RADIAN GROUP INC
Form 10-Q
May 10, 2011

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2011

OR

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

For the transition period from to

Commission File Number 1-11356

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

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

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

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

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

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 133,113,518 shares of common stock, $0.001 par value per share, outstanding on April 30, 2011.

Radian Group Inc.
INDEX

		Page Number
Forward Looking Statements—Safe Harbor Provisions		3
PART I—FINANCIAL INFORMATION		
Item 1.	Financial Statements (Unaudited)	6
	Condensed Consolidated Balance Sheets	6
	Condensed Consolidated Statements of Operations	7
	Condensed Consolidated Statements of Changes in Common Stockholders' Equity	8
	Condensed Consolidated Statements of Cash Flows	9
	Notes to Unaudited Condensed Consolidated Financial Statements	10
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	41
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	89
Item 4.	Controls and Procedures	91
PART II—OTHER INFORMATION		
Item 1.	Legal Proceedings	93
Item 1A.	Risk Factors	94
Item 6.	Exhibits	97
SIGNATURES		98
EXHIBIT INDEX		99

Forward Looking Statements—Safe Harbor Provisions

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

- changes in general financial and political conditions, such as the failure of the U.S. economy to fully recover from the most recent recession or the U.S. economy reentering a recessionary period, the lack of meaningful liquidity in the capital markets or in the credit markets, a prolonged period of high unemployment rates and limited home price appreciation or further depreciation (which has resulted in some borrowers voluntarily defaulting on their mortgages when their mortgage balances exceed the value of their homes), changes or volatility in interest rates or consumer confidence, changes in credit spreads, changes in the way customers, investors or regulators perceive the strength of private mortgage insurers or financial guaranty providers, or investor concern over the credit quality and specific risks faced by the particular businesses, municipalities or pools of assets covered by our insurance;
- catastrophic events or further economic changes in geographic regions where our mortgage insurance or financial guaranty insurance exposure is more concentrated;
- our ability to successfully execute upon our capital plan for our mortgage insurance business (which depends, in part, on the performance of our financial guaranty portfolio), and if necessary, to obtain additional capital to support our mortgage insurance business and the long-term liquidity needs of our holding company;
- a further reduction in, or prolonged period of depressed levels of, home mortgage originations due to reduced liquidity in the lending market, tighter underwriting standards, the risk retention requirements established under the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") and the decrease in housing demand throughout the U.S.;
- our ability to maintain adequate risk-to-capital ratios and surplus requirements in our mortgage insurance business in light of ongoing losses in this business and further deterioration in our financial guaranty portfolio which, in the absence of new capital, could depend on our ability to execute strategies for which regulatory and other approvals are required and may not be obtained;
- our ability to continue to effectively mitigate our mortgage insurance and financial guaranty losses;
- reduced opportunities for loss mitigation in markets where housing values do not appreciate or continue to decline;
- a more rapid than expected decrease in the level of insurance rescissions and claim denials from the current elevated levels (including as a result of successful challenges to previously rescinded policies or claim denials), which rescissions and denials have materially mitigated our paid losses and resulted in a significant reduction in our loss reserves;
- the negative impact our insurance rescissions and claim denials may have on our relationships with customers and potential customers, including the potential loss of business and the heightened risk of disputes and litigation;

- the need, in the event that we are unsuccessful in defending our rescissions or denials, to increase our loss reserves for, and reassume risk on, rescinded loans and pay additional claims;
- the concentration of our mortgage insurance business among a relatively small number of large customers;
- any disruption in the servicing of mortgages covered by our insurance policies;

- the aging of our mortgage insurance portfolio and changes in severity or frequency of losses associated with certain of our products that are riskier than traditional mortgage insurance or financial guaranty insurance policies;
- the performance of our insured portfolio of higher risk loans, such as Alternative-A and subprime loans, and of adjustable rate products, such as adjustable rate mortgages and interest-only mortgages;
- a decrease in persistency rates of our mortgage insurance policies;
- an increase in the risk profile of our existing mortgage insurance portfolio due to the availability of mortgage refinancing to only the most qualified borrowers in the current mortgage and housing market;
- further downgrades or threatened downgrades of, or other ratings actions with respect to, our credit ratings or the ratings assigned by the major rating agencies to any of our rated insurance subsidiaries at any time (in particular, the credit rating of Radian Group Inc. and the financial strength ratings assigned to Radian Guaranty Inc.);
- heightened competition for our mortgage insurance business from others such as the Federal Housing Administration (the "FHA"), the Veteran's Administration and private mortgage insurers (in particular, the FHA and those private mortgage insurers that have been assigned higher ratings from the major rating agencies or new entrants to the industry that are not burdened by legacy obligations);
- changes in the charters or business practices of, or rules or regulations applicable to, Federal National Mortgage Association ("Fannie Mae") and Freddie Mac, the largest purchasers of mortgage loans that we insure, and our ability to remain an eligible provider to both Freddie Mac and Fannie Mae;
- changes to the current system of housing finance, including the possibility of a new system in which private mortgage insurers are not required or their products are significantly limited in scope;
- the effect of the Dodd-Frank Act on the financial services industry in general, and on our mortgage insurance and financial guaranty businesses in particular, including whether and to what extent loans with mortgage insurance are considered "qualified residential mortgages" for purposes of the Dodd-Frank Act securitization provisions or "qualified mortgages" for purposes of the ability to repay provisions of the Dodd-Frank Act and potential obligations to post collateral on our existing insured derivatives portfolio;
- the application of existing federal or state consumer, lending, insurance, tax, securities and other applicable laws and regulations, or changes in these laws and regulations or the way they are interpreted; including, without limitation: (i) the outcome of existing, or the possibility of additional, lawsuits or investigations, and (ii) legislative and regulatory changes (a) affecting demand for private mortgage insurance, (b) limiting or restricting our use of (or increasing requirements for) additional capital and the products we may offer, or (c) affecting the form in which we execute credit protection or affecting our existing financial guaranty portfolio;
- the possibility that we may fail to estimate accurately the likelihood, magnitude and timing of losses in connection with establishing loss reserves for our mortgage insurance or financial guaranty businesses or premium deficiencies for our mortgage insurance business, or to estimate accurately the fair value amounts of derivative instruments in our mortgage insurance and financial guaranty businesses in determining gains and losses on these contracts;
- the ability of our primary insurance customers in our financial guaranty reinsurance business to provide appropriate surveillance and to mitigate losses adequately with respect to our assumed insurance portfolio;
- volatility in our earnings caused by changes in the fair value of our derivative instruments and our need to reevaluate the possibility of a premium deficiency in our mortgage insurance business on a quarterly basis;

