UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2007

OR

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

For the transition period from to

Commission File Number 1-11356

Radian Group Inc.

(Exact name of registrant as specified in its charter)

Delaware **(State or other jurisdiction of** **incorporation or organization)**	**23-2691170** **(I.R.S. Employer** **Identification No.)**
1601 Market Street, Philadelphia, PA **(Address of principal executive offices)**	**19103** **(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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check One):

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

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: 80,397,067 shares of common stock, $0.001 par value per share, outstanding on November 5, 2007.

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Forward Looking Statements Safe Harbor Provisions

All statements in this report that address events, developments or results that we expect or anticipate may occur in the future are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, Section 21E of the Securities Exchange Act of 1934 and the U.S. Private Securities Litigation Reform Act of 1995. In most cases, forward-looking statements may be identified by words such as may, will, should, expect, intend, plan, goal, contemplate, believe, estimate, predict, project, potential, continue or the negative or words and other similar expressions. These statements, which include, without limitation, projections regarding losses as well as other statements regarding our future 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:

actual or perceived changes in general financial and political conditions, such as extended national or regional economic recessions, changes in housing demand or mortgage originations, changes in housing values (in particular, further deterioration in the housing, mortgage and related credit markets, which would harm our future consolidated results of operations and, if more severe than our current predictions, could cause our ultimate projected losses for our mortgage insurance portfolio and net interest margin security business to be worse than expected), changes in the liquidity in the capital markets and the contraction of credit markets, population trends and changes in household formation patterns, changes in unemployment rates, changes or volatility in interest rates or consumer confidence, changes in credit spreads, changes in the way investors perceive the strength of private mortgage insurers or financial guaranty providers, investor concern over the credit quality and specific risks faced by the particular businesses, municipalities or pools of assets covered by our insurance;

actual or perceived economic changes or catastrophic events in geographic regions (both domestic and international) where our mortgage insurance or financial guaranty insurance in force is more concentrated;

the loss of a customer for whom we write a significant amount of mortgage insurance or financial guaranty insurance or the influence of large customers;

the aging of our mortgage insurance portfolio, which could cause losses to increase, 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;

changes in persistency rates of our mortgage insurance policies caused by changes in refinancing activity, appreciating or depreciating home values and changes in the mortgage insurance cancellation requirements of mortgage lenders and investors;

downgrades or threatened downgrades of, or other ratings actions with respect to, our credit ratings or the insurance financial strength ratings assigned by the major rating agencies to any of our rated insurance subsidiaries at any time (in particular, our credit rating and the financial strength ratings of our mortgage insurance subsidiaries that are currently under review for possible downgrade by Moody s), which risk is discussed in more detail under Item 1A of Part II of this report;

heightened competition for our mortgage insurance business from others such as the Federal Housing Administration and the Veterans Administration or other private mortgage insurers, from alternative products such as 80-10-10 loans or other forms of simultaneous second loan structures used by mortgage lenders, from investors using forms of credit enhancement other than mortgage insurance as a partial or complete substitution for private mortgage insurance and from mortgage lenders that demand increased participation in revenue sharing arrangements such as captive reinsurance arrangements;

changes in the charters or business practices of Federal National Mortgage Association and Federal Home Loan Mortgage Corp., the largest purchasers of mortgage loans that we insure;

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heightened competition for financial guaranty business from other financial guaranty insurers, from other forms of credit enhancement such as letters of credit, guaranties and credit default swaps provided by foreign and domestic banks and other financial institutions and from alternative structures that may permit insurers to securitize assets more cost-effectively without the need for the types of credit enhancement we offer, or result in our having to reduce the premium we charge for our products;

the application of existing federal or state consumer, lending, insurance, 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 possibility of private lawsuits or investigations by state insurance departments and state attorneys general alleging that services offered by the mortgage insurance industry, such as captive reinsurance, pool insurance and contract underwriting, are violative of the Real Estate Settlement Procedures Act and/or similar state regulations, or (ii) legislative and regulatory changes affecting demand for private mortgage insurance or financial guaranty insurance;

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, the premium deficiency for our second-lien mortgage insurance business or to estimate accurately the fair value amounts of derivative financial guaranty contracts in determining gains and losses on these contracts;

changes in accounting guidance from the Securities and Exchange Commission (SEC) or the Financial Accounting Standards Board (in particular changes regarding income recognition and the treatment of loss reserves in both the mortgage insurance and financial guaranty industries);

our ability to profitably grow our insurance businesses in international markets, which depends on a number of factors such as foreign governments monetary policies and regulatory requirements, foreign currency exchange rate fluctuations, and our ability to develop and market products appropriate to foreign markets;

legal and other limitations on the amount of dividends we may receive from our subsidiaries; and

vulnerability to the performance of our strategic investments and our ability to recover any or all of the amounts outstanding under our existing demand note to Credit-Based Asset Servicing and Securitization (C-BASS).

For more information regarding these risks and uncertainties as well as certain additional risks that we face, you should refer to the risks discussed in other documents that we file with the SEC, including the risk factors detailed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2006 and as further discussed in Item 1A of Part II of this Quarterly Report on Form 10-Q. We caution you not to place undue reliance on these forward-looking statements, which are current only as of the date on which we filed this report. We do not intend to, and we disclaim any duty or obligation to, update or revise any forward-looking statements made in this report to reflect new information or future events or for any other reason.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

Radian Group Inc.

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

($ in thousands)	September 30 2007	December 31 2006
Assets		
Investments		
Fixed maturities held to maturity at amortized cost (fair value $66,973 and $86,817)	$ 65,222	$ 84,314
Fixed maturities available for sale at fair value (amortized cost $4,529,316 and $4,818,050)	4,586,674	4,975,773
Trading securities at fair value (cost $38,284 and $87,009)	38,438	128,202
Equity securities at fair value (cost $193,142 and $222,444)	272,098	298,235
Hybrid securities at fair value (amortized cost $571,219)	641,107	
Short-term investments	885,442	238,677
Other invested assets (cost $29,593 and $15,727)	24,016	20,126
Total investments	6,512,997	5,745,327
Cash	62,800	57,901
Investment in affiliates	94,144	618,841
Deferred policy acquisition costs	233,582	221,769
Prepaid federal income taxes	861,809	808,740
Provisional losses recoverable		12,479
Accrued investment income	64,804	62,823
Accounts and notes receivable (less allowance of $388 and $1,179)	163,531	55,672
Property and equipment, at cost (less accumulated depreciation of $79,191 and $69,314)	26,403	33,937
Other assets	194,790	311,182
Total assets	$ 8,214,860	$ 7,928,671
Liabilities and Stockholders Equity		
Unearned premiums	$ 1,045,267	$ 943,687
Reserve for losses and loss adjustment expenses	1,094,704	842,283
Reserve for second-lien premium deficiency	155,176	
Long-term debt and other borrowings	948,010	747,770
Current income taxes payable, net	280,971	
Deferred income taxes payable, net	383,172	1,129,740
Derivative liabilities, net	675,432	
Accounts payable and accrued expenses	184,636	197,634
Total liabilities	4,767,368	3,861,114
Commitments and Contingencies (Note 16)		
Stockholders equity		
Common stock: par value $.001 per share; 200,000,000 shares authorized; 97,631,763 and 97,625,407 shares issued at September 30, 2007 and December 31, 2006, respectively; 80,429,181 and 79,401,691 shares outstanding at September 30, 2007 and December 31, 2006, respectively	97	97
Treasury stock: 17,202,582 and 18,223,716 shares at September 30, 2007 and December 31, 2006, respectively	(889,108)	(931,012)

Additional paid-in capital	1,325,936	1,347,205
Retained earnings	2,903,798	3,489,290
Accumulated other comprehensive income	106,769	161,977
Total stockholders equity	3,447,492	4,067,557
Total liabilities and stockholders equity	$ 8,214,860	$ 7,928,671

See notes to unaudited condensed consolidated financial statements.

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Radian Group Inc.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
(In thousands, except per-share amounts)	2007	2006	2007	2006
Revenues:				
Premiums written:				
Direct	$ 329,791	$ 267,726	$ 896,617	$ 849,967
Assumed	37,417	18,982	89,393	79,087
Ceded	(37,133)	(31,903)	(110,745)	(95,769)
Net premiums written	330,075	254,805	875,265	833,285
Increase in unearned premiums	(56,673)	(661)	(97,844)	(66,358)
Net premiums earned	273,402	254,144	777,421	766,927
Net investment income	64,959	60,185	188,605	174,123
Net gains on securities	14,840	1,409	54,279	29,587
Change in fair value of derivative instruments	(643,942)	626	(733,273)	(7,031)
Gain on sale of affiliates	181,734		181,734	
Other income	4,599	5,467	11,519	16,456
Total revenues	(104,408)	321,831	480,285	980,062
Expenses:				
Provision for losses	330,504	121,395	611,508	284,889
Provision for second-lien premium deficiency	155,176		155,176	
Policy acquisition costs	35,743	26,351	88,195	80,535
Other operating expenses	36,169	62,706	151,472	181,082
Interest expense	13,394	11,515	38,810	35,893
Total expenses	570,986	221,967	1,045,161	582,399
Equity in net (loss) income of affiliates	(448,924)	55,870	(376,645)	186,248
Pretax (loss) income	(1,124,318)	155,734	(941,521)	583,911
Income tax (benefit) provision	(420,454)	43,775	(372,207)	160,109
Net (loss) income	$ (703,864)	$ 111,959	$ (569,314)	$ 423,802
Basic net (loss) income per share	$ (8.82)	$ 1.38	$ (7.16)	$ 5.17
Diluted net (loss) income per share	$ (8.82)	$ 1.36	$ (7.16)	$ 5.12
Average number of common shares outstanding basic	79,800	81,233	79,467	81,995
Average number of common and common equivalent shares outstanding diluted	79,800	82,050	79,467	82,749
Dividends declared per share	$ 0.02	$ 0.02	$ 0.06	$ 0.06

See notes to unaudited condensed consolidated financial statements.

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Radian Group Inc.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN COMMON STOCKHOLDERS EQUITY

(UNAUDITED)

						Accumulated Other Comprehensive Income (Loss)			
(In thousands)	**Common Stock**	**Treasury Stock**	**Additional Paid-in Capital**	**Deferred Compensation**	**Retained Earnings**	**Foreign Currency Translation Adjustment**	**Unrealized Holding Gains (Losses)**	**Other**	**Total**
BALANCE, JANUARY 1, 2006	$ 97	$ (688,048)	$ 1,318,910	$ (1,843)	$ 2,913,649	$ 2,135	$ 117,980	$	$ 3,662,880
Comprehensive income:									
Net income					423,802				423,802
Unrealized foreign currency translation adjustment, net of tax of $2,367						4,395			4,395
Unrealized holding losses arising during period, net of tax benefit of $20,587							38,233		
Less: Reclassification adjustment for net gains included in net income, net of tax of $9,538							(17,713)		
Net unrealized loss on investments, net of tax benefit of $11,049							20,520		20,520
Comprehensive income									448,717
Issuance of common stock under incentive plans		17,043	18,258						35,301
Issuance of restricted stock			(1,769)						(1,769)
Amortization of restricted stock			1,076						1,076
Reclassification of deferred compensation			(1,843)	1,843					
Stock-based compensation expense-options			8,310						8,310
Treasury stock purchased		(182,548)							(182,548)
Dividends paid					(4,934)				(4,934)
BALANCE, SEPTEMBER 30, 2006	$ 97	$ (853,553)	$ 1,342,942	$	$ 3,332,517	$ 6,530	$ 138,500	$	$ 3,967,033
BALANCE prior to implementation effects, JANUARY 1, 2007	$ 97	$ (931,012)	$ 1,347,205	$	$ 3,489,290	$ 9,796	$ 151,934	$ 247	$ 4,067,557
FIN 48 cumulative effect of change in accounting (See Note 9)					(21,214)				(21,214)
FAS 155 cumulative effect of change in accounting (See Note 2)					9,844		(9,844)		
BALANCE, JANUARY 1, 2007, as adjusted	97	(931,012)	1,347,205		3,477,920	9,796	142,090	247	4,046,343
Comprehensive loss:									
Net loss					(569,314)				(569,314)
Unrealized foreign currency translation adjustment, net of tax of $4,446						8,256			8,256
Unrealized holding losses arising during the period, net of tax benefit of $24,743							(45,951)		
Less: Reclassification adjustment for net gains included in net income, net of tax of $4,129							(7,669)		
Net unrealized loss on investments, net of tax benefit of $28,872							(53,620)		(53,620)

Comprehensive loss									(614,678)
Issuance of common stock under incentive plans		64,727	5,943						70,670
Issuance of restricted stock			(34,662)						(34,662)
Amortization of restricted stock			6,341						6,341
Stock-based compensation expense-options			1,109						1,109
Treasury stock purchased		(22,823)							(22,823)
Dividends paid					(4,808)				(4,808)
BALANCE, SEPTEMBER 30, 2007	$ 97	$ (889,108)	$ 1,325,936	$	$ 2,903,798	$ 18,052	$ 88,470	$ 247	$ 3,447,492

See notes to unaudited condensed consolidated financial statements.

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Radian Group Inc.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Nine Months Ended September 30	
(In thousands)	**2007**	**2006**
Cash flows from operating activities	$ 324,058	$ 373,744
Cash flows from investing activities:		
Proceeds from sales of fixed-maturity investments available for sale	210,850	716,128
Proceeds from sales of equity securities available for sale	44,352	87,560
Proceeds from sales of hybrid securities	261,156	
Proceeds from redemptions of fixed-maturity investments available for sale	168,294	145,500
Proceeds from redemptions of fixed-maturity investments held to maturity	20,841	36,882
Proceeds from redemptions of hybrid securities	52,971	
Purchases of fixed-maturity investments available for sale	(513,374)	(1,109,597)
Purchases of equity securities available for sale	(6,822)	(25,402)
Purchases of hybrid securities	(334,437)	
(Purchases) sales of short-term investments, net	(639,360)	52,292
Purchases of other invested assets, net	(7,278)	(159)
Purchases of property and equipment, net	(2,728)	(11,323)
Sale (purchase) of investment in affiliates	277,882	(65,307)
Loan to affiliate	(50,000)	
Net cash used in investing activities	(517,653)	(173,426)
Cash flows from financing activities:		
Dividends paid	(4,808)	(4,934)
Proceeds from issuance of common stock under incentive plans	25,281	23,306
Proceeds from other borrowings	200,000	
Excess tax benefits from stock-based awards	5,488	3,762
Purchase of treasury stock	(22,823)	(182,548)
Net cash provided by (used in) financing activities	203,138	(160,414)
Effect of exchange rate changes on cash	(4,644)	(1,533)
Increase in cash	4,899	38,371
Cash, beginning of period	57,901	7,847
Cash, end of period	$ 62,800	$ 46,218
Supplemental disclosures of cash flow information:		
Income taxes paid	$ 128,308	$ 181,598
Interest paid	$ 33,741	$ 32,054
Supplemental disclosures of non-cash items:		
Stock-based compensation, net of tax	$ 1,939	$ 8,847

See notes to unaudited condensed consolidated financial statements.

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Radian Group Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

1 Condensed Consolidated Financial Statements Basis of Presentation

Our condensed consolidated financial statements include the accounts of Radian Group Inc. and its subsidiaries, including its principal mortgage insurance operating subsidiaries, Radian Guaranty Inc. (Radian Guaranty), Amerin Guaranty Corporation (Amerin Guaranty), Radian Insurance Inc. (Radian Insurance) and Radian Australia Limited (Radian Australia), and its principal financial guaranty operating subsidiaries, Radian Asset Assurance Inc. (Radian Asset Assurance) and Radian Asset Assurance Limited (RAAL). 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, withou its consolidated subsidiaries, as the parent company. We also have equity interests in two credit-based consumer asset businesses: a 46% equity interest in Credit-Based Asset Servicing and Securitization LLC (C-BASS) and a 21.8% equity interest in Sherman Financial Group LLC (Sherman). Prior to September 2007, we owned 40.96% of the Class A Common Units of Sherman (Class A Common Units represented 94% of the total equity in Sherman) and 50% of the Preferred Units of Sherman. See Note 6.

We have presented our condensed consolidated financial statements on the basis of accounting principles generally accepted in the United States of America (GAAP). We have condensed or omitted certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with GAAP pursuant to the SEC s rules and regulations.

The financial information presented for interim periods is unaudited; however, such information reflects all adjustments that are, in the opinion of management, necessary for a fair presentation 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, 2006. 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 preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results may differ from these estimates and assumptions.

Basic net income per share is based on the weighted average number of common shares outstanding, while diluted net income per share is based on the weighted average number of common shares outstanding and common share equivalents that would be issuable upon the exercise of dilutive stock options, the vesting of restricted stock and phantom stock. As a result of our net loss for the three and nine months ended September 30, 2007, 5,708,529 shares of our common stock issued under our stock-based compensation plans were not included in the calculation of diluted earnings per share because they were anti-dilutive.

On January 1, 2007, we adopted Statement of Financial Accounting Standards (SFAS) No. 155, Accounting for Certain Hybrid Financial Instruments , an amendment of FASB Statements No. 133 and 140 (SFAS No. 155). SFAS No. 155, (i) permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, (ii) clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS No. 133, (iii) establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, (iv) clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives, and (v) amends SFAS No. 140 to eliminate the exemption from applying the requirements of SFAS No. 133 on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. Accordingly, the changes in fair value of some of our financial

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Radian Group Inc.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

instruments previously recorded through other comprehensive income were reclassified to beginning retained earnings, and effective January 1, 2007, changes in fair value are now included in current earnings in our condensed consolidated statements of income. See Note 2.

On January 1, 2007, we adopted Financial Accounting Standards Board (FASB) Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48). As a result of the implementation of FIN 48, we recognized an adjustment to our income tax liabilities and beginning retained earnings. See Note 9.

On January 1, 2006, we adopted SFAS No. 123R, Share-Based Payment (SFAS No. 123R) using a modified prospective application as permitted by SFAS No. 123R.

2 Derivative Instruments and Hedging Activities

We account for derivatives under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended and interpreted (SFAS No. 133). In general, SFAS No. 133 requires that all derivative instruments be recorded on the balance sheet at their respective fair values. All derivative instruments are recognized in our condensed consolidated balance sheets as either assets or liabilities depending on the rights or obligations under the contracts. Transactions that we have entered into that are accounted for under SFAS No. 133 include investments in convertible debt securities, interest rate swaps, selling credit protection in the form of credit default swaps, certain financial guaranty contracts, certain mortgage insurance contracts and net interest margin securities (NIMS) that are considered derivatives.

Credit default swaps, certain financial guaranty contracts, certain mortgage insurance contracts and NIMS that are accounted for as derivative contracts under SFAS No. 133 are part of our overall business strategy of offering mortgage credit enhancement and financial guaranty protection to our customers. The premiums for these contracts are included in net premiums written and earned. The interest rate swaps that we have entered into qualify as hedges and are accounted for as fair value hedges. The embedded equity derivatives contained within our investments in fixed-maturity securities, as well as our forward foreign currency contracts, credit protection in the form of credit default swaps and NIMS do not qualify as hedges under SFAS No. 133, so changes in their fair value are included in current earnings in our condensed consolidated statements of income as a change in fair value of derivative instruments. Net unrealized gains on credit default swaps and certain other derivative contracts are included in other assets on our condensed consolidated balance sheets. Net unrealized losses are reported as a component of total liabilities. At September 30, 2007 we had a net liability related to our derivative instruments of $675.4 million, compared to net assets of $87.6 million and $78.5 million at December 31, 2006 and September 30, 2006, respectively. During the third quarter of 2007, we recognized a decrease in the fair value of derivative instruments of approximately $643.9 million, including a $366.7 million mark-to-market loss reserve related to NIMS, a $21.4 million decrease in the fair value of certain mortgage derivatives and a $255.6 million decrease in fair value of our financial guaranty collateralized debt obligations (CDOs) which shifted our mark-to-market on derivatives from a net asset at December 31, 2006 to a net liability at September 30, 2007.

We do not record a provision for losses on derivative contracts which are subject to fair value accounting. Any equivalent reserve would be embedded in the change in fair value of derivative instruments. Settlements under derivative contracts are charged to assets or liabilities, as appropriate, on the condensed consolidated balance sheets. During the nine months ended September 30, 2007, we received $0.2 million of recoveries of previous default payments, paid $0.8 million for default payments and received $30.9 million as early termination settlement payments on certain derivative financial guaranty contracts, which we and certain of our counterparties agreed to voluntarily terminate. During the nine months ended September 30, 2006, we received $3.8 million, net, of recoveries of previous default payments and paid $68.0 million in connection with the termination of a derivative financial guaranty contract.

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Radian Group Inc.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

Before we adopted SFAS No. 155, SFAS No. 133 required that we split the convertible fixed-maturity securities in our investment portfolio into their derivative and fixed-maturity security components. Over the term of the securities, changes in the fair value of fixed-maturity securities available for sale were recorded in our condensed consolidated statements of changes in common stockholders equity through accumulated other comprehensive income or loss. Concurrently, a deferred tax liability or benefit was recognized as the recorded value of the fixed-maturity security increased or decreased. Changes in the fair value of the derivative component were recorded as a gain or loss in our condensed consolidated statements of income.

In accordance with SFAS No. 155, certain securities that were previously classified as trading securities or fixed maturities available for sale on our condensed consolidated balance sheets were reclassified to hybrid securities on our condensed consolidated balance sheets on the date of adoption. In addition, in accordance with the provisions of SFAS No. 155, we elected to record convertible securities at fair value with changes in the fair value recorded as net gains or losses on securities. At adoption, we recorded an after-tax reclassification to retained earnings from other comprehensive income of approximately $9.8 million, which represented the cumulative adjustment to fair value.

We account for NIMS as derivatives under SFAS 133. As a result of the severe disruption in the subprime mortgage market, we refined our methodology for valuing NIMS in the third quarter of 2007 consistent with our increased loss expectations for this product. Prior to the third quarter, we valued our NIMS portfolio by evaluating recent premium levels and the present value of estimated cash flows. When we determined that a NIMS bond was not performing in accordance with our expectations, we estimated a claim amount that we would be required to pay on each bond. Refinement to our model addresses the potential vulnerability of all NIMS bonds under current market conditions, including those performing within our expectations. Our refined methodology uses market-based roll rates and internally developed loss assumptions and, we estimate losses in each securitization underlying a NIMS bond. We then project prepayment fees on the underlying collateral in each securitization, incorporating actual and historical prepayment experience. The estimated loss and prepayment speeds are used to estimate the cash flows for each underlying securitization and NIMS bond, and ultimately, to produce the projected credit losses for each NIMS bond at legal maturity. In addition to expected credit losses, the fair value for each NIMS bond is approximated by incorporating further loss stresses, future expected premiums from the NIMS bond, and an estimated rate of return that a counterparty would require in assuming the exposure from us. Changes in our estimated fair value marks are recorded as a gain/loss on derivatives. Because NIMS guarantees are not market traded instruments, considerable judgment is required in estimating fair value. The use of different assumptions and/or methodologies could have a significant effect on estimated fair values.

With respect to our direct derivative financial guaranty contracts, we determine estimated fair value amounts using market information to the extent available, and appropriate valuation methodologies. For CDOs, credit spreads on individual names in our collateral pool are used to determine an equivalent risk tranche on an industry standard credit default swap index. We then estimate the price of our equivalent risk tranche based on observable market prices of standard risk tranches on the industry standard credit default swap index. When credit spreads on individual names are not available, the average credit spread of companies with similar credit ratings is used. For certain structured transactions, dealer quotes on similar structured transactions are used. Significant differences may exist with respect to the available market information and assumptions used to determine gains and losses on derivative financial guaranty contracts. Considerable judgment is required to interpret market data to develop the estimates of fair value. Accordingly, the estimates are not necessarily indicative of amounts we could realize in a current market exchange due to the lack of a liquid market. The use of different market assumptions and/or estimation methodologies may have a significant effect on the estimated fair value amounts.

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Radian Group Inc.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

A summary of our derivative information, as of and for the periods indicated, is as follows:

Balance Sheets (In millions)	**September 30 2007**	**December 31 2006**	**September 30 2006**
Trading Securities			
Cost	$	$ 66.9	$ 65.5
Fair value	0.2	106.3	90.9
Derivative financial contracts			
Notional value	$ 56,627.0	$ 52,563.0	$ 46,700.0
Gross unrealized gains	$ 29.3	$ 119.3	$ 114.8
Gross unrealized losses	704.7	31.7	36.3
Net unrealized (losses) gains	$ (675.4)	$ 87.6	$ 78.5

The components of the change in fair value of derivative instruments are as follows:

	Three Months Ended September 30		**Nine Months Ended September 30**	
Statements of Income (In millions)	**2007**	**2006**	**2007**	**2006**
Trading Securities	$ (0.2)	$ (3.8)	$ (0.2)	$ 4.9
Derivative financial guaranty contracts	(255.6)	5.2	(263.0)	(9.6)
NIMS	(366.7)		(426.3)	
Credit default swaps and other	(21.4)	(0.7)	(43.8)	(2.3)
Net (losses) gains	$ (643.9)	$ 0.7	$ (733.3)	$ (7.0)

The following tables present information at September 30, 2007 and December 31, 2006 related to net unrealized gains or losses on derivative financial guaranty contracts (included in other assets or derivative liabilities, net on our condensed consolidated balance sheets).

	September 30 2007	**December 31 2006**
	(In millions)	
Balance at January 1	$ 87.6	$ 26.2
Net losses recorded	(732.7)	(2.2)
Defaults		
Recoveries	(0.2)	(4.6)
Payments	0.8	0.2
Early termination (receipts)/payments	(30.9)	68.0

Balance at end of period	$ (675.4)	$ 87.6

Balance Sheets (In millions)	September 30 2007	December 31 2006
Derivative financial guaranty contracts	$ (199.6)	$ 94.4
NIMS	(432.0)	(7.0)
Credit default swaps and other	(43.8)	0.2
Balance at end of period	$ (675.4)	$ 87.6

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Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

The application of SFAS No. 133, as amended, could result in volatility from period to period in gains and losses as reported on our condensed consolidated statements of income. These gains and losses often 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 an asset-backed security. Any incurred gains or losses on such contracts would be recognized as a change in the fair value of derivative instruments. We are unable to predict the effect this volatility may have on our financial position or results of operations.

In accordance with our risk management policies, we may enter into derivatives to hedge the interest rate risk related to our long-term debt. As of September 30, 2007, we were a party to two interest rate swap contracts relating to our 5.625% unsecured senior notes. These interest rate swaps are designed as fair value hedges that hedge the change in fair value of our long-term debt arising from interest rate movements. During 2007 and 2006, the fair value hedges were 100% effective, meaning that the changes in fair value of derivative instruments in our condensed consolidated statements of income were offset by the change in the fair value of the hedged debt. These interest rate swap contracts mature in February 2013.

Terms of the interest rate swap contracts at September 30, 2007 were as follows (dollars in thousands):

Notional amount	$ 250,000
Rate received Fixed	5.625%
Rate paid Floating (a)	5.559%
Maturity date	February 15, 2013
Unrealized loss	$ 2,554

(a) The September 30, 2007 six-month London Interbank Offered Rate (LIBOR) forward rate at the next swap payment date plus 87.4 basis points.

3 Comprehensive (Loss) Income

Our total comprehensive (loss) income, as calculated per SFAS No. 130, Reporting Comprehensive Income, was as follows (in thousands):

	Three Months Ended September 30		Nine Months Ended September 30	
	2007	**2006**	**2007**	**2006**
Net (loss) income, as reported	$ (703,864)	$ 111,959	$ (569,314)	$ 423,802
Other comprehensive income (net of tax)				
Net unrealized gains (losses) on investments	3,659	76,467	(53,620)	20,520
Unrealized foreign currency translation adjustment	5,765	(621)	8,256	4,395
Comprehensive (loss) income	$ (694,440)	$ 187,805	$ (614,678)	$ 448,717

4 Investments

We are required to group assets in our investment portfolio into one of three main categories: held to maturity, available for sale or trading securities. Fixed-maturity securities for which we have the positive intent and ability to hold to maturity are classified as held to maturity and reported at amortized cost. Investments classified as available for sale are reported at fair value, with unrealized gains and losses (net of tax) reported as a separate component of stockholders equity as accumulated other comprehensive income. Investments classified

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Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

as trading securities are reported at fair value, with unrealized gains and losses (net of tax) reported as a separate component of income. During the nine months ended September 30, 2006, we began classifying certain new security purchases as trading securities. Similar securities were classified as available for sale for periods prior to 2006.

Effective January 1, 2007, we began classifying convertible securities (including the fixed-maturity component previously classified as available for sale and the derivative component previously classified as trading securities) as hybrid securities in accordance with SFAS No. 155. Hybrid securities generally combine both debt and equity characteristics. Prior to 2007, the changes in fair value of the fixed-maturity component of these securities were recorded in our condensed consolidated statements of changes in common stockholders equity through accumulated other comprehensive income or loss and the changes in fair value of the derivative component of these securities were recorded as a gain or loss in our condensed consolidated statements of income. In accordance with SFAS No. 155, effective January 1, 2007, all changes in the fair value of the entire convertible security are now recorded as net gains or losses on securities in our condensed consolidated statements of income. Our transition adjustment related to the adoption of SFAS No. 155 increased retained earnings at January 1, 2007 by $9.8 million, and reduced accumulated other comprehensive income by the same amount. The transition amount includes unrealized gains of $14.1 million (net of tax) and unrealized losses of $4.3 million (net of tax) related to convertible securities at December 31, 2006.

For securities classified as either available for sale or held to maturity, we conduct a quarterly evaluation of declines in market value of the securities to determine whether the decline is other-than-temporary. If a security s fair value is below the cost basis, and it is judged to be other-than-temporary, the cost basis of the individual security is written down to fair value through earnings as a realized loss and the fair value becomes the new basis. During the three and nine months ended September 30, 2007, we recorded approximately $0.8 million and $1.6 million, respectively, of charges related to declines in the fair value of securities (primarily small cap value stocks) considered to be other-than-temporary. During the three and nine months ended September 30, 2006, we recorded $4.1 million and $6.0 million of charges related to declines in the fair value of securities considered to be other-than-temporary. At September 30, 2007 and 2006, there were no other investments held in the portfolio that were determined to be other-than-temporarily impaired.

Other invested assets consist of residential mortgage-backed securities and alternative investments that are primarily private equity investments, including an investment in a fund sponsored and managed by C-BASS that invests in real estate related securities. During the third quarter of 2007, we recorded a $5.1 million loss considered to be other-than-temporary on our investment in this fund. Other invested assets are carried under the cost method or under the equity method.

Our evaluation of market declines for other-than-temporary impairment is based on management s case-by-case evaluation of the underlying reasons for the decline in fair value. We consider a wide range of factors about the security and use our best judgment in evaluating the cause of the decline in the estimated fair value of the security and in assessing the prospects for near-term recovery. Inherent in management s evaluation of the security are assumptions and estimates about the operations of the issuer and its future earnings potential. Considerations used by management in its impairment evaluation process include, but are not limited to: (i) the length of time and the extent to which the market value has been below cost or amortized cost; (ii) the potential for impairments of securities when the issuer is experiencing significant financial difficulties; (iii) the potential for impairments in an entire industry sector or sub-sector; (iv) the potential for impairments in certain economically depressed geographic locations; (v) the potential for impairments of securities where the issuer, series of issuers or industry has suffered a catastrophic type of loss or has exhausted natural resources; (vi) our ability and intent to hold the security for a period of time sufficient to allow for the full recovery of its value to an

Radian Group Inc.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

amount equal to or greater than cost or amortized cost; (vii) unfavorable changes in forecasted cash flows on asset-backed securities; and (viii) other subjective factors, including concentrations and information obtained from regulators and rating agencies.

The following table shows the gross unrealized losses and fair value of our investments with unrealized losses that are not deemed to be other-than-temporarily impaired (in thousands), aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at September 30, 2007.

	Less Than 12 Months		12 Months or Greater		Total	
Description of Securities	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
U.S. government securities	$ 6,746	$ 36	$ 14,623	$ 434	$ 21,369	$ 470
U.S. government-sponsored enterprises			15,095	146	15,095	146
State and municipal obligations	953,385	35,004	64,172	415	1,017,557	35,419
Corporate bonds and notes	32,831	1,072	31,609	744	64,440	1,816
Asset-backed securities	156,793	2,284	90,920	1,990	247,713	4,274
Private placements	5,294	98	3,611	58	8,905	156
Foreign governments	44,798	1,106	66,206	2,344	111,004	3,450
Total	$ 1,199,847	$ 39,600	$ 286,236	$ 6,131	$ 1,486,083	$ 45,731

U.S. government securities

The unrealized losses of 12 months or greater duration as of September 30, 2007 on our investments in U.S. Treasury obligations were caused by interest rate movement. The contractual terms of these investments do not permit the issuer to settle the securities at a price less than the par value of the investment. Because we have the ability and intent to hold these investments until a full recovery of fair value, which may be maturity, we do not consider these investments to be other-than-temporarily impaired at September 30, 2007.

U.S. government-sponsored enterprises

The unrealized losses of 12 months or greater duration as of September 30, 2007 on our investment in U.S. agency mortgage-backed securities were also caused by interest rate movement. The contractual cash flows of these investments are guaranteed by a government-sponsored agency of the U.S. government. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost of our investment. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because we have the ability and intent to hold these investments until a full recovery of fair value, which may be maturity, we do not consider these investments to be other-than-temporarily impaired at September 30, 2007.

State and municipal obligations

The unrealized losses of 12 months or greater duration as of September 30, 2007 on our investments in tax-exempt state and municipal securities were caused by interest rate movement. We believe that credit quality did not impact security pricing due to the relative high quality of the holdings (*i.e.*, the majority of the securities were either AAA/Aaa-rated bonds, insured, partially pre-refunded or partially escrowed to maturity). Because we have the ability and intent to hold these investments until a full recovery of fair value, which may be maturity, we do not consider these investments to be other-than-temporarily impaired at September 30, 2007.

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Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

Corporate bonds and notes

The unrealized losses of 12 months or greater duration as of September 30, 2007 on the majority of the securities in this category were caused by market interest rate movement. Unrealized losses for the remaining securities in this category are attributable to changes in business operations, resulting in widened credit spreads from September 30, 2006 to September 30, 2007. Because we have the ability and intent to hold these investments until a full recovery of fair value, which may be maturity, we do not consider these investments to be other-than-temporarily impaired at September 30, 2007.

Asset-backed securities

The unrealized losses of 12 months or greater duration as of September 30, 2007 on the securities in this category were caused by market interest rate movement. Because we have the ability and intent to hold these investments until a full recovery of fair value, which may be maturity, we do not consider the investment in these securities to be other-than-temporarily impaired at September 30, 2007.

Private placements

The unrealized losses of 12 months or greater duration as of September 30, 2007 on the majority of the securities in this category were caused by market interest rate movement. Because we have the ability and intent to hold these investments until a full recovery of fair value, which may be maturity, we do not consider the investment in these securities to be other-than-temporarily impaired at September 30, 2007.

Foreign governments

The unrealized losses of 12 months or greater duration as of September 30, 2007 on the majority of the securities in this category were caused by market interest rate movement. We believe that credit quality did not impact security pricing due to the relative high quality of the holdings (*i.e.*, the majority of the securities were highly-rated governments and government agencies or corporate issues with minimum ratings of single-A). Because we have the ability and intent to hold these investments until a full recovery of fair value, which may be maturity, we do not consider these investments to be other-than-temporarily impaired at September 30, 2007.

For all investment categories, unrealized losses of less than 12 months duration were generally attributable to interest rate movement. All securities were evaluated in accordance with our impairment recognition policy covering various time and price decline scenarios. Because we have the ability and intent to hold these investments until a full recovery of fair value, which may be maturity, we do not consider the investment in these securities to be other-than-temporarily impaired at September 30, 2007.

The contractual maturity of securities in an unrealized loss position at September 30, 2007 was as follows:

(In millions)	Fair Value	Amortized Cost	Unrealized Loss
2007	$ 2.8	$ 2.8	$
2008 2011	155.6	156.9	1.3
2012 2016	80.8	83.3	2.5
2017 and later	999.1	1,036.7	37.6
Mortgage-backed and other asset-backed securities	247.7	252.0	4.3
Total	$ 1,486.0	$ 1,531.7	$ 45.7

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Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

5 Segment Reporting

We have three reportable segments: mortgage insurance, financial guaranty and financial services. Our reportable segments are strategic business units that are managed separately because each business segment requires different expertise in marketing, sales and risk management. We allocate corporate income and expenses to each of the segments. The mortgage insurance segment provides mortgage credit protection, principally through private mortgage insurance, and risk management services to mortgage lending institutions located throughout the United States and in other select countries. Private mortgage insurance protects lenders from all or part of default-related losses on residential mortgage loans made mostly to homebuyers who make down payments of less than 20% of the home s purchase price. Private mortgage insurance also facilitates the sale of these mortgages in the secondary market. Our financial guaranty segment provides credit-related insurance coverage through credit default swaps and certain other financial guaranty contracts to meet the needs of customers and counterparties in a wide variety of domestic and international markets. Our insurance businesses within the financial guaranty segment include the assumption of reinsurance from monoline financial guaranty insurers for both public finance bonds and structured finance obligations. The financial services segment includes the credit-based businesses conducted through our equity affiliates, C-BASS and Sherman. See Note 6 for additional information.

For the three months ended September 30, 2007 and 2006, our domestic net premiums earned were $269.0 million and $243.9 million, respectively, and our net premiums earned attributable to foreign countries were approximately $4.4 million and $10.2 million, respectively. For the nine months ended September 30, 2007 and 2006, our domestic net premiums earned were $753.8 million and $729.8 million, respectively, and our net premiums earned attributable to foreign countries were approximately $23.6 million and $37.1 million, respectively. Net premiums earned attributable to foreign countries for the three and nine months ended September 30, 2007, include an increase in international premiums in our mortgage insurance segment from single premium deals. These premiums were entirely offset by a decrease in premiums earned from trade credit reinsurance as a result of the run-off of that business. Long-lived assets located in foreign countries were immaterial for the periods presented.

In the mortgage insurance segment, the highest state concentration of primary risk in force at September 30, 2007, was Florida at 9.0%, compared to 9.2% at September 30, 2006. At September 30, 2007, California accounted for 11.7% of the mortgage insurance segment s total direct primary insurance in force, compared to 10.2% at September 30, 2006, and 11.7% of the mortgage insurance segment s total pool risk in force at September 30, 2007, compared to 11.4% at September 30, 2006. California also accounted for 17.5% of the mortgage insurance segment s direct primary new insurance written for the nine months ended September 30, 2007, compared to 13.7% for the nine months ended September 30, 2006. The large percentage of direct primary new insurance written in California for the nine months ended September 30, 2007 resulted primarily from a large structured transaction written in the first quarter of 2007 as modified pool, where we are in a second-loss position.

The largest single customer of our mortgage insurance segment (including branches and affiliates of such customer), measured by primary new insurance written, accounted for 21.5% of primary new insurance written during the nine months ended September 30, 2007, compared to 22.9% from the largest single customer of our mortgage insurance segment during the nine months ended September 30, 2006. Included in the percentage for 2007 was a large structured transaction mentioned above that was written in the first quarter of 2007 as modified pool in a second-loss position.

The financial guaranty segment derives a substantial portion of its premiums written from a small number of direct primary insurers. Two primary insurers accounted for approximately $44.7 million or 25.4% of the financial guaranty segment s gross written premiums for the nine months ended September 30, 2007, compared

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to approximately $52.4 million or 28.1% of the financial guaranty segment s gross written premiums from those same two primary insurers for the comparable period of 2006. No other primary insurer accounted for more than 10% of the financial guaranty segment s gross written premiums during the nine months ended September 30, 2007 or 2006. Gross written premiums and net written premiums for the financial guaranty business are not materially different because we have not ceded a material amount of business to reinsurers.

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

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
Mortgage Insurance (In thousands)	**2007**	**2006**	**2007**	**2006**
Net premiums written	$ 260,492	$ 205,933	$ 699,821	$ 646,749
Net premiums earned insurance	$ 212,998	$ 194,633	$ 578,829	$ 588,245
Net premiums earned credit derivatives	14,085	6,799	50,864	24,563
Net premiums earned total	227,083	201,432	629,693	612,808
Net investment income	37,437	35,548	109,283	103,363
Net gains on securities	9,312	946	39,791	18,207
Change in fair value of derivative instruments	(388,109)	(3,293)	(469,960)	1,830
Gain on sale of affiliates				
Other income	3,782	2,999	9,357	10,108
Total revenues	(110,495)	237,632	318,164	746,316
Provision for losses	278,785	119,616	571,791	268,290
Provision for second-lien premium deficiency	155,176		155,176	
Policy acquisition costs	24,865	15,271	53,944	44,336
Other operating expenses	26,576	43,933	109,203	128,742
Interest expense	6,764	6,357	19,959	20,042
Total expenses	492,166	185,177	910,073	461,410
Equity in net income of affiliates				
Pretax (loss) income	(602,661)	52,455	(591,909)	284,906
Income tax (benefit) provision	(227,374)	11,127	(233,121)	72,262
Net (loss) income	$ (375,287)	$ 41,328	$ (358,788)	$ 212,644
Total assets	$ 5,232,832	$ 4,598,975		
Total investments	3,956,943	3,412,282		
Deferred policy acquisition costs	62,371	71,691		
Reserve for losses and loss adjustment expenses	884,985	651,249		
Unearned premiums	322,109	246,033		
Stockholders equity	1,894,959	2,232,606		

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Financial Guaranty (In thousands)	Three Months Ended September 30 2007	Three Months Ended September 30 2006	Nine Months Ended September 30 2007	Nine Months Ended September 30 2006
Net premiums written (1)	$ 69,583	$ 48,872	$ 175,444	$ 186,536
Net premiums earned insurance	$ 32,398	$ 34,078	$ 99,084	$ 101,227
Net premiums earned credit derivatives	13,921	18,634	48,644	52,892
Net premiums earned total	46,319	52,712	147,728	154,119
Net investment income	27,403	24,589	79,160	70,627
Net gains on securities	5,560	8	13,993	8,895
Change in fair value of derivative instruments	(255,833)	3,919	(263,313)	(8,861)
Gain on sale of affiliates				
Other income	517	284	783	618
Total revenues	(176,034)	81,512	(21,649)	225,398
Provision for losses	51,719	1,779	39,717	16,599
Provision for second-lien premium deficiency				
Policy acquisition costs	10,878	11,080	34,251	36,199
Other operating expenses	10,025	16,039	37,197	46,092
Interest expense	4,808	3,961	13,866	12,312
Total expenses	77,430	32,859	125,031	111,202
Equity in net income of affiliates				
Pretax (loss) income	(253,464)	48,653	(146,680)	114,196
Income tax (benefit) provision	(99,350)	13,529	(72,504)	23,164
Net (loss) income	$ (154,114)	$ 35,124	$ (74,176)	$ 91,032
Total assets	$ 2,833,748	$ 2,572,079		
Total investments	2,556,054	2,303,412		
Deferred policy acquisition costs	171,211	147,882		
Reserve for losses and loss adjustment expenses	209,719	189,689		
Unearned premiums	723,158	668,389		
Stockholders equity	1,409,168	1,339,627		

(1) With the exception of trade credit reinsurance products, net premiums written in our financial guaranty reinsurance business are recorded using actual information received from cedants on a one month lag basis. Accordingly, the net premiums written for any given period exclude those from the last month of that period and include those from the last month of the immediately preceding period. The use of information from cedants does not require us to make significant judgments or assumptions because historic collection rates and counterparty strength make collection of all assumed premiums highly likely. There were no material trade credit reinsurance premiums written for the three and nine months ended September 30, 2007 or for the three months ended September 30, 2006. Net premiums written for the nine months ended September 30, 2006 included $4.4 million of assumed premiums related to trade credit reinsurance products. Included in these amounts are estimates based on projections provided by ceding companies. Over the life of the reinsured business, these projections are replaced with actual results and, historically, the difference between the projections and actual results has not been material. Accordingly, we do not record any related provision for doubtful accounts with respect to our trade credit reinsurance products.

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Financial Services (In thousands)	Three Months Ended September 30 2007	Three Months Ended September 30 2006	Nine Months Ended September 30 2007	Nine Months Ended September 30 2006
Net premiums written	$	$	$	$
Net premiums earned insurance	$	$	$	$
Net premiums earned credit derivative				
Net premiums earned total				
Net investment income	119	48	162	133
Net gains on securities	(32)	455	495	2,485
Change in fair value of derivative instruments				
Gain on sale of affiliates	181,734		181,734	
Other income	300	2,184	1,379	5,730
Total revenues	182,121	2,687	183,770	8,348
Provision for losses				
Provision for second-lien premium deficiency				
Policy acquisition costs				
Other operating expenses	(432)	2,734	5,072	6,248
Interest expense	1,822	1,197	4,985	3,539
Total expenses	1,390	3,931	10,057	9,787
Equity in net (loss) income of affiliates	(448,924)	55,870	(376,645)	186,248
Pretax (loss) income	(268,193)	54,626	(202,932)	184,809
Income tax (benefit) provision	(93,730)	19,119	(66,582)	64,683
Net (loss) income	$ (174,463)	$ 35,507	$ (136,350)	$ 120,126
Total assets	$ 148,280	$ 566,267		
Total investments				
Deferred policy acquisition costs				
Reserve for losses and loss adjustment expenses				
Unearned premiums				
Stockholders equity	143,365	394,800		

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

Consolidated (In thousands)	Three Months Ended September 30 2007	Three Months Ended September 30 2006	Nine Months Ended September 30 2007	Nine Months Ended September 30 2006
Net (loss) income:				
Mortgage Insurance	$ (375,287)	$ 41,328	$ (358,788)	$ 212,644
Financial Guaranty	(154,114)	35,124	(74,176)	91,032
Financial Services	(174,463)	35,507	(136,350)	120,126

Total	$ (703,864)	$ 111,959	$ (569,314)	$ 423,802

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Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

6 Investment in Affiliates

We have a 46.0% equity interest in C-BASS and a 21.8% equity interest in Sherman at September 30, 2007.

C-BASS

C-BASS is a mortgage investment and servicing company specializing in the credit risk of subprime single-family residential mortgages. Since February 2007, the market for subprime mortgages has experienced significant turmoil, with market dislocations accelerating to unprecedented levels. In the first quarter of 2007, C-BASS reported a total net loss of $14.7 million before returning to profitability by reporting total net income of $35.4 million in the second quarter of 2007. During the five month period from February 1, 2007 through June 30, 2007, C-BASS s financial statements included the payment of approximately $290.3 million to satisfy lenders margin calls on loans to C-BASS, which it handled with its available liquidity.

During the third quarter there were several events that significantly impacted C-BASS. Those events included the following:

On July 17, 2007, C-BASS completed its acquisition of Fieldstone Investment Corporation (Fieldstone), a mortgage banking company that originated, sold, and invested primarily in non-conforming single family residential mortgage loans, for approximately $187 million, including closing costs. C-BASS used approximately $90 million in cash to fund this acquisition.

On July 19, 2007, in order to support C-BASS s liquidity position, we and MGIC Investment Corporation (MGIC), each entered into a $50 million unsecured revolving credit facility agreement with C-BASS that is payable on demand and is scheduled to expire December 31, 2007.

On July 20 and 23, 2007, C-BASS drew down the entire $50 million on each facility ($100 million in total.)

On July 26 and 27, 2007, C-BASS received an additional $200 million in margin calls bringing the total margin calls for the month to $362.7 million. As of the close of business on July 27th, C-BASS had paid only $263.5 million of the $362.7 million in outstanding margin calls.

Prior to July 29, 2007, a number of qualified buyers showed a strong interest in C-BASS, and both we and MGIC received multiple preliminary indications of interest above C-BASS s book value. Due diligence was ongoing until July 29, 2007 when the increase in margin calls over the prior few days significantly jeopardized C-BASS s liquidity position, resulting in a withdrawal of all interested buyers at that time.

On July 29, 2007, we concluded that there were indicators that a material charge for impairment of our investment in C-BASS was required under GAAP; however, we could not determine the amount or range of amounts of the potential impairment until financial information was received from C-BASS. In November 2007, we received financial statements from C-BASS as of September 30, 2007, at which point we made a final determination with respect to impairment.

On July 30, 2007, in accordance with the terms of our credit facility with C-BASS, we demanded full and immediate payment of all amounts owed to us under the loan. These amounts currently remain outstanding as we continue to cooperate with C-BASS while they search for additional liquidity, as discussed below. Amounts drawn on these facilities bear interest at a rate of one-month LIBOR at the date the amount is drawn plus 2.875%. If the loan is called for payment, but remains unpaid as currently is the case, the facility bears interest at LIBOR plus

6.875%. In addition, a 0.375% facility fee is payable to us and MGIC.

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Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

Since July 31, 2007, with the cooperation of its lenders, including us and MGIC, C-BASS has been working with its financial advisor, The Blackstone Group L.P., and potential investors, to evaluate strategic alternatives. As a result of that process, on September 27, 2007, C-BASS agreed to sell to a third party financial institution substantially all of its interests in Litton Loan Servicing LP (Litton), a servicer of residential mortgage loans, for approximately $467.9 million. The assets being purchased include the equity in Litton and certified interest only strips. In addition, the purchaser will (1) assume certain limited liabilities set forth in the purchase agreement and (2) pursuant to a separate agreement to be executed upon closing, have the option to purchase from the current owners of C-BASS, including us, 45% of the equity of C-BASS for nominal consideration. As a condition to this sale, on November 16, 2007, the C-BASS employees, lenders and creditors, including us, entered into an agreement (the Override Agreement) establishing (i) the terms for the distribution of the consideration from the sale among all interested parties and (ii) an agreement among the outstanding lenders and creditors to continue to forebear from exercising any recourse rights under their existing obligations with C-BASS. The purchase agreement contains certain representations, warranties, covenants, events of default and other provisions customary for acquisition agreements and as specifically agreed to by the parties.

The sale of Litton is expected to close in the fourth quarter of 2007 or early in 2008, subject to the satisfaction of regulatory and other approvals set forth in the purchase agreement. It remains uncertain to us whether the sale of Litton will be completed, and if not completed, whether C-BASS will be able to secure additional liquidity or the continued cooperation of its lenders.

We account for our investment in C-BASS under the equity method of accounting in accordance with Accounting Principles Board (APB) Opinion No. 18, The Equity Method of Accounting for Investments in Common Stock (APB Opinion No. 18). During the third quarter 2007, C-BASS incurred a loss of $935 million and in accordance with APB Opinion No. 18, we recognized our portion of losses of approximately $441 million. This resulted in a reduction in our equity investment in C-BASS from $468 million to $27 million at September 30, 2007. In addition to the recognition of losses, we completed an impairment analysis which resulted in the charge-off of the remaining carrying value of $27 million in the equity investment in C-BASS at September 30, 2007.

We applied SFAS No. 114, Accounting by Creditors for Impairment of a Loan (SFAS No. 114) to the demand loan. We measured impairment based on the present value of expected future cash flows discounted at the demand loan s effective interest rate. Based on such analysis, we continue to carry the demand loan at $50 million.

EITF 98-13, Accounting by an Equity Method Investor for Investee Losses When the Investor Has Loans to and Investments in Other Securities of the Investee (EITF 98-13), requires that when the recognition of equity losses reduces our equity investment to zero, we should continue to report our share of equity method losses in our income statement and should apply those equity method losses to our other investments in or loans to C-BASS. In October 2007, the fair value of C-BASS s securities portfolio declined, generating additional charges to its earnings. As a result of the additional losses at C-BASS, and continued application of APB Opinion No. 18 and EITF 98-13, a full or partial impairment of the $50 million demand note may be required in the fourth quarter of 2007.

Sherman

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 credit card receivables through its subsidiary CreditOne and has a variety of other similar ventures related to consumer assets.

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On September 19, 2007, Radian Guaranty sold to Sherman Capital, L.L.C. (Sherman Capital), an entity owned by the management of Sherman: (1) all of Radian Guaranty s preferred interests in Sherman and (2) 1,672,547 Class A Common Units in Sherman, representing approximately 43.4% of Radian Guaranty s total common interests in Sherman, for a cash purchase price of approximately $277.9 million, plus a future contingent payment. The amount of the contingent payment, if any, will depend on the extent that Sherman Capital s after-tax return on 1,425,335 of the Class A Common Units acquired in the transaction exceeds approximately 16% annually. The contingent payment is payable to Radian Guaranty on December 31, 2013, or earlier upon the closing of a sale of Sherman. We recorded a gain of $181.7 million on the sale of our interest in Sherman.

Before giving effect to this transaction, Radian Guaranty and Mortgage Guaranty Insurance Corporation (MGIC Guaranty), a subsidiary of MGIC each held approximately 40.96% of the Class A Common Units in Sherman (Class A Common Units represented approximately 94% of the total equity in Sherman) and half of the total preferred units. Entities owned by Sherman s management, including Sherman Capital, owned the remaining Class A Common Units and all of the Class B Common Units. In connection with the closing of this transaction, the interests in Sherman were recapitalized into a single class of interests. As a result, Radian Guaranty now owns approximately 21.8% of the outstanding equity in Sherman and MGIC Guaranty owns approximately 24.2% of the outstanding equity in Sherman, with entities controlled by Sherman s management controlling the remaining interests.

In connection with the above-referenced sale of a portion of its equity interests in Sherman, Radian Guaranty also entered into an Option Agreement with Meeting Street Investments LLC (MS LLC), an entity owned by Sherman s management. Under the Option Agreement, Radian Guaranty granted to MS LLC an irrevocable option (the Call Option) to require Radian Guaranty to sell to MS LLC all of Radian Guaranty s remaining interests in Sherman at anytime during the one year period following September 19, 2007. The purchase price under the Call Option will be equal to: (1) the product of (a) Radian Guaranty s ownership percentage in Sherman as of the date of sale under the Option Agreement and (b) $1.5 billion, minus (2) 50% of all future distributions made by Sherman with respect to Radian Guaranty s remaining interests in Sherman through the date of sale under the Option Agreement. The Option Agreement terminates one year from September 19, 2007.

Our purchase of an additional interest in the common equity of Sherman in September 2006 resulted in $37.9 million of purchase accounting premium on receivables and approximately $4.0 million in goodwill and other intangibles. The amortization period of the premium on receivables is approximately three years with a higher amount of amortization recognized in the first year and declining over the life of the receivables. As a result of the sale on September 19, 2007, we amortized approximately $9.4 million and $1.7 million, respectively, of premium and goodwill for the portion sold. Included in the equity in net income of affiliates for the nine months ended September 30, 2007 is $9.1 million of premium amortization. The remaining goodwill is evaluated annually for impairment.

The following table shows the components that make up the investment in affiliates balance:

(In thousands)	September 30 2007	December 31 2006
C-BASS	$	$ 451,395
Sherman	94,110	167,412
Other	34	34
Total	$ 94,144	$ 618,841

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(In thousands)	Three Months Ended September 30 2007	Three Months Ended September 30 2006	Nine Months Ended September 30 2007	Nine Months Ended September 30 2006
Investment in Affiliates-Selected Information:				
C-BASS				
Balance, beginning of period	$ 467,800	$ 415,351	$ 451,395	$ 364,364
Share of net (loss) income for period	(467,800)	27,421	(451,395)	102,302
Dividends received		11,300		35,194
Balance, end of period	$	$ 431,472	$	$ 431,472
Sherman				
Balance, beginning of period	$ 171,737	$ 76,790	$ 167,412	$ 81,753
Share of net income for period	18,876	29,192	74,750	84,689
Dividends received		43,225	51,512	103,740
Other comprehensive income	(637)		(674)	55
(Sale) purchase of ownership interest	(95,866)	66,307	(95,866)	66,307
Balance, end of period	$ 94,110	$ 129,604	$ 94,110	$ 129,604
Portfolio Information:				
C-BASS				
Servicing portfolio	$ 57,700,000	$ 60,400,000		
Total assets	8,538,710	8,431,888		
Total liabilities	8,550,639	7,522,004		
Sherman				
Total assets	$ 2,093,168	$ 1,078,387		
Total liabilities	1,752,203	899,983		
Summary Income Statement:				
C-BASS				
Net (loss) income	$ (934,882)	$ 59,720	$ (899,471)	$ 222,557
Sherman				
Income				
Revenues from receivable portfolios net of amortization	$ 266,365	$ 229,835	$ 771,310	$ 703,620
Other revenues	(5,161)	3,331	19,814	23,116
Total revenues	261,204	233,166	791,124	726,736
Expenses				
Operating and servicing expenses	155,984	111,034	443,661	372,168
Interest	27,397	12,090	59,730	33,628
Other	17,649	28,708	74,707	79,118
Total expenses	201,030	151,832	578,098	484,914
Net income	$ 60,174	$ 81,334	$ 213,026	$ 241,822

7 Losses and Loss Adjustment Expenses (LAE) Mortgage Insurance

We establish reserves to provide for the estimated losses from claims and the estimated costs of settling claims on defaults (or delinquencies) reported and defaults that have occurred but have not been reported.

Included in the reserve for losses at September 30, 2007, is $55.5 million related to a second-lien structured mortgage transaction. Of this amount, $23.8 million is included as a reinsurance recoverable in other assets on the condensed consolidated balance sheets.

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Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

The following table reconciles our mortgage insurance segment s beginning and ending reserves for losses and LAE for the nine months ended September 30, 2007 (in thousands):

Mortgage Insurance	
Balance at January 1, 2007	$ 653,236
Less Reinsurance recoverables	21,763
Balance at January 1, 2007, net	631,473
Add total losses and LAE incurred in respect of default notices received	571,791
Deduct total losses and LAE paid in respect of default notices received	344,713
Balance at September 30, 2007, net	858,551
Add Reinsurance recoverables	26,434
Balance at September 30, 2007	$ 884,985

Claims paid during 2007 included claims from a structured transaction covering the first 10% of aggregate losses on a pool of subprime second-lien mortgages. As structured, we split losses with our counterparty under this policy on a 50-50 basis. We began experiencing a significant increase in filed claims on this policy during the third quarter of 2006 and have paid approximately $53.3 million in net claims on this policy as of September 30, 2007. At September 30, 2007, our net exposure remaining under this policy was approximately $25.3 million or half of the approximately $50.7 million in gross remaining exposure. Approximately $23.8 million of this $25.3 million was contained within our net loss reserve at September 30, 2007. In addition to this policy, we also have a supplemental policy on the same pool of mortgages that covers certain losses in excess of the 10% aggregate stop-loss. Our mortgage insurance reserve at September 30, 2007, included $7.9 million for claims under this supplemental policy. These policies are also included in the calculation of our reserve for second-lien premium deficiency.

8 Reserve for Second-Lien Premium Deficiency

In the third quarter of 2007, we established a reserve for premium deficiency on our second-lien business. In accordance with SFAS No. 60, Accounting and Reporting for Insurance Enterprises (SFAS No. 60), our second-lien business is considered to be a separate product due to the fact that the business is managed separately, premiums are priced differently from our traditional products and the customer base is different from that of our traditional products. SFAS No. 60 requires a premium deficiency reserve if the net present value of the expected future losses and expenses exceeds expected future premiums. As a result, in the third quarter, we recorded a $155.2 million premium deficiency reserve on the second-lien business.

9 Income Taxes

In June 2006, the FASB issued FIN 48. FIN 48 is effective for fiscal years beginning after December 15, 2006, and clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with SFAS No. 109, Accounting for Income Taxes. It prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

We adopted FIN 48 in the first quarter of 2007. The cumulative effect of applying the provisions of FIN 48 was an increase of approximately $218 million in the current income taxes payable, a decrease of approximately

Radian Group Inc.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

$197 million in deferred income taxes payable and a $21 million decrease in retained earnings. Prior to the implementation of FIN 48, we maintained reserves for contingent tax liabilities, which totaled approximately $20 million as of December 31, 2006. After the adoption of FIN 48, and as of September 30, 2007, we have approximately $43 million of unrecognized tax benefits that, if recognized, would affect the effective tax rate. Also prior to FIN 48, we maintained a net current tax recoverable based on payments made to the taxing authorities, and such recoverable was classified in other assets on our condensed consolidated balance sheets. As a result of the changes necessary in applying the guidelines of FIN 48, we expect our income tax provision to generally exceed actual payments made to the taxing authorities in any given year, which results in a current tax liability position reflected on the condensed consolidated balance sheets. Our policy for the recognition of interest and penalties associated with uncertain tax positions is to record such items as a component of our income tax provision. The table below details the cumulative effect of applying the provisions of FIN 48 as of September 30, 2007.

The effect of unrecognized tax benefits on our condensed consolidated balance sheets and results of operations is as follows:

(In thousands)	**January 1 2007**	**Increase**	**September 30 2007**
Unrecognized tax benefits as a component of current income taxes payable	$ 218,400	$ 6,431	$ 224,831
Unrecognized tax benefits that, if recognized, would affect the effective tax rate	$ 41,118	$ 1,688	$ 42,806
Interest and penalties recognized in our condensed consolidated balance sheets	$ 28,085	$ 6,406	$ 34,491
Interest and penalties recognized in our condensed consolidated statements of income	$	$ 6,406	$ 6,406

Uncertain tax positions for which it is reasonably possible that the unrecognized tax benefits included above will significantly increase (decrease) over the 12-month period following adoption relate to various state and local income taxes and penalties and interest on taxable income from our investment in certain lower tier partnership interests.

We have taken a position in various jurisdictions that we are not required to remit taxes with regard to the income earned on our investment in certain partnership interests. Although we believe that these tax positions are likely to succeed if adjudicated in a court of last resort, measurement under FIN 48 of the potential amount of liability for state and local taxes and the potential for penalty and interest thereon is performed on a quarterly basis. Over the next twelve months, additional taxable income is expected from these investments, which would require additional measurements of potential state and local taxes, penalty and interest thereon. The estimated increase to the current income taxes payable for these positions over the 12-month period following adoption is approximately $3.7 million.

The following calendar tax years, listed by major jurisdiction, remain subject to examination:

U.S. Federal Corporation Income Tax	2000	2006(1)
Significant State and Local Jurisdictions (2)	1999	2006

(1) Our U. S. federal corporation income tax returns filed for calendar years 2000 through 2005 are currently being examined by the Internal Revenue Service (IRS). The IRS may also open the 1999 tax year for

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Radian Group Inc.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

examination under Internal Revenue Code Section 6501(e) (IRC Section 6501(e)). With regard to the 1999 calendar year, we have agreed to extend the statute of limitations for the assessment of tax to June 30, 2008. The extension of the statute of limitations is contingent upon the IRS s successful application of the provisions of IRC Section 6501(e). With regard to calendar years 2000 through 2003, we have also agreed to extend the statute of limitations for the assessment of tax to June 30, 2008. All such statute of limitation extensions, including the 1999 calendar year extension, have limited the scