RADIAN GROUP INC
Form 10-Q/A
November 13, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

(Amendment No. 1)

(Mark One)

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

For the quarterly period ended September 30, 2009

OR

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

For the transition period from to

Commission File Number 1-11356

Radian Group Inc.

(Exact name of registrant as specified in its charter)

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

(215) 231-1000

(Registrant s telephone number, including area code)

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

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

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

EXPLANATORY NOTE

Radian Group Inc. (the Company) is filing this Amendment No. 1 on Form 10-Q/A to its Quarterly Report on Form 10-Q for the quarter ended September 30, 2009, originally filed with the Securities and Exchange Commission on November 9, 2009 (the Original Filing), solely for the purpose of correcting certain statistical information reported in Item 1A, Risk Factors. On page 119, the second and third sentences under the sub-heading *High-LTV Mortgages* should have read A portion of our mortgage insurance in force consists of insurance on mortgage loans with LTVs at origination of greater than 97%. At September 30, 2009, our mortgage insurance risk in force related to these loans was $6.2 billion or 17.8% of our total primary insurance risk in force, compared to $6.7 billion or 19.3% of primary insurance risk in force at December 31, 2008 and $6.5 billion or 20.7% of primary insurance risk in force at December 31, 2007. On page 120, the sixth sentence of the first full paragraph should have read As of September 30, 2009, approximately 1% and 10% of the adjustable rate mortgages we insure are scheduled to reset during the remainder of 2009 and in 2010, respectively. The Company is not amending any other part of the Original Filing.

PART II OTHER INFORMATION

Item 1A. Risk Factors.

We incurred significant losses during 2007, 2008 and through the first nine months of 2009, and we expect to incur significant losses during the remainder of 2009 and possibly in 2010.

The amount of losses we incur on our insured products in our mortgage insurance and financial guaranty businesses is subject to national and regional economic factors, many of which are beyond our control, including extended national or regional economic recessions, home price depreciation and unemployment, interest-rate changes or volatility, deterioration in lending markets and other factors.

Throughout 2008 and the first nine months of 2009, we experienced increased delinquencies and claims in our mortgage insurance business, primarily driven by the poor performance of our late 2005 through early 2008 insured books of business. Deterioration in general economic conditions, including a significant increase in unemployment, has increased the likelihood that borrowers will default on their mortgages. In addition, home prices have continued to decline in many regions of the U.S. and may decline even absent a deterioration in economic conditions due to reductions in demand for homes, resulting from changes in buyers perceptions of the potential for future appreciation, restrictions on mortgage credit due to more stringent underwriting standards, liquidity issues affecting lenders or other factors. Falling home prices have increased the likelihood that borrowers with the ability to make their mortgage payments may voluntarily default on their mortgages when their mortgage balances exceed the value of their homes. We also believe that some borrowers may voluntarily default to take advantage of certain loan modification programs currently being offered or that may be offered in the future. Falling home prices also make it more difficult for us to mitigate our losses when a default occurs. See *Our loss mitigation opportunities are reduced in markets where housing values fail to appreciate or continue to decline.*

Our financial guaranty portfolio also has been negatively impacted by deterioration in the credit markets and the overall economy. See *We have experienced deterioration in our financial guaranty portfolio* below. The current economic downturn and related disruption in the housing and credit markets are expected to continue during the remainder of 2009 and possibly beyond. Although there has been some stabilization of the U.S. economy during 2009, it is difficult to predict with any degree of certainty if and when a complete recovery of the economy will occur, including a reduction in unemployment and a broad and lasting recovery in the domestic housing market. We have incurred increased losses as a result of the deterioration in economic conditions and the amount of our new insurance written has declined, and we expect that these trends will continue to materially and adversely affect our results of operations and financial condition.

A large portion of our mortgage insurance risk in force consists of higher risk loans, such as non-prime and high-LTV loans, and non-traditional mortgage products, which have resulted in increased losses and are expected to result in further losses in the future.

Non-Prime Loans. A large percentage of the mortgage insurance we wrote in years 2005 through 2007 and, consequently, our existing mortgage insurance risk in force, is related to non-prime loans. At September 30, 2009, our non-prime mortgage insurance risk in force, including Alt-A, was $7.1 billion or 20.6% of our total primary insurance risk in force, compared to $7.7 billion or 22.2% of our total primary insurance risk in force at December 31, 2008, and $8.9 billion or 28.1% of our primary insurance risk in force at December 31, 2007. Historically, non-prime loans are more likely to result in claims than prime loans. In addition, our non-prime business, in particular Alt-A loans, tends to have larger loan balances relative to other loans, which results in larger claims. Since 2006, we have experienced a significant increase in mortgage loan delinquencies related to Alt-A loans originated in 2005 through 2007. These losses have occurred more rapidly and well in excess of historical loss patterns, and have contributed in large part to the significant increase in our provision for losses since 2006. If delinquency and default to claim rates on non-prime loans continue to increase as is expected, in particular in California, Florida and other states where the Alt-A product is prevalent, our results of operations and financial condition will continue to be negatively affected.

High-LTV Mortgages. We have provided private mortgage insurance on other mortgage products that have more risk than most mortgage products that meet the GSEs classification of conforming loans. A portion of our mortgage insurance in force consists of insurance on mortgage loans with LTVs at origination of greater than 97%. At September 30, 2009, our mortgage insurance risk in force related to these loans was $6.2 billion or 17.8% of our total primary insurance risk in force, compared to $6.7 billion or 19.3% of primary insurance risk in force at December 31, 2008 and $6.5 billion or 20.7% of primary insurance risk in force at December 31, 2007. Mortgage loans with LTVs greater than 97% default substantially more often than those with lower LTVs. In addition, when we are required to pay a claim on a higher LTV loan, it is generally more difficult to recover our costs from the underlying property, especially in areas with declining property values. We have experienced a significant increase in mortgage loan delinquencies related to high-LTV mortgages. As a result, we have altered our underwriting criteria to eliminate insuring new loans with LTVs greater than 95% and have adopted more stringent guidelines for loans with LTVs greater than 90%. While we believe these changes will improve our overall risk profile, in the near term, our results of operations and financial condition likely continue to be negatively affected by the performance of our existing insured loans with high-LTVs.

Pool Mortgage Insurance. We offer pool mortgage insurance, which exposes us to or increased risk of greater loss severity compared to primary mortgage insurance. Our pool mortgage insurance products generally cover all losses in a pool of loans up to our aggregate exposure limit, which generally is between 1% and 10% of the initial aggregate loan balance of the entire pool of loans. Under pool insurance, we could be required to pay the full amount of every loan in the pool within our exposure limits and upon which a claim is made until the aggregate limit is reached, rather than a percentage of the loan amount, as is the case with traditional primary mortgage insurance. At September 30, 2009, $2.8 billion of our mortgage insurance risk in force was attributable to pool insurance, compared to $2.9 billion at December 31, 2008 and $3.0 billion at December 31, 2007.

NIMS. We have provided credit enhancement on NIMS. NIMS are a relatively unproven product with a volatile performance history, particularly in the current declining housing market. NIMS have been particularly susceptible to the disruption in the mortgage credit markets, and we stopped writing insurance on NIMS in 2007. We expect future credit losses on NIMS to be approximately $418 million, with most payments expected to occur in 2011 and 2012. The fair value of our total net liabilities related to NIMS as of September 30, 2009 was $317.8 million, of which $11.2 million relates to derivative assets and $329.0 million relates to debt of the NIMS VIE trusts, all of which are consolidated. Because our future expected credit losses are greater than our cumulative unrealized loss related to NIMS, we expect an additional negative impact to our results of operations related to NIMS in future periods.

A portion of our mortgage insurance risk in force consists of insurance on adjustable-rate products that have resulted in significant losses and are expected to result in further losses.

At September 30, 2009, approximately 16% of our mortgage insurance risk in force consists of ARMs (8% of our mortgage insurance risk in force at September 30, 2009 relates to ARMs with resets of less than five years from origination), which includes loans with negative amortization features, such as pay option ARMs. We consider a loan to be an ARM if the interest rate for that loan will reset at any point during the life of the loan. It has been our experience that ARMs with resets of less than five years from origination are more likely to result in a claim than longer-term ARMs. Our claim frequency on ARMs has been higher than on fixed-rate loans due to monthly payment increases that occur when interest rates rise or when the teaser rate (an initial interest rate that does not fully reflect the index which determines subsequent rates) expires. At September 30, 2009, approximately 9.6% of our primary mortgage insurance risk in force consists of interest-only mortgages, where the borrower pays only the interest on a mortgage for a specified period of time, usually five to ten years, after which the loan payment increases to include principal payments. We believe that, similar to ARMs, these loans have a heightened propensity to default because of possible payment shocks after the initial low-payment period expires and because the borrower does not automatically build equity as payments are made.

A lack of liquidity in the mortgage market, tighter underwriting standards, and declining home prices in many regions in the U.S. during 2007, 2008 and through the first nine months of 2009, have combined to make it more difficult for many borrowers with ARMs and interest-only mortgages to refinance their mortgages into fixed rate products. As a result, without available alternatives, many borrowers have been forced into default when their interest rates reset at a higher rate. This has resulted in significant losses during 2007, 2008 and through the first nine months of 2009 for mortgage lenders and insurers as well as investors in the secondary market. Although there can be no assurance, the historically low level of interest rates in the current mortgage market may help to reduce the size of interest payment increases (and in some cases eliminate any increase) for loans resetting in the remainder of 2009 and in 2010, while the emergence of federal and private loan modification programs aimed at modifying existing loan structures, may allow qualified borrowers in or near to default to convert to fixed rate loans. In the long-term, however, absent a change in the current lending environment or a positive mitigating effect from federal and private measures aimed at reducing defaults from adjustable rate resets, we expect that defaults related to these products will likely continue to increase. As of September 30, 2009, approximately 1% and 10% of the adjustable rate mortgages we insure are scheduled to reset during the remainder of 2009 and in 2010, respectively. If defaults related to adjustable rate mortgages were to continue at their current pace or were to increase, as is currently projected, our results of operations will continue to be negatively affected, possibly significantly, which could adversely affect our financial condition and results of operations.

Recent losses in our mortgage insurance business have reduced Radian Guaranty s statutory surplus and increased Radian Guaranty s risk-to-capital ratio; additional losses in our mortgage insurance portfolio or financial guaranty portfolio without a corresponding increase in new capital or capital relief could further negatively impact these ratios, which could limit Radian Guaranty s ability to write new insurance and could increase restrictions and requirements placed on Radian Guaranty by the GSEs or state insurance regulators.

The GSEs, rating agencies and state insurance regulators impose various capital requirements on our subsidiaries. These capital requirements include risk-to-capital ratios, leverage ratios and surplus requirements that limit the amount of insurance that our insurance subsidiaries may write. Sixteen states currently have a statutory or regulatory requirement limiting a mortgage insurer s risk-to-capital ratio to 25:1. As a result of net losses during 2007, 2008 and the first nine months of 2009, Radian Guaranty s risk-to-capital ratio grew from 8.1:1 at December 31, 2006 to 16.1:1 at September 30, 2009, even after including the contribution of our financial guaranty business to our mortgage insurance business during the third quarter of 2008.

Based on current and expected future trends, we believe that we will continue to incur and pay material amounts of losses in our mortgage insurance business. The ultimate amount of losses will depend in part on general economic conditions and other factors, including the health of credit markets, home prices and unemployment rates, all of which are difficult to predict. In the absence of additional new capital or capital relief through reinsurance or otherwise, Radian Guaranty s risk-to-capital ratio is expected to continue to increase during the remainder of 2009 and could reach 25:1 before the end of the year.

We, along with others in our industry, are seeking regulatory changes or relief in those states that impose a 25:1 risk-to-capital requirement, primarily through new legislation or other means by which the insurance regulator in these states is granted discretionary authority to waive the 25:1 risk-to-capital requirement. Although these efforts have been successful in four states to date, it is uncertain whether regulatory changes or relief will be obtained in the remaining states in sufficient time to avoid a breach of the 25:1 limitation in these states. Further, in those states that currently allow for discretionary authority, there can be no assurance that the regulators in these states will exercise their discretion to permit us to write new business in the event that we do not meet the 25:1 limitation, how long such regulators may allow any waiver of this requirement to exist or what, if any, other requirements may be imposed. Moreover, in those states that do not have a capital adequacy requirement in the form of a 25:1 limitation, it is not clear what actions the applicable state regulators would take if we failed to meet the capital adequacy requirement established by another state. Accordingly, if we fail to meet the capital adequacy requirements in one or more states, Radian Guaranty could be required to suspend writing business in some or all of the states in which we do business.

We are actively seeking to manage Radian Guaranty s risk-to-capital ratio by selectively writing new business. In addition, we are also exploring other alternatives to address our mortgage insurance capital needs, including potentially raising capital through one or more private or public offerings of debt or equity securities and by freeing up capital for use through liquidation of certain of our investments and through reinsurance or other risk transfer arrangements. See Part I, Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources of this Quarterly Report on Form 10-Q. We cannot provide any assurance as to whether we will be successful in implementing any of these potential alternatives, many of which require regulatory and other approvals, or whether the capital or capital relief obtained through such alternatives will be sufficient to maintain our risk-to-capital ratio at or below 25:1. Any future equity offerings could be dilutive to our existing stockholders, could result in a decrease in the price of our common stock, or could result in the issuance of securities that have rights, preferences and privileges that are senior to those of our common stock.

We are also reviewing our ability to implement a structure in which we would plan to write new first-lien mortgage insurance business through our wholly-owned subsidiary, Amerin Guaranty, in those states that continue to impose a 25:1 risk-to-capital requirement. Amerin Guaranty currently maintains an insured portfolio of second-lien mortgages, which will need to be commuted or otherwise eliminated before Amerin Guaranty could write first-lien mortgage insurance. Although we have made significant progress in eliminating much of this second-lien risk, we cannot assure you that we would be successful in commuting all of Amerin Guaranty s existing risk or that we would succeed in obtaining the necessary regulatory or other approvals (including from the GSEs) to write new first-lien mortgage insurance business through Amerin Guaranty.

If we are unsuccessful in obtaining new capital or capital relief for Radian Guaranty, Radian Guaranty s risk-to-capital ratio could increase to the point where state insurance regulators may limit the amount of new insurance business that Radian Guaranty may write or prohibit Radian Guaranty from writing new insurance altogether in their respective states, including those states that do not currently impose a 25:1 limitation. In addition, the GSEs and our other customers may decide not to conduct new business with Radian Guaranty (or reduce current business levels) while its risk-to-capital ratio remained at elevated levels. This could ultimately result in a loss of Radian Guaranty s eligibility with the GSEs. The franchise value of our mortgage insurance business would be significantly diminished if Radian Guaranty was prohibited from writing new business or restricted in the amount of new business it could write. In addition, any restriction on Radian Guaranty s ability to continue to write new insurance would likely harm our ability to attract new capital.

We and our insurance subsidiaries are subject to comprehensive, detailed regulation, principally designed for the protection of our insured policyholders, rather than for the benefit of investors, by the insurance departments in the various states where our insurance subsidiaries are licensed to transact business. Insurance laws vary from state to state, but generally grant broad supervisory powers to agencies or officials to examine insurance companies and enforce rules or exercise discretion affecting almost every significant aspect of the insurance business, including the power to revoke or restrict an insurance company s ability to write new business.

Given the recent significant losses incurred by many insurers in the mortgage and financial guaranty industries, our insurance subsidiaries have been subject to heightened scrutiny by insurance regulators. We are currently in close communication with certain insurance regulatory authorities, including the Pennsylvania Insurance Department with respect to Radian Guaranty and Radian Insurance and the Illinois Department of Insurance and other regulators regarding Amerin Guaranty. Amerin Guaranty is currently running off its remaining insured portfolio of second-lien mortgages and is currently prohibited from writing new insurance business in five states without the addition of new capital. Additionally, the Hong Kong Insurance Authority has directed Radian Insurance to continue to maintain sufficient assets in Hong Kong to cover its potential liabilities on insured loans in Hong Kong. In light of current market conditions and ongoing losses in our insurance subsidiaries, insurance departments in the jurisdictions noted above or in other jurisdictions could impose restrictions or requirements that could have a material adverse impact on our businesses.

The long-term capital adequacy of Radian Guaranty is dependent, in part, upon the performance of our financial guaranty portfolio.

During the third quarter of 2008, we implemented an internally-sourced capital plan by contributing our financial guaranty business to our mortgage insurance business. This reorganization provided Radian Guaranty with immediate and substantial regulatory capital credit. Importantly, it also has provided (and is intended to further provide) Radian Guaranty with significant cash infusions from dividends over time. The timing and amount of these cash infusions will depend on the dividend capacity of our financial guaranty business, which is governed by New York insurance laws.

As of September 30, 2009, Radian Asset Assurance maintained a statutory surplus of approximately $936 million and total claims paying resources of approximately $2.5 billion. If the credit performance of our financial guaranty business remains stable, we expect our financial guaranty business to issue significant dividends to Radian Guaranty over time as our existing financial guaranty portfolio matures and the exposure is reduced. If the exposure is reduced on an accelerated basis through the recapture of insured business from our primary financial guaranty reinsurance customers or otherwise, we may have the ability to release capital to Radian Guaranty more quickly and in a greater amount. If, however, the performance of our financial guaranty portfolio deteriorated materially, our financial guaranty statutory surplus could be reduced, which in turn would have a negative impact on the regulatory capital of Radian Guaranty. Further, in this event, our financial guaranty business would likely have less capacity to issue dividends to Radian Guaranty, and could be restricted from issuing dividends altogether. Any perceived or actual decrease in the capital support derived from our financial guaranty business could, therefore, negatively impact the franchise value of our mortgage insurance business, and potentially lead to our inability to write new mortgage insurance business.

Our financial guaranty portfolio is exposed to risks associated with the on-going deterioration in the credit markets and the overall economy. See *We have experienced deterioration on our financial guaranty portfolio,* *Some of our financial guaranty products may be riskier than traditional guaranties of public finance obligations* and *Our financial guaranty business faces risks associated with our reinsurance of risk from our financial guaranty insurance customers and our second-to-pay liabilities from these entities* below.

We have experienced deterioration in our financial guaranty portfolio.

Our financial guaranty portfolio is exposed to risks associated with the deterioration in the credit markets and the overall economy. As discussed in Management s Discussion and Analysis of Financial Condition and Results of Operations Overview of Business Results Financial Guaranty Credit Performance, in Item 2 of Part I above, we experienced deterioration in our financial guaranty portfolio during 2008 and the first nine months of 2009. While we have sought to underwrite our insured credits with levels of subordination designed to protect us from loss in the event of poor performance of the underlying collateral, we cannot be certain that such levels of subordination will protect us from future material losses in light of the significantly higher rates of delinquency, foreclosure and losses currently being observed within our insured credits.

We provide credit protection on the senior-most tranche of a CDO of ABS transaction with an outstanding net par amount of $468.3 million as of September 30, 2009, where the underlying collateral consists of mezzanine tranches of predominately mortgage-backed securities. As of September 30, 2009, $482.2 million (or 88.3%) of the $546.2 million collateral pool underlying this transaction had been downgraded by S&P or Moody s and 60 of these credits, with a notional value of $233.3 million, have defaulted. This transaction, which is accounted for as a derivative, is internally rated CCC-, and is rated CC by S&P and Ca2 by Moody s as of September 30, 2009. Due to the substantial deterioration of the underlying collateral and based on the timing of current anticipated cash flows for this transaction, we currently expect to begin paying claims related to interest shortfalls on this transaction in 2010 and possibly earlier if cash flows are worse than anticipated. We do not expect to begin paying 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 currently believe that the ultimate principal payment with respect to this transaction may be a significant portion of our total exposure of $468.3 million. In addition, upon our initial claim payment obligation, the statutory capital of Radian Asset Assurance (and consequently Radian Guaranty) would be reduced in an amount equal to the present value of our expected future net losses (net of taxes).

