaranty VIE interest rate swap associated with the consolidation of the CDO of ABS transaction, which was consolidated effective January 1, 2010. The notional amount of the interest rate swap does not represent additional par exposure and therefore is not presented in this table. See Note 5 for information on our maximum exposure to loss from the consolidated CDO of ABS transaction.

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

	March 31 2010	December 31 2009	March 31 2009	January 1 2009
Radian Group five-year CDS spread (in basis points)	983	1,530	2,052	2,466

Product ($ in millions)	Cumulative Unrealized Gain at March 31, 2010	Cumulative Unrealized Gain at December 31, 2009
Corporate CDOs	$ 531.4	$ 629.0
Non-Corporate CDO-related (1)	1,495.1	1,730.9
NIMS-related and other (2)	60.7	108.7
Total	$ 2,087.2	$ 2,468.6

(1) Includes derivative liabilities and VIE debt. Effective January 1, 2010, one transaction previously reported as a derivative liability was consolidated and is now reported as VIE debt.

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

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Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

The unrealized gain attributable to the market s perception of our non-performance risk decreased by $381.4 million during the first quarter of 2010, as presented in the table above. This decrease was primarily the result of the tightening of our CDS spreads.

4. Fair Value of Financial Instruments

We record fair value under the accounting standard regarding fair value measurements, which requires that a fair value measurement reflect the assumptions market participants would use in pricing an asset or liability based on the best information available. Assumptions include the risks inherent in a particular valuation technique (such as a pricing model) and/or the risks inherent in the inputs to the model. We define fair value as the current amount that would be exchanged to sell an asset or transfer a liability, other than in a forced liquidation. In the event that our investments or derivative contracts were sold or transferred in a forced liquidation, the amounts received or paid may be materially different than those determined in accordance with this standard. Effective January 1, 2010, we adopted the update to the accounting standard regarding fair value measurements and disclosures. This update requires new disclosures regarding significant transfers in and out of Level I and Level II fair value measurements. Additional disclosures regarding the reconciliation of Level III fair value measurements are not required until 2011.

When determining the fair value of our liabilities, we are required to incorporate into the fair value an adjustment that reflects our own non-performance risk. As our CDS spread tightens or widens, the fair value of our liabilities increases or decreases, respectively.

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

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

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

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

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

A financial instrument s level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. At March 31, 2010, our total Level III assets were approximately 5.0% of total assets measured at fair value and total Level III liabilities accounted for 100% of total liabilities measured at fair value.

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

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Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

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

Investments

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

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

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

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

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

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

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

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

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

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Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

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

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

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

Derivative Instruments and Related VIE Assets/Liabilities

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

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

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Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

We make an adjustment to our derivative liabilities valuation methodology to account for our own non-performance risk by incorporating our observable CDS spread into the determination of the fair value of our derivative liabilities. Considerable judgment is required to interpret market data to develop the estimates of fair value. Accordingly, the estimates may not be indicative of amounts we could realize in a current market exchange. The use of different market assumptions or estimation methodologies may have a significant effect on the estimated fair value amounts.

Put Options on CPS and Consolidated CPS VIE debt

The fair value of our put options on CPS and the CPS VIE debt, in the absence of observable market data, is estimated based on the present value of the spread differential between the current market rate of issuing a perpetual preferred security and the maximum contractual rate of our perpetual preferred security as specified in our put option agreements. In determining the current market rate, consideration is given to any relevant market observations that are available. Subsequent to our tender and purchase of the majority of the securities of two of the three trusts to which our put options relate, we consolidated the assets and liabilities of those two trusts. At March 31, 2010, after consolidation, we have a remaining fair value of $30.8 million related to the put options on CPS included in derivative assets for the one trust that is not consolidated and $6.6 million of VIE debt related to the consolidated trusts. The put options on CPS and the consolidated CPS VIE debt are categorized in Level III of the fair value hierarchy. See Note 5 for further information regarding our put options on CPS.

NIMS Credit Derivatives, NIMS Derivative Assets and NIMS VIE debt

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

Changes in expected principal credit losses on NIMS could have a significant impact on our fair value estimate. The gross expected principal credit losses were $292.1 million as of March 31, 2010, which is our best estimate of settlement value at that date and represents 100% of our total risk in force. The recorded fair value of our total net liabilities related to NIMS as of March 31, 2010 was $256.7 million, of which $11.7 million relates to derivative assets and $268.4 million relates to debt of the NIMS VIE trusts, all of which are consolidated. Our fair value estimate incorporates a discount rate that is based on our CDS spread, which has resulted in a fair value

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Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

amount that is $35.4 million less than the expected principal credit losses. Changes in the credit loss estimates will impact the fair value directly, reduced only by the present value factor, which is dependent on the timing of the expected losses and our credit spread.

Corporate CDOs

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

Present Value of Expected Future Contractual Premiums Our contractual premiums are subject to change primarily for two reasons: (1) all of our contracts provide our counterparties with the right to terminate upon our default and (2) 86.6% of the aggregate net par outstanding of our corporate CDO transactions (as of March 31, 2010) provide our counterparties with the right to terminate these transactions based on certain rating agency downgrades that occurred during 2008. In determining the expected future premiums of these transactions, we adjust the contractual premiums for such transactions to reflect the estimated fair value of those premiums based on our estimate of the probability of our counterparties exercising this downgrade termination right and the impact it would have on the remaining expected lifetime premium. In these circumstances, we also cap the total estimated fair value of the contracts at zero, such that none of the contracts subject to immediate termination are in a derivative asset position. The discount rate we use to determine the present value of expected future premiums is our CDS spread plus a risk-free rate. This discount rate reflects the risk that we may not collect future premiums due to our inability to satisfy our contractual obligations, which provides our counterparties the right to terminate the contracts.

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

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

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

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

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

The CDX index is a synthetic corporate CDO that comprises a list of corporate obligors and is segmented into multiple tranches of synthetic senior unsecured debt of these obligors ranging from the equity tranche (i.e.,

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Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

the most credit risk or first-loss position) to the most senior tranche (i.e., the least credit risk). We refer to each of these tranches as a standard CDX tranche. A tranche is defined by an attachment point and detachment point, representing the range of portfolio losses for which the protection seller would be required to make a payment.

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

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

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

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

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

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

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

Non-Corporate CDOs and Other Derivative Transactions

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

TruPs CDOs Our TruPs transactions are CDS on CDOs where the collateral consists primarily of deeply subordinated securities issued by banks and insurance companies, as well as real estate investment trusts and other financial institutions, whose individual spreads are not observable. In each case, we provide credit protection on a specific tranche of each CDO. Beginning in the third quarter of 2009, we began to use a discounted cash flow valuation approach to determine fair value for these transactions. As a result of significant credit deterioration during this reporting period, we determined that the market spreads utilized in prior periods were no longer a relevant key assumption in determining fair value of these transactions. We utilize a discounted cash flow valuation approach that captures the credit characteristics of each transaction. We estimate projected claims based on our internal credit analysis which is based on the current performance of each underlying reference obligation. The present value of the expected cash flows to the TruPs transaction is then determined using a discount rate derived from the observed market pricing for a TruPs transaction with similar characteristics. The present value of the insured cash flows is determined using a discount rate that is equal to our CDS rate plus a risk-free rate.

For certain of our TruPs transactions, our counterparties may require that we pay them the outstanding par on the underlying TruPs bond if an event of default remains outstanding as of the CDS termination date (the Conditional Liquidity Claim). For these transactions, an additional fair value adjustment is made. To calculate this adjustment, a probability that we will be required to pay a Conditional Liquidity Claim is assigned based on our internal cash flow projections, which provides us with information as to the likelihood of the existence of a

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Conditional Liquidity Claim. A discounted cash flow valuation is also performed for this scenario where we are required to make a Conditional Liquidity Claim. The fair value is set equal to the probability weighted average of the valuations from the two scenarios: one in which our counterparty makes a Conditional Liquidity Claim and one in which the claim is not made.

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

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

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

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

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

The VIE debt and derivative liability within this CDO of ABS transaction are categorized in Level III of the fair value hierarchy. Our maximum principal exposure to loss from this CDO of ABS transaction is $462.6 million. The recorded net fair value of our consolidated assets and liabilities related to this consolidated CDO of ABS as of March 31, 2010 was $128.7 million, as the fair value of the VIE debt and other liabilities exceeds the net value of the assets of the VIE. Because our fair value estimate of the VIE debt incorporates a discount rate that is based on our CDS spread, the fair value is substantially less than our expected ultimate claim payment.

CDOs of CMBS The fair premium amounts for our CMBS CDO transactions for a typical market participant are derived directly from the observed spreads on the CMBX indices. The CMBX indices represent standardized lists of CMBS reference obligations. A different CMBX index exists for different types of underlying referenced obligations based on their various origination periods and credit grades. For each of our

Radian Group Inc.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

CMBS CDO transactions, we use the CMBX index that most directly correlates to our transaction with respect to the origination period and credit rating of the referenced obligations included in our transactions. The typical fair premium amount is the fair value of the expected future fair premiums (determined by the observed index spreads) determined by using a discount rate equal to the CDS spread of a typical market participant plus a risk-free rate.

All Other Non-Corporate CDOs and Other Derivative Transactions For all of our other non-corporate CDO and other derivative transactions, observed prices and market indices are not available. As a result, we utilize an internal model that estimates fair premium. The fair premium amount is calculated such that the expected profit (fair premium amount net of expected losses and other expenses) is proportional to an internally-developed risk-based capital amount. Expected losses and our internally developed risk-based capital amounts are projected by our model using the internal credit rating, term, and current par outstanding for each transaction.

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

Assumed Financial Guaranty Credit Derivatives

In making our determination of fair value for these credit derivatives, we use information provided to us by our counterparties to these reinsurance transactions, which are the primary insurers (the primaries) of the underlying credits, including the primaries fair valuations for these credits. The information obtained from our counterparties is not received with sufficient time for us to properly record the mark-to-market liability as of the balance sheet date. Therefore, the amount recorded as of March 31, 2010 is based on the most recent available financial information, which is reported on a quarterly lag. The lag in reporting is consistent from period to period. The fair value is based on credit spreads obtained by primaries from market data sources published by third parties (e.g., dealer spread tables for collateral similar to assets within the transactions being valued) as well as collateral-specific spreads provided by trustees or obtained from market sources if such data is available. If observable market spreads are not available or reliable for the underlying reference obligations, then the primaries valuations are predominantly based on market indices that most closely resemble the underlying reference obligations, considering asset class, credit quality rating and maturity of the underlying reference obligations. In addition, these valuations incorporate an adjustment for our non-performance risk that is based on our CDS spread. The primaries models used to estimate the fair value of these instruments include a number of factors, including credit spreads, changes in interest rates and the credit ratings of referenced entities. In establishing our fair value for these transactions, we assess the reasonableness of the primaries valuations by (1) reviewing the primaries publicly available information regarding their mark-to-market processes, including methodology and key assumptions; and (2) analyzing and discussing the changes in fair value with the primaries where the changes appear unusual or do not appear materially consistent with credit loss related information when provided by the primaries for these transactions. These credit derivatives are categorized in Level III of the fair value hierarchy.

Other Financial Guaranty VIE Consolidated Assets/Liabilities

Upon the adoption of the accounting standard update regarding improvements to financial reporting by enterprises involving VIEs, we determined that we are the primary beneficiary for two other VIEs as of January 1, 2010 for which we have provided financial guarantees. Upon consolidation, we elected the fair value

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Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

option for all financial assets and financial liabilities held by these two VIEs, which primarily consist of manufactured housing loans and VIE debt to note holders in the trust. The fair value election allows us to offset the changes in fair value of the assets and liabilities of the trust, providing a better representation of our net exposure to the VIEs. See Note 5 for further discussion of the primary beneficiary analysis and the related financial impacts to our financial position, financial performance and cash flows.

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

The assets and VIE debt related to these transactions are categorized in Level III of the fair value hierarchy. Our maximum principal exposure to loss from these transactions is $131.0 million; however, we do not currently expect to pay any claims related to these two VIEs. At March 31, 2010, we recorded $118.3 million of other assets, $117.9 million of VIE debt and $0.4 million of accounts payable and accrued expenses associated with these two VIEs.

Mortgage Insurance Domestic and International CDS

The estimated fair value of our mortgage insurance domestic CDS was determined using internal models that employed a discounted cash flow methodology. We estimated losses in each securitization by applying expected default rates separately to loans that were delinquent and to those that were current. We then projected prepayment speeds on the underlying collateral in each securitization, incorporating historical prepayment experience. The estimated loss and prepayment speeds were used to estimate the cash flows for each underlying securitization, and ultimately, to produce the projected credit losses for each mortgage insurance domestic CDS. In addition to expected credit losses, the fair value for each mortgage insurance domestic CDS was approximated by incorporating future expected premiums to be received from the transaction. These future expected premiums were discounted utilizing a risk-adjusted interest rate that was based on the current rating of each transaction. The projected net losses were discounted using a rate of return that incorporates our own non-performance risk, which resulted in a significant reduction of the derivative liability. Prior to their termination in the second quarter of 2009, our mortgage insurance domestic CDS were categorized in Level III of the fair value hierarchy.

In determining the estimated fair value of our mortgage insurance international CDS, we use the following information: (1) non-binding fair value quotes from our counterparties on each respective transaction, which are based on quotes for transactions with similar underlying collateral from market makers and other broker dealers, and (2) in the absence of observable market data for these transactions, a review of monthly information regarding the performance of the underlying collateral and discussion with our counterparties regarding any unusual or inconsistent changes in fair value. In either case, in the event there are material inconsistencies in the inputs to determine estimated fair value, they are reviewed and a final determination is made by management in light of the specific facts and circumstances surrounding each price. We make an adjustment to the fair value amount described above to incorporate our own non-performance risk. The amount of the adjustment is computed based on the correlation between the default probability of the transaction and our default probability as described more fully under *Non-Performance Risk Adjustments on Corporate CDOs.* Our international CDS transaction is categorized in Level III of the fair value hierarchy.

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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 March 31, 2010:

(In millions) Assets and Liabilities at Fair Value	Level I	Level II	Level III	Total	Investments Not Carried at Fair Value	Total Investments
Investment Portfolio:						
U.S. government and agency securities	$	$ 648.7	$	$ 648.7	$	$ 648.7
State and municipal obligations		1,587.3	24.4	1,611.7		1,611.7
Money market instruments	764.5			764.5		764.5
Corporate bonds and notes		966.3		966.3		966.3
RMBS		724.9	54.1	779.0		779.0
CMBS		88.8	24.3	113.1		113.1
CDO			3.8	3.8		3.8
Other ABS		129.2	3.5	132.7		132.7
Foreign government securities		71.8		71.8		71.8
Hybrid securities		371.9	1.1	373.0		373.0
Equity securities (1)	155.4	118.0	1.5	274.9		274.9
Other investments (2)		209.9	6.7	216.6		216.6
Other investments not carried at fair value (3)					46.2	46.2
Total Investments	919.9	4,916.8	119.4	5,956.1	$ 46.2	$ 6,002.3
Derivative Assets			66.8	66.8		
Other Assets (4)			118.3	118.3		
Total Assets at Fair Value	$ 919.9	$ 4,916.8	$ 304.5	$ 6,141.2		
Derivative Liabilities	$	$	$ 234.5	$ 234.5		
VIE debt (5)			596.1	596.1		
Total Liabilities at Fair Value	$	$	$ 830.6	$ 830.6		

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

(2) Comprised of short-term commercial paper from CPS trusts ($100.0 million) and other securities in our investment portfolio ($109.9 million) included within Level II, and lottery annuities ($3.0 million) and TruPs held by consolidated VIEs ($3.7 million) included within Level III.

(3) Comprised of fixed-maturities held to maturity ($17.1 million), short-term investments ($0.6 million), primarily invested in time deposits, and other invested assets ($28.5 million), primarily invested in limited partnerships, accounted for as cost-method investments and not measured at fair value.

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

(5) Comprised of consolidated debt related to NIMS VIEs ($268.4 million) and CPS trusts ($6.6 million). Also includes amounts related to financial guaranty VIEs ($321.1 million) that required consolidation as of January 1, 2010 under the accounting standard update regarding improvements to financial reporting by enterprises involving VIEs.