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

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

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

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

For more information regarding these risks and uncertainties as well as certain additional risks that we face, you should refer to the Risk Factors detailed in Item 1A of Part I of our Annual Report on Form 10-K for the year ended December 31, 2010, and in Item 1A of Part II of this Quarterly Report on Form 10-Q. We caution you not to place undue reliance on these forward-looking statements, which are current only as of the date on which we filed this report. We do not intend to, and we disclaim any duty or obligation to, update or revise any forward-looking statements made in this report to reflect new information or future events or for any other reason.

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements. (Unaudited)

Radian Group Inc.

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(In thousands, except share and per share amounts)	March 31, 2011	December 31, 2010
ASSETS		
Investments		
Fixed-maturities held to maturity—at amortized cost (fair value $9,250 and $11,416)	$8,743	$10,773
Fixed-maturities available for sale—at fair value (amortized cost $332,445 and $340,795)	262,722	273,799
Equity securities available for sale—at fair value (cost $160,083 and $160,242)	194,921	184,365
Trading securities—at fair value (including variable interest entity (“VIE”) securities of $90,187 and $83,184)	4,640,719	4,562,821
Short-term investments—at fair value (including VIE investments of $149,984 and $149,981)	1,224,931	1,537,498
Other invested assets—at cost	61,218	59,627
Total investments	6,393,254	6,628,883
Cash	19,209	20,334
Restricted cash	29,801	31,413
Deferred policy acquisition costs	145,721	148,326
Accrued investment income	45,492	40,498
Accounts and notes receivable (less allowance of $50,000 and $50,000)	115,116	116,452
Property and equipment, at cost (less accumulated depreciation of $93,822 and $92,451)	12,411	13,024
Derivative assets (including VIE derivative assets of $8,955 and $10,855)	24,554	26,212
Deferred income taxes, net	27,531	27,531
Reinsurance recoverables	218,963	244,894
Other assets (including VIE other assets of $108,163 and $112,426)	319,511	323,320
Total assets	$7,351,563	$7,620,887
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Unearned premiums	$666,019	$686,364
Reserve for losses and loss adjustment expenses (“LAE”)	3,627,695	3,596,735
Reserve for premium deficiency	9,353	10,736
Long-term debt	968,199	964,788
VIE debt—at fair value (including $7,561 and $9,514 of non-recourse debt)	373,007	520,114
Derivative liabilities (including VIE derivative liabilities of $17,430 and $19,226)	487,345	723,579
Accounts payable and accrued expenses (including VIE accounts payable of $883 and $837)	247,048	258,791
Total liabilities	6,378,666	6,761,107
Commitments and Contingencies (Note 13)		
Stockholders’ equity		
Common stock: par value $.001 per share; 325,000,000 shares authorized; 150,567,283 and 150,507,853 shares issued at March 31, 2011 and December 31, 2010, respectively; 133,105,845 and 133,049,213 shares outstanding at March 31, 2011 and December 31, 2010, respectively	150	150
Treasury stock, at cost: 17,461,438 and 17,458,640 shares at March 31, 2011 and December 31, 2010, respectively	(892,036)	(892,012)
Additional paid-in capital	1,963,382	1,963,092

Retained deficit	(101,920)	(204,926)
Accumulated other comprehensive income (loss)	3,321	(6,524)
Total stockholders’ equity	972,897	859,780
Total liabilities and stockholders’ equity	$7,351,563	$7,620,887

See notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended March 31,	
(In thousands, except per share amounts)	2011	2010
Revenues:		
Premiums written—insurance:		
Direct	$190,841	$184,278
Assumed	1,624	(1,248)
Ceded	(9,716)	(27,529)
Net premiums written	182,749	155,501
Decrease in unearned premiums	20,274	42,767
Net premiums earned—insurance	203,023	198,268
Net investment income	42,240	45,358
Net gains on investments	37,435	57,948
Total other-than-temporary impairment ("OTTI") losses	—	(18)
Losses recognized in other comprehensive income (loss)	—	—
Net impairment losses recognized in earnings	—	(18)
Change in fair value of derivative instruments	243,892	(77,954)
Net gains (losses) on other financial instruments	75,251	(101,564)
Other income	1,448	5,775
Total revenues	603,289	127,813
Expenses:		
Provision for losses	427,373	543,880
Change in reserve for premium deficiency	(1,383)	(1,231)
Policy acquisition costs	14,131	14,868
Other operating expenses	46,219	65,056
Interest expense	17,024	10,804
Total expenses	503,364	633,377
Equity in net income of affiliates	65	8,098
Pretax income (loss)	99,990	(497,466)
Income tax benefit	(3,016)	(187,111)
Net income (loss)	$103,006	$(310,355)
Basic net income (loss) per share	$0.78	$(3.77)
Diluted net income (loss) per share	$0.77	$(3.77)
Weighted-average number of common shares outstanding—basic	132,427	82,341
Weighted-average number of common and common equivalent shares outstanding—diluted	133,703	82,341
Dividends per share	$0.0025	$0.0025

See notes to unaudited condensed consolidated financial statements.