We provide credit protection on 16 directly insured TruPs CDOs (Direct TruPs CDOs), representing an aggregate net par outstanding of $2.3 billion as of September 30, 2009. Throughout 2009, we have experienced deterioration in our Direct TruPs CDO portfolio due to issuers of the TruPs defaulting on their obligations to pay interest or voluntarily deciding to defer payments of interest, which is permissible under the TruPs for a limited period of time. In October 2009, we received notice of an interest shortfall and paid a claim with respect to a Direct TruPs CDO, representing $212.5 million of exposure, and we currently expect to incur ultimate principal losses on at least one other Direct TruPs CDO, representing $158.1 million in exposure. Even relatively small changes in TruPs default rates or economic conditions could have a material impact on the timing and amount of cash available to make interest and principal payments on the underlying TruPs bonds. Therefore, the occurrence, timing and duration of any event of default and the amount of any ultimate principal or interest shortfall payment is very difficult to predict. Furthermore, certain investment funds have recently developed a strategy to attempt to purchase collateral (including high quality collateral) in TruPs CDOs at a substantial discount, thus potentially eroding amounts available to satisfy obligations to the senior positions in the TruPs CDOs, including the positions we insure. If such a strategy were to be successful with respect to a significant portion of our Direct TruPs CDO portfolio, the collateral may suffer further value deterioration and lead to increased claims payment obligations and potential credit losses. Such losses could have a material adverse effect on our financial condition and operating results.

In nine of our Direct TruPs CDS contracts, which provide credit protection on seven distinct pools of TruPs collateral (representing an aggregate net par outstanding of $965.0 million as of September 30, 2009), our counterparties may require that we pay them the outstanding par on our insured obligations if an event of default under the related TruPs CDO indenture exists as of the termination date of the CDS. If we are required to make such a payment, then our counterparty would either (as specified in the CDS) deliver the insured obligation to us or be obligated to pay us periodically, cash in an amount equal to the amount that the TruPs CDO issuer pays on the insured obligation. The termination dates of these CDS contracts currently range between 2011 and 2017, but automatically extend for additional one year increments unless terminated by our counterparty. See Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations Financial Guaranty Financial Guaranty Exposure Information above for a discussion regarding the performance of our Direct TruPs CDO portfolio. The liquidity position of our financial guaranty business may be significantly harmed if we are required to purchase one or more of the TruPs bonds at maturity.

Some of our financial guaranty products may be riskier than traditional guarantees of public finance obligations

Historically, our financial guaranty public finance business has focused on smaller, regionalized, lower-investment grade issuers and structures that were uneconomical for most of the larger, higher-rated financial guarantors to insure. As a result, we have greater exposure than other monoline financial guarantors to sectors such as healthcare and long-term care and education that historically have had higher default rates than other public finance sectors. These credits, which generally cover smaller, more rural and specialized issuers, tend to be lower rated and more susceptible to default in an economic downturn such as the one we currently are facing.

In addition to our public finance business, we have guaranteed structured finance obligations that expose us to a variety of complex credit risks and indirectly to market, political and other risks beyond those that generally apply to financial guaranties of public finance obligations. We have insured and reinsured certain asset-backed transactions and securitizations secured by one or a few classes of assets, such as residential mortgages, auto loans and leases, credit card receivables and other consumer assets, both funded and synthetic, and obligations under credit default swaps, including CDOs of several asset classes, such as, corporate debt, TruPs, RMBS, CMBS and other ABS obligations. We continue to have exposure to trade credit reinsurance (which is currently in run-off), which protects sellers of goods under certain circumstances against nonpayment of their accounts receivable. Losses associated with our structured finance and trade credit reinsurance businesses are difficult to predict accurately and could have a material adverse effect on our financial condition and operating results, especially given the current economic disruption. See *We have experienced deterioration in our financial guaranty portfolio.*

Our financial guaranty business faces risks associated with our reinsurance of risk from our financial guaranty insurance customers and our second-to-pay liabilities from these entities.

In June and August 2008, S&P downgraded our financial guaranty insurance subsidiaries financial strength ratings. As a result, all but one of our primary reinsurance customers currently have the right to take back or recapture up to an aggregate of $26.8 billion of business previously ceded to us under their reinsurance agreements with us. Under our treaties with our primary reinsurance customers, our customers do not have the ability to selectively recapture business previously ceded to us under their treaties. However, because we have entered into multiple treaties with each customer, it is possible that our customers may choose to recapture business only under those treaties that they perceive as covering less risky portions of our reinsurance portfolio.

Our reinsurance customers are primarily responsible for surveillance, loss mitigation and salvage on the risks that they cede to us. Many of these customers are experiencing financial difficulties, and therefore, may be less willing to or capable of performing surveillance to the extent necessary to minimize potential losses and/or maximize potential salvage on the credits we reinsure. We generally do not have direct access to the insured obligation or the right to perform our own loss mitigation or salvage work on these transactions. We also have limited visibility with respect to the performance of many of the obligations we reinsure. See *If the estimates we use in establishing loss reserves for our mortgage insurance or financial guaranty businesses are incorrect, we may be required to take unexpected charges to income and our ratings may be downgraded* below. In addition, our primary reinsurance customers may delegate their loss adjustment functions to third parties, the cost of which would then be proportionally allocated to us and any other reinsurers for the insured transaction. Accordingly, the losses and loss adjustment expenses allocated to us on our reinsured risks may be significantly higher than otherwise would have been the case if we were responsible for surveillance, loss mitigation and salvage for these risks. This could have a material adverse effect on our financial condition and operating results.

As a result of the Ambac Commutation and the acquisition of Financial Security Assurance Holdings Ltd. by Assured Guaranty Ltd., in July 2009, 91.9% of Radian Asset Assurance s net par reinsurance exposure outstanding as of September 30, 2009, was ceded from primary insurer customers that are subsidiaries of Assured Guaranty Ltd. Consequently, such financial guaranty reinsurance, which represents 27.8% of financial guaranty s aggregate net par outstanding, is now dependent upon the surveillance and loss mitigation abilities of primary insurers under one holding company.

We have directly insured several transactions on a second-to-pay basis, meaning that we are obligated to pay claims in these transactions only to the extent that another monoline financial guarantor fails to pay such claim. Consequently, if a financial guarantor should become insolvent or the conservator for such financial guarantor rejects payment of all or a portion of a claim, we may be required to pay all or a portion of such claim. Because many monoline financial guarantors are currently experiencing significant financial difficulties, the likelihood of our having to pay a claim on our second-to-pay transactions has increased.

Because most of the mortgage loans that we insure are sold to Freddie Mac and Fannie Mae, changes in their charters or business practices could significantly impact our mortgage insurance business.

Freddie Mac and Fannie Mae are the beneficiaries of the majority of our mortgage insurance policies. Freddie Mac s and Fannie Mae s federal charters generally prohibit them from purchasing any mortgage with a loan amount that exceeds 80% of a home s value, unless that mortgage is insured by a qualified insurer or the mortgage seller retains at least a 10% participation in the loan or agrees to repurchase the loan in the event of a default. As a result, high-LTV mortgages purchased by Freddie Mac or Fannie Mae generally are insured with private mortgage insurance. Changes in the charters or business practices of Freddie Mac or Fannie Mae could reduce the number of mortgages they purchase that are insured by us and consequently diminish our franchise value. In particular, Freddie Mac and Fannie May have the ability to:

- implement new eligibility requirements for mortgage insurers and to alter or liberalize underwriting standards on low-down-payment mortgages they purchase. (See *We could lose our eligibility status with the GSEs, causing Freddie Mac and Fannie Mae to decide not to purchase mortgages insured by us, which would significantly impair our mortgage insurance franchise* below);
- alter the terms on which mortgage insurance coverage may be canceled before reaching the cancellation thresholds established by law;
- require private mortgage insurers to perform activities intended to avoid or mitigate loss on insured mortgages that are in default; and
- influence a mortgage lender s selection of the mortgage insurer providing coverage.

Some of Freddie Mac s and Fannie Mae s more recent programs require less insurance coverage than they historically have required, and they have the ability to further reduce coverage requirements, which could reduce demand for mortgage insurance and have an adverse effect on our business, financial condition and operating results. For a number of years, the GSEs have had programs under which lenders could choose, for certain loans, a mortgage insurance coverage percentage that was only the minimum required by the GSE s charter, with the GSEs paying a lower price for these loans (charter coverage). The GSEs have also had programs under which, for certain loans, they would accept a level of mortgage insurance above the requirements of their charters, but below their standard coverage without any decrease in the purchase price they would pay for these loans (reduced coverage). In September 2009, Fannie Mae announced that, effective January 1, 2010, it would expand broadly the types of loans eligible for charter coverage, and also that it would eliminate its reduced coverage program in the second quarter of 2010. To the extent lenders selling loans to Fannie Mae chose charter coverage for loans that we insure, our revenues would be reduced and we could experience other material adverse effects on our financial condition and operating results.

The GSEs business practices may be impacted by their results of operations as well as legislative or regulatory changes governing their operations. In July 2008, an overhaul of regulatory oversight of the GSEs was enacted. The new provisions, contained within the Housing and Economic Recovery Act, encompass substantially all of the GSEs operations. This new law abolished the former regulator for the GSEs and created a new, stronger regulator, the Federal Housing Finance Agency (FHFA), in addition to other oversight reforms.

In September 2008, the FHFA was appointed as the conservator of the GSEs. As their conservator, the FHFA controls and directs the operations of the GSEs. The appointment of a conservator may increase the likelihood that the business practices of the GSEs will be changed in ways that may have a material adverse effect on us. In particular, if the private mortgage insurance industry does not have the ability, due to capital constraints, to continue to write sufficient business to meet the needs of the GSEs, the GSEs may seek alternatives other than private mortgage insurance to conduct their business. The appointment of a conservator also increases the likelihood that the U.S. Congress will examine the role and purpose of the GSEs in the domestic housing market and potentially make certain structural and other changes to the GSEs. The Obama administration has announced that it will announce its plans regarding the future of the GSEs in early 2010. Although we believe that private mortgage insurance will continue to play an important role in any future structure involving the GSEs, there is a possibility that new federal legislation could reduce the level of private mortgage insurance coverage used by the GSEs as credit enhancement or eliminate the requirement altogether. In connection with the recently announced Homeownership Affordability and Stability Plan, the FHFA will allow the GSEs to refinance their own qualifying loans without mortgage insurance if the original loan does not have mortgage insurance.

We could lose our eligibility status with the GSEs, causing Freddie Mac and Fannie Mae to decide not to purchase mortgages insured by us, which would significantly impair our mortgage insurance franchise.

In order to maintain the highest level of eligibility with Freddie Mac and Fannie Mae, mortgage insurers generally must maintain an insurer financial strength rating of AA- or Aa3 from at least two of the three ratings agencies by which they are customarily rated. If a mortgage insurer were to lose such eligibility, Freddie Mac and/or Fannie Mae could restrict the mortgage insurer from conducting certain types of business with them, or take actions that may include not purchasing loans insured by the mortgage insurer. In light of the housing market downturn, both Freddie Mac and Fannie Mae have indicated that loss of mortgage insurer eligibility due to such a downgrade will no longer be automatic and will be subject to review if and when the downgrade occurs. We are currently aware of at least one private mortgage insurance company that has lost its top tier eligibility with Freddie Mac and Fannie Mae.

Our mortgage insurance subsidiaries have been downgraded substantially below AA-/Aa3 by S&P and Moody s and on October 27, 2009, S&P put Radian Guaranty and certain other private mortgage insurers on credit watch for further downgrade. In response to these ratings actions, we have presented business and financial plans to Freddie Mac and Fannie Mae for how to restore profitability and ultimately regain a higher rating for our mortgage insurance business. Among other items, our plans to the GSEs have focused on our internal reorganization in which we contributed our financial guaranty business to our mortgage insurance business, thus providing our mortgage insurance business with substantial regulatory capital credit and potential cash infusions over time. See *The long-term capital adequacy of Radian Guaranty is dependent, in part, upon the performance of our financial guaranty portfolio* above for risks associated with this plan. The amount of capital credit that we may receive as a result of the internal reorganization is uncertain and depends on the rating agencies and GSE s views of the credit quality of our financial guaranty portfolio and our expected dividend capacity from our financial guaranty business, among other factors. Our ratings are also driven by the rating agencies views of the mortgage insurance industry as a whole. If the capital credit we receive from the rating agencies and GSEs is less than they believe may be required by our mortgage insurance business, we could lose our eligibility with the GSEs and/or be further downgraded by the rating agencies. Our remediation plans include projections of our future financial performance, including the effect of significant changes to the underwriting and pricing of our business. Although their initial reactions to our plans were favorable, we cannot be certain that either of the GSEs will accept our plans or if we will be able to retain our eligibility status with either of them. Loss of our eligibility status with the GSEs would likely have an immediate and material adverse impact on the franchise value of our mortgage insurance business and our future prospects and could negatively impact our results of operations and financial condition.

Deterioration in regional economic factors in areas where our business is concentrated increases our losses in these areas.

Our results of operations and financial condition are particularly affected by weakening economic conditions, such as depreciating home values and unemployment, in specific regions (including international markets) where our business is concentrated.

At September 30, 2009, approximately 55% of our primary mortgage insurance risk in force is concentrated in 10 states, with the highest percentages being in California, Florida and Texas. A large percentage of our second-lien mortgage insurance risk in force also is concentrated in California and Texas. In 2008 and through the first nine months of 2009, deteriorating markets in California and Florida, where non-prime and non-traditional mortgage products such as ARMs (including interest-only loans) are prevalent and where home prices have fallen significantly, have resulted in significant losses in our mortgage insurance business. Approximately 15% of our total increase in primary mortgage insurance loss reserves during the first nine months of 2009 was attributable to these two states, which together represented approximately 21% of our primary mortgage insurance risk in force at September 30, 2009. During the prolonged period of rising home prices that preceded the current downturn in the U.S. housing market, very few mortgage delinquencies and claims were attributable to insured loans in California, despite the significant growth during this period of riskier, non-traditional mortgage products in this state. As mortgage credit performance in California and Florida has deteriorated, given the size of these markets, our loss experience has been significantly affected and will continue to be negatively affected if conditions continue to deteriorate.

In addition to California and Florida, approximately 12% of our primary mortgage insurance risk in force at September 30, 2009 was concentrated in the Midwestern states of Michigan, Illinois and Ohio. This region has continued to experience higher default rates in 2009, which we believe are largely attributable to the difficult operating environment facing the domestic auto industry. We expect that this trend may continue and could become worse.

Our financial guaranty business also has a significant portion of its insurance risk in force concentrated in a small number of states, principally including California, Texas, New York, Pennsylvania, and Florida, and could be materially and adversely affected by a continued and prolonged weakening of economic conditions in these states. In addition to the impact of regional housing and credit market deterioration, our results of operations and financial condition could be negatively impacted by natural disasters or other catastrophic events, acts of terrorism, conflicts, event specific economic depressions or other harmful events in the regions, including areas internationally, where our business is concentrated.

A decrease in the volume of home mortgage originations could result in fewer opportunities for us to write new insurance business.

Our ability to write new business depends, among other things, on a steady flow of high-LTV mortgages that require our mortgage insurance. The deterioration in the credit performance of non-prime and other forms of non-conforming loans has caused lenders to substantially reduce the availability of non-prime mortgages and most other loan products that are not conforming loans, and to significantly tighten their underwriting standards. Fewer loan products and tighter loan qualifications, while improving the overall quality of new mortgage originations, have in turn reduced the pool of qualified homebuyers and made it more difficult for buyers (in particular first-time buyers) to obtain mortgage financing or to refinance their existing mortgages. In addition, the significant disruption in the housing and related credit markets has led to reduced investor demand for mortgage loans and mortgage-backed securities in the secondary market, which historically has been an available source of funding for many mortgage lenders. This has significantly reduced liquidity in the mortgage funding marketplace, forcing many lenders to retain a larger portion of their mortgage loans and mortgage-backed securities and leaving them with less capacity to continue to originate new mortgages.

The potential negative effect on our business from the decreased volume of mortgage originations has been offset by an increase in the demand for mortgage insurance on conforming loans as the lending industry embraces more conservative risk management measures. However, if the volume of new mortgage originations continues to decrease or persists at low levels for a prolonged period of time, we may experience fewer opportunities to write new insurance business, which could reduce our existing insurance in force and have a significant negative effect on both our ability to execute our business plans and our overall franchise value.

Because our mortgage insurance business is concentrated among a few significant customers, our new business written and franchise value could decline if we lose any significant customer.

Our mortgage insurance business depends to a significant degree on a small number of lending customers. As of September 30, 2009, our top ten mortgage insurance customers were generally responsible for over half of both our primary new insurance written in 2009 and our direct primary risk in force. Accordingly, maintaining our business relationships and business volumes with our largest lending customers is important to the success of our business. Challenging market conditions have adversely affected, and may continue to adversely affect, the financial condition of a number of our largest lending customers. Many of these customers have experienced ratings downgrades and liquidity constraints in the face of increasing delinquencies and the lack of a secondary market for mortgage funding. These customers could become subject to serious liquidity constraints that may jeopardize the viability of their business plans or their access to additional capital, forcing them to consider alternatives such as bankruptcy or consolidation with others in the industry. In addition, as a result of current market conditions, our largest lending customers may seek to diversify their exposure to any one or more mortgage insurers or decide to write business only with those mortgage insurers that they perceive to have the strongest financial position.

Since 2007, we have tightened our underwriting guidelines, which has resulted in our declining to insure some of the loans originated by our larger customers. We have also increased our pricing to reflect the increased risk of default in the current economic and housing downturn. The loss of business from even one of our major customers could have a material adverse effect on the amount of new business we are able to write, and consequently, our franchise value. Our master policies and related lender agreements do not, and by law cannot, require our mortgage insurance customers to do business with us, and we cannot be certain that any loss of business from a single lender will be recouped from other lending customers in the industry.

From time to time, we have disputes with our customers. If not resolved, these disputes could lead to arbitration or litigation proceedings. Our recent experience with respect to increased insurance rescissions and claims denials has heightened the risk of disputes with our customers, which could potentially lead to the loss of one or more customers or to litigation. If we engage in material litigation with any customer, the customer could decide to limit the amount of business they conduct with us or terminate our business relationship altogether, which could have a material adverse effect on our business, financial condition and results of operations.

Our mortgage insurance business faces intense competition.

The U.S. mortgage insurance industry is highly dynamic and intensely competitive. Our competitors include other private mortgage insurers and federal and state governmental and quasi-governmental agencies, principally the Veterans Administration (VA) and the FHA, which has significantly increased its competitive position in areas with higher home prices by streamlining its down-payment formula and reducing the premiums it charges.

Governmental and quasi-governmental entities typically do not have the same capital requirements that we and other mortgage insurance companies have, and therefore, have greater financial flexibility in their pricing and capacity that could put us at a competitive disadvantage. In the event that a government-owned or sponsored entity in one of our markets decides to reduce prices significantly or alter the terms and conditions of its mortgage insurance or other credit enhancement products in furtherance of political, social or other goals rather than a profit motive, we may be unable to compete in that market effectively, which could have an adverse effect on our business, financial condition and operating results.

We believe that, beginning in 2008, the FHA has substantially increased its market share, including by insuring a number of loans that would meet our current underwriting guidelines at a cost to the borrower that is lower than the cost of our mortgage insurance. For information regarding certain legislative developments that have enhanced the FHA s competitive position, see *Legislation and regulatory changes and interpretations could harm our mortgage insurance business* below. In light of the capital constraints currently facing most, if not all, private mortgage insurers and the need by private mortgage insurers to tighten underwriting guidelines based on past loan performance, we anticipate that the FHA will continue to maintain a strong market position and could increase its market position to the point that private mortgage insurers may be perceived as less significant to the future of the housing finance market.

It appears that the improvement in the credit quality of new loans being insured in the current market, combined with the deterioration of the financial strength ratings of most existing private mortgage insurance companies, in part due to their legacy books of insured mortgages, could encourage new entrants to our industry. One potential new entrant, which appears to have significant capital commitments, has publicly disclosed that it has received a license to conduct mortgage insurance and that it is pursuing other licenses and GSE approval. Our inability to compete with other providers, including any new entrants that are not burdened by legacy credit risks, could have a material adverse effect on our business, financial condition and operating results.

In addition, in the recent past, an increasing number of alternatives to traditional private mortgage insurance developed, many of which reduced the demand for our mortgage insurance. These alternatives included:

- mortgage lenders structuring mortgage originations to avoid private mortgage insurance, mostly through 80-10-10 loans or other forms of simultaneous second loans. The use of simultaneous second loans increased significantly during the recent past to become a competitive alternative to private mortgage insurance, particularly in light of (1) the potential lower monthly cost of simultaneous second loans compared to the cost of mortgage insurance in a low-interest-rate environment and (2) possible negative borrower, broker and realtor perceptions about mortgage insurance;

- investors using other forms of credit enhancement such as credit default swaps or securitizations as a partial or complete substitute for private mortgage insurance; and

- mortgage lenders and other intermediaries foregoing third-party insurance coverage and retaining the full risk of loss on their high-LTV loans.

As a result of the on-going turmoil in the housing credit market, many of these alternatives to private mortgage insurance are no longer available in the mortgage market, although simultaneous second loans are still available and their use may grow again. If market conditions were to change, however, we again could likely face significant competition from these alternatives as well as others that may develop.

Our business depends, in part, on effective and reliable loan servicing, which may be negatively impacted by the current disruption in the housing and mortgage credit markets.

We depend on reliable, consistent third-party servicing of the loans that we insure. Dependable servicing generally ensures timely billing and strong loss mitigation opportunities for delinquent or near-delinquent loans. Many of our customers also serve as the servicers for loans that we insure, whether the loans were originated by such customer or another lender. Therefore, the same market conditions affecting our customers as discussed above in *Because our mortgage insurance business is concentrated among a few significant customers, our new business written and franchise value could decline if we lose any significant customer* will also affect their ability to effectively maintain their servicing operations. In addition, current housing trends have led to a significant increase in the number of delinquent mortgage loans requiring servicing. These increases have strained the resources of servicers, reducing their ability to undertake loss mitigation efforts that could help limit our losses. Managing a substantially higher volume of non-performing loans could create operational difficulties that our servicers may not have the resources to overcome. If a disruption occurs in the servicing of mortgage loans covered by our insurance policies, this, in turn, could contribute to a rise in delinquencies and/or claims among those loans and could have a material adverse effect on our business, financial condition and operating results.

Loan modification and other similar programs may not provide us with a material benefit.

Recently, the FDIC, as receiver of IndyMac, the GSEs and lenders have adopted programs to modify loans to make them more affordable to borrowers with the goal of reducing the number of foreclosures. In February 2009, the U.S. Treasury announced the Homeowner Affordability and Stability Plan, which provides certain guidelines for loan modifications and allocates $75 billion for this purpose. While modifications made under these programs are increasing, the programs remain in their early stages and it is unclear whether they will ultimately result in a significant number of loan modifications. Even if a loan is modified, we do not know how many modified loans will subsequently re-default or whether they may eventually result in losses that would be greater than we would have suffered if the loan had not been modified. As a result, we cannot ascertain with confidence whether these programs will provide material benefits to us. In addition, because we do not have information for all of the parameters used to determine which of our insured loans are eligible for modification programs, our estimates of the number of qualifying loans are inherently uncertain. The U.S. Treasury also is supporting judicial modifications for home mortgages during bankruptcy proceedings. If legislation is enacted to permit a mortgage balance to be reduced in bankruptcy, we would still be responsible under our master insurance policy to pay the original balance if the borrower re-defaulted on that mortgage after its balance has been reduced. Various government entities and private parties have adopted foreclosure moratoriums. A moratorium does not affect the accrual of interest and other expenses on a loan. Unless a loan is modified during a moratorium to cure the default, at the expiration of the moratorium, additional interest and expenses would be due, which could result in our losses on loans subject to the moratorium being higher than if there had been no moratorium.

Although these loan modification and similar programs are currently in effect, there is no guarantee that they will continue to be available. Any termination or temporary cessation of any of these programs could result in an increased number of claims in our mortgage insurance business and could have a material adverse effect on our business, financial condition and results of operations.

Mortgage refinancings in the current housing market may increase the risk profile of our existing mortgage insurance portfolio.

Mortgage interest rates currently are at historically low levels, which has led many borrowers to seek to refinance their existing mortgages. However, because most lenders are currently utilizing more restrictive underwriting guidelines, only those borrowers with strong credit profiles are generally able to qualify for the new loans required to refinance. Consequently, only highly qualified borrowers are generally able to refinance in the current market. As more of these borrowers refinance (and their existing mortgage insurance with us is canceled), the total percentage of our risk in force related to high-risk borrowers could possibly increase, which could increase the risk profile of our existing mortgage insurance portfolio and potentially reduce the future profitability of our mortgage insurance business.

Our success depends on our ability to assess and manage our underwriting risks; the premiums we charge may not be adequate to compensate us for our liability for losses.

Our mortgage insurance and financial guaranty premium rates may not be adequate to cover future losses. Our mortgage insurance premiums are based on our long-term expected risk of claims on insured loans, and take into account, among other factors, each loan s LTV, type (*e.g.*, prime vs. non-prime or fixed vs. variable payments), term, coverage percentage or the existence of a deductible in front of our loss position. Our financial guaranty premiums are based on our expected risk of claim on the insured obligation, and take into account, among other factors, the rating and creditworthiness of the issuer and of the insured obligations, the type of insured obligation, the policy term and the structure of the transaction being insured. In addition, our premium rates take into account expected cancellation rates, operating expenses and reinsurance costs, as well as profit and capital needs and the prices that we expect our competitors to offer. Our estimates and expectations are based on assumptions that may ultimately prove to be inaccurate. In particular, the predictive value of historical data may be less reliable during periods of greater economic stress and, accordingly, our ability to correctly estimate our premium requirements may be impaired during the current economic uncertainty.

We generally cannot cancel or elect not to renew the mortgage insurance or financial guaranty insurance coverage we provide, and because we generally fix premium rates for the life of a policy when issued, we cannot adjust renewal premiums or otherwise adjust premiums over the life of a policy. Therefore, even if the risk underlying many of the mortgage or financial guaranty products we have insured develops more adversely than we anticipated, including as a result of the on-going economic recession and housing market downturn, which has led to a significant increase in defaults and claims, and the premiums our customers are currently paying for similar coverage on new business from us and others has increased, we generally cannot increase the premium rates on this in-force business, or cancel coverage or elect not to renew coverage, to mitigate the effects of such adverse developments. Our premiums earned and the associated investment income on those premiums may ultimately prove to be inadequate to compensate for the losses that we may incur. An increase in the amount or frequency of claims beyond the levels contemplated by our pricing assumptions could have a material adverse effect on our business, financial condition and operating results.

Our delegated underwriting program may subject our mortgage insurance business to unanticipated claims.

In our mortgage insurance business, we enter into agreements with our mortgage lender customers that commit us to insure loans using pre-established underwriting guidelines. Once we accept a lender into our delegated underwriting program, we generally insure a loan originated by that lender even if the lender does not follow our specified underwriting guidelines. Under this program, a lender could commit us to insure a material number of loans with unacceptable risk profiles before we discover the problem and terminate that lender s delegated underwriting authority. The performance of loans insured through programs of delegated underwriting has not been tested over a period of extended adverse economic conditions, and the program could lead to greater losses than we anticipate in light of the current economic downturn. Greater than anticipated losses could have a material adverse effect on our business, financial condition and operating results.

We face risks associated with our contract underwriting business.

We provide contract underwriting services for certain of our mortgage lender customers, including on loans for which we are not providing mortgage insurance. Under the terms of our contract underwriting agreements, we agree that if we make material errors that lead to a default in connection with these services, the mortgage lender may, subject to certain conditions, require us to purchase the loans, issue mortgage insurance on the loans, or indemnify the lender against future loss associated with the loans. Accordingly, we assume some credit risk and interest-rate risk in connection with providing these services. In 2008, we underwrote $14.7 billion (and through the first nine months of 2009 we underwrote $7.8 billion) in principal amount of loans for customers through contract underwriting. Depending on market conditions, a significant amount of our underwriting services may be performed by independent contractors hired by us on a temporary basis. If these independent contractors make more material errors than we anticipate, the resulting need to provide greater than anticipated recourse to mortgage lenders could have a material adverse effect on our business, financial condition and operating results.

Our loss mitigation strategies are reduced in markets where housing values fail to appreciate or continue to decline.

The amount of mortgage insurance loss we suffer depends in part on whether the home of a borrower who has defaulted on a mortgage can be sold for an amount that will cover unpaid principal and interest on the mortgage and expenses from the sale. If a borrower defaults under our standard mortgage insurance policy, we generally have the option of paying the entire loss amount and taking title to a mortgaged property or paying our coverage percentage in full satisfaction of our obligations under the policy. In the past, we have been able to take title to the properties underlying certain defaulted loans and sell the properties quickly at prices that have allowed us to recover some or all of our losses. In the current housing market downturn, our ability to mitigate our losses in such manner has been reduced. If housing values continue to decline, or decline more significantly and/or on a larger geographic basis than is currently anticipated, the frequency of loans going to claim could increase and our ability to mitigate our losses on defaulted mortgages may be significantly reduced, which could have a material adverse effect on our business, financial condition and operating results.

A downgrade or potential downgrade of our credit ratings or the insurance financial strength ratings assigned to any of our mortgage insurance or financial guaranty subsidiaries is possible and could weaken our competitive position and affect our financial condition.

The credit ratings of Radian Group and the insurance financial strength ratings assigned to our insurance subsidiaries were downgraded multiple times during 2008 and again in 2009 and may be further downgraded. On October 27, 2009, S&P put the mortgage-insurance operations of seven companies, including ours, on credit watch for potential downgrade. Radian Insurance and our financial guaranty insurance subsidiaries have been on credit watch for potential downgrades since April 8, 2007. In response to current market conditions, the rating agencies are engaged in ongoing monitoring of the mortgage insurance and financial guaranty industries and could take action, including by downgrading or warning of the strong possibility of downgrade, with respect to one or more companies in a specific industry. Although we remain in frequent contact with the rating agencies and have prepared action plans to address rating agency actions, we are generally not provided with much advance notice of an impending rating decision, which could come at any time.

Historically, our ratings have been critical to our ability to market our products and to maintain our competitive position and customer confidence in our products. A downgrade in these ratings or the announcement of the potential of a downgrade, or any other concern relating to the on-going financial strength of our insurance subsidiaries, could make it difficult or impossible for them to continue to write new profitable business or create a competitive advantage for other industry participants that maintain higher ratings than us. Further, although we believe the GSEs currently are not as concerned with ratings as they have been in past periods, any additional downgrade of the insurance financial strength ratings for our mortgage insurance business could negatively impact our eligibility status with the GSEs. A downgrade may make it more difficult for us to successfully raise capital, including by imposing terms not acceptable to us or by limiting us to raising an amount that would not be sufficient to restore or stabilize our ratings.

Because we do not establish reserves in our mortgage insurance business until a borrower has failed to make two payments rather than based on estimates of our ultimate losses on non-defaulted loans, our financial statements may not reflect our expected obligation for losses on our entire portfolio of insured mortgages.

In accordance with GAAP, we generally do not establish reserves in our mortgage insurance business until we are notified that a borrower has failed to make at least two consecutive payments when due. Upon notification that two payments have been missed, we establish a loss reserve by using historical models based on a variety of loan characteristics, including the type of loan, the status of the loan as reported by the servicer of the loan, and the area where the loan is located. Because our mortgage insurance reserving does not account for the impact of future losses that we expect to incur with respect to non-defaulted loans, our obligation for ultimate losses that we expect to incur at any period end is not reflected in our financial statements, except to the extent that a premium deficiency exists. As a result, future losses may have a material impact on future results as delinquencies occur.

If the estimates we use in establishing loss reserves for our mortgage insurance or financial guaranty businesses are incorrect, we may be required to take unexpected charges to income which could hurt our capital position.

We establish loss reserves in both our mortgage insurance and financial guaranty businesses to provide for the estimated cost of future claims. Because our reserves represent our best estimate of claims, these reserves may be insufficient to satisfy the full amount of claims that we ultimately have to pay. Setting our loss reserves requires significant judgment by management with respect to the likelihood, magnitude and timing of anticipated losses. The models and estimates we use to establish loss reserves may prove to be inaccurate, especially during an extended economic downturn or a period of extreme credit market volatility, as currently exists. If our estimates are inadequate, we may be required to increase our reserves, which would have a material adverse effect on our financial condition, capital position and operating results, as well as our ability to continue to write new business.

In addition to establishing mortgage insurance loss reserves in accordance with the immediately preceding risk factor, we are required under GAAP to establish a premium deficiency reserve for our mortgage insurance products if the amount by which the net present value of expected future losses for a particular product and the expenses for such product exceeds the net present value of expected future premiums and existing reserves for such product. We evaluate whether a premium deficiency exists at the end of each fiscal quarter. As of September 30, 2009, a premium deficiency reserve of $9.3 million existed for our second-lien mortgage insurance business. Because our evaluation of premium deficiency is based on our best estimate of future losses, expenses and premiums, the evaluation is inherently uncertain and may prove to be inaccurate. Although no premium deficiency existed on our first-lien mortgage insurance business at September 30, 2009, there can be no assurance that additional premium deficiency reserves will not be required for this product or our other mortgage insurance products in future periods.

It also is difficult to estimate appropriate loss reserves for our financial guaranty business because of the nature of potential losses in that business, which are largely influenced by the particular circumstances surrounding each troubled credit, including the availability of loss mitigation, and therefore, are less capable of being evaluated based on historical assumptions or precedent. In addition, in our financial guaranty reinsurance business, we rely in part on information provided by the primary insurer in order to establish reserves. If this information is incomplete or untimely, our loss reserves may be inaccurate and could require adjustment in future periods as new or corrected information becomes available.

Insurance rescissions and claim denials may not continue at the levels we have recently experienced.

We have had a significant increase in insurance rescissions and denials of claims made due to fraud, misrepresentation or other violations of our insurance policies. These rescissions and denials have mitigated materially our paid losses and resulted in a significant reduction in our reserve for losses. Although we expect these rescissions and denials to continue in light of our significant default inventory, we can provide no assurance that rescissions and denials will continue at the increased levels we have recently experienced or will continue to materially mitigate paid losses. In addition, the insured may dispute our right to rescind coverage or deny a claim, which dispute may be made several years after such rescission or denial and could result in arbitration or judicial proceedings. We may be unsuccessful in such proceedings, which may be costly and time consuming. Our recent experience with respect to increased insurance rescissions and claims denials has also heightened the risk of disputes with our customers, which could potentially lead to the loss of one or more customers or to litigation. See *Because our mortgage insurance business is concentrated among a few significant customers, our new business written and franchise value could decline if we lose any significant customer*.

The determination of our reserve for losses involves significant use of estimates with regard to the likelihood, magnitude and timing of a loss, including an estimate of the number of defaulted loans that will be successfully rescinded or denied. If the actual number of rescissions and denials is much lower than our estimate, our losses may be materially affected, which could have a material adverse effect on our financial condition and results of operations. For additional information regarding the determination of a reserve for losses, see Part I, Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies Reserve for Losses of this Quarterly Report on Form 10-Q.

Our success depends, in part, on our ability to manage risks in our investment portfolio.

Income from our investment portfolio is one of our primary sources of cash flow to support our operations and claim payments. If we underestimate our policy liabilities, or if we improperly structure our investments to meet those liabilities, we could have unexpected losses, including losses resulting from forced liquidation of investments before their maturity. Our investments and investment policies and those of our subsidiaries are subject to state insurance laws. We may be forced to change our investments or investment policies depending upon regulatory, economic and market conditions and the existing or anticipated financial condition and operating requirements, including the tax position, of our business segments.

Our investment objectives may not be achieved. Although our portfolio consists mostly of highly-rated investments and complies with applicable regulatory requirements, the success of our investment activity is affected by general economic conditions, which may adversely affect the markets for credit and interest-rate-sensitive securities, including the extent and timing of investor participation in these markets, the level and volatility of interest rates and, consequently, the value of our fixed-income securities. During the second half of 2008, we experienced negative returns as a result of the on-going deterioration in the economy. Continued volatility or illiquidity in the markets in which we directly or indirectly hold positions has reduced the market value of many of our investments and has caused other than temporary impairments within our portfolio, which, if this continues, could have a material adverse effect on our liquidity, financial condition and operating results.

As a holding company, Radian Group relies on its operating subsidiaries to fund its dividend payments and to meet its obligations.

Radian Group acts principally as a holding company for our insurance subsidiaries and does not have any significant operations of its own. Radian Group s most significant liquidity demands over the next 12 months include funds for (i) the payment of dividends on our common stock, (ii) the payment of certain corporate expenses (which are fully reimbursed through expense-sharing arrangements with our subsidiaries), (iii) interest payments on our outstanding long-term debt (which are fully reimbursed through expense-sharing arrangements with our subsidiaries), (iv) payments to our insurance subsidiaries under our tax-sharing agreement, and (v) potential capital support for our insurance subsidiaries. Radian Group held directly or through an unregulated direct subsidiary, unrestricted cash and marketable securities of $380 million at September 30, 2009.

Dividends from our insurance subsidiaries and permitted payments to Radian Group under tax- and expense-sharing arrangements with our subsidiaries are Radian Group s principal sources of cash. Our insurance subsidiaries ability to pay dividends to Radian Group is subject to various conditions imposed by the GSEs and rating agencies, and by insurance regulations requiring insurance department approval. In general, dividends in excess of prescribed limits are deemed extraordinary and require insurance regulatory approval. In light of on-going losses in our mortgage insurance subsidiaries, we do not anticipate that these subsidiaries will be permitted under applicable insurance laws to issue dividends to Radian Group for the foreseeable future. To the extent Radian Asset Assurance and Sherman are each permitted to issue dividends, these dividends will be issued to Radian Guaranty, their direct parent company, and not to Radian Group. The expense-sharing arrangements between Radian Group and our insurance subsidiaries, as amended, have been approved by applicable state insurance departments, but such approval may be changed at any time.

If the cash Radian Group receives from our subsidiaries pursuant to dividend payment and expense- and tax-sharing arrangements is insufficient for Radian Group to fund its obligations, we may be required to seek additional capital by incurring additional debt, by issuing additional equity or by selling assets, which we may be unable to do on favorable terms, if at all. The need to raise additional capital or the failure to make timely payments on our obligations could have a material adverse effect on our financial condition and operating results.

We have significant payment obligations upcoming in 2010 and 2011.

Under our current tax-sharing agreement between Radian Group and our subsidiaries, our subsidiaries are required to pay to Radian Group on a quarterly basis, amounts representing their estimated separate company tax liability for the current tax year. Radian Group is required to refund to each subsidiary any amount that such subsidiary overpaid to Radian Group for a taxable year as well as any amount that the subsidiary could utilize through existing carryback provisions of the IRC had such subsidiary filed its federal tax return on a separate company basis. In October 2009, we satisfied Radian Group s obligation to pay approximately $98 million to Radian Guaranty by transferring to it our ownership interest in Sherman, which required no cash payment. See Part I, Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources of this Quarterly Report on Form 10-Q for further information regarding this transaction. In addition, based on our current tax loss projections, we believe that Radian Group will be required to pay an additional amount of $253 million to Radian Guaranty in October 2010, which amount could decrease if actual tax losses are less than projected or increase up to a maximum of $484 million if actual tax losses in 2009 are worse than projected. Further, if Radian Guaranty realizes a tax loss in 2010, Radian Group could be required to make an additional payment to Radian Guaranty in October 2011, up to a maximum of approximately $77 million. Radian Group may also receive or may also be required to pay tax amounts under the tax-sharing agreement to other subsidiaries within the consolidated group, including if Radian Group elects to extend its carryback period for net operating losses as permitted pursuant to recently enacted legislation. All amounts required to be paid under our tax-sharing agreement are dependent on the extent of tax losses in current and future periods and are based upon current IRC provisions which govern the usage of such tax losses. Our tax-sharing agreement may not be changed without the pre-approval of the applicable state insurance departments for certain of the insurance subsidiaries that are party to the agreement.

We repaid our $100 million credit facility in August 2009, but we still have $192 million outstanding in principal amount of debentures that are due in June 2011 as well as $250 million in principal amount of senior notes due in each of 2013 and 2015.

In light of the on-going turmoil in the housing and related credit markets, we do not expect to be profitable in 2009 and we may not be profitable in 2010. Further, Radian Group does not expect to receive any dividends from our insurance subsidiaries in the foreseeable future. Accordingly, in order to satisfy our payment obligations in 2010 and 2011, we may be required to raise capital through one or more public or private offerings of debt or equity securities. Any such arrangements will involve costs and may have certain negative consequences for us and our equity holders, such as a dilutive effect on current equity holders, a decrease in our stock price, and increased costs of leverage and associated limitations on the operations of the business, as well as the up-front costs of the transactions. See Part I, Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources of this Quarterly Report on Form 10-Q. We cannot provide any assurances that, in the future, we will be able to access the capital markets on favorable terms, if at all.

Our reported earnings are subject to fluctuations based on changes in our credit derivatives that require us to adjust their fair market value as reflected on our income statement.

We provide credit enhancement in the form of derivative contracts. The gains and losses on these derivative contracts are derived from internally generated models, which may differ from models used by our counterparties or others in the industry. We estimate fair value amounts using market information, to the extent available, and valuation methodologies that we deem appropriate in order to estimate the fair value amounts that would be exchanged to sell an asset or transfer a liability. Considerable judgment is required to interpret available market data to develop the estimates of fair value. Since there currently is no active market for many derivative products, we have had to use assumptions as to what could be realized in a current market exchange. In the event that our investments or derivative contracts were sold or transferred in a forced liquidation, the fair values received or paid could be materially different than those reflected in our financial statements. See Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies Derivative Assets and Liabilities in Item 2 above.

Temporary market or credit spread changes as well as actual credit improvement or deterioration in our derivative contracts are reflected in changes in fair value of derivative instruments. Because the adjustments referenced above are reflected on our statements of income, they affect our reported earnings and create earnings volatility. Additionally, beginning in 2008, in accordance with the accounting pronouncement regarding fair value measurements, we made an adjustment to our derivatives valuation methodology to account for our own non-performance risk by incorporating our observable credit default swap spread into the determination of fair value of our credit derivatives. Our five-year credit default swap spread has increased significantly since January 2007, and was 1,323 basis points as of September 30, 2009. This market perception of our high risk of non-performance has had the effect of reducing our derivative liability valuations by approximately $2.6 billion as of September 30, 2009. If our credit default swap spread were to tighten significantly, and other credit spreads utilized in our fair value methodologies remained constant, our earnings could be significantly reduced.

The performance of our strategic investments could harm our financial results.

Part of our business involves strategic investments in other companies, and we generally do not have control over the way that these companies run their day-to-day operations. Our 28.7% equity interest in Sherman, through Radian Guaranty, currently represents our most significant strategic investment. Sherman is a consumer asset and servicing firm specializing in charged-off and bankruptcy plan consumer assets that it generally purchases at deep discounts from national financial institutions and major retail corporations and subsequently seeks to collect. In addition, Sherman originates subprime credit card receivables through its subsidiary CreditOne and has a variety of other similar ventures related to consumer assets. Consequently, Sherman s results could be adversely impacted by:

- Sherman s ability to obtain or renew financing, a portion of which is renewable annually, and its ability to accomplish this on reasonable terms;
- mispricing of the pools of consumer assets it purchases;
- macroeconomic or other factors that could diminish the success of its collection efforts on the variety of consumer assets it owns; and
- the results of its credit card origination business, which are sensitive to interest-rate changes, charge-off losses and the success of its collection efforts, and which may be impacted by macroeconomic factors that affect a borrower s ability to pay.

As a result of their significant amount of collection efforts, there is a risk that Sherman could be subject to consumer related lawsuits and other investigations related to fair debt collection practices, which could have an adverse effect on Sherman s income, reputation and future ability to conduct business. In addition, Sherman is particularly exposed to consumer credit risk as a result of its credit card origination business and unsecured lending business through CreditOne. National credit card lenders have reported decreased spending by card members and an increase in delinquencies and loan write-offs as a result of the on-going turmoil in the consumer credit markets. A continuation of current economic trends could materially impact the future results of Sherman, which, in turn, could have an adverse effect on our results of operations or financial condition.

Our international operations subject us to risks.

We are subject to a number of risks associated with our legacy international mortgage insurance and financial guaranty business activities, including:

- dependence on regulatory and third-party approvals;
- foreign governments monetary policies and regulatory requirements;
- economic downturns in targeted foreign mortgage origination markets;
- interest-rate volatility in a variety of countries;
- political risk and risks of war, terrorism, civil disturbances or other events that may limit or disrupt markets;

the burdens of complying with a wide variety of foreign regulations and laws, some of which are materially different than the regulatory and statutory requirements we face in our domestic business, and which may change unexpectedly;

potentially adverse tax consequences;

restrictions on the repatriation of earnings; and

foreign currency exchange rate fluctuations.

Given our current strategic focus on domestic mortgage insurance, we have ceased writing new international business and have significantly reduced our existing international exposures. In certain cases, our ability to reduce our exposure depends on our counterparty s ability to find alternative insurance, which opportunities are limited in the current global economic downturn. Accordingly, we may not be able to recover the capital we invested in our international operations for many years and may not recover all of such capital if losses are worse than expected. Further, any one or more of the risks listed above could limit or prohibit us from effectively running off our international operations.

We currently hold a 45% interest in the holding company for a Brazilian insurance company, which specializes in surety and agricultural insurance. Although we wrote off our entire interest in this company in 2005, under Brazilian law, it is possible that we could become liable for our proportionate share of the liabilities of the company (our share representing approximately $15 million as of June 30, 2009), if the company were to become insolvent. The company currently remains in compliance with Brazilian regulatory requirements and is exploring alternatives for improving its capital position.

We may lose business if we are unable to meet our customers technological demands.

Participants in the mortgage insurance industry rely on e-commerce and other technologies to provide and expand their products and services. Our customers generally require that we provide aspects of our products and services electronically, and the percentage of our new insurance written and claims processing that we deliver electronically has continued to increase. We expect this trend to continue and, accordingly, we may be unable to satisfy our customers requirements if we fail to invest sufficient resources or otherwise are unable to maintain and upgrade our technological capabilities. This may result in a decrease in the business we receive, which could impact our profitability.

Our information technology systems may not be configured to process information regarding new and emerging products.

Many of our information technology systems, which have been in place for a number of years, originally were designed to process information regarding traditional products. As new products with new features emerge or when we modify our underwriting standards as we have done recently, our systems may require modification in order to recognize these features to allow us to price or bill for our insurance of these products appropriately. Our systems also may not be capable of recording, or may incorrectly record, information about these products that may be important to our risk management and other functions. In addition, our customers may encounter similar technological issues that prevent them from sending us complete information about the products or transactions that we insure. Making appropriate modifications to our systems involves inherent time lags and may require us to incur significant expenses. The inability to make necessary modifications to our systems in a timely and cost-effective manner may have adverse effects on our business, financial condition and operating results.

We could be adversely affected if personal information that we maintain on consumers is improperly disclosed.

As part of our business, we and certain of our subsidiaries and affiliates maintain large amounts of personal information on consumers. While we believe we have appropriate information security policies and systems to prevent unauthorized disclosure, there can be no assurance that unauthorized disclosure, either through the actions of third parties or our employees, will not occur. Unauthorized disclosure could adversely affect our reputation and expose us to material claims for damages.

We are subject to the risk of private litigation and regulatory proceedings.

We face litigation risk in the ordinary course of operations, including the risk of class action lawsuits. In August and September 2007, two purported stockholder class action lawsuits, Cortese v. Radian Group Inc. and

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

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

As previously disclosed, on June 26, 2008, we filed a complaint for declaratory judgment in the United States District Court for the Eastern District of Pennsylvania, naming IndyMac, Deutsche Bank, FGIC, Ambac and MBIA as defendants. The suit involves three of our pool policies covering second-lien mortgages, entered into in late 2006 and early 2007 with respect to loans originated by IndyMac. We are in a second loss position behind IndyMac and in front of three defendant financial guaranty companies. We are alleging that the representations and warranties made to us to induce us to issue the policies were materially false, and that as a result, the policies should be void. The total amount of our claim liability for all three pool policies was approximately $77 million, without giving effect to our settlement in August 2009 with Ambac and Deutsche Bank as described below. We have established loss reserves equal to the total amount of our exposure to these transactions. After being stayed for several months as a result of the 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. This settlement resolved the declaratory judgment action as it pertains to Ambac and the arbitration commenced by Ambac was dismissed with prejudice. Arbitration hearings with FGIC and MBIA are expected to be held in the second and third quarters of 2010.

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. We cannot predict whether other actions may be brought against us in the future. Any such proceedings could have an adverse affect on our consolidated financial position, results of operations or cash flows.

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 or former employees provide voluntary testimony in this matter. We believe that the investigation generally relates to the previously proposed merger with MGIC and Radian Group s investment in C-BASS. We are cooperating with the requests of the SEC. The SEC staff has informed us that this investigation should not be construed as an indication by the Commission or its staff that any violation of the securities laws has occurred, or as a reflection upon any person, entity or security.

From time to time we have disputes with our customers. If not resolved, these disputes could lead to arbitration or litigation proceedings. Our recent experience with respect to increased insurance rescissions and claims denials has heightened the risk of disputes with our customers, which could potentially lead to the loss of one or more customers or to litigation. If we engage in material litigation with any customer, the customer could decide to limit the amount of business they conduct with us or terminate our business relationship altogether, which could have a negative impact on our business and results of operations.

See also *Legislation and regulatory changes and interpretations could harm our mortgage insurance business, Legislation and regulatory changes and interpretations could harm our financial guaranty business* and *The Internal Revenue Service (IRS) is examining our tax returns for the years 2000 through 2007.*

The Internal Revenue Service (IRS) is examining our tax returns for the years 2000 through 2007.

We are currently under examination by 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 proposed adjustments denying the associated tax benefits of these items. We are contesting all such proposed adjustments relating to the IRS s opposition of the tax benefits in question and are working with tax counsel in our defense efforts. We have received the revenue agent report relating to the 2000 through 2004 tax years which proposes an increase to our tax liability of approximately $121 million and, in response to that report, have appealed such proposed adjustments to the IRS Office of Appeals and have made a qualified deposit with the U.S. Treasury under IRC Section 6603 of approximately $85.0 million to avoid the accrual of the above-market-rate interest associated with our estimate of the potentially unsettled adjustment. Although we disagree with and are contesting the adjustments proposed by the IRS, and believe that our income and loss from these investments was properly reported on our federal income tax returns in accordance with applicable tax laws and regulations in effect during the periods involved, there can be no assurance that we will prevail in opposing additional tax liability 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 or years 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.

We have concluded that no valuation allowance is required with regard to our deferred tax asset (DTA) which is on our balance sheet at September 30, 2009 at $351.6 million.

The accounting standard regarding accounting for income taxes requires an enterprise to reduce its DTA by a valuation allowance if, based on the weight of available evidence, it is more likely than not that some portion or all of the DTA will not be realized. At each balance sheet date, we assess the requirement to establish a valuation allowance. This assessment, along with the level of a potential valuation allowance, is made based on all available information, including tax planning strategies and projections of future taxable income. Projections of future taxable income incorporate several assumptions of future business and operations that may differ from actual experience. Based on our analysis at September 30, 2009, we believe that we will ultimately possess sufficient taxable income of the appropriate character so that it is more likely than not that our DTA will be realized. Our analysis in making this determination includes our net operating and capital loss carryback potential, a viable tax planning strategy, the reversal of temporary differences relating to our financial guaranty derivatives and the reversal of temporary differences relating to our unrealized losses in our investment portfolio. If, in the future, our assumptions and estimates that resulted in our forecast of future taxable income prove to be incorrect, or future market events occur that prevent our ability to hold financial instruments with unrealized losses to recovery, a valuation allowance could be required to be recognized. Recognition of a valuation allowance could have a material adverse effect on our financial condition, results of operations, and liquidity.

Our ability to recognize tax benefits on future domestic U.S. tax losses and our existing U.S. net operating loss position may be limited.

We have generated substantial net operating losses (NOLS), loss carryforwards and other tax attributes for U.S. tax purposes (Tax Benefits) that can be used to reduce our future federal income tax obligations. Our ability to fully use the Tax Benefits (including NOLS of approximately $1,031.7 million as of September 30, 2009) will be adversely affected if we have an ownership change within the meaning of Section 382 of the IRC of 1986, as amended. An ownership change is generally defined as a greater than 50 percentage point increase in equity ownership by five-percent shareholders in any three-year period. We may experience an ownership change in the future as a result of changes in our stock ownership. On October 8, 2009, our board of directors adopted a Tax Benefit Preservation Plan (the Plan) in order to protect our ability to utilize our net operating losses and other tax assets from an ownership change under U.S. federal income tax rules. However, there is no guarantee that the Plan will be effective in protecting our net operating losses and other tax benefits.

In addition, the Plan may make it more difficult and more expensive to acquire us, and may discourage open market purchases of our common stock or a non-negotiated tender or exchange offer for our common stock. Accordingly, the Plan may limit a stockholder s ability to realize a premium over the market price of our common stock in connection with any stock transaction.

Legislation and regulatory changes and interpretations could harm our mortgage insurance business.

Our business and legal liabilities are affected by the application of federal or state consumer lending and insurance laws and regulations, or by unfavorable changes in these laws and regulations. For example, the Housing and Economic Recovery Act includes reforms to the FHA, and provides the FHA with greater flexibility in establishing new products and increases the FHA s competitive position against private mortgage insurers. This new law increased the maximum loan amount that the FHA can insure and established a higher minimum cash down-payment. The Housing and Economic Recovery Act also contained provisions, called the Hope for Homeownership program, by which the FHA is authorized to refinance distressed mortgages in return for lenders and investors agreeing to write down the amount of the original mortgage. The Emergency Economic Stabilization Act and the U.S. Treasury s Homeowner Affordability and Stability Plan include provisions that encourage further use of the Hope for Homeowners program and further strengthen support for FHA programs by easing restrictions in these programs. We cannot predict with any certainty the long term impact of these changes upon demand for our products. However, we believe that, beginning in 2008, the FHA has materially increased its market share, in part by insuring a number of loans that would meet our current underwriting guidelines, as a result of these recent legislative and regulatory changes. See *Our mortgage insurance business faces intense competition* above. Any further increase in the competition we face from the FHA or any other government sponsored entities could harm our business, financial condition and operating results.

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) and that we have failed to comply with the notice provisions of the Fair Credit Reporting Act (FCRA). In addition, class action lawsuits have been brought against a number of large lenders alleging that their captive reinsurance arrangements violated RESPA. While we are not currently a defendant in any case related to RESPA or FCRA, there can be no assurance that we will not be subject to any future litigation under RESPA or FCRA or that the outcome of such litigation will not have a material adverse affect on us.

We and other mortgage insurers have been subject to inquiries from the New York Insurance Department and the Minnesota Department of Commerce relating to our captive reinsurance and contract underwriting arrangements, and we have also received a subpoena from the Office of the Inspector General of the U.S. Department of Housing and Urban Development (HUD), requesting information relating to captive reinsurance. We cannot predict whether these inquiries will lead to further inquiries, or further investigations of these arrangements, or the scope, timing or outcome of the present inquiries or any other inquiry or action by these or other regulators. Although we believe that all of our captive reinsurance and contract underwriting arrangements comply with applicable legal requirements, we cannot be certain that we will be able to successfully defend against any alleged violations of RESPA or other laws.

Proposed changes to the application of RESPA could harm our competitive position. HUD proposed an exemption under RESPA for lenders that, at the time a borrower submits a loan application, give the borrower a firm, guaranteed price for all the settlement services associated with the loan, commonly referred to as bundling. In 2004, HUD indicated its intention to abandon the proposed rule and to submit a revised proposed rule to the U.S. Congress. HUD began looking at the reform process again in 2005 and a new rule was proposed in 2008. We do not know what form, if any, this rule will take or whether it will be promulgated. In addition, HUD has also declared its intention to seek legislative changes to RESPA. We cannot predict which changes will be implemented and whether the premiums we are able to charge for mortgage insurance will be negatively affected.

Legislation and regulatory changes and interpretations could harm our financial guaranty business.

The laws and regulations affecting the municipal, asset-backed and trade credit debt markets, as well as other governmental regulations, may be changed in ways that could adversely affect our business. Our regulators are reviewing the laws, rules and regulations applicable to financial guarantors in light of the current market disruptions. These reviews could result in additional limitations on our ability to conduct our financial guaranty business, including additional restrictions and limitations on our ability to declare dividends or more stringent statutory capital requirements for all or certain segments of our financial guaranty businesses. Any of these changes could have a material adverse effect on our business, financial condition and operating results.

The implementation of the Basel II capital accord may discourage the use of mortgage insurance.

In 1988, the Basel Committee on Banking Supervision developed the Basel Capital Accord (the Basel I), which set out international benchmarks for assessing banks capital adequacy requirements. In June 2005, the Basel Committee issued an update to Basel I (as revised in November 2005, Basel II). Basel II was implemented by many banks in the U.S. and many other countries in 2008 and may be implemented by the remaining banks in the U.S. and many other countries in 2009. Basel II affects the capital treatment provided to mortgage insurance by domestic and international banks in both their origination and securitization activities. The Basel II provisions related to residential mortgages and mortgage insurance may provide incentives to certain of our bank customers not to insure mortgages having a lower risk of claim and to insure mortgages having a higher risk of claim.

Item 6. Exhibits.

Exhibit No.	**Exhibit Name**
*31	Rule 13a 14(a) Certifications.
*32	Section 1350 Certifications.

* Filed herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Radian Group Inc.

Date: November 13, 2009

/s/ C. Robert Quint
C. Robert Quint
Executive Vice President and Chief Financial Officer

/s/ Catherine M. Jackson
Catherine M. Jackson
Senior Vice President, Controller

EXHIBIT INDEX

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