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Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

The following is a list of those assets and liabilities that are measured at fair value by hierarchy level as of December 31, 2009:

(In millions) **Assets and Liabilities at Fair Value**	**Level I**	**Level II**	**Level III**	**Total**	**Investments Not Carried at Fair Value**	**Total Investments**
Investment Portfolio:						
U.S. government and agency securities	$	$ 581.6	$	$ 581.6	$	$ 581.6
State and municipal obligations		1,545.1	24.4	1,569.5		1,569.5
Money market instruments	1,300.6			1,300.6		1,300.6
Corporate bonds and notes		976.9		976.9		976.9
RMBS		785.7		785.7		785.7
CMBS		46.2		46.2		46.2
Other ABS		106.8		106.8		106.8
Foreign government securities		86.1		86.1		86.1
Hybrid securities		278.8	0.6	279.4		279.4
Equity securities (1)	146.8	106.5	1.7	255.0		255.0
Other investments. (2)		99.9	3.8	103.7		103.7
Other investments not carried at fair value (3)					45.7	45.7
Total Investments	1,447.4	4,613.6	30.5	6,091.5	$ 45.7	$ 6,137.2
Derivative Assets			68.5	68.5		
Total Assets at Fair Value	$ 1,447.4	$ 4,613.6	$ 99.0	$ 6,160.0		
Derivative Liabilities	$	$	$ 238.7	$ 238.7		
VIE debt (4)			296.1	296.1		
Total Liabilities at Fair Value	$	$	$ 534.8	$ 534.8		

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

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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 March 31, 2010:

	Beginning Balance at January 1 2010	VIE Consolidation at January 1 2010 (1)	Realized and Unrealized Gains (Losses) Recorded in Earnings	Purchases, Sales, Issuances & Settlement	Transfers Into (Out of) Level III (2)	Ending Balance at March 31 2010
Investments:						
State and municipal obligations	$ 24.4	$	$	$	$	$ 24.4
RMBS		44.3	12.0	(2.2)		54.1
CMBS		23.8	0.5			24.3
CDO		3.8	(0.1)	0.1		3.8
Other ABS		3.5				3.5
Hybrid securities	0.6				0.5	1.1
Equity securities	1.7		(0.3)	0.1		1.5
Other investments	3.8	3.7		(0.8)		6.7
Total Level III Investments	30.5	79.1	12.1	(2.8)	0.5	119.4
NIMS and CPS derivative assets	44.7		(2.8)	0.6		42.5
Other assets		119.7	2.0	(3.4)		118.3
Total Level III Assets, net	$ 75.2	$ 198.8	$ 11.3	$ (5.6)	$ 0.5	$ 280.2
Derivative liabilities, net	$ (214.9)	$ 51.8	$ (75.1)(3)	$ 28.0	$	$ (210.2)
VIE debt	(296.1)	(253.5)	(107.0)	60.5		(596.1)
Total Level III liabilities, net	$ (511.0)	$ (201.7)	$ (182.1)	$ 88.5	$	$ (806.3)

(1) Represents the impact of our adoption of the accounting standard update regarding improvements to financial reporting by enterprises involving VIEs.
(2) Transfers are assumed to be made at the end of the period as the availability of market observed inputs change from period to period.
(3) Included in this amount is a $22.1 million reversal of an unrealized loss for a contract which expired during the first quarter of 2010.

There were no investment transfers into or out of Level I and Level II during the first quarter of 2010.

The following is a rollforward of Level III assets and liabilities measured at fair value for the quarter ended March 31, 2009:

(In millions)	Beginning Balance at January 1 2009	Realized and Unrealized Gains (Losses) Recorded in Earnings	Purchases, Sales, Issuances & Settlements	Transfers Into (Out of) Level III (1)	Ending Balance at March 31 2009
Investments:					

Hybrid securities	$ 4.5	$ 4.8	$ (9.3)	$ 0.4	$ 0.4
Equity securities	0.8	0.3		0.3	1.4
Other investments	5.1	0.1	(0.8)		4.4
Total Level III Investments	10.4	5.2	(10.1)	0.7	6.2
NIMS and CPS derivative assets	155.8	(1.5)	4.6		158.9
Total Level III Assets, net	$ 166.2	$ 3.7	$ (5.5)	$ 0.7	$ 165.1
Derivative liabilities, net	$ (495.6)	$ (278.5)(2)	$ 43.6	$	$ (730.5)
VIE debt	(160.0)	6.2	(52.7)(3)		(206.5)
Total Level III liabilities, net	$ (655.6)	$ (272.3)	$ (9.1)	$	$ (937.0)

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

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Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

(2) This amount relates to derivatives still held at March 31, 2009.
(3) This amount represents derivative assets of $3.7 million and derivative liabilities of $49.0 million transferred to VIE debt related to NIMS trusts that we were required to consolidate during the period.

Other Fair Value Disclosure

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

	March 31, 2010		December 31, 2009	
(In millions)	**Carrying Amount**	**Estimated Fair Value**	**Carrying Amount**	**Estimated Fair Value**
Assets:				
Fixed-maturities held to maturity	$ 17.1	$ 18.0	$ 19.3	$ 20.3
Short-term investments (carried at cost)	0.6	0.6	0.6	0.6
Other invested assets	28.5	28.5	25.8	25.8
Liabilities:				
Long-term debt	665.9	557.5	698.2	499.4
Non-derivative financial guaranty liabilities	522.9	647.3	526.3	627.1

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

Short-Term Investments Carried at Cost These investments are carried at cost.

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

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

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

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

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

With respect to the fair premium amount, the accounting standard regarding fair value measurements requires that the non-performance risk of a financial liability be included in the estimation of fair value.

Radian Group Inc.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

Accordingly, the fair premium amount for financial guaranty insurance contracts includes consideration of our credit quality as represented by our CDS spread.

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

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

5. Variable Interest Entities (VIEs)

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

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

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Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

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

The following table provides a summary of our maximum exposure to losses, and the financial impact on our condensed consolidated balance sheets and our condensed consolidated statements of operations and our cash flows as of and for the quarter ended March 31, 2010, as it relates to our consolidated VIEs:

	March 31, 2010 Interests in Consolidated VIEs			
(In millions)	**NIMS**	**Put Options on CPS**	**CDO of ABS**	**Other Financial Guaranty VIEs**
Balance Sheet:				
Trading securities	$	$	$ 89.4	$
Short-term investments		100.0		
Derivative assets	11.7			
Other assets			2.7	118.3
Derivative liabilities			17.4	
VIE debt at fair value	268.4	6.6	203.2	117.9
Accounts payable and accrued expenses			0.2	0.4
Statement of Operations:				
Net investment income			2.7	
Change in fair value of derivative instruments loss	(0.2)		(3.2)	
Net loss on other financial instruments	(30.6)	(0.8)	(59.6)	(1.3)
Other income				3.9
Interest expense		0.1	0.3	0.9
Other operating expenses		0.1	0.3	1.7
Cash Inflow (Outflow):				
Net payments related to VIE debt	(50.1)	(2.4)	(3.4)	(4.6)
Other activity, net		(27.1)	2.5	4.8
Maximum exposure (1)	292.1	93.4	462.6	131.0

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

Radian Group Inc.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

NIMS VIEs

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

Our continued involvement with the NIMS VIEs also includes a risk mitigation initiative, under which we have purchased, at a discount to par, some of our insured NIMS bonds, which effectively eliminates the guarantee that we had issued to the VIE and limits our liability to the discounted purchase price. The maximum principal exposure related to NIMS consolidated VIE assets and liabilities was $292.1 million at March 31, 2010, and comprises 28 transactions. The average remaining maturity of our existing NIMS transactions is approximately two years.

Put Options on CPS

In September 2003, Radian Asset Assurance Inc. (Radian Asset Assurance) entered into a contingent capital transaction pursuant to which three custodial trusts issued an aggregate of $150 million in CPS ($50 million by each custodial trust) to various holders. In the fourth quarter of 2009 and the first quarter of 2010, Radian Group successfully completed tender offers to purchase a majority of the CPS issued by two of the three custodial trusts. In these tender offers and subsequent purchases, Radian Group purchased $32.9 million and $50.0 million, respectively, of the $50.0 million face amount of the CPS issued by each of these two custodial trusts. We purchased the CPS at a weighted average purchase price equal to approximately 35% of the face amount of such CPS. Our continued involvement with these VIEs also includes the payment of a put premium representing the spread between the assets of the trust and the auction rate notes which has typically been de minimis. We eliminate the premium associated with the purchased CPS.

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

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Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

CDO of ABS

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

Other Financial Guaranty VIEs

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

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

Radian Group Inc.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

The following table provides a summary of our maximum exposure to losses, and the financial impact on our condensed consolidated balance sheets, our condensed consolidated statements of operations and our cash flows as of and for the quarter ended March 31, 2010, as it relates to unconsolidated VIEs:

	March 31, 2010 Interests in Unconsolidated VIEs	
(In millions)	**Put Options on CPS**	**Financial Guaranty Insurance and Credit Derivatives**
Balance Sheet:		
Derivative assets	$ 30.8	$ 2.9
Premiums receivable		8.7
Unearned premiums		9.5
Reserves for losses and LAE		15.5
Derivative liabilities		149.4
Statement of Operations:		
Net premiums earned		0.7
Change in fair value of derivative instruments loss	(2.1)	(81.6)
Increase in provision for losses		5.7
Cash Inflow (Outflow):		
Net payments related to credit derivatives		(35.7)
Losses paid		(2.6)
Premiums (paid) received	(0.4)	0.9
Maximum exposure	30.8	7,256.4

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

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Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

The following table provides a summary of the financial statement impact on our condensed consolidated balance sheets, our condensed consolidated statements of operations and our cash flows as of and for the quarter ended March 31, 2009, as it relates to consolidated and unconsolidated entities in which we had a significant variable interest:

	March 31, 2009 Significant Interests in VIEs			
(In millions)	**NIMS**	**Financial Guaranty Insurance and Credit Derivatives**	**International CDS**	**CPS**
Balance Sheet:				
Derivative assets (1)	$ 8.9	$	$	$ 150.0
Unearned premiums		12.1		
Reserves for losses and LAE		12.8		
Derivative liabilities	38.6		25.0	
VIE debt at fair value (1)	206.5			
Statement of Operations:				
Change in fair value of derivative instruments loss	(4.6)		(11.0)	(0.9)
Decrease in provision for losses		6.9		
Net gain on other financial instruments	6.2			
Net premiums earned		0.9		
Cash Inflow (Outflow):				
Net (payments) receipts related to credit derivatives	(3.1)(2)		0.2	(0.9)
Premiums received		0.9		

(1) The amounts included in derivative assets and VIE debt related to the consolidation of NIMS trusts was $7.5 million and $206.5 million, respectively.

(2) Represents the amount paid for interest and the amount paid for the purchase of NIMS bonds that we insure, offset by premiums received.

International CDS

We provided credit enhancement in the form of CDS in the international markets and had one international CDS transaction at March 31, 2009 involving a VIE in which we had a significant interest. This transaction was terminated in the fourth quarter of 2009 for a payment of $6.5 million. The financial impact of our one remaining international CDS contract, for which we are not the primary beneficiary, is immaterial to our condensed consolidated balance sheets and condensed consolidated statements of operations. The maximum principal exposure related to this international CDS VIE was $120.2 million as of March 31, 2010.

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Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

6. Investments

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

	March 31, 2010			
	Amortized Cost	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
	(In thousands)			
Fixed-maturities held to maturity:				
Bonds and notes:				
State and municipal obligations	$ 17,079	$ 18,033	$ 987	$ 33
	$ 17,079	$ 18,033	$ 987	$ 33
Fixed-maturities available for sale:				
U.S. government and agency securities	$ 25,038	$ 27,482	$ 2,475	$ 31
State and municipal obligations	1,390,880	1,288,230	10,038	112,688
Corporate bonds and notes	96,257	97,243	2,528	1,542
RMBS	14,066	14,799	735	2
CMBS	44,690	45,010	726	406
Other ABS	15,696	16,832	1,139	3
Foreign government securities	53,974	55,985	2,068	57
Other investments	2,794	3,041	247	
	$ 1,643,395	$ 1,548,622	$ 19,956	$ 114,729
Equity securities available for sale (1)	$ 168,335	$ 181,011	$ 12,677	$ 1
Total debt and equity securities	$ 1,828,809	$ 1,747,666	$ 33,620	$ 114,763

(1) Comprised of broadly diversified domestic equity mutual funds ($155.4 million fair value) and various preferred and common stocks invested across numerous companies and industries ($25.6 million fair value).

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

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

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Radian Group Inc.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

(1) Comprised of broadly diversified domestic equity mutual funds ($146.8 million fair value) and various preferred and common stocks invested across numerous companies and industries ($29.4 million fair value).

At March 31, 2010 and December 31, 2009, we held $2,879 million and $2,680 million, respectively, in trading securities which are recorded at fair value. At March 31, 2010 and December 31, 2009, we also held $373 million and $279 million, respectively, in hybrid securities which are recorded at fair value.

The following tables show the gross unrealized losses and fair value of our investments, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at March 31, 2010 and December 31, 2009:

March 31, 2010:	**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**
U.S. government and agency securities	1	$ 2,038	$ 31		$	$	1	$ 2,038	$ 31
State and municipal obligations	66	344,342	22,849	133	647,092	89,872	199	991,434	112,721
Corporate bonds and notes	45	24,184	1,074	17	11,055	468	62	35,239	1,542
RMBS	1	157	2				1	157	2
CMBS	8	14,160	163	2	7,540	243	10	21,700	406
Other ABS	1	213	3				1	213	3
Foreign government securities	3	2,991	57	1	965		4	3,956	57
Equity securities	1	113	1				1	113	1
Total	126	$ 388,198	$ 24,180	153	$ 666,652	$ 90,583	279	$ 1,054,850	$ 114,763

December 31, 2009:	**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**
U.S. government and agency securities	1	$ 1,998	$ 57		$	$	1	$ 1,998	$ 57
State and municipal obligations	65	316,090	10,686	143	698,581	113,465	208	1,014,671	124,151
Corporate bonds and notes	48	24,119	1,179	20	14,109	1,145	68	38,228	2,324
CMBS	11	19,888	709	8	18,521	1,714	19	38,409	2,423
Other ABS	1	266	3				1	266	3
Foreign government securities	7	6,810	145	1	972	1	8	7,782	146
Total	133	$ 369,171	$ 12,779	172	$ 732,183	$ 116,325	305	$ 1,101,354	$ 129,104

During the first quarter of 2010, there were no credit losses recognized in earnings.

At March 31, 2010, we did not have the intent to sell any debt securities in an unrealized loss position, and determined that it is more likely than not that we will not be required to sell the securities before recovery of their cost basis.

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Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

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

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

State and municipal obligations

The unrealized losses of 12 months or greater duration as of March 31, 2010 on our investments in tax-exempt state and municipal obligations were caused primarily by spread widening. Certain securities, mainly those insured by monoline insurance companies, experienced credit spread widening during 2008 and 2009 as a result of credit rating downgrades on those monolines. As of March 31, 2010, we expect to be able to collect cash flows sufficient to recover the amortized cost basis of these securities, and 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 before recovery of our amortized cost basis, which may be maturity; therefore, we did not consider these investments to be other-than-temporarily impaired at March 31, 2010.

Corporate bonds and notes

The unrealized losses of 12 months or greater duration as of March 31, 2010 on the majority of the securities in this category were caused by the credit spread widening in the sector, particularly financials. Corporate spreads have tightened significantly over the past 12 months, although they are still wide compared to pre-2008 levels. As of March 31, 2010, 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 before recovery of our amortized cost basis, which may be maturity; therefore, we did not consider these investments to be other-than-temporarily impaired at March 31, 2010.

CMBS

The unrealized losses of 12 months or greater duration as of March 31, 2010 on the securities in this category were caused by spread widening which has occurred since 2008 and which peaked in the first quarter of 2009. CMBS spreads have tightened significantly over the past 12 months, but continue to remain historically wide. Most of our CMBS investments have retained AAA ratings based on credit enhancements provided primarily by subordination within the deal structures. In general, spreads have improved primarily due to the implementation of government-related programs such as the Troubled Asset Relief Program (TARP), the Term Asset-Backed Securities Loan Facility (TALF) and the Public-Private Investment Program (PPIP). As of March 31, 2010, 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 before recovery of our amortized cost basis, which may be maturity; therefore, we did not consider the investment in these securities to be other-than-temporarily impaired at March 31, 2010.

Foreign government securities

The unrealized losses of 12 months or greater duration as of March 31, 2010 on the one security that Radian owns in this category was caused by spread widening, and was affected by immaterial foreign exchange movements. As of March 31, 2010, we did not intend to sell this investment, nor did we believe that it was more

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Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

likely than not that we will be required to sell before recovery of our amortized cost basis; therefore, we did not consider this investment to be other-than-temporarily impaired at March 31, 2010.

For all investment categories, unrealized losses of less than 12 months in duration were generally attributable to interest rate or credit spread movements. All securities were evaluated in accordance with our impairment recognition policy covering various time and price decline scenarios. As of March 31, 2010, 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 before recovery of our amortized cost basis; therefore, we did not consider the investment in these securities to be other-than-temporarily impaired at March 31, 2010.

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

	March 31, 2010	
	Amortized Cost	Fair Value
	(In thousands)	
Fixed-maturities held to maturity:		
Due in one year or less	$ 7,605	$ 8,007
Due after one year through five years	5,974	6,211
Due after five years through ten years	3,199	3,535
Due after ten years	301	280
	$ 17,079	$ 18,033
Fixed-maturities available for sale:		
Due in one year or less	$ 26,046	$ 26,470
Due after one year through five years	118,105	124,688
Due after five years through ten years	85,794	88,645
Due after ten years	1,413,450	1,308,818
	$ 1,643,395	$ 1,548,621

7. Investment in Affiliates

At March 31, 2010, we owned a 28.7% interest in Sherman Financial Group LLC (Sherman) and a 46% interest in Credit-Based Asset Servicing and Securitization LLC (C-BASS), each of which are credit-based consumer asset businesses. As a consequence of the complete write-off of our investment in C-BASS in 2007, we have no carrying value related to our interest in C-BASS. All of C-BASS s business is currently in run-off and we anticipate that all future cash flows of C-BASS will be used to service the outstanding debt. The likelihood that we will recoup any of our investment in C-BASS is extremely remote. Accordingly, we believe that the likelihood that our investment in C-BASS will have anything more than a negligible impact on our financial position, results of operations or cash flows at any time in the future is extremely remote. See Note 16 regarding the sale of our remaining equity interest in Sherman.

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

(In thousands)

	March 31 2010	December 31 2009
Sherman	$ 127,402	$ 121,424
Other	133	56
Total	$ 127,535	$ 121,480

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Radian Group Inc.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

(In thousands)	Three Months Ended March 31 2010	2009
Investment in Affiliates-Selected Information:		
Sherman		
Balance, beginning of period	$ 121,424	$ 99,656
Share of net income for period	8,020	10,552
Dividends received	(1,515)	(6,441)
Other comprehensive income	(527)	(531)
Balance, end of period	$ 127,402	$ 103,236
Portfolio Information:		
Sherman		
Total assets	$ 1,720,430	$ 2,149,767
Total liabilities	1,243,467	1,785,973
Summary Income Statement:		
Sherman		
Income		
Revenues from receivable portfolios net of amortization	$ 300,496	$ 338,068
Other revenues	4,077	5,453
Derivative mark-to-market	(12,972)	313
Total revenues	291,601	343,834
Expenses		
Operating and servicing expenses	125,033	148,607
Provision for loan losses	87,633	113,242
Interest	25,127	25,104
Other	25,936	16,878
Total expenses	263,729	303,831
Net income	$ 27,872	$ 40,003

8. Losses and LAE Mortgage Insurance

The following table reconciles our mortgage insurance segment s beginning and ending reserves for losses and LAE for the three months ended March 31, 2010 and 2009:

(In thousands)	Three Months Ended March 31 2010	2009
Mortgage Insurance		
Balance at beginning of period	$ 3,450,538	$ 2,989,994
Less Reinsurance recoverables	621,644	491,836

Balance at beginning of period, net of reinsurance recoverables	2,828,894	2,498,158
Add losses and LAE incurred in respect of default notices reported and unreported	529,091	321,684
Deduct paid claims and LAE	357,275	240,066
Balance at end of period, net of reinsurance recoverables	3,000,710	2,579,776
Add Reinsurance recoverables	596,325	536,777
Balance at end of period	$ 3,597,035	$ 3,116,553

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Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

We have protection on some of our losses that have occurred and may occur in the future related to riskier products, including non-prime products, by reinsuring our exposure through transactions (referred to as Smart Home) that effectively transfer risk to investors in the capital markets. Smart Home ceded losses recoverable were $108.5 million at March 31, 2010. In addition to Smart Home, we transfer a portion of our primary mortgage insurance risk to captive reinsurance companies affiliated with our lender-customers. Ceded losses recoverable related to captive transactions were $487.8 million at March 31, 2010. Any changes in reinsurance recoverables related to Smart Home and captive transactions are reflected in our provision for losses.

While we have experienced a decrease in outstanding delinquencies in the quarter ended March 31, 2010, the effect of this decrease on reserves for losses and LAE was more than offset by an increase in severity assumptions, the aging of our existing defaults and an increase in delinquent loan sizes. In the first quarter of 2010 we refined the component of the loss reserving estimate relating to severity on delinquencies and pending claims, by replacing average severities for similar loan groups with a more specific loan-level input. This refinement contributed significantly to the severity increase.

We have experienced higher rescissions and denials than we have experienced in the past, which is reflected in our estimate of reserves for losses and LAE at March 31, 2010. Our estimate of rescissions and denials had the effect of reducing our loss reserves as of March 31, 2010 by approximately $1.4 billion. The provision for losses for 2009 and 2010 includes the effect of increased levels of estimated insurance rescissions and claim denials, which resulted in a lower default to paid claim rate used in determining our loss reserve estimate. Our projected default to paid claim rate was 37% at March 31, 2010 and 36% at December 31, 2009.

In the first quarter of 2010, the incremental change in estimated rescissions and denials had an insignificant impact on our provision for losses, while in the first quarter of 2009, the increased estimate of rescissions and denials included in our loss reserve estimate reduced our provision for losses by approximately $342 million. During the first quarter of 2010, we rescinded or denied approximately $277 million of first-lien claims submitted to us for payment (submitted claims), compared to approximately $158 million for the first quarter of 2009. Of the $277 million of claims rescinded or denied in 2010, approximately $157 million 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, while approximately $120 million related to claims in which we were in a second loss position and regardless of such rescission or denial would not have necessarily been responsible to pay the claim as a result of deductibles and other exposure limitations included in our policies. For the first quarter of 2009, the comparable first and second loss submitted claims rescinded or denied were $79 million each. These amounts also include a small amount of submitted claims that were subsequently withdrawn by the insured. We believe that the elevated levels of insurance rescissions and claim denials and the elevated levels of defaults are related, and are primarily the result of underwriting deficiencies which existed during 2005 through 2008. A key assumption affecting our reserving methodology is that future ultimate default to paid claim rates and severities will be consistent with our recent experience. Based on the results of our recent claims investigations, we expect our rescission and denial rates to remain at increased levels as long as defaults related to the poor underwriting periods of 2005 through 2008 represent a significant percentage of our total default portfolio.

Our increase in the rate of rescissions and denials has led to an increased risk of litigation by the lenders and policyholders challenging our right to rescind coverage or deny claims. Such challenges may be made several years after we have rescinded a policy or denied a claim. Recently, we have faced an increasing number of challenges from certain of our lender customers regarding our insurance rescissions and claim denials. We are currently in discussions with these customers regarding a number of rescissions or denials that are collectively material in amount, which, if not resolved, could result in arbitration or judicial proceedings. Although we believe that our rescissions and denials are valid under our policies, if we are not successful in defending the rescissions or denials in any potential legal actions, we may need to reassume the risk on, and reestablish loss reserves for, those policies.

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Radian Group Inc.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

We considered the sensitivity of first-lien loss reserve estimates at March 31, 2010, by assessing the potential changes resulting from a parallel shift in severity and default to paid claim rate. For example, assuming all other factors remain constant, for every one percentage point change in primary claim severity (27% of unpaid principal balance at March 31, 2010), we estimated that our loss reserves would change by approximately $114 million at March 31, 2010. For every one percentage point change in pool claim severity (42% of unpaid principal balance at March 31, 2010), we estimated that our loss reserves would change by approximately $12 million at March 31, 2010. For every one percentage point change in our overall default to paid claim rate (37% at March 31, 2010, including our assumptions related to rescissions and denials), we estimated a $99 million change in our loss reserves at March 31, 2010.

The following table shows the cumulative denial and rescission rates as of March 31, 2010 in the quarter the claims were received for the periods indicated:

	Claim Received Quarter	Cumulative Rescission Rate for each quarter (1)	Percentage of Claims Resolved (2)
Structured	Q1 2008	16.6%	100%
	Q2 2008	17.0%	100%
	Q3 2008	23.5%	100%
	Q4 2008	28.7%	99%
	Q1 2009	29.8%	95%
	Q2 2009	28.6%	91%
	Q3 2009	21.3%	80%
Flow	Q1 2008	8.6%	100%
	Q2 2008	10.0%	100%
	Q3 2008	17.0%	99%
	Q4 2008	16.7%	98%
	Q1 2009	20.6%	95%
	Q2 2009	19.8%	89%
	Q3 2009	14.0%	78%
Total	Q1 2008	12.4%	100%
	Q2 2008	13.5%	100%
	Q3 2008	20.1%	99%
	Q4 2008	22.4%	98%
	Q1 2009	25.0%	95%
	Q2 2009	24.1%	90%
	Q3 2009	17.1%	79%

(1) Rescission rates represent the ratio of claims rescinded or denied to claims received (by claim count) and represent the cumulative rate for each quarter presented in the table above, as of March 31, 2010, based on number of claims received during that quarter. Until all of the claims received during the periods shown have been resolved, the rescission rates for each quarter will be subject to change.

(2) For each quarter 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 rescinded. For the fourth quarter of 2009 and the first quarter of 2010, a significant portion of claims received for those quarters have not been internally resolved; therefore, we do not believe the cumulative rescission rates for those periods are presently meaningful.

Radian Group Inc.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

9. Reserve for Premium Deficiency

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

Numerous factors affect our ultimate claim rates, including home price changes, unemployment, 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 mortgage insurance portfolio, we develop loss projections based on modeled loan defaults related to our current risk in force. This projection is based on recent trends in default experience, severity, and rates of delinquent loans moving to claim (such default to paid claim rates are net of our estimates of rescissions and denials), as well as recent trends in the rate at which loans are prepaid. As of March 31, 2010, our modeled loan default projections assume that the rate at which current loans move into default will remain stable throughout the remainder of 2010 and will gradually return to normal historical levels over the subsequent two years.

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

First-lien portfolio (In millions):	March 31 2010	December 31 2009
Net present value of expected premiums	$ 2,888	$ 2,823
Net present value of expected losses and expenses	(4,632)	(4,299)
Reserve for premiums and losses established, net of reinsurance recoverables	2,970	2,785
Net projected premium excess	$ 1,226	$ 1,309

For our first-lien mortgage 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 March 31, 2010. Expected losses are based on an assumed paid claim rate of approximately 13.5% on our total primary first-lien mortgage insurance portfolio, which includes both delinquent loans and current loans, comprising 9.9% on prime, 29.3% on subprime and 26.7% on Alternative-A (Alt-A). While deterioration in the macroeconomic environment has resulted in an increase in expected losses, 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, an increase in estimated rescissions and denials on insured loans, as part of our loss mitigation efforts, is expected to partially offset the impact of higher expected defaults and claims.

The following table reconciles our mortgage insurance segment s beginning and ending second-lien PDR for the periods indicated:

Second-Lien PDR (In thousands):	Three Months Ended March 31 2010	2009
Balance at beginning of period	$ 25,357	$ 86,861
Incurred losses recognized in loss reserves	(5,080)	(61,539)
Premiums recognized in earned premiums	510	1,235
Changes in underlying assumptions	3,486	13,106
Accretion of discount and other	(147)	(986)

Balance at end of period	$ 24,126	$ 38,677

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Radian Group Inc.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

10. Financial Guaranty Insurance Contracts

The following table includes additional information as of March 31, 2010 regarding our financial guaranty claim liabilities segregated by the surveillance categories that we use in monitoring the risks related to these contracts:

Surveillance Categories

($ in millions)	Special Mention	Intensified Surveillance	Case Reserve	Total
Number of policies	161	66	75	302
Remaining weighted-average contract period (in years)	20	21	27	22
Insured contractual payments outstanding:				
Principal	$ 1,274.5	$ 410.1	$ 369.6	$ 2,054.2
Interest	653.3	120.9	225.3	999.5
Total	$ 1,927.8	$ 531.0	$ 594.9	$ 3,053.7
Gross claim liability	$ 19.4	$ 181.6	$ 80.1	$ 281.1
Less:				
Gross potential recoveries	3.5	84.1	19.3	106.9
Discount, net	5.5	16.3	2.8	24.6
Net claim liability	$ 10.4	$ 81.2	$ 58.0	$ 149.6
Unearned premium revenue	$ 33.9	$ 9.3	$	$ 43.2
Claim liability reported in the balance sheet	$ 3.1	$ 72.3	$ 58.0	$ 133.4
Reinsurance recoverables	$	$	$	$

Included in accounts and notes receivable and unearned premiums on our condensed consolidated balance sheets are the present value of premiums receivable and unearned premiums that are received on an installment basis. The premiums receivable is net of commissions on assumed reinsurance business. The present values of the premiums receivable and unearned premiums as of March 31, 2010 and December 31, 2009 are as follows (in millions):

	March 31 2010	December 31 2009
Premiums receivable	$ 51.1	$ 54.4
Unearned premiums	70.3	73.2

The accretion of these balances is included in premiums written and premiums earned for premiums receivable and policy acquisition costs for commissions on our condensed consolidated statement of operations. The amounts of the accretion included in premiums written, premiums earned and policy acquisition costs for the three months ended March 31, 2010 and 2009 are as follows (in millions):

	March 31 2010	March 31 2009
Premiums written	$ 0.4	$ 1.3
Premiums earned	0.4	1.3
Policy acquisition costs	0.1	0.3

The weighted-average risk-free rate used to discount the premiums receivable and premiums to be collected was 2.49% at March 31, 2010.

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The following table shows the nominal (non-discounted) premiums net of commissions that are expected to be collected on financial guaranty contracts with installment premiums included in premiums receivable as of March 31, 2010 (in millions):

	Future Expected Premium Payments
Second Quarter 2010	$ 2.1
Third Quarter 2010	2.2
Fourth Quarter 2010	1.5
2010	5.8
2011	6.6
2012	4.2
2013	3.5
2014	3.4
2010 2014	23.5
2015 2019	13.9
2020 2024	9.5
2025 2029	6.6
After 2029	12.2
Total	$ 65.7

The following table shows the rollforward of the net present value of premiums receivable for the three months ended March 31, 2010 and 2009 (in millions):

	Three Months Ended March 31	
	2010	2009
Balance at beginning of period	$ 54.4	$ 161.4
Payments received	(1.6)	(4.6)
Accretion	0.3	1.0
Adjustments to installment premiums	(0.3)	(2.4)
Recaptures/commutations		(0.7)
Foreign exchange revaluation	(1.7)	(0.9)
Balance at end of period	$ 51.1	$ 153.8

Premiums earned were affected by the following for the three months ended March 31, 2010 and 2009 (in millions):

	Three Months Ended March 31	
	2010	2009
Refundings	$ 9.5	$ 13.0
Unearned premium acceleration upon establishment of case reserves	0.3	5.2
Foreign exchange revaluation, gross of commissions	(1.7)	(1.3)
Adjustments to installment premiums, gross of commissions		(3.7)
Total adjustment to premiums earned	$ 8.1	$ 13.2

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Radian Group Inc.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

The following table shows the expected contractual premium revenue from our existing financial guaranty portfolio, assuming no prepayments or refunding of any financial guaranty obligations, as of March 31, 2010:

(In millions)	Ending Net Unearned Premiums	Unearned Premium Amortization	Accretion	Total Premium Revenue
Second Quarter 2010	$ 548.9	$ 11.4	$ 0.4	$ 11.8
Third Quarter 2010	537.6	11.3	0.4	11.7
Fourth Quarter 2010	526.6	11.0	0.4	11.4
2010	526.6	33.7	1.2	34.9
2011	484.4	42.2	1.4	43.6
2012	444.6	39.8	1.3	41.1
2013	407.1	37.5	1.2	38.7
2014	371.5	35.6	1.1	36.7
2010 2014	371.5	188.8	6.2	195.0
2015 2019	220.8	150.7	4.6	155.3
2020 2024	116.0	104.8	3.3	108.1
2025 2029	52.0	64.0	2.2	66.2
After 2029		52.0	3.4	55.4
Total	$	$ 560.3	$ 19.7	$ 580.0

The following table shows the significant components of the change in our financial guaranty claim liability for the three months ended March 31, 2010 and 2009 (in millions):

	Three Months Ended March 31	
	2010	2009
Claim liability at beginning of period	$ 121.8	$ 211.5
Incurred losses and LAE:		
Increase in gross claim liability	40.1	50.8
Increase in gross potential recoveries	(23.4)	(29.7)
Increase in discount	(2.5)	(14.9)
Decrease in unearned premiums	1.0	0.6
Incurred losses and LAE	15.2	6.8
Paid losses and LAE	(3.6)	(14.7)
Claim liability at end of period	$ 133.4	$ 203.6
Components of incurred losses and LAE:		
Claim liability established in current period	$ 0.9	$ 19.9

Changes in existing claim liabilities	14.3	(13.1)
Total incurred losses and LAE	$ 15.2	$ 6.8
Components of increase in discount:		
Increase in discount related to claim liabilities established in current period	$ (2.1)	$ (3.4)
Increase in discount related to existing claim liabilities	(0.4)	(11.5)
Total increase in discount	$ (2.5)	$ (14.9)

Weighted-Average Risk-Free Rates (used for discounting gross claim liability and gross potential recoveries):

January 1, 2010	4.34%
March 31, 2010	4.39%

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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 March 31, 2010 and December 31, 2009 was as follows:

(In thousands)	March 31 2010	December 31 2009
7.75% Debentures due June 2011	$ 160,281	$ 192,137
5.625% Senior Notes due February 2013	255,843	256,357
5.375% Senior Notes due June 2015	249,739	249,728
	$ 665,863	$ 698,222

During the first quarter of 2010, we repurchased $31.9 million of outstanding principal of our 7.75% Debentures due in June 2011 at an average purchase price of approximately $0.92 per dollar of principal. As such, we recorded a gain of $2.5 million on these repurchases, which is included in net gains (losses) on other financial instruments on our condensed consolidated statements of operations.

12. 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.

In accordance with the accounting standard regarding the accounting and disclosure of income taxes in interim periods, we use an annualized effective tax rate to compute our tax expense for the quarter. We adjusted this annual effective tax rate by the following items that were discrete to the first quarter: (i) net gains or losses resulting from the change in fair value of our derivatives and other financial instruments, (ii) investment gains or losses, (iii) the liabilities recorded under the accounting standard regarding accounting for uncertainty in income taxes, and (iv) prior year true-ups. Given the uncertainty of the impact of these discrete items for the full year of 2010, which directly affects our ability to estimate our pre-tax income or loss and the associated effective tax rate for the full year of 2010, we believe it is appropriate to treat these items discretely when developing our effective tax rate for the quarter. Future changes in these discrete items during the year will impact our annual effective tax rate.

For federal income tax purposes, we have approximately $1,615 million of net operating loss carryforwards as of March 31, 2010. To the extent not utilized, the net operating loss carryforwards will expire during tax years 2028 through 2030. To protect our ability to utilize our net operating losses (NOLs) and other tax assets from an ownership change under U.S. federal income tax rules, our board of directors has adopted certain tax benefit preservation measures, including an amendment to our amended and restated bylaws and a tax benefit preservation plan.

As of March 31, 2010, we have a deferred tax asset (DTA) in the amount of $621.6 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 versus capital gains) within the applicable carryforward period provided under applicable tax law. Among the more significant positive evidence that we considered in determining the amount

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Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

of valuation allowance needed is a viable tax planning strategy, which was partially implemented during 2009, of switching the investment portfolio from tax exempt securities to securities that provide fully taxable interest.

As of March 31, 2010, a valuation allowance of approximately $6.9 million was recorded within our $621.6 million net DTA related to certain state NOLs. These state NOLs were generated by our operating subsidiaries and, due to limitations imposed upon the utilization of such NOLs among the various state jurisdictions, it is not more likely than not that these NOLs will be fully utilized during the applicable carryforward periods.

13. Recent Accounting Pronouncements

There were no applicable new accounting pronouncements issued during the quarter ended March 31, 2010. We have adopted the accounting standards updates regarding accounting for transfers of financial assets and improvements to financial reporting by enterprises involving VIEs that became effective on January 1, 2010, as detailed in Note 5.

14. Selected Financial Information of Registrant Radian Group Inc.

The following is selected financial information for Radian Group:

(In thousands)	March 31 2010	December 31 2009
Investment in subsidiaries, at equity in net assets	$ 2,582,632	$ 2,896,852
Total assets	2,712,546	3,088,677
Long-term debt	665,863	698,222
Total liabilities	1,000,185	1,083,683
Total stockholders equity	1,712,361	2,004,994
Total liabilities and stockholders equity	2,712,546	3,088,677

15. Commitments and Contingencies

In August and September 2007, two purported stockholder class action lawsuits, *Cortese v. Radian Group Inc.* and *Maslar v. Radian Group Inc.*, were filed against Radian Group and individual defendants in the U.S. District Court for the Eastern District of Pennsylvania. The complaints, which are substantially similar, allege that we were aware of and failed to disclose the actual financial condition of C-BASS prior to our declaration of a material impairment to our investment in C-BASS. On January 30, 2008, the court ordered that the cases be consolidated into *In re Radian Securities Litigation*. On April 16, 2008, a consolidated and amended complaint was filed, adding one additional defendant. On June 6, 2008, we filed a motion to dismiss this case, which was granted on April 9, 2009. Plaintiffs filed an amended complaint on July 10, 2009. On May 3, 2010, the court granted our motion to dismiss the amended complaint and dismissed this case with prejudice.

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

On June 26, 2008, we filed a complaint for declaratory judgment in the United States District Court for the Eastern District of Pennsylvania, naming IndyMac, Deutsche Bank National Trust Company (Deutsche Bank),

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Radian Group Inc.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

Financial Guaranty Insurance Company (FGIC), Ambac Assurance Corporation (Ambac) and MBIA Insurance Corporation (MBIA) as defendants. The suit involves three of our pool policies covering second-lien mortgages, entered into in late 2006 and early 2007 with respect to loans originated by IndyMac. We were in a second loss position behind IndyMac and in front of three defendant financial guaranty companies. We alleged that the representations and warranties made to us to induce us to issue the policies were materially false, and that as a result, the policies should be void. The total amount of our claim liability for all three pool policies was approximately $77 million, without giving effect to our settlements with Ambac and MBIA of an aggregate of $48 million of the approximately $77 million in total claim liability, as described below. After being stayed for several months as a result of the Federal Deposit Insurance Corporation (FDIC) s seizure of IndyMac, this action resumed in April 2009, at which time the defendants filed motions to dismiss the action.

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

In March 2009, FGIC, Ambac, and MBIA served us with demands to arbitrate certain issues relating to the same three pool policies that are the subject of our declaratory judgment complaint. In July 2009, the court declined to dismiss our declaratory judgment action, but stayed the action to permit the arbitrations to proceed first. In August 2009, we settled our dispute with Ambac and Deutsche Bank with respect to one of the disputed pool policies, which policy represents approximately $27 million of the approximately $77 million in total claim liability. In January 2010, we settled our dispute with MBIA and Deutsche Bank with respect to another of the disputed pool policies, which policy represents approximately $21 million of the approximately $77 million in total claim liability. These settlements resolved the declaratory judgment action as it pertains to Ambac and MBIA, and the arbitrations commenced by Ambac and MBIA were dismissed with prejudice. An arbitration hearing with FGIC is expected to be held in the second or third quarter of 2010.

We and other mortgage insurers have faced private lawsuits alleging, among other things, that our captive reinsurance arrangements constitute unlawful payments to mortgage lenders under the anti-referral fee provisions of the Real Estate Settlement Practices Act of 1974 (RESPA). We and other mortgage insurers also have been subject to inquiries from the New York Insurance Department (NYID), the Minnesota Department of Commerce and the U.S. Department of Housing and Urban Development (HUD) relating to our captive reinsurance arrangements.

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

On October 3, 2007, we received a letter from the staff of the Chicago Regional Office of the SEC stating that the staff is conducting an investigation involving Radian Group and requesting production of certain documents. The staff has also requested that certain of our current and former employees and directors provide voluntary testimony in this matter. We believe that the investigation generally relates to the previously proposed merger of Radian Group with MGIC Investment Corporation (MGIC) and Radian Group s investment in C-BASS. We are cooperating with the requests of the SEC. This matter is ongoing and no assurance can be given that the SEC will not recommend an enforcement action against us or one or more of our current and former employees or directors.

We are currently under examination by the Internal Revenue Service (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 Real Estate Mortgage Investment Conduits (REMICs) and has

Radian Group Inc.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

proposed adjustments denying the associated tax benefits of these items. In May 2008, the IRS proposed adjustments relating to the 2000 through 2004 tax years, which would increase our tax liability by approximately $121 million for this period. We have appealed these proposed adjustments with the IRS Office of Appeals and have made a qualified deposit with the U.S. Department of the Treasury of approximately $85 million to avoid the accrual of the associated above-market-rate interest. In February 2010, the IRS proposed adjustments relating to the 2005 through 2007 tax years, which would increase our tax liability by approximately $6 million. Upon receipt of the 30-day letter, we plan to appeal such proposed adjustments and we may make a qualified deposit as described above. Although we disagree with and are contesting with respect to the 2000 through 2004 tax years, and plan to contest with respect to the 2005 through 2007 tax years, the adjustments proposed by the IRS, and believe that our income and loss from these investments were properly reported on our federal income tax returns in accordance with applicable tax laws and regulations in effect during the applicable periods, there can be no assurance that we will prevail in opposing the additional tax liability, interest or penalties with respect to this investment. The overall appeals process may take some time, and a final resolution may not be reached until a date many months into the future. Additionally, although we believe, after discussions with outside counsel about the issues raised in the examination and the procedures for resolution of the disputed adjustments, that an adequate provision for income taxes has been made for potential liabilities that may result, if the outcome of this matter results in liability that differs materially from our expectations, it could have a material impact on our effective tax rate, results of operations and cash flows.

Radian Group could be required to provide capital support for our mortgage insurance subsidiaries by insurance laws and regulations, the GSEs or the rating agencies. Under Texas insurance regulations, to be an authorized reinsurer, our subsidiary, Commonwealth Mortgage Assurance Company of Texas (CMAC of Texas) is required to maintain a minimum statutory surplus of $20 million. CMAC of Texas had statutory surplus of $20.9 million as of March 31, 2010. On March 9, 2010, we received correspondence from the Texas Department of Insurance (TXDOI) indicating that it may not agree with our statutory accounting treatment pertaining to the $85 million qualified deposit made with the U.S. Treasury Department under Internal Revenue Code Section 6603 and the accounting treatment relating to approximately $43 million of proposed tax adjustments resulting from our current IRS examination. In all, the TXDOI has proposed a reduction to CMAC of Texas s statutory surplus of approximately $128 million and, if such adjustments are sustained, would require Radian Group to provide additional capital support to maintain the minimum $20 million statutory surplus. While we disagree with the TXDOI s proposed adjustments to CMAC of Texas s statutory surplus and believe that our accounting treatment pertaining to these issues will ultimately prevail, we can give no assurance that Radian Group will not be required to provide the additional capital support required.

Securities regulations became effective in 2005 that impose enhanced disclosure requirements on issuers of ABS (including mortgage-backed securities (MBS)). To allow our customers to comply with these regulations, we typically are required, depending on the amount of credit enhancement we are providing, to provide (1) audited financial statements for the insurance subsidiary participating in the transaction, or (2) a full and unconditional holding-company-level guarantee for our insurance subsidiaries obligations in such transactions. Radian Group has guaranteed two structured transactions for Radian Guaranty involving approximately $208.6 million of remaining credit exposure.

Under change of control agreements with certain of our officers, upon a change of control of Radian Group or Radian Asset Assurance, as the case may be, we are required to fund an irrevocable rabbi trust to the extent of our obligations under these agreements. The total maximum amount that we would be required to place in trust is approximately $16.7 million as of March 31, 2010. In addition, in the event of a change of control under our 2008 long term cash-based incentive plans, we would be required to pay approximately $9.2 million as of March 31, 2010.

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As part of the non-investment-grade allocation component of our investment program, we have committed to invest $65.0 million in alternative investments ($23.5 million of unfunded commitments at March 31, 2010) that are primarily private equity securities. These commitments have capital calls over a period of at least the next six years, and certain fixed expiration dates or other termination clauses.

We currently hold a 45% interest in the holding company of a Brazilian insurance company, which specializes in surety and agricultural insurance. This company and its subsidiaries are subject to regulation by The Superintendence of Private Insurance, the regulatory agency responsible for the supervision and control of the insurance market in Brazil. Although we wrote off our entire interest in this company in 2005, under Brazilian law, as a significant shareholder, it is possible that we could become liable for our proportionate share of the liabilities of the company (our share represents approximately $86 million as of December 31, 2009), if the company was to become insolvent and had insufficient capital to satisfy its outstanding liabilities. The company is currently in compliance with Brazilian minimum capital requirements, although its ability to write new business may be limited.

We also utilize letters of credit to back assumed reinsurance contracts, and medical insurance policies. These letters of credit are with various financial institutions, have terms of one-year and will automatically renew unless we specify otherwise. The letters of credit outstanding at March 31, 2010 and December 31, 2009 were $2.4 million and $2.5 million, respectively.

Our mortgage insurance business utilizes its underwriting skills to provide an outsourced underwriting service to its customers known as contract underwriting. We give recourse to our customers on loans we underwrite for compliance. Typically, we agree that if we make a material error in underwriting a loan, we will provide a remedy to the customer, by purchasing or placing additional mortgage insurance coverage on the loan, or by indemnifying the customer against loss. In the first quarter of 2010, we paid losses related to remedies of approximately $2.2 million. Providing these remedies means we assume some credit risk and interest-rate risk if an error is found during the limited remedy period in the agreements governing our provision of contract underwriting services. Rising mortgage interest rates or an economic downturn may expose the mortgage insurance business to an increase in such costs. In the first quarter of 2010, our provision for contract underwriting expenses was approximately $1.6 million and our reserve for contract underwriting obligations at March 31, 2010, was $2.7 million. We closely monitor this risk and negotiate our underwriting fee structure and recourse agreements on a client-by-client basis. We also routinely audit the performance of our contract underwriters to ensure that customers receive quality underwriting services.

The Company entered into severance and retention agreements in 2008 that terminated on December 31, 2009. These agreements provided employees with incentives to remain employed with the Company through December 31, 2009. The total cost incurred under these agreements was $26.6 million.

In December 2009, the Company entered into new incentive, retention and severance agreements to provide employees with incentives to remain employed with the Company. If an employee voluntarily leaves or fails to abide by the terms of their agreement, the employee is ineligible to receive any unpaid portion of their benefit. The total cost expected to be incurred under these new agreements is $8.4 million, which is to be recorded in 2010 through 2012.

16. Subsequent Events

Sherman

On May 3, 2010, Radian Guaranty sold to Sherman all of its remaining equity interest in Sherman for approximately $172 million in cash pursuant to a Securities Purchase Agreement (the Sherman Purchase Agreement) dated as of May 3, 2010 between Radian Guaranty and Sherman. In addition, Sherman paid a $28.0 million dividend to Radian Guaranty in April 2010.

Radian Group Inc.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

We expect to record a pre-tax gain of approximately $70 million on the sale in the second quarter of 2010. In addition, under the Sherman Purchase Agreement, we agreed to terminate certain rights we had, including the right to a future contingent payment that would have been payable to Radian Guaranty on December 31, 2013, or earlier upon the closing of a sale of Sherman, upon the achievement of certain criteria.

Public Offering

On May 4, 2010, we announced that we have commenced a registered offering of up to $550 million of our common stock, with an underwriters option to purchase additional shares of our common stock, up to an amount equal to 15% of our offering, solely to cover any over-allotments (the Common Stock Offering). The Common Stock Offering is subject to market conditions, and there can be no assurance as to whether or when it may be completed, or as to its actual size or terms. We intend to use the net proceeds from the Common Stock Offering to fund working capital requirements and for general corporate purposes, which may include additional capital support for our mortgage insurance business and repurchases of, or payments on, our outstanding long-term debt securities. This quarterly report on Form 10-Q is not an offer to buy or the solicitation of an offer to sell any of our securities, nor will there be any sale of such security in any jurisdiction in which such offer, sale or solicitation would be unlawful. The offering may be made only by means of a prospectus supplement and related base prospectus.

Amendment to Bylaws

Effective April 30, 2010, the Board of Directors of Radian Group (the Board) adopted an amendment to Radian Group s Amended and Restated By-Laws (the By-Law Amendment) to impose certain transfer restrictions on any shares of Radian Group s common stock issued after the effective date of the By-Law Amendment. We have generated substantial NOLs, loss carryforwards and other tax attributes for United States federal income tax purposes (tax benefits) that can generally be used to offset its future taxable income and therefore reduce its United States federal income tax obligations. As of March 31, 2010, we had approximately $1.6 billion of NOL carryforwards. Our ability to use these NOL carryforwards and other tax benefits, however, will be adversely affected if we have an ownership change as defined under Section 382 of the Internal Revenue Code. In general, an ownership change will occur if the five-percent shareholders as defined under Section 382 (Section 382 five percent shareholders) collectively increase their ownership in Radian Group (as determined for Section 382 purposes) by more than 50 percentage points over the lowest percentage of stock of Radian Group owned by such shareholders at any time during a rolling three-year testing period. The transfer restrictions in the By-Law Amendment prohibit any person from transferring, directly or indirectly, any of the shares of common stock restricted by the By-Law Amendment if the transfer would (i) create or result in a person becoming a Section 382 five-percent shareholder or (ii) increase the stock ownership of any existing Section 382 five-percent shareholder.

The Board (or a committee thereof) has the discretion to grant exemptions to persons or transactions from the transfer restrictions in the By-Law Amendment, if it determines that the transfer will not be likely to limit the availability of our tax benefits or is otherwise in our best interests.