Radian Group Inc.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN COMMON STOCKHOLDERS' EQUITY (UNAUDITED)

(In thousands)	Common Stock	Treasury Stock	Additional Paid-in Capital	Retained Earnings/(Deficit)	Foreign Currency Translation Adjustment	Unrealized Holding Gains/Losses	Other	Total
BALANCE, JANUARY 1, 2010	$ 100	$ (889,496)	$ 1,363,255	$ 1,602,143	$ 18,285	$ (72,802)	$ (16,491)	$ 2,004,994
Comprehensive loss:								
Net loss	—	—	—	(310,355)	—	—	—	(310,355)
Unrealized foreign currency translation adjustment, net of tax of $1,512	—	—	—	—	(2,006)	—	—	—
Less: Reclassification adjustment for net gains included in net loss, net of tax of $240	—	—	—	—	447	—	—	—
Net foreign currency translation adjustment, net of tax of $1,272	—	—	—	—	(2,453)	—	—	(2,453)
Unrealized holding gains arising during the period, net of tax of $9,077	—	—	—	—	—	16,857	—	—
Less: Reclassification adjustment for net gains included in net loss, net of tax of $39	—	—	—	—	—	72	—	—
Net unrealized gain on investments, net of tax of $9,038	—	—	—	—	—	16,785	—	16,785
Comprehensive loss	—	—	—	—	—	—	—	(296,023)
Repurchases of common stock under incentive plans	—	(749)	108	—	—	—	—	(641)
Issuance of common stock under benefit plans	—	—	1,155	—	—	—	—	1,155
Amortization of restricted stock	—	—	1,624	—	—	—	—	1,624
Stock-based compensation expense	—	—	1,457	—	—	—	—	1,457
Dividends declared	—	—	—	(205)	—	—	—	(205)
BALANCE, March 31, 2010	$ 100	$ (890,245)	$ 1,367,599	$ 1,291,583	$ 15,832	$ (56,017)	$ (16,491)	$ 1,712,361
BALANCE, JANUARY 1, 2011	$ 150	$ (892,012)	$ 1,963,092	$ (204,926)	$ 21,094	$ (27,857)	$ 239	$ 859,780

Comprehensive income:								
Net income	—	—	—	103,006	—	—	—	103,006
Unrealized foreign currency translation adjustment	—	—	—	—	1,565	—	—	
Less: Reclassification adjustment for net losses on sales	—	—	—	—	(292)	—	—	
Net foreign currency translation adjustment	—	—	—	—	1,857	—	—	1,857
Unrealized holding gains arising during the period	—	—	—	—	—	8,066	—	
Less: Reclassification adjustment for net gains included in net income	—	—	—	—	—	78	—	
Net unrealized gain on investments	—	—	—	—	—	7,988	—	7,988
Comprehensive income	—	—	—	—	—	—	—	112,851
Repurchases of common stock under incentive plans	—	(24)		—	—	—	—	(24)
Issuance of common stock under benefit plans	—	—	359	—	—	—	—	359
Amortization of restricted stock	—	—	274	—	—	—	—	274
Additional convertible debt issuance costs, net	—	—	(33)	—	—	—	—	(33)
Stock-based compensation expense	—	—	23	—	—	—	—	23
Dividends declared	—	—	(333)	—	—	—	—	(333)
BALANCE, March 31, 2011	$ 150	$ (892,036)	$ 1,963,382	$ (101,920)	$ 22,951	$ (19,869)	$ 239	$ 972,897

See notes to unaudited condensed consolidated financial statements.

Radian Group Inc.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(In thousands)	Three Months Ended March 31, 2011	2010
Cash flows used in operating activities	$(260,863)	$(287,011)
Cash flows from investing activities:		
Proceeds from sales of fixed-maturity investments available for sale	515	6,555
Proceeds from sales of equity securities available for sale	376	5,353
Proceeds from sales of trading securities	313,036	229,349
Proceeds from redemptions of fixed-maturity investments available for sale	8,594	12,799
Proceeds from redemptions of fixed-maturity investments held to maturity	2,195	2,320
Purchases of trading securities	(376,825)	(371,150)
Sales and redemptions of short-term investments, net	312,739	425,848
Purchases of other invested assets, net	(1,591)	(2,684)
Purchases of property and equipment, net	(760)	(296)
Net cash provided by investing activities	258,279	308,094
Cash flows from financing activities:		
Dividends paid	(333)	(205)
Redemption of long-term debt	—	(29,348)
Net cash used in financing activities	(333)	(29,553)
Effect of exchange rate changes on cash	1,792	(608)
Decrease in cash	(1,125)	(9,078)
Cash, beginning of period	20,334	77,181
Cash, end of period	$19,209	$68,103
Supplemental disclosures of cash flow information:		
Income taxes paid	$826	$1,453
Interest paid	$7,283	$7,414

See notes to unaudited condensed consolidated financial statements.