Radian Group has also proposed an amendment to its amended and restated certificate of incorporation (the Charter Amendment) for approval by the stockholders at the 2010 Annual Meeting of Stockholders that imposes substantially similar transfer restrictions on the shares of Radian Group s common stock that are voted in favor of the amendment. If the proposed Charter Amendment is not approved by our stockholders, it will not become effective and the transfer restrictions in the By-Law Amendment will also terminate. Radian Group s Tax Benefit Preservation Plan is also subject to stockholder approval at the 2010 Annual Meeting of Stockholders, and if not approved, will also terminate.

Radian Group Inc.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

Additionally, in general, Radian Group s Tax Benefit Preservation Plan and the transfer restrictions contained in the By-Law Amendment and in the Charter Amendment will each terminate if (i) not re-approved by our stockholders every three years, (ii) the Board determines that the transfer restrictions contained therein are no longer necessary for the preservation of the tax benefits, or (iii) the Board determines that the potential limitation on the use of the tax benefits under Section 382 is no longer material to us.

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

The following analysis should be read in conjunction with our unaudited condensed consolidated financial statements and the notes thereto included in this report and our audited financial statements, notes thereto and Management s Discussion and Analysis of Financial Condition and Results of Operations included in our Form 10-K for the fiscal year ended December 31, 2009 for a more complete understanding of our financial position and results of operations. In addition, investors should review the Forward-Looking Statements-Safe Harbor Provisions above and the Risk Factors detailed in Item 1A of Part II of this Quarterly Report on Form 10-Q for a discussion of those risks and uncertainties that have the potential to affect our business, financial condition, results of operations, cash flows or prospects in a material and adverse manner.

Business Summary

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

Mortgage Insurance

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

Traditional Mortgage Insurance. Our mortgage insurance segment, through Radian Guaranty, offers primary and pool mortgage insurance coverage on residential first-lien mortgages (first-liens). At March 31, 2010, primary insurance on first-liens made up approximately 92.8% of our total first-lien insurance risk in force, and pool insurance on first-liens made up approximately 7.2% of our total first-lien insurance risk in force. Currently, our main business focus is traditional primary mortgage insurance on first-liens.

Non-Traditional Mortgage Credit Enhancement. In addition to traditional mortgage insurance, in the past we have used Radian Insurance or Amerin Guaranty to provide other forms of credit enhancement on residential mortgage assets. These products include mortgage insurance on second-lien mortgages (second-liens), credit enhancement on net interest margin securities (NIMS), credit default swaps (CDS) on domestic and international mortgages and primary mortgage insurance on international mortgages (collectively, we refer to the risk associated with these transactions as non-traditional or other risk). These non-traditional or other risk products were once a growing part of our total mortgage insurance business. However, in light of the deterioration in housing and related credit markets, we stopped writing all non-traditional business in 2007, other than a small amount of international mortgage insurance, which we discontinued writing in 2008.

Reduction of Legacy Risk. Beginning in 2009, and continuing into 2010, we have pursued and continue to pursue opportunities to reduce our legacy mortgage insurance portfolio and all non-core mortgage insurance risk in force. We executed upon this strategy through a series of commutations, transaction settlements and terminations, including the following notable transactions in the first quarter of 2010:

We terminated $102 million of modified pool risk in force. In connection with this termination, we paid $80 million to our counterparty. Since the existing aggregate loss reserves were $89 million relating to these modified pool loans, this termination resulted in approximately $9 million of pre-tax income. Modified pool insurance is included in our primary insurance in force, therefore, this transaction had the

effect of reducing our primary insurance in force by $2.6 billion, and reduced our primary delinquency count by 4,429.

We terminated certain captive reinsurance arrangements, resulting in a small payment to us from the captive trust accounts in excess of our ceded loss recoverable for these transactions. These amounts are accounted for as claims recoveries.

In January 2010, we settled with a counterparty on approximately $21 million of second-lien risk in force for a payment of $11.8 million. We recorded a reduction in our reserve for losses in the fourth quarter of 2009 related to this termination.

In the first quarter of 2010, we purchased approximately $59 million face value of NIMS bonds that we insure at a purchase price of $48 million, which approximated the recorded fair value liability for these transactions at December 31, 2009.

Financial Guaranty

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

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

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

We have historically offered the following financial guaranty products:

Public Finance Insurance of public finance obligations, including tax-exempt and taxable indebtedness of states, counties, cities, special service districts, other political subdivisions, enterprises such as public and private higher education institutions and health care facilities, and for project finance and private finance initiative assets in sectors such as airports, education, healthcare and other infrastructure projects;

Structured Finance Insurance of structured finance obligations, including CDOs and asset-backed securities (ABS), consisting of funded and non-funded (referred to herein as synthetic) executions that are payable from or tied to the performance of a specific pool of assets or covered reference entities.

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Examples of the pools of assets that underlie structured finance obligations include corporate loans, bonds or other borrowed money, residential and commercial mortgages, trust preferred securities (TruPs), diversified payment rights (DPR), a variety of consumer loans, equipment receivables, real and personal property leases or a combination of asset classes or securities backed by one or more of these pools of assets. We have also guaranteed excess clearing losses of securities exchange clearinghouses; and

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

In 2008, in light of market conditions and the downgrade of the financial strength ratings of our financial guaranty insurance subsidiaries by Standard & Poor s Rating Service (S&P) and Moody s Investors Service (Moody s), we decided to discontinue, for the foreseeable future, writing any new financial guaranty business, including accepting new financial guaranty reinsurance, other than as may be necessary to commute, restructure, hedge or otherwise mitigate losses or reduce exposure in our existing portfolio. Commensurate with this decision, we reduced our financial guaranty operations, including reductions in our workforce, and have been winding down the business of RAAL. We have also reduced our financial guaranty exposures through commutations in order to eliminate risk and maximize the ultimate capital available for our mortgage insurance business.

Financial Guaranty Exposure Subject to Recapture or Termination. As a result of ratings downgrades of our financial guaranty insurance subsidiaries, approximately $62.2 billion of our total net par outstanding as of March 31, 2010 (representing 73.0% of our total net par outstanding), remains subject to recapture or termination at the option of our reinsurance customers, our credit derivative counterparties or other insured parties.

As of March 31, 2010, also as a result of the downgrades of the financial strength ratings of our financial guaranty insurance subsidiaries, the counterparties to most of our financial guaranty transactions currently have the right to terminate these transactions. If all of these counterparties had terminated these transactions as of March 31, 2010, our net par outstanding would have been reduced by $36.7 billion, with a corresponding decrease in unearned premium reserves of $10.5 million and a decrease in the present value of expected future installment premiums of $140.1 million. Net unrealized losses on derivatives of $149.7 million would also have been reversed had these transactions been terminated. We have no transaction where our counterparty currently has the right to terminate the transaction with settlement on a mark-to-market basis due to the financial strength downgrades.

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All of our unaffiliated reinsurance customers have the right to recapture business previously ceded to us due to downgrades of our financial guaranty financial strength ratings. As of March 31, 2010, $25.5 billion of our net assumed par outstanding (included in total net par outstanding) was subject to recapture. If all of this business was recaptured as of March 31, 2010, the impact on our financial statements would have been as follows:

Statement of Operations (In millions)	
Decrease in assumed premiums written	$ (268.1)
Decrease in net premiums earned	$ (28.4)
Increase in change in fair value of derivative instruments	13.4
Decrease in policy acquisition costs	1.5
Decrease in provision for losses	13.5
Effect on pre-tax income	$

Balance Sheet (In millions)	
Decrease in:	
Cash	$ 203.2
Deferred policy acquisition costs	80.5
Accounts and notes receivable	35.3
Derivative assets	1.9
Unearned premiums	239.6
Reserves for losses and loss adjustment expenses (LAE)	65.4
Derivative liabilities	15.9

Assuming all of this reinsurance business was recaptured as of March 31, 2010, Radian Asset Assurance s statutory surplus would have increased by approximately $157.0 million, primarily as a result of the release of contingency reserves. The net present value of installment premiums on derivative contracts would have decreased by $6.1 million.

Financial Services

At March 31, 2010, our financial services segment mainly consisted of our 28.7% equity interest in Sherman Financial Group LLC (Sherman), a consumer asset and servicing firm. Our financial services segment also included our 46% interest in Credit-Based Asset Servicing and Securitization LLC (C-BASS), a mortgage investment company which we wrote off completely in 2007 and whose operations are currently in run-off.

Sherman. Sherman is a consumer asset and servicing firm specializing in charged-off and bankruptcy-plan consumer assets, which are generally unsecured, that Sherman typically purchases at deep discounts from national financial institutions and major retail corporations and upon which it subsequently seeks to collect. In addition, Sherman originates subprime credit card receivables through its subsidiary CreditOne and has certain other similar ventures related to consumer assets.

Radian Guaranty received a $1.5 million dividend from Sherman in the first quarter of 2010, and an additional $28.0 million dividend in April 2010. On May 3, 2010, we sold to Sherman all of our remaining equity interest in Sherman for approximately $172 million in cash pursuant to a Securities Purchase Agreement (the Sherman Purchase Agreement) dated as of May 3, 2010 between Radian Guaranty and Sherman.

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Ratings

Our holding company, Radian Group, currently is rated CCC (Stable) by S&P and Caa1 (Negative outlook) by Moody s. Our principal operating subsidiaries have been assigned the following financial strength ratings:

	MOODY S (1)	S&P (1)
Radian Guaranty	Ba3	B+
Radian Insurance	B1	B+(2)
Amerin Guaranty	Ba3	B+
Radian Asset Assurance	Ba1	BB-
RAAL	Ba1(2)	(3)

(1) Moody s and S&P s ratings outlook for all our insurance subsidiaries is currently Negative.
(2) We have requested that these ratings be withdrawn.
(3) Ratings have been withdrawn.

Recent Ratings Actions Moody s

On February 4, 2010, Moody s affirmed the insurance financial strength ratings, with Negative outlook, of our mortgage insurance subsidiaries based on Moody s view that our mortgage insurance capital position had not materially changed over the past year, with the deterioration in the delinquency rate offset by run-off and terminations of second-lien and pool portfolios as well as our purchase of NIMS bonds that we insure at a discount to par. According to Moody s, the Negative outlook reflects the risk of losses being in excess of current estimates, including possible stress at Radian Asset Assurance, the uncertain industry dynamics and the challenging economic environment. Although Moody s has indicated that Radian Guaranty is relatively well positioned to take advantage of the current market conditions given its stronger relative capital profile, it noted the uncertainty surrounding the private mortgage industry as the U.S. government evaluates possible substantial changes to Fannie Mae and Freddie Mac. Moody s also downgraded the senior debt rating of Radian Group to Caa1 from Ba3.

Overview of Business Results

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

Mortgage Insurance

Traditional Mortgage Insurance

Defaults. Our first-lien primary default rate at March 31, 2010 was 17.6%. The number of first-lien defaults decreased 5.3% during the first quarter of 2010, compared to no incremental change in defaults in the fourth quarter of 2009 and a 12.7% increase in first-lien defaults during the third quarter of 2009. Our inventory of first-lien defaults further decreased by approximately 1% in April 2010. Despite this positive trend, which may be in part due to seasonal trends, default rates continue to remain elevated due to high

unemployment and continued weakness in the U.S. housing and mortgage credit markets. Overall, the underlying trend of higher defaults continues to be driven by poor performance of our late 2005 through 2008 books of business. Defaults have remained at elevated levels across all our mortgage insurance product lines, including our insured portfolio of prime, first-liens. In addition, a slowdown in mortgage foreclosures, and consequently a slowdown in claims submitted to us, due to the moratoriums imposed by various government entities and lenders, has continued to contribute to the high level of our default inventory. Our modeled loan default projections assume that the delinquency level will decrease by the end of 2010 compared to the year end 2009.

Loss Provision. Our mortgage insurance loss provision at March 31, 2010, was negatively impacted by an increase in loss reserves due to an increase in our severity assumptions, higher loan balances on delinquent loans and the aging of our delinquent loans, offset, in part, by lower defaults. In particular, in the first quarter of 2010, we refined the component of the loss reserving estimate relating to severity on delinquencies and pending claims, by replacing average severities for similar loan groups with a more specific loan-level input. This contributed significantly to the severity increase. Our mortgage insurance loss provision continues to be positively impacted by our loss management efforts. Our loss reserve estimate incorporates our recent experience with respect to the number of claims that we are denying and the number of insurance certificates that we are rescinding due to fraud or other factors. Our current level of rescissions and denials is significantly higher than historical levels, which we believe reflects the larger concentration of poorly underwritten loans (primarily originated during late 2005 through 2008) that are in our default inventory, as well as our efforts to examine more claims. We expect this increased level of rescissions and denials to continue in the current environment, in particular with respect to our late 2005 through 2008 insured portfolios.

Total mortgage insurance claims paid in the first quarter of 2010 were $266.8 million, compared to $220.9 million and $254.3 million for the third and fourth quarters of 2009, respectively. Claims paid in the first quarter of 2010 include $90.5 million related to first- and second-lien terminations. Claims paid in the third quarter of 2009 include $22.3 million related to second-lien terminations, which was more than offset by $107.7 million of recoveries related to captive terminations. Claims paid in the fourth quarter of 2009 include $197.7 million related to first-lien terminations offset by $25.2 million of recoveries related to captive terminations. Legislation and loan modification programs by the U.S. Treasury and certain of our lender-customers aimed at mitigating the current housing downturn had a positive impact on our business by reducing the number of defaults going to claim. Many of these programs are still being implemented and we cannot be certain of their ultimate impact on our business, results of operations, or the timing of this impact. In addition, various government entities and lenders have imposed moratoriums on foreclosures, some of which have recently been lifted. We expect to experience an increase in claims paid during the remainder of 2010, and expect claims paid in 2010 to be approximately $1.5 billion as these moratoriums expire or are lifted.

Smart Home/Captives. We have protection on some of our losses that have occurred and may occur in the future related to riskier primary mortgage insurance products that we reinsured through transactions (referred to as Smart Home) that effectively transferred risk to investors in the capital markets. Approximately 3.3% of our primary mortgage insurance risk in force was included in Smart Home transactions at March 31, 2010. Our mortgage insurance provision for losses for the three months ended March 31, 2010 increased by $22.7 million due to a reduction in estimated recoverables from Smart Home. Ceded losses recoverable related to Smart Home were $108.5 million at March 31, 2010. In addition to Smart Home, we have transferred a substantial portion of our mortgage insurance risk to captive reinsurance companies affiliated with our lender customers. All of our captive reinsurance arrangements are operating on a run-off basis, meaning that no new business is being placed in these captives. We expect that some of the captives that are now in run-off will be terminated. Our mortgage insurance provision for losses for the three months ended March 31, 2010, increased by $2.6 million due to changes in estimated recoverables from captive reinsurance transactions. Ceded losses recoverable on captive reinsurance transactions were $487.8 million at March 31, 2010.

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We have received total cash reinsurance recoveries from Smart Home and captive reinsurance arrangements of approximately $210.7 million. In some instances, we anticipate that the ultimate recoveries from the captive reinsurers will be greater than the assets currently held by the segregated trusts established for each captive reinsurer. Recorded recoverables, however, are limited to the current trust balances. We are approaching the maximum amount that we may record as recoverables under our Smart Home and captive reinsurance arrangements; therefore, we expect a limited amount of incremental recoverables booked from these arrangements in future years. Most of the actual cash recoveries, however, are expected to be received over the next few years.

New Insurance Written. We wrote $1.9 billion of new mortgage insurance in the first quarter of 2010, representing a decrease of 66.2% compared to the first quarter of 2009. This decrease is mainly the result of our more restrictive underwriting guidelines, the absence of a secondary market for mortgage securitizations (other than the GSEs) and most significantly, increased competition from the Federal Housing Administration (FHA), which is currently insuring over 80% of the total mortgage insurance market. Starting in 2008, we implemented a series of changes to our underwriting guidelines aimed at improving the long-term risk profile and profitability of our business. As a result of these changes, we have experienced improvement in the credit profile of our mortgage insurance portfolio. For the quarters ended March 31, 2010 and 2009, almost all of our new business production was categorized as prime business. In addition, Fair Isaac and Company (FICO) scores for the borrowers of these insured mortgages have increased, while the loan-to-value (LTV) on these mortgages have decreased, meaning that borrowers generally are making larger down payments in connection with the more recent mortgages that we are insuring.

Persistency. The persistency rate, which is defined as the percentage of insurance in force that remains on our books after any twelve-month period, was 81.0% for the twelve months ended March 31, 2010, compared to 87.0% for the twelve months ended March 31, 2009. The persistency rate at March 31, 2010 was impacted by the termination of certain of our mortgage insurance transactions during 2009 and the first quarter of 2010 as discussed above. Excluding these terminations, the persistency rate would have been 87.5% for the twelve months ended March 31, 2010. We expect that persistency rates will continue to remain at elevated levels as long as the current disruption in the housing and mortgage credit markets continues.

Discontinued Non-Traditional Products

NIMS. Our total principal exposure to NIMS was $292.1 million at March 31, 2010, substantially all of which we expect to result in credit losses. We began paying principal claims on our insured NIMS during 2009 and expect that most claim payments will be made in 2011 and 2012. The fair value of our total net liabilities related to NIMS as of March 31, 2010 was $256.7 million and is recorded as variable interest entity (VIE) debt and derivative assets. Our carrying value includes the net present value of our total expected credit losses and incorporates the market s perception of our non-performance risk. The difference between our total expected credit losses and the carrying value of our net liability is $35.4 million and is expected to be recognized over the remaining life of the NIMS as the discount is accreted. As part of our loss mitigation initiatives, during the first quarter of 2010, we continued to purchase additional NIMS that we guaranteed, which reduced our principal exposure by $58.6 million during the first quarter of 2010. We expect to pursue the purchase of additional NIMS at a discount throughout the remainder of 2010, which could help to mitigate our ultimate losses.

Second-liens. Our second-lien loss reserves decreased during the first quarter of 2010 to approximately $30.5 million. Our premium deficiency reserve for second-liens decreased during the first quarter of 2010 by approximately $1.2 million to $24.1 million at March 31, 2010. As of March 31, 2010, we had total reserves (comprising the loss reserves and premium deficiency reserves) of $54.6 million against our second-lien portfolio, or 24.1% of the total remaining exposure.

Mortgage Insurance CDS. During 2009, we terminated all of our domestic mortgage insurance CDS transactions. As a result, we no longer have any exposure to domestic mortgage insurance CDS.

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Our exposure to international mortgage insurance CDS at March 31, 2010 consisted of one CDS referencing residential mortgage-backed securities (RMBS) related to mortgage loans in the Netherlands. This CDS contains prime, low LTV mortgages. Our exposure to this transaction was approximately $120.2 million as of March 31, 2010, with remaining subordination of $14.9 million. Our insurance covers several tranches in this transaction, which are rated between BBB and AAA, with over half of our exposure in the AAA category. This transaction is performing well, and we do not currently expect to pay claims on this transaction.

Financial Guaranty

Net Par Outstanding. Our financial guaranty net par outstanding decreased in the first quarter of 2010 by $2.2 billion. Year-over-year, our net par outstanding decreased from $102.8 billion to $85.2 billion as of March 31, 2010. The reduction in net par outstanding during the past year was primarily due to the commutation of a significant portion of our net par assumed from one financial guaranty insurer ($9.8 billion), along with negotiated settlements of certain CDOs, counterparties exercising their early terminations rights due to our ratings downgrades, prepayments or refundings of public finance transactions and the amortization or scheduled maturity of our insured portfolio. In light of our decision in 2008 to discontinue writing new financial guaranty business for the foreseeable future, we expect our net par outstanding to continue to decrease as our financial guaranty portfolio matures and as we seek to prudently reduce our financial guaranty risk in force.

Credit Performance. Based on our internal ratings, we experienced increases in the amount of our net par outstanding that was rated AAA and also that was rated below investment grade (BIG) during the first quarter of 2010. The credit performance of our insured corporate CDO portfolio improved during the first quarter of 2010, resulting in an increase in the AAA-rated portion of our total financial guaranty insurance portfolio. Based on our internal ratings, AAA-rated credits increased to 43.0% of our aggregate net par outstanding as of March 31, 2010 from 41.2% as of December 31, 2009. At the same time, we experienced an increase in the BIG portion of our financial guaranty insurance portfolio, which increased during the quarter to 6.1% of our aggregate net par outstanding as of March 31, 2010 from 5.5% as of December 31, 2009. This increase in the net par outstanding of BIG credits was primarily due to credit deterioration in the TruPs, the second-to-pay collateralized loan obligations (CLO), and to a lesser extent, the Alternative A (Alt-A) RMBS segments of our insured portfolio.

Our directly insured corporate CDO portfolio, representing 84.5% of the net par outstanding of our total CDO portfolio at March 31, 2010, remains highly rated based on our internal ratings, with 86.4% of this net par outstanding rated AAA, an increase from 81.9% as of December 31, 2009. Only 1.1% of the net par outstanding of our directly insured corporate CDO portfolio is rated BIG as of March 31, 2010, a reduction from 2.2% as of December 31, 2009.

Our portfolio of directly insured TruPs bonds, each directly insured bond representing a senior tranche of a CDO comprising mainly of TruPs, continued to deteriorate during the first quarter of 2010, with subordination and interest coverage ratio levels in these transactions being further reduced by defaults and interest deferrals by issuers of TruPs in the CDO collateral pools. See Results of Operations Financial Guaranty Financial Guaranty Exposure Information below for additional information regarding material changes in the credit performance of our TruPs CDO portfolio.

The collateral underlying our four CDOs of commercial mortgage-backed securities (CMBS) transactions continued to deteriorate during the first quarter of 2010. As of March 31, 2010, total delinquencies in the CMBS collateral pools ranged from 5.8% to 7.2% across the four CDOs of CMBS, an increase from a range of 4.7% to 5.8% as of December 31, 2009. Of the 127 CMBS tranches (or pari passu interests in tranches) comprising the collateral for our insured CDOs of CMBS transactions as of March 31, 2010, 41 of them have been downgraded by Moody s from Aaa to between Aa1 and Ba1 and 75 have been downgraded from AAA to between AA+ and B by S&P. There is some risk in CMBS securitizations that the underlying loan collateral cannot be refinanced when due. Approximately 18.3%

of the underlying loans will come due through the end of 2014. Additionally, approximately 13.5%, 45.7% and 20.0% of the underlying loans come due in 2015, 2016 and 2017, respectively.

The credit performance of our directly insured CDO of ABS transactions continued to stabilize during the first quarter of 2010 with one transaction, with $150.0 million of exposure maturing as scheduled in March 2010. The credit performance of our other directly insured CDO of ABS transaction did not change significantly during the quarter. Notwithstanding this stabilization, substantial deterioration of the underlying collateral has already occurred. As a result, we still expect to begin paying claims related to interest shortfalls on this transaction in 2011, and possibly earlier, if the deterioration is worse than projected. However, due to the structure of this transaction, we do not expect to pay claims related to principal shortfalls until sometime between 2036 and the legal final maturity date for the transaction in 2046. Although losses for this transaction are difficult to estimate, we still believe that our ultimate principal losses for this transaction could be substantially all of our total principal exposure. See Results of Operations Financial Guaranty Financial Guaranty Exposure Information below for additional information regarding material changes in the credit performance of our CDO of ABS.

There was some downward rating migration during the first quarter of 2010 among the second-to-pay CLOs included in our insured portfolio. As of March 31, 2010, these second-to-pay transactions were internally rated between AA- and BB+, compared with internal ratings between AA and A+ as of December 31, 2009.

The credit quality of the $595.4 million of net par outstanding domestic non-CDO RMBS in our financial guaranty insured portfolio also deteriorated in the first quarter of 2010, primarily due to an increase in the BIG exposure in the Alt-A RMBS portfolio. The Alt-A RMBS portfolio experienced an increase in its BIG net par outstanding from 47.4% to 80.0%, and our total BIG net par outstanding (based on our internal ratings) to domestic non-CDO RMBS increased from 48.9% of net par outstanding as of December 31, 2009 to 59.3% as of March 31, 2010.

Credit deterioration in our insured public finance transactions continued during the first quarter of 2010, primarily due to the stress from general adverse economic conditions. In particular, the overall financial condition of obligors in our insured healthcare and long-term care portfolios continue to weaken, although we have seen some stabilization and modest improvement in certain credits in these sectors as institutions continue to take measures to reduce costs, improve revenues, and implement strategies designed to permit them to better adapt to changing and difficult economic conditions. Our insured education portfolio also continued to experience stress during the first quarter of 2010, although relatively stronger equity markets have helped to stabilize the investment portfolios of many of these institutions. The lagging impact of the economic downturn on the fiscal performance of state and local governments continues to be realized. However, the states and municipalities included within our government-related insured credits have generally been able to manage this stress to date. Our insured public finance portfolio remains highly rated, with 96.2% rated investment grade (at least BBB-) internally as of March 31, 2010, compared to 96.5% as of December 31, 2009. We still anticipate that credit deterioration will continue for the remainder of 2010, as public finance issuers use accumulated cash balances and surpluses to address budget shortfalls and operating deficiencies.

Financial Services

Net income for Sherman decreased by approximately 30% for the first quarter of 2010, compared to the first quarter of 2009. Reduced business volumes led to a decrease in revenues from Sherman s credit card origination business, which was partially offset by a decrease in operating and servicing expenses. Our share of Sherman s net income was $8.0 million for the first quarter of 2010, compared to $10.6 million for the first quarter of 2009. See Note 7 and Note 16 of Notes to Unaudited Condensed Consolidated Financial Statements.

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Results of Operations Consolidated

Quarter Ended March 31, 2010 Compared to Quarter Ended March 31, 2009

The following table summarizes our consolidated results of operations for the quarters ended March 31, 2010 and 2009 (in millions):

	Three Months Ended March 31		% Change
	2010	**2009**	**2010 vs. 2009**
Net loss	$ (310.4)	$ (217.4)	42.8%
Net premiums written insurance	155.5	156.8	(0.8)
Net premiums earned insurance	198.3	211.2	(6.1)
Net investment income	45.4	56.3	(19.4)
Change in fair value of derivative instruments	(78.0)	(284.4)	(72.6)
Net (losses) gains on other financial instruments	(43.6)	25.1	n/m
Net impairment losses recognized in earnings		(0.8)	n/m
Other income	5.8	4.1	41.5
Provision for losses	543.9	326.8	66.4
Provision for premium deficiency	(1.2)	(48.2)	(97.5)
Policy acquisition costs	14.9	14.0	6.4
Other operating expenses	65.1	51.6	26.2
Interest expense	10.8	12.3	(12.2)
Equity in net income of affiliates	8.1	10.6	(23.6)
Income tax benefit	(187.1)	(117.0)	60.0

n/m not meaningful

Net Loss. We incurred a net loss of $310.4 million for the first quarter of 2010 or $3.77 per share (diluted), compared to a net loss of $217.4 million or $2.69 per share (diluted) for the first quarter of 2009. Our results for the first quarter of 2010 compared to 2009 were negatively impacted by an increase in the provision for losses in our mortgage insurance segment and net losses on other financial instruments. Partially offsetting these items, was a decrease in the loss on derivative instruments and an increase in the income tax benefit.

Net Premiums Written and Earned. Consolidated net premiums written for the first quarter of 2010 were $155.5 million, a decrease of $1.3 million or 0.8% from $156.8 million written in the first quarter of 2009. Consolidated net premiums earned for the first quarter of 2010 were $198.3 million, a decrease of $12.9 million or 6.1% from $211.2 million earned in the first quarter of 2009. Premiums earned in the first quarter of 2010 compared to 2009 decreased in part due to a reduction in premiums earned in our financial guaranty business as a result of the commutation of $9.8 billion in net par outstanding in the second quarter of 2009.

Net Investment Income. Net investment income of $45.4 million for the first quarter of 2010 declined by $10.9 million or 19.4% from $56.3 million in the first quarter of 2009. This decrease in net investment income was due to a decrease in yields on invested assets, primarily as a result of a significant increase in the allocation of the portfolio to short-term investments in anticipation of increasing claim payments in our mortgage insurance segment. In addition, assets were also reallocated from longer duration, higher yielding tax exempt municipal securities to taxable securities of intermediate duration with lower interest rates.

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Change in Fair Value of Derivative Instruments. For the quarter ended March 31, 2010, the change in fair value of derivative instruments was a net loss of $78.0 million, compared to a net loss of $284.4 million for the quarter ended March 31, 2009. The components of the gains (losses) included in change in fair value of derivative instruments for the quarter ended March 31, 2010 and 2009 are detailed as follows:

	Three Months Ended March 31	
	2010	**2009**
Net premiums earned derivatives	$ 12.1	$ 14.7
Financial Guaranty credit derivatives	(84.1)	(267.8)
Financial Guaranty VIE derivative liabilities	(3.2)	
NIMS	(0.2)	(4.3)
Mortgage Insurance domestic and international CDS		(21.4)
Put options on committed preferred custodial trust securities (CPS)	(2.1)	(0.9)
Other	(0.5)	(4.7)
Change in fair value of derivative instruments	$ (78.0)	$ (284.4)

During the first quarter of 2010, credit spreads on our insured corporate CDO transactions tightened, which resulted in unrealized gains on these transactions that were offset by the tightening of our Radian Group CDS spread during the quarter. Credit spreads on our other insured CDOs did not experience similar spread tightening, and therefore, the change in fair value of these transactions was impacted primarily by the tightening of Radian s CDS spread. During the first quarter of 2009, the spreads on our insured transactions widened while Radian Group s CDS spread tightened, resulting in a larger loss in the first quarter of 2009 as compared to the first quarter of 2010.

As a result of the consolidation of certain VIEs in which we are the primary beneficiary during the first quarter of 2010, amounts which had previously been reported in change in fair value of derivative instruments are currently reported as change in fair value of VIE debt, which is included in net (losses) gains on other financial instruments.

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

	March 31 2010	**December 31 2009**	**March 31 2009**	**January 1 2009**
Radian Group five-year CDS spread (in basis points)	983	1,530	2,052	2,466

Product (In millions)	**Cumulative Unrealized Gain at March 31, 2010**	**Cumulative Unrealized Gain at December 31, 2009**
Corporate CDOs	$ 531.4	$ 629.0
Non-Corporate CDO-related	1,495.1	1,730.9
NIMS-related and other	60.7	108.7
Total	$ 2,087.2	$ 2,468.6

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Net (Losses) Gains on Other Financial Instruments. Net losses on other financial instruments for the first quarter of 2010 were $43.6 million, compared to $25.1 million of net gains for the first quarter of 2009. The components of the net (losses) gains on other financial instruments are as follows:

	Three Months Ended March 31	
(In thousands)	**2010**	**2009**
Net gains related to change in fair value of hybrid securities and trading securities	$ 74.5	$ 34.7
Net realized losses on investments	(15.8)	(16.2)
Gain on the repurchase of long-term debt	2.5	
Net (losses) gains related to realized losses and change in fair value of NIMS VIE debt	(30.7)	6.6
Loss related to change in fair value of Financial Guaranty VIE debt	(74.1)	
	$ (43.6)	$ 25.1

Net Impairment Losses Recognized in Earnings. There was a negligible amount of impairment losses recognized in earnings in the first quarter of 2010, compared to $0.8 million for the first quarter of 2009. Net impairment losses for 2009 included larger impairments on fixed maturity investments available for sale and equity securities available for sale as compared to 2010 impairments.

Other Income. Other income was $5.8 million for the first quarter of 2010, compared to $4.1 million for the first quarter of 2009. This increase is a result of earnings related to VIE assets in our financial guaranty segment, which is included in other income. This increase was partially offset by a decrease in contract underwriting income for the first quarter of 2010 from the comparable period of 2009.

Provision for Losses. The provision for losses for the first quarter of 2010 was $543.9 million, an increase of $217.1 million from $326.8 million for the first quarter of 2009. The provision for losses for the first quarter of 2010 was negatively impacted by an increase in our mortgage insurance provision for losses, which was primarily caused by the aging of existing defaults, increases in severity assumptions and an increase in delinquent loan sizes, all of which resulted in higher loss reserves. See Results of Operations Mortgage Insurance Quarter Ended March 31, 2010 Compared to Quarter Ended March 31, 2009 Provision for Losses below for further information. The provision for losses for our financial guaranty segment was higher in the first quarter of 2010 as compared to the first quarter of 2009 in the public finance reinsurance and structured finance direct lines of business due to a reduction in the 2009 provision for losses due to favorable developments which resulted in changes in estimated claims expected. The provision for losses in the first quarter of 2010 was lower than the first quarter of 2009 in the public finance direct and structured finance reinsurance lines of business due to some deterioration in these lines of business in the first quarter of 2009.

Provision for Premium Deficiency. The provision for second-lien premium deficiency decreased by $1.2 million in the first quarter of 2010 compared to a decrease of $48.2 million in the first quarter of 2009. We reassess our expectations for premiums, losses and expenses for our mortgage insurance business at least quarterly and record or adjust the premium deficiency reserve, as necessary, as actual losses are incurred and premiums are received. In the first quarter of 2009 and 2010, the reserve for second-lien premium deficiency was reduced due to the transfer of premium deficiency reserves to loss reserves.

Policy Acquisition Costs. Policy acquisition costs were $14.9 million for the first quarter of 2010, an increase of $0.9 million or 6.4% from $14.0 million for the first quarter of 2009. In our mortgage insurance segment, estimates of expected gross profit, which are driven in part by persistency and loss development for each underwriting year and product type, are used as a basis for amortization and are evaluated at least quarterly.

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The total amortization recorded to date is adjusted by a charge or credit to our condensed consolidated statements of operations if actual experience or other evidence suggests that earlier estimates should be revised. During the first quarter of 2010, we updated our loss estimates in our mortgage insurance segment, which resulted in an increase in the amortization of policy acquisition costs. In the second quarter of 2009, we commuted $9.8 billion of financial guaranty net par outstanding, which resulted in our accelerating $8.9 million of policy acquisition costs and reducing the base asset to be amortized.

Other Operating Expenses. Other operating expenses were $65.1 million in the first quarter of 2010 compared to $51.6 million in the first quarter of 2009. The increase in other operating expenses in 2010 compared to 2009 is primarily due to a $17.5 million increase in compensation expense related to incentive plans, including cash-settled equity awards, which are correlated to changes in our stock price, during the first quarter of 2010.

Interest Expense. Interest expense for the first quarter of 2010 was $10.8 million, a decrease from $12.3 million for the first quarter of 2009. These amounts reflect interest on our long-term debt. In January 2010 and August 2009, we repurchased approximately $31.9 million and $57.7 million, respectively, of outstanding principal amount of our 7.75% debentures due in June 2011. On August 6, 2009, we terminated our revolving credit facility and paid down the remaining balance of $100 million.

Equity in Net Income of Affiliates. Equity in net income of affiliates was $8.1 million in the first quarter of 2010, compared to $10.6 million in the first quarter of 2009. For more information, see Results of Operations Financial Services below.

Income Tax Benefit. We recorded an income tax benefit of $187.1 million for the first quarter of 2010, or an effective tax rate of 37.6%. For the first quarter of 2009, we recorded an income tax benefit of $117.0 million or an effective tax rate of 35.0%. The effective tax rates for the three months ended March 31, 2010 and March 31, 2009 were mainly impacted by tax-exempt interest income, state and foreign taxes, and tax expense relating to uncertainty in income taxes. For the three months ended March 31, 2010, we booked an income tax benefit based on a projected annual effective rate. For the three months ended March 31, 2009, we booked an income tax benefit based on actual results of operations and as a result, the comparability between years has been affected.

Results of Operations Mortgage Insurance

Quarter Ended March 31, 2010 Compared to Quarter Ended March 31, 2009

The following table summarizes our mortgage insurance segment s results of operations for the quarters ended March 31, 2010 and 2009 (in millions):

	Three Months Ended March 31		% Change
	2010	2009	2010 vs. 2009
Net loss	$ (236.5)	$ (88.8)	n/m
Net premiums written insurance	157.0	162.0	(3.1)%
Net premiums earned insurance	177.3	177.9	(0.3)
Net investment income	26.4	31.3	(15.7)
Change in fair value of derivative instruments	0.2	(28.6)	n/m
Net (losses) gains on other financial instruments	(1.4)	13.1	n/m
Net impairment losses recognized in earnings		(0.8)	n/m
Other income	1.8	3.8	(52.6)
Provision for losses	529.1	321.7	64.5
Provision for premium deficiency	(1.2)	(48.2)	n/m
Policy acquisition costs	10.5	5.7	84.2
Other operating expenses	46.2	35.7	29.4
Interest expense	2.1	5.5	(61.8)
Income tax benefit	(145.8)	(35.1)	n/m

n/m not meaningful

Net Loss. Our mortgage insurance segment s net loss for the first quarter of 2010 was $236.5 million, compared to an $88.8 million net loss for the first quarter of 2009. The results for 2010 were impacted by an increase in the provision for losses as a result of an increase in severity, the aging of delinquencies and an increase in the average loan size, which was partially offset by a decrease in the change in fair value of derivative instruments and an increase in the income tax benefit.

Net Premiums Written and Earned. Net premiums written were $157.0 million for the first quarter of 2010, a decrease of $5.0 million or 3.1% compared to $162.0 million written in the first quarter of 2009. Net premiums earned in the first quarter of 2010 were $177.3 million, a decrease of $0.6 million or 0.3% compared to $177.9 million earned in the first quarter of 2009. Premiums written decreased during 2010 primarily as the result of the overall industry-wide decrease in the volume of primary new insurance written. During 2009, we reduced the amount of international business we wrote and terminated certain international transactions, which resulted in a reduction of premiums earned from this business in 2010.

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

	Three Months Ended March 31	
	2010	**2009**
Premiums written (in thousands)		
Primary and Pool Insurance	$ 157,413	$ 161,414
Second-lien (1)	(455)	(86)
International	74	631
Total Premiums written insurance	$ 157,032	$ 161,959
Premiums earned (in thousands)		
Primary and Pool Insurance	$ 174,112	$ 170,547
Second-lien	511	1,236
International	2,716	6,100
Total Premiums earned insurance	$ 177,339	$ 177,883
Smart Home (in thousands)		
Ceded premiums written	$ 2,322	$ 2,691
Ceded premiums earned	$ 2,322	$ 2,691

(1) Reflects the termination of certain second-lien reinsurance transactions.

Net Investment Income. Net investment income attributable to our mortgage insurance segment for the first quarter of 2010 was $26.4 million, compared to $31.3 million for the first quarter of 2009. The decrease in investment income in 2010 compared to 2009 reflects a decrease in yields related to invested assets as a result of a reallocation of our investment portfolio to shorter term investments in anticipation of future claim payments. In addition, assets were also reallocated from longer duration, higher yielding tax exempt municipal securities to taxable securities of intermediate duration with lower interest rates.

Change in Fair Value of Derivative Instruments. The change in fair value of derivative instruments was a gain of $0.2 million for the first quarter of 2010, compared to a loss of $28.6 million for the first quarter of 2009. Certain transactions which had a negative impact on the change in fair value of derivative instruments in the first quarter of 2009 were subsequently terminated in 2009.

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The components of the (losses) gains included in change in fair value of derivative instruments for our mortgage insurance segment are as follows:

	Three Months Ended March 31	
	2010	2009
Net premiums earned derivatives	$ 0.1	$ 1.0
NIMS	(0.2)	(4.3)
Mortgage Insurance domestic and international CDS		(21.4)
Other	0.3	(3.9)
Change in fair value of derivative instruments	$ 0.2	$ (28.6)

Net (Losses) Gains on Other Financial Instruments. Net losses on other financial instruments in our mortgage insurance business were $1.4 million for the first quarter of 2010, compared to $13.1 million of net gains for the first quarter of 2009. The components of the (losses) gains on other financial instruments are as follows:

	Three Months Ended March 31	
(In thousands)	**2010**	**2009**
Net gains related to change in fair value of hybrid securities and trading securities	$ 24.6	$ 25.3
Net realized gains on investments	4.2	(18.8)
Gain on the repurchase of long-term debt	0.5	
Net (losses) gains related to realized losses and change in fair value of NIMS VIE debt	(30.7)	6.6
	$ (1.4)	$ 13.1

Net Impairment Losses Recognized in Earnings. There was a negligible amount of impairment losses recognized in earnings in the first quarter of 2010, compared to $0.8 million for the first quarter of 2009. Net impairment losses for the first quarter of 2009 included larger impairments on fixed maturity investments available for sale and equity securities available for sale as compared to impairments during the first quarter of 2010.

Other Income. Other income for the first quarter of 2010 was $1.8 million, a $2.0 million decrease from $3.8 million in the first quarter of 2009, as a result of a decline in income related to contract underwriting resulting from the overall decline in mortgage origination volume.

Provision for Losses. The provision for losses for the first quarter of 2010 was $529.1 million, compared to $321.7 million for the first quarter of 2009. Claims paid for the first quarter of 2010 were $357.3 million, the decrease in reinsurance recoverables was $25.3 million and the increase in loss reserves was $146.5 million. Our increase in loss reserves in the first quarter of 2010 was negatively impacted by the aging of existing defaults, increases in severity assumptions and an increase in delinquent loan sizes, all of which require a higher loss reserve. Also, in the first quarter of 2010, we refined the component of the loss reserving estimate relating to severity on delinquencies and pending claims, by replacing average severities for similar loan groups with a more specific loan-level input. This refinement contributed significantly to the reserve increase. The provision for losses for the first quarter of 2009 and 2010 includes the effect of increased levels of estimated insurance rescissions and claim denials, which have resulted in a lower default to paid claim rate used as compared to historical levels in determining our loss reserve estimate. Our projected default to paid claim rate for the delinquent portfolio (net of denials and rescissions) increased from 36% at December 31, 2009 to 37% at March 31, 2010. In the first quarter of 2010, the incremental change in estimated rescissions and denials had an insignificant impact on our provision for losses, while in the first quarter of 2009, the increased estimate of rescissions and denials included in our loss reserve estimate reduced our provision for losses by approximately $342 million. In addition, during the first quarter of 2010, we rescinded or denied approximately $277 million of first-lien claims submitted to us for payment (submitted claims), compared to approximately $158 million for the first quarter of 2009. Of the $277 million of claims rescinded or denied in 2010, approximately $157 million

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, while approximately $120 million related to claims in which we were in a second loss position and regardless of such rescission or denial would not have necessarily been responsible to pay the claim as a result of deductibles and other exposure limitations included in our policies. For the first quarter of 2009, the comparable first and second loss submitted claims rescinded or denied were $79 million each. These amounts also include a small amount of submitted claims that were subsequently withdrawn by the insured. We believe that the elevated levels of insurance rescissions and claim denials and the elevated levels of defaults are related, and are to a large extent the result of underwriting deficiencies which existed during 2005 through 2008.

The following table shows the cumulative denial and rescission rates as of March 31, 2010 on our first-lien portfolio in the quarter the claims were received for the periods indicated:

	Claim Received Quarter	Cumulative Rescission Rate for each quarter (1)	Percentage of Claims Resolved (2)
Structured	Q1 2008	16.6%	100%
	Q2 2008	17.0%	100%
	Q3 2008	23.5%	100%
	Q4 2008	28.7%	99%
	Q1 2009	29.8%	95%
	Q2 2009	28.6%	91%
	Q3 2009	21.3%	80%
Flow	Q1 2008	8.6%	100%
	Q2 2008	10.0%	100%
	Q3 2008	17.0%	99%
	Q4 2008	16.7%	98%
	Q1 2009	20.6%	95%
	Q2 2009	19.8%	89%
	Q3 2009	14.0%	78%
Total	Q1 2008	12.4%	100%
	Q2 2008	13.5%	100%
	Q3 2008	20.1%	99%
	Q4 2008	22.4%	98%
	Q1 2009	25.0%	95%
	Q2 2009	24.1%	90%
	Q3 2009	17.1%	79%

(1) Rescission rates represent the ratio of claims rescinded or denied to claims received (by claim count) and represent the cumulative rate for each quarter presented in the table above, as of March 31, 2010, based on number of claims received during that quarter. Until all of the claims received during the periods shown have been resolved, the rescission rates for each quarter will be subject to change.

(2) For each quarter 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 rescinded. For the fourth quarter of 2009 and the first quarter of 2010, a significant portion of claims received for those quarters have not been internally resolved; therefore, we do not believe the cumulative rescission rates for those periods are presently meaningful.

Provision for Premium Deficiency. The provision for second-lien premium deficiency was a decrease of $1.2 million in the first quarter of 2010, compared to a decrease of $48.2 million in the first quarter of 2009. We reassess our expectations for premiums, losses and expenses for our mortgage insurance business at least quarterly and record or adjust a premium deficiency reserve, if necessary, as actual losses are incurred and

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premiums received. In the first quarter of 2009 and 2010, the reserve for second-lien premium deficiency was reduced due to the transfer of premium deficiency reserves to loss reserves. In the first quarter of 2010, this decrease was offset by a slight change in our estimates of premiums, losses and expenses. In the first quarter of 2009, we terminated certain second-lien transactions at less than our estimate, which had the effect of reducing our premium deficiency reserve. See Critical Accounting Policies Reserve for Premium Deficiency below for a description of our reserving process.

Policy Acquisition Costs. Policy acquisition costs were $10.5 million for the first quarter of 2010, an increase from $5.7 million for the first quarter of 2009. The increase in policy acquisition costs in the first quarter of 2010 resulted from a change in our estimated loss rate assumptions which resulted in an acceleration of amortization.

Other Operating Expenses. Other operating expenses were $46.2 million for the first quarter of 2010, an increase of $10.5 million or 29.4% compared to $35.7 million for the first quarter of 2009. The increase in other operating expenses in the first quarter of 2010 was primarily due to an increase in compensation expense related to incentive plans, including cash-settled equity awards, which are correlated to our stock price. This increase was partially offset by a decrease in compensation expense related to contract underwriting. Contract underwriting expenses for the quarters ended March 31, 2010 and 2009, including the impact of reserves for remedies, were $1.7 million and $5.5 million, respectively. During the first quarter of 2010, loans underwritten via contract underwriting for flow business accounted for 19.6% of applications, 16.9% of commitments for insurance and 15.0% of insurance certificates issued, compared to 15.2%, 12.6% and 12.2%, respectively, for the first quarter of 2009.

Interest Expense. Interest expense for the first quarter of 2010 was $2.1 million, compared to $5.7 million for the first quarter of 2009. Both periods include an allocation to the mortgage insurance segment of interest on our long-term debt based on allocated capital, which has decreased for the mortgage insurance segment relative to the financial guaranty segment.

Income Tax Benefit. We recorded an income tax benefit of $145.8 million for the first quarter of 2010, representing a year-to-date effective tax rate of 38.1%. For the first quarter of 2009, we recorded an income tax benefit of $35.1 million or an effective tax rate of 28.3%. The difference between the effective tax rate and the statutory tax rate of 35% for the mortgage insurance segment is mainly related to tax-exempt interest income, state and foreign taxes, and tax expense relating to uncertainty in income taxes for the three months ended March 31, 2010 and March 31, 2009. For the three months ended March 31, 2010, we recorded an income tax benefit based on a projected annual effective rate. For the three months ended March 31, 2009, we recorded an income tax benefit based on actual results of operations and as a result, the comparability between years has been affected.

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

	Three Months Ended					
	March 31 2010		December 31 2009 ($ in millions)		March 31 2009	
Primary new insurance written (NIW)						
Flow	$ 1,897	100.0%	$ 2,414	100.0%	$ 5,610	100.0%
Total Primary	$ 1,897	100.0%	$ 2,414	100.0%	$ 5,610	100.0%
Total						
Prime	$ 1,896	99.9%	$ 2,412	99.9%	$ 5,597	99.8%
Alt-A					9	0.1
A minus and below	1	0.1	2	0.1	4	0.1
Total Primary	$ 1,897	100.0%	$ 2,414	100.0%	$ 5,610	100.0%

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	Three Months Ended					
	March 31 2010		December 31 2009 ($ in millions)		March 31 2009	
Total Primary New Insurance Written by FICO (a) Score						
Total						
>=740	$ 1,461	77.0%	$ 1,829	75.8%	$ 3,885	69.3%
680-739	435	22.9	581	24.1	1,589	28.3
620-679	1	0.1	4	0.1	136	2.4
Total Primary	$ 1,897	100.0%	$ 2,414	100.0%	$ 5,610	100.0%

(a) FICO credit scoring model.

	Three Months Ended					
	March 31 2010		December 31 2009		March 31 2009	
Percentage of primary new insurance written						
Refinances		35%		26%		48%
95.01% LTV (b) and above		0.5%		<1%		<1%
Adjustable Rate Mortgages (ARMs)						
Less than 5 years		<1%		<1%		<1%
5 years and longer		5.1%		5.8%		<1%
Primary risk written ($ in millions)						
Flow	$ 429	100.0%	$ 533	100.0%	$ 1,196	100.0%
Total	$ 429	100.0%	$ 533	100.0%	$ 1,196	100.0%

(b) LTV ratios: The ratio of the original loan amount to the original value of the property.

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	March 31 2010		December 31 2009 ($ in millions)		March 31 2009	
Primary insurance in force						
Flow	$ 119,943	86.1%	$ 121,596	84.3%	$ 122,656	78.8%
Structured	19,419	13.9	22,672	15.7	33,012	21.2
Total Primary	$ 139,362	100.0%	$ 144,268	100.0%	$ 155,668	100.0%
Prime	$ 109,404	78.5%	$ 111,398	77.2%	$ 113,117	72.7%
Alt-A	20,396	14.6	22,941	15.9	31,826	20.4
A minus and below	9,562	6.9	9,929	6.9	10,725	6.9
Total Primary	$ 139,362	100.0%	$ 144,268	100.0%	$ 155,668	100.0%
Modified pool insurance in force (1)						
Prime	$ 705	10.8%	$ 1,508	16.0%	$ 3,072	16.9%
Alt-A	5,681	86.7	7,649	81.2	14,767	81.5
A minus and below	164	2.5	258	2.8	289	1.6
Total modified pool	$ 6,550	100.0%	$ 9,415	100.0%	$ 18,128	100.0%
Primary risk in force						
Flow	$ 29,542	89.2%	$ 29,971	88.8%	$ 30,537	87.3%
Structured	3,586	10.8	3,794	11.2	4,443	12.7
Total Primary	$ 33,128	100.0%	$ 33,765	100.0%	$ 34,980	100.0%
Flow						
Prime	$ 24,783	83.9%	$ 25,036	83.5%	$ 25,129	82.3%
Alt-A	2,996	10.1	3,121	10.4	3,475	11.4
A minus and below	1,763	6.0	1,814	6.1	1,933	6.3
Total Flow	$ 29,542	100.0%	$ 29,971	100.0%	$ 30,537	100.0%
Structured						
Prime	$ 1,977	55.1%	$ 2,059	54.3%	$ 2,331	52.5%
Alt-A	981	27.4	1,083	28.5	1,378	31.0
A minus and below	628	17.5	652	17.2	734	16.5
Total Structured	$ 3,586	100.0%	$ 3,794	100.0%	$ 4,443	100.0%
Total						
Prime	$ 26,760	80.8%	$ 27,095	80.2%	$ 27,460	78.5%
Alt-A	3,977	12.0	4,204	12.5	4,853	13.9
A minus and below	2,391	7.2	2,466	7.3	2,667	7.6
Total Primary	$ 33,128	100.0%	$ 33,765	100.0%	$ 34,980	100.0%

	March 31 2010	December 31 2009 ($ in millions)	March 31 2009
Modified pool risk in force (1)			

Prime	$ 76	16.1%	$ 104	17.8%	$ 157	18.6%
Alt-A	377	79.9	456	78.2	663	78.6
A minus and below	19	4.0	23	4.0	24	2.8
Total modified pool	$ 472	100.0%	$ 583	100.0%	$ 844	100.0%

(1) Included in primary insurance amounts.

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	March 31 2010		December 31 2009 ($ in millions)		March 31 2009	
Total Primary Risk in Force by FICO Score						
Flow						
>=740	$ 10,561	35.7%	$ 10,526	35.1%	$ 9,839	32.2%
680-739	10,572	35.8	10,790	36.0	11,234	36.8
620-679	7,119	24.1	7,329	24.5	8,002	26.2
<=619	1,290	4.4	1,326	4.4	1,462	4.8
Total Flow	$ 29,542	100.0%	$ 29,971	100.0%	$ 30,537	100.0%
Structured						
>=740	$ 982	27.4%	$ 1,036	27.3%	$ 1,205	27.1%
680-739	1,091	30.4	1,168	30.8	1,394	31.4
620-679	934	26.1	990	26.1	1,167	26.3
<=619	579	16.1	600	15.8	677	15.2
Total Structured	$ 3,586	100.0%	$ 3,794	100.0%	$ 4,443	100.0%
Total						
>=740	$ 11,543	34.9%	$ 11,562	34.3%	$ 11,044	31.6%
680-739	11,663	35.2	11,958	35.4	12,628	36.1
620-679	8,053	24.3	8,319	24.6	9,169	26.2
<=619	1,869	5.6	1,926	5.7	2,139	6.1
Total Primary	$ 33,128	100.0%	$ 33,765	100.0%	$ 34,980	100.0%
Percentage of primary risk in force						
Refinances	31%		31%		31%	
95.01% LTV and above	20%		21%		22%	
ARMs						
Less than 5 years	7%		8%		8%	
5 years and longer	8%		8%		9%	

	March 31 2010		December 31 2009 ($ in millions)		March 31 2009	
Total primary risk in force by LTV						
85.00% and below	$ 3,117	9.4%	$ 3,263	9.6%	$ 3,613	10.3%
85.01% to 90.00%	12,440	37.6	12,589	37.3	12,571	35.9
90.01% to 95.00%	10,829	32.7	10,996	32.6	11,213	32.1
95.01% and above	6,742	20.3	6,917	20.5	7,583	21.7
Total Primary	$ 33,128	100.0%	$ 33,765	100.0%	$ 34,980	100.0%
Total primary risk in force by policy year						
2005 and prior	$ 9,325	28.1%	$ 9,709	28.7%	$ 11,083	31.7%
2006	4,209	12.7	4,390	13.0	5,015	14.3
2007	9,160	27.7	9,443	28.0	10,410	29.8
2008	6,576	19.8	6,725	19.9	7,298	20.9
2009	3,436	10.4	3,498	10.4	1,174	3.3
2010	422	1.3				
Total Primary	$ 33,128	100.0%	$ 33,765	100.0%	$ 34,980	100.0%

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	March 31 2010		December 31 2009 ($ in millions)		March 31 2009	
Pool risk in force						
Prime	$ 1,882	72.7%	$ 1,918	71.1%	$ 2,058	70.7%
Alt-A	192	7.4	246	9.1	289	9.9
A minus and below	515	19.9	534	19.8	564	19.4
Total pool risk in force	$ 2,589	100.0%	$ 2,698	100.0%	$ 2,911	100.0%

	March 31 2010	December 31 2009 (In millions)	March 31 2009
Other risk in force			
Second-lien			
1st loss	$ 138	$ 147	$ 244
2nd loss	89	116	140
NIMS	292	353	431
International			
1st loss-Hong Kong primary mortgage insurance	222	257	389
Reinsurance			170
CDS	120	127	3,072
Other			
Domestic CDS			123
Total other risk in force	$ 861	$ 1,000	$ 4,569

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	March 31 2010	December 31 2009	March 31 2009
Default Statistics			
Primary Insurance:			
Flow			
Prime			
Number of insured loans	607,552	614,590	627,386
Number of loans in default	77,423	78,130	50,217
Percentage of loans in default	12.74%	12.71%	8.00%
Alt-A			
Number of insured loans	58,588	60,616	66,952
Number of loans in default	21,533	22,177	18,628
Percentage of loans in default	36.75%	36.59%	27.82%
A minus and below			
Number of insured loans	52,547	53,932	57,576
Number of loans in default	19,264	20,911	15,999
Percentage of loans in default	36.66%	38.77%	27.79%
Total Flow			
Number of insured loans	718,687	729,138	751,914
Number of loans in default	118,220	121,218	84,844
Percentage of loans in default	16.45%	16.62%	11.28%
Structured			
Prime			
Number of insured loans	46,234	52,629	65,727
Number of loans in default	6,565	7,520	7,331
Percentage of loans in default	14.20%	14.29%	11.15%
Alt-A			
Number of insured loans	32,960	43,615	78,901
Number of loans in default	11,949	15,295	21,600
Percentage of loans in default	36.25%	35.07%	27.38%
A minus and below			
Number of insured loans	18,161	19,287	21,449
Number of loans in default	7,180	7,965	7,542
Percentage of loans in default	39.54%	41.30%	35.16%
Total Structured			
Number of insured loans	97,355	115,531	166,077
Number of loans in default	25,694	30,780	36,473
Percentage of loans in default	26.39%	26.64%	21.96%
Total Primary Insurance			
Prime			
Number of insured loans	653,786	667,219	693,113
Number of loans in default (1)	83,988	85,650	57,548
Percentage of loans in default	12.85%	12.84%	8.30%
Alt-A			
Number of insured loans	91,548	104,231	145,853
Number of loans in default (1)	33,482	37,472	40,228
Percentage of loans in default	36.57%	35.95%	27.58%
A minus and below			
Number of insured loans	70,708	73,219	79,025
Number of loans in default (1)	26,444	28,876	23,541
Percentage of loans in default	37.40%	39.44%	29.79%
Total Primary			

Number of insured loans	816,042	844,669	917,991
Number of loans in default (2)	143,914	151,998	121,317
Percentage of loans in default	17.64%	17.99%	13.22%
Pool insurance			
Number of loans in default (1)(3)	33,934	36,397	33,267

(1) For reporting and internal tracking purposes, we do not consider a loan to be in default until the loan has been in default for 60 days. Accordingly, the amounts represented in this table exclude loans that are 60 or fewer days past due, in each case as of each period presented.
(2) Includes an estimated 1,517, 3,302 and 6,568 defaults at March, 31, 2010, December 31, 2009 and March 31, 2009, respectively, for which reserves have not been established because they were associated with transactions where no claim payment was anticipated, primarily due to deductibles, or where a partial reserve has been recorded that is less than the gross calculated reserve due to the presence of a deductible.
(3) Includes an estimated 15,230, 18,033 and 22,782 defaults at March 31, 2010, December 31, 2009 and March 31, 2009, respectively, for which reserves have not been established because they were associated with transactions where no claim payment was anticipated, primarily due to deductibles, or where a partial reserve has been recorded that is less than the gross calculated reserve due to the presence of a deductible.

The following table shows the number of modified pool loans that we have insured, the related loans in default and the percentage of loans in default as of the dates indicated. All modified pool statistics are also included within our primary insurance statistics.

	March 31 2010	December 31 2009	March 31 2009
Default Statistics Modified Pool Insurance:			
Number of insured loans in force	26,122	42,509	84,900
Number of loans in default	8,111	12,677	19,812
Percentage of loans in default	31.05%	29.82%	23.34%

The default and claim cycle in our mortgage insurance business begins with our receipt of a default notice from the insured. Generally, the insured notifies us of a default within 15 days after the loan has become 60 days past due. For reporting and internal tracking purposes, we do not consider a loan to be in default until the loan has been past due for 60 days.

The total number of loans in default, including second-liens, decreased from 193,248 at December 31, 2009 to 181,855 at March 31, 2010. The average loss reserve per default increased from $17,855 at December 31, 2009 to $19,780 at March 31, 2010. Excluding defaults without a related reserve, the average loss reserve per default was $21,786 and $20,071 at March 31, 2010 and December 31, 2009, respectively.

The following table shows our total direct claims paid by product and average claim paid by product for the periods indicated:

		Three Months Ended	
	March 31 2010	December 31 2009	March 31 2009
		(In thousands)	
Direct claims paid:			
Prime	$ 139,499	$ 122,004	$ 69,459
Alt-A	70,512	70,295	46,270
A minus and below	48,777	47,196	36,730
Second-lien and other	7,979	14,849	22,607
Subtotal	$ 266,767	254,344	175,066
Impact of first-lien terminations	80,110	197,692	
Impact of captive terminations	(436)	(25,194)	
Impact of second-lien terminations	10,834		65,000
Total	$ 357,275	$ 426,842	$ 240,066
Average claim paid (1):			
Prime	$ 46.3	$ 44.0	$ 41.9
Alt-A	60.6	56.9	53.5
A minus and below	46.1	39.8	38.1
Second-lien and other	33.0	38.0	41.3

Total	$ 48.7	$ 45.5	$ 43.4

(1) Calculated without giving effect to the impact of termination of captive reinsurance transactions and first- and second-lien transactions. Claim activity is not spread evenly throughout the coverage period of a book of business. Historically, relatively few claims on prime business are received during the first two years following issuance of a policy and on non-prime business during the first year. Claim activity on prime loans has historically reached its highest level in the third through fifth years after the year of policy origination, and on non-prime loans this level is expected to be reached in the second through fourth years. Based on these trends, approximately 46.3% of our primary risk in force at March 31, 2010 had not yet reached its highest claim frequency years compared to 50.6% at December 31, 2009. The insurance we wrote from 2005 through 2008 has experienced default and claim activity sooner than has been the case for historical books of business. Because it is difficult to predict both the timing of originating new business and the cancellation rate of existing business, it is also difficult to predict, at any given time, the percentage of risk in force that will reach its highest claim frequency years on any future date.

The following table shows the top five states with the highest claims paid and the highest number of defaults for the periods indicated:

	Three Months Ended					
	March 31 2010		December 31 2009 ($ in thousands)		March 31 2009	
States with highest claims paid (first-lien):						
California	$ 63,344	17.7%	$ 78,634	18.4%	$ 24,383	10.2%
Florida	47,371	13.3	52,192	12.2	11,277	4.7
Arizona	25,726	7.2	35,167	8.2	7,438	3.1
Michigan	23,091	6.5	20,536	4.8	13,832	5.8
Nevada	19,137	5.4	24,225	5.7	6,832	2.8
States with highest number of defaults:						
Florida	23,183	16.1%	24,108	15.9%	20,438	16.9%
California	16,217	11.3	17,136	11.3	15,023	12.4
Illinois	7,650	5.3	7,882	5.2	5,842	4.8
Georgia	7,553	5.3	7,864	5.2	5,889	4.9
Texas	6,660	4.6	7,196	4.7	5,293	4.4

Claims paid in California, Florida, Arizona and Nevada (the Sand States) continue to account for a disproportionate share of total claims paid reflecting the significant home price depreciation in those states coupled with a higher percentage of Alt-A loans, which have had a higher claim frequency. A much higher level of claims also exists in Michigan, as problems with the domestic auto industry and related industries have depressed economic growth, employment and housing prices in that state.

As with claims paid, the Sand States continue to account for a disproportionate share of total defaults. The states of Illinois, Georgia and Texas account for a large portion of our total defaults, which is generally proportional to the size of their portfolios. Given our exposure to California and Florida and the size of these markets, our loss experience has been significantly affected and will continue to be negatively affected if conditions do not improve or continue to deteriorate.

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The following table shows our direct primary mortgage insurance risk in force by location of property for the top ten states and the related percentage of our direct primary mortgage insurance risk in force for each period indicated:

Top Ten States	March 31 2010		December 31 2009 ($ in millions)		March 31 2009	
Primary risk in force:						
California	$ 3,849	11.6%	$ 3,927	11.6%	$ 3,968	11.3%
Florida	2,855	8.6	2,934	8.7	3,074	8.8
Texas	2,156	6.5	2,198	6.5	2,282	6.5
Illinois	1,544	4.7	1,560	4.6	1,579	4.5
Georgia	1,542	4.7	1,567	4.7	1,616	4.6
Ohio	1,412	4.3	1,437	4.3	1,518	4.3
New York	1,335	4.0	1,358	4.0	1,422	4.1
New Jersey	1,174	3.5	1,191	3.5	1,213	3.5
Michigan	1,098	3.3	1,120	3.3	1,164	3.3
Arizona	1,069	3.2	1,100	3.3	1,145	3.3
Subtotal	18,034	54.4	18,392	54.5	18,981	54.2
Other states	15,094	45.6	15,373	45.5	15,999	45.8
Total primary risk in force:	$ 33,128	100.0%	$ 33,765	100.0%	$ 34,980	100.0%

The largest single customer of our mortgage insurance segment (including branches and affiliates of such customer), measured by primary new insurance written, accounted for 16.9% of primary new insurance written for the first quarter of 2010, compared to 14.4% for the largest single customer in the first quarter of 2009.

	As of and For the Three Months Ended		
	March 31 2010	December 31 2009 (In thousands)	March 31 2009
Provision for losses	$ 543,880	$ 459,853	$ 321,684
Reserve for losses	$ 3,735,824	$ 3,450,538	$ 3,116,553
Reserves for losses by category:			
Prime	$ 1,347,003	$ 1,265,859	$ 921,050
Alt-A	821,551	767,043	951,932
A minus and below	421,748	456,281	452,837
Pool insurance	379,794	295,996	140,192
Second-lien (1)	30,490	43,579	111,985
Other	124	136	1,780
Reserve for losses, net	3,000,710	2,828,894	2,579,776
Reinsurance recoverable (2)	596,325	621,644	536,777
Total	$ 3,597,035	$ 3,450,538	$ 3,116,553
Provision for premium deficiency	$ (1,231)	$ 16,065	$ (48,184)
Reserve for premium deficiency	$ 24,126	$ 25,357	$ 38,677

(1) Does not include second-lien premium deficiency reserve.
(2) Represents ceded losses on captive transactions and Smart Home.

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	As of and For the Three Months Ended		
	March 31 2010	**December 31 2009**	**March 31 2009**
First-lien Captives			
Premiums ceded to captives (in thousands)	$ 25,474	$ 26,832	$ 34,500
% of total premiums	12.6%	12.5%	16.6%
NIW subject to captives (in thousands)	$ 333	$ 39,989	$ 1,040,733
% of primary NIW	<1%	1.7%	18.6%
IIF (1) included in captives	29.5%	29.3%	35.5%
RIF (2) included in captives	31.1%	31.5%	39.7%
Persistency (12 months ended)	81.0%	82.0%	87.0%

(1) Insurance in force.
(2) Risk in force.

	March 31 2010		March 31 2009	
	($ in millions)			
Alt-A Information				
Primary risk in force by FICO score				
>=740	$ 981	24.7%	$ 1,192	24.5%
680-739	1,916	48.2	2,335	48.1
660-679	577	14.5	712	14.7
620-659	475	11.9		