9

Radian Group Inc.
Notes to Unaudited Condensed Consolidated Financial Statements

1. Condensed Consolidated Financial Statements—Basis of Presentation

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

Our condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and include the accounts of all wholly-owned subsidiaries. Companies in which we, or one of our subsidiaries, own interests ranging from 20% to 50%, are accounted for in accordance with the equity method of accounting. VIEs where we are the primary beneficiary are consolidated. See Note 5 for further information. All intercompany accounts and transactions, and intercompany profits and losses, have been eliminated. We have condensed or omitted certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with GAAP pursuant to the instructions of Article 10 of Regulation S-X of the Securities and Exchange Commission ("SEC").

The financial information presented for interim periods is unaudited; however, such information reflects all adjustments that are, in the opinion of management, necessary for a fair statement of the financial position, results of operations, and cash flows for the interim periods. These interim financial statements should be read in conjunction with the audited financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2010. The results of operations for interim periods are not necessarily indicative of results to be expected for the full year or for any other period. The total assets for the mortgage insurance segment as of March 31, 2010, reflected in Note 2 have been revised to conform to the presentation in the audited financial statements for the year ended December 31, 2010. The year-end condensed balance sheet data was derived from our audited financial statements, but does not include all disclosures required by GAAP.

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

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

- Potential adverse effects on us of the failure or significant delay of the United States ("U.S.") economy to fully recover, including ongoing uncertainty in the housing and related credit markets and high unemployment, which could increase our mortgage insurance or financial guaranty incurred losses beyond existing expectations (See Notes 7, 8 and 9).
- Potential adverse effects if the capital and liquidity levels of Radian Group or our regulated subsidiaries' statutory capital levels are deemed inadequate to support current business operations and strategies. Radian Group had immediately available, directly or through an unregulated direct subsidiary, unrestricted cash and marketable securities of approximately $819.2 million at March 31, 2011, which includes $150 million of investments contained in our committed preferred custodian trust securities ("CPS") as discussed in Note 5. Radian Guaranty Inc.'s ("Radian Guaranty") statutory policyholders' surplus declined from $1.3 billion at December 31, 2010, to $1.1 billion at March 31, 2011.
- Potential adverse effects if Radian Guaranty's regulatory risk-to-capital ratio were to increase above 25 to 1, including the possibility that insurance regulators or the Government Sponsored Enterprises ("GSEs") may limit or cause Radian Guaranty to cease underwriting new mortgage insurance risk, and Radian Guaranty's customers may decide not to insure loans with Radian Guaranty or may otherwise limit the type or amount of business done with Radian Guaranty. We have been preparing Amerin Guaranty Corporation ("Amerin Guaranty") to write new first-lien mortgage ("first-lien") insurance, if needed, and could pursue waivers from those states that impose a 25 to 1 limitation. If we are unable to continue writing new first-lien insurance business through Amerin Guaranty or obtain the necessary waivers from the risk-to-capital limitations, it will significantly impair our franchise value and reduce

our cash flow associated with new business while we continue to honor and settle all valid claims and related expenses. At March 31, 2011, this ratio was 20.3 to 1.

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

- Potential adverse effects if Radian Guaranty were to lose its eligibility status with the GSEs, which could occur at any time at the discretion of the GSEs. Loss of GSE eligibility would likely result in a significant curtailment of our ability to write new mortgage insurance business, which would significantly impair our franchise value and limit our cash flow arising from new business while we continue to honor and settle all valid claims and related expenses.
- Potential adverse effects from legislative efforts to reform the housing finance market, including the possibility that new federal legislation could reduce or eliminate the requirement for private mortgage insurance.
- Potential impact on our businesses as a result of the implementation of regulations under the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), the effect of the Dodd-Frank Act on the financial services industry in general, and on our mortgage insurance and financial guaranty businesses in particular, including whether and to what extent loans with mortgage insurance are considered "qualified residential mortgages" for purposes of the Dodd-Frank Act securitization provisions or "qualified mortgages" for purposes of the ability to repay provisions of the Dodd-Frank Act and potential obligations to post collateral on our existing insured derivatives portfolio.
- Potential adverse effects on Radian Group liquidity if regulators or the GSEs limit, disallow or terminate our expense allocation agreements among Radian Group and its subsidiaries. In the first three months of 2011, Radian Group received $29.7 million in reimbursements from its subsidiaries under these agreements.

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

Basic net income (loss) per share is based on the weighted-average number of common shares outstanding, while diluted net income (loss) per share is based on the weighted-average number of common shares outstanding and common share equivalents that would be issuable upon the exercise of stock options and other stock-based compensation. For the three months ended March 31, 2011, 2,708,882 shares of our common stock equivalents issued under our stock-based compensation plans were not included in the calculation of diluted net income per share because they were anti-dilutive. As a result of our net loss for the three months ended March 31, 2010, 4,278,010 shares of our common stock equivalents issued under our stock-based compensations plans were not included in the calculation of diluted net loss per share as of such date because they were anti-dilutive.

We have reflected the additional disclosures required by the update to the accounting standard regarding fair value measurements and disclosures effective January 1, 2011, in Note 4. The 2010 information has been revised to be consistent with the 2011 disclosure.

2. Segment Reporting

We currently have two reportable segments: mortgage insurance and financial guaranty.

Our reportable segments are strategic business units that are managed separately. We allocate corporate income and expenses to our mortgage insurance and financial guaranty segments based on either an allocated percentage of time spent or internally allocated capital. We allocate corporate cash and investments to our mortgage insurance and financial guaranty segments based on internally allocated capital.

Prior to January 1, 2011, we also had a third reportable segment—financial services. Our financial services segment had consisted mainly of our ownership interest in Credit-Based Asset Servicing and Securitization LLC ("C-BASS"), which was a credit-based consumer asset business. We wrote off our entire investment in C-BASS in 2007. C-BASS filed for Chapter 11 bankruptcy protection on November 12, 2010, and was subsequently liquidated. Our interest in C-BASS was extinguished pursuant to the Plan of Liquidation that was confirmed on April 25, 2011. In addition, until May 3, 2010, when we sold our remaining interest therein, our financial services segment included our interest in

Sherman Financial Group LLC, a consumer asset and servicing firm specializing in credit card and bankruptcy-plan consumer assets. Consequently, as of January 1, 2011, we no longer had any on-going activity in this reporting segment.

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

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

(In thousands)	Three Months Ended March 31, 2011	2010
Mortgage Insurance		
Net premiums written—insurance	$180,846	$157,032
Net premiums earned—insurance	$186,134	$177,339
Net investment income	26,833	26,359
Net gains on investments	17,762	28,781
Net impairment losses recognized in earnings	—	(18)
Change in fair value of derivative instruments	(394)	277
Net gains (losses) on other financial instruments	2,466	(30,200)
Other income	1,400	1,799
Total revenues	234,201	204,337
Provision for losses	413,973	529,091
Change in reserve for premium deficiency	(1,383)	(1,231)
Policy acquisition costs	10,216	10,504
Other operating expenses	34,137	46,233
Interest expense	9,789	2,120
Total expenses	466,732	586,717
Equity in net income of affiliates	—	—
Pretax loss	(232,531)	(382,380)
Income tax provision (benefit)	3,501	(145,847)
Net loss	$(236,032)	$(236,533)
Cash and investments	$3,977,445	$3,546,637
Deferred policy acquisition costs	42,322	36,762
Total assets	4,471,425	4,919,093
Unearned premiums	191,910	219,753
Reserve for losses and LAE	3,542,797	3,597,035
VIE debt	72,369	268,443
Derivative liabilities	—	—

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

(In thousands)	Three Months Ended March 31, 2011	2010
Financial Guaranty		
Net premiums written—insurance	$1,903	$(1,531)
Net premiums earned—insurance	$16,889	$20,929
Net investment income	15,407	18,999
Net gains on investments	19,673	29,167
Net impairment losses recognized in earnings	—	—
Change in fair value of derivative instruments	244,286	(78,231)
Net gains (losses) on other financial instruments	72,785	(71,364)
Other income	48	3,913
Total revenues	369,088	(76,587)
Provision for losses	13,400	14,789
Change in reserve for premium deficiency	—	—
Policy acquisition costs	3,915	4,364
Other operating expenses	12,082	18,673
Interest expense	7,235	8,684
Total expenses	36,632	46,510
Equity in net income of affiliates	65	78
Pretax income (loss)	332,521	(123,019)
Income tax benefit	(6,517)	(44,041)
Net income (loss)	$339,038	$(78,978)
Cash and investments	$2,464,819	$2,523,751
Deferred policy acquisition costs	103,399	120,169
Total assets	2,880,138	3,161,663
Unearned premiums	474,109	560,808
Reserve for losses and LAE	84,898	138,789
VIE debt	300,638	327,618
Derivative liabilities	487,345	234,504

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

(In thousands)	Three Months Ended March 31, 2010
Financial Services	
Net premiums written—insurance	$—
Net premiums earned—insurance	$—
Net investment income	—
Net gains on investments	—
Net impairment losses recognized in earnings	—
Change in fair value of derivative instruments	—
Net (losses) gains on other financial instruments	—
Gain on sale of affiliate	—
Other income	63
Total revenues	63
Provision for losses	—
Change in reserve for premium deficiency	—
Policy acquisition costs	—
Other operating expenses	150
Interest expense	—
Total expenses	150
Equity in net income of affiliates	8,020
Pretax income	7,933
Income tax provision	2,777
Net income	$5,156
Cash and investments	$—
Deferred policy acquisition costs	—
Total assets	127,402
Unearned premiums	—
Reserve for losses and LAE	—
VIE debt	—
Derivative liabilities	—

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

(In thousands)	Three Months Ended March 31, 2011	2010
Consolidated		
Net income (loss):		
Mortgage Insurance	$(236,032)	$(236,533)
Financial Guaranty	339,038	(78,978)
Financial Services	—	5,156
Total	$103,006	$(310,355)

14

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

3. Derivative Instruments

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

(In millions)	March 31, 2011	December 31, 2010
Balance Sheets		
Derivative assets:		
Financial Guaranty credit derivative assets	$15.1	$14.5
Net interest margin securities ("NIMS") assets	9.0	10.8
Other	0.5	0.9
Total derivative assets	24.6	26.2
Derivative liabilities:		
Financial Guaranty credit derivative liabilities	469.9	704.4
Financial Guaranty VIE derivative liabilities	17.4	19.2
Total derivative liabilities	487.3	723.6
Total derivative liabilities, net	$(462.7)	$(697.4)

The notional value of our derivative contracts at March 31, 2011, and December 31, 2010, was $41.3 billion and $41.6 billion, respectively.

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

	Three Months Ended March 31,	
(In millions)	2011	2010
Statements of Operations		
Net premiums earned—derivatives	$10.9	$12.1
Financial Guaranty credit derivatives	234.6	(84.1)
Financial Guaranty VIE derivative liabilities	(0.9)	(3.2)
NIMS	(1.9)	(0.2)
Put options on CPS	—	(2.1)
Other	1.2	(0.5)
Change in fair value of derivative instruments	$243.9	$(78.0)

The valuation of derivative instruments may result in significant volatility from period to period in gains and losses as reported on our condensed consolidated statements of operations. Generally, these gains and losses result from changes in corporate credit or asset-backed spreads and changes in the creditworthiness of underlying corporate entities or the credit performance of the assets underlying asset-backed securities ("ABS"). Additionally, when determining the fair value of our liabilities, we are required to incorporate into the fair value of those liabilities an adjustment that reflects our own non-performance risk and consequently, changes in the market's perception of our non-performance risk also result in gains and losses on our derivative instruments. Any incurred gains or losses on our financial guaranty contracts that are accounted for as derivatives are recognized as a change in fair value of derivative instruments. See Note 4 for information on our fair value of financial instruments.

15

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

The following table shows selected information about our derivative contracts:

($ in millions)	March 31, 2011 Number of Contracts	Par/ Notional Exposure	Total Net Asset/ (Liability)
Product			
NIMS related and other (1)	—	$—	$ 9.5
Corporate collateralized debt obligations ("CDOs")	84	33,511.3	(45.7)
Non-Corporate CDOs and other derivative transactions:			
Trust Preferred Securities ("TruPs")	19	2,006.7	(211.8)
CDOs of commercial mortgage-backed securities ("CMBS")	4	1,831.0	(54.3)
Other:			
Structured finance	9	833.7	(82.3)
Public finance	26	1,693.9	(37.6)
Total Non-Corporate CDOs and other derivative transactions	58	6,365.3	(386.0)
Assumed financial guaranty credit derivatives:			
Structured finance	274	1,083.0	(19.0)
Public finance	14	350.5	(4.1)
Total Assumed	288	1,433.5	(23.1)
Financial Guaranty VIE derivative liabilities (2)	—	—	(17.4)
Grand Total	430	$41,310.1	$ (462.7)

(1) Represents NIMS derivative assets related to consolidated NIMS VIEs. Also includes one common stock warrant. Because neither of these investments represent financial guaranty contracts that we issued, they cannot become liabilities, and therefore, do not represent additional par exposure.

(2) Represents the fair value of an interest rate swap included in the consolidation of one of our financial guaranty transactions. The notional amount of the interest rate swap does not represent additional par exposure, and therefore, is excluded from this table. See Note 5 for information on our maximum exposure to loss from our consolidated financial guaranty transactions.

4. Fair Value of Financial Instruments

Our fair value measurements are intended to reflect the assumptions market participants would use in pricing an asset or liability based on the best information available. Assumptions include the risks inherent in a particular valuation technique (such as a pricing model) and the risks inherent in the inputs to the model. We define fair value as the current amount that would be exchanged to sell an asset or transfer a liability, other than in a forced liquidation. In the event that our investments or derivative contracts were sold or transferred in a forced liquidation, the amounts received or paid may be materially different than those determined in accordance with the accounting standard regarding fair value measurements. There have been no significant changes to our fair value methodologies during the quarter ended March 31, 2011.

When determining the fair value of our liabilities, we are required to incorporate into the fair value of those liabilities an adjustment that reflects our own non-performance risk. Radian Group's five-year credit default swap ("CDS") spread is the only observable quantitative measure of our non-performance risk and is used by typical market participants to determine the likelihood of default. As Radian Group's CDS spread tightens or widens, it has the effect of increasing or decreasing, respectively, the fair value of our liabilities.

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

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

(In basis points)	March 31, 2011	December 31, 2010	March 31, 2010	December 31, 2009
Radian Group's five-year CDS spread	642	465	983	1,530

(In millions)	Fair Value Liability before Consideration of Radian Non-Performance Risk March 31, 2011	Impact of Radian Non-Performance Risk March 31, 2011	Fair Value Liability Recorded March 31, 2011
Product			
Corporate CDOs	$ (324.1)	$ 278.4	$ (45.7)
Non-Corporate CDO-related (1)	(1,579.1)	1,072.5	(506.6)
NIMS-related (2)	(68.8)	5.4	(63.4)
Total	$ (1,972.0)	$ 1,356.3	$ (615.7)

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

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

The cumulative impact attributable to the market's perception of our non-performance risk increased by $0.1 billion during the first three months of 2011, as presented in the table above. This increase was primarily the result of the widening of Radian Group's CDS spreads during this period.
We established a fair value hierarchy by prioritizing the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level I measurements) and the lowest priority to unobservable inputs (Level III measurements). The three levels of the fair value hierarchy under this standard are described below:

Level I—Unadjusted quoted prices or valuations in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
Level II—Quoted prices or valuations in markets that are not active or financial instruments for which all significant inputs are observable, either directly or indirectly; and
Level III—Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

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

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

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. At March 31, 2011, our total Level III assets were approximately 3.9% of total assets measured at fair value and total Level III liabilities accounted for 100% of total liabilities measured at fair value.

Available for sale securities, trading securities, VIE debt, derivative instruments, and certain other assets are recorded at fair value. All derivative instruments and contracts are recognized in our condensed consolidated balance sheets as either derivative assets or derivative liabilities. All changes in the fair value of trading securities, VIE debt, derivative instruments and certain other assets are included in our condensed consolidated statements of operations. All changes in the fair value of available for sale securities are recorded in accumulated other comprehensive income (loss).

The following is a list of those assets and liabilities that are measured at fair value by hierarchy level as of March 31, 2011:

(In millions)	Level I	Level II	Level III	Total
Assets and Liabilities at Fair Value				
Investment Portfolio:				
U.S. government and agency securities	$707.5	$744.8	$—	$1,452.3
State and municipal obligations	—	1,220.8	23.2	1,244.0
Money market instruments	365.8	—	—	365.8
Corporate bonds and notes	—	1,005.0	—	1,005.0
Residential mortgage-backed securities ("RMBS")	—	913.1	55.3	968.4
CMBS	—	193.1	24.0	217.1
CDO	—	—	4.1	4.1
Other ABS	—	120.8	4.7	125.5
Foreign government securities	—	70.1	—	70.1
Hybrid securities	—	367.6	—	367.6
Equity securities (1)	178.3	165.3	4.3	347.9
Other investments (2)	—	151.6	3.9	155.5
Total Investments at Fair Value (3)	1,251.6	4,952.2	119.5	6,323.3
Derivative Assets	—	0.5	24.1	24.6
Other Assets (4)	—	—	106.3	106.3
Total Assets at Fair Value	$1,251.6	$4,952.7	$249.9	$6,454.2
Derivative Liabilities	$—	$—	$487.3	$487.3
VIE debt (5)	—	—	373.0	373.0
Total Liabilities at Fair Value	$—	$—	$860.3	$860.3

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

(2) Comprised of short-term commercial paper within CPS trusts ($150.0 million) and short-term CDs ($1.6 million) included within Level II and lottery annuities ($1.8 million) and TruPs held by consolidated VIEs ($2.1 million) included within Level III.

(3) Does not include fixed-maturities held to maturity ($8.7 million) and other invested assets ($61.2 million), primarily invested in limited partnerships, accounted for as cost-method investments and not measured at fair value.

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

(5) Comprised of consolidated debt related to NIMS VIEs ($72.4 million) and amounts related to financial guaranty VIEs ($300.6 million).

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

The following is a list of those assets and liabilities that are measured at fair value by hierarchy level as of December 31, 2010:

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

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

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

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

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

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

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

The following is a rollforward of Level III assets and liabilities measured at fair value for the quarter ended March 31, 2011:

(In millions)	Beginning Balance at January 1, 2011	Realized and Unrealized Gains (Losses) Recorded in Earnings (1)	Purchases	Sales	Issuances	Settlements	Transfers Into (Out of) Level III (2)	Ending Balance at March 31, 2011
Investments:								
State and municipal obligations	$23.2	$ —	$—	$—	$—	$—	$ —	$23.2
RMBS	52.5	4.0	—	—	—	(1.2)	—	55.3
CMBS	23.0	1.0	—	—	—	—	—	24.0
CDO	2.4	1.6	—	—	—	0.1	—	4.1
Other ABS	3.3	1.4	—	—	—	—	—	4.7
Hybrid securities	—	(0.7)	0.7	—	—	—	—	—
Equity securities	2.9	0.4	1.1	(0.1)	—	—	—	4.3
Other investments	4.6	0.1	—	(0.5)	—	(0.3)	—	3.9
Total Level III Investments	111.9	7.8	1.8	(0.6)	—	(1.4)	—	119.5
NIMS derivative assets	11.7	(2.4)	0.1	—	—	—	(0.4)	9.0
Other assets	109.7	3.9	—	—	—	(7.3)	—	106.3
Total Level III Assets, net	$233.3	$ 9.3	$1.9	$(0.6)	$—	$(8.7)	$ (0.4)	$234.8
Derivative liabilities, net	$(709.1)	$ 244.7	$—	$—	$—	$(7.8)	$ —	$(472.2)
VIE debt	(520.1)	72.9	—	—	—	74.2	—	(373.0)
Total Level III liabilities, net	$(1,229.2)	$ 317.6	$—	$—	$—	$66.4	$ —	$(845.2)

(1) Includes unrealized gains (losses) relating to assets and liabilities still held as of March 31, 2011, as follows: $6.8 million for investments, $(2.0) million for NIMS derivative assets, $0.8 million for other assets, $229.2 million for derivative liabilities, and $0.7 million for VIE debt.

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

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

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

The following is a rollforward of Level III assets and liabilities measured at fair value for the quarter ended March 31, 2010:

(In millions)	Beginning Balance at January 1, 2010	VIE Consolidation at January 1, 2010 (1)	Realized and Unrealized Gains(Losses) Recorded in Earnings (2)	Purchases	Sales	Issuances	Settlements	Transfers Into (Out of) Level III (3)	Ending Balance at March 31, 2010
Investments:									
State and municipal obligations	$ 24.4	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 24.4
RMBS	—	44.3	12.0	—	(2.2)	—	—	—	54.1
CMBS	—	23.8	0.5	—	—	—	—	—	24.3
CDO	—	3.8	(0.1)	—	0.1	—	—	—	3.8
Other ABS	—	3.5	—	—	—	—	—	—	3.5
Hybrid securities	0.6	—	—	—	—	—	—	0.5	1.1
Equity securities	1.7	—	(0.3)	0.1	—	—	—	—	1.5
Other investments	3.8	3.7	—	—	(0.8)	—	—	—	6.7
Total Level III Investments	30.5	79.1	12.1	0.1	(2.9)	—	—	0.5	119.4
NIMS and CPS derivative assets	44.7	—	(2.8)	0.2	—	—	0.4	—	42.5
Other assets	—	119.7	2.0	—	—	—	(3.4)	—	118.3
Total Level III Assets, net	$ 75.2	$ 198.8	$ 11.3	$ 0.3	$ (2.9)	$ —	$ (3)	$ 0.5	$ 280.2
Derivative liabilities, net	$ (214.9)	$ 51.8	$ (75.1)	$ —	$ —	$ —	$ 28	$ —	$ (210.2)
VIE debt	(296.1)	(253.5)	(107.0)	—	—	—	60.5	—	(596.1)
Total Level III liabilities, net	$ (511.0)	$ (201.7)	$ (182.1)	$ —	$ —	$ —	$ 88.5	$ —	$ (806.3)

(1) Represents the impact of our adoption of the accounting standard update regarding improvements to financial reporting by enterprises involving VIEs.

(2) Includes unrealized gains (losses) relating to assets and liabilities still held as of March 31, 2010 as follows: $11.6 million for investments, $(0.2) million for NIMS derivative assets, $(1.7) million for CPS derivative assets, $2.0 million for other assets, $(88.8) million for derivative liabilities, and $(31.0) million for VIE debt.

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

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

Other Fair Value Disclosure

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

(In millions)	March 31, 2011 Carrying Amount	March 31, 2011 Estimated Fair Value	December 31, 2010 Carrying Amount	December 31, 2010 Estimated Fair Value
Assets:				
Fixed-maturities held to maturity	$8.7	$9.3	$10.8	$11.4
Short-term investments (carried at cost)	—	—	1.6	1.6
Other invested assets	61.2	62.6	59.6	58.4
Liabilities:				
Long-term debt	968.2	1,039.0	964.8	1,082.5
Non-derivative financial guaranty liabilities	407.5	520.5	406.1	531.1

5. VIEs

The following information provides additional detail related to our consolidated and unconsolidated VIEs.

NIMS VIEs

We consolidate all of the assets and liabilities associated with NIMS VIEs, due to contractual provisions that allow us to purchase assets of the VIEs and thus direct the activities that most significantly impact the economic performance of each VIE. For this reason, we have concluded that we have the power to most significantly impact the economic performance of these VIEs. As the guarantor of either all or a significant portion of the debt issued by each NIMS VIE, we have the obligation to absorb losses that are significant to the VIEs. As a result, we have concluded that we are the primary beneficiary of these VIEs. The consolidated NIMS assets are accounted for as derivatives and represent assets to be used to settle the obligation of the VIEs. We elected the fair value option as it relates to the NIMS VIE debt, and therefore, the consolidated NIMS VIE debt is recorded at fair value. Our VIE debt includes amounts for which third parties do not have recourse to us.

Our continued involvement with the NIMS VIEs also includes a risk mitigation initiative, under which we purchased one NIMS bond during the first three months of 2011, with $0.9 million face value and a purchase price approximately equal to our fair value liability at the time of purchase, which effectively eliminates the guarantee that we had issued to the VIE with respect to such bond and limits our liability to the discounted purchase price. In total, our net cash outflow related to NIMS during 2011 has been primarily as a result of claim payments. The average remaining maturity of our existing NIMS transactions is approximately two years. The following tables provide a summary of our maximum exposure to losses, and the financial impact on our condensed consolidated balance sheets, our condensed consolidated statements of operations and our condensed consolidated statements of cash flows as of and for the periods indicated, as it relates to our consolidated NIMS VIEs:

(In millions)	March 31, 2011	December 31, 2010
Balance Sheet:		
Derivative assets	$9.0	$10.8
VIE debt—at fair value	72.4	141.0
Maximum exposure (1)	69.3	135.8

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

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

(In millions)	Three Months Ended March 31, 2011	2010
Statement of Operations:		
Net investment income	$0.1	$—
Change in fair value of derivative instruments—loss	(1.9)	(0.2)
Net gain (loss) on other financial instruments	2.4	(30.7)
Net Cash Outflow	66.2	50.1

Put Options on CPS

Radian Group and its subsidiaries have purchased by tender offer and privately negotiated transactions substantially all of the face amount of the CPS issued by the custodial trusts. Our continued involvement with these VIEs includes the payment of a put premium representing the spread between the assets of each trust and the relevant CPS, which has typically been de minimis. We eliminate the premium associated with the purchased CPS.

Based on our involvement in these trusts, combined with the put options Radian Asset Assurance Inc. ("Radian Asset Assurance") holds on these trusts (which together are considered in the determination of the primary beneficiary), we concluded that we are the party that directs the activities that most significantly influence the economic performance of these VIEs and has the right to receive benefits that would be significant to these VIEs. This determination was based on a qualitative analysis which demonstrates that we have a variable interest in each of these VIEs, and therefore, we concluded that we are the primary beneficiary. As such, the assets and liabilities of these trusts were consolidated at their respective fair values, net of liabilities to us. The assets of the consolidated trusts are reported in short-term investments. During 2011, our net cash outflow related to our involvement with these VIEs was de minimis.

The following tables provide a summary of our maximum exposure to losses, and the financial impact on our condensed consolidated balance sheets, our condensed consolidated statements of operations and our condensed consolidated statements of cash flows as of and for the periods indicated, as it relates to our consolidated and unconsolidated CPS VIEs:

(In millions)	Consolidated March 31, 2011	December 31, 2010
Balance Sheet:		
Short-term investments	$150.0	$150.0
Maximum exposure (1)	150.0	150.0

(1) The maximum exposure is based on our carrying amounts of the investments.

23

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

	Consolidated Three Months Ended March 31,		Unconsolidated (1) Three Months Ended March 31,	
(In millions)	2011	2010	2011	2010
Statement of Operations:				
Net gain (loss) on investments	$0.1	$(0.5)	$—	$—
Change in fair value of derivative instruments—loss	—	—	—	(2.1)
Net loss on other financial instruments	—	(0.3)	—	—
Interest expense	—	0.1	—	—
Other operating expenses	0.1	0.1	—	—
Net Cash Outflow	—	29.5	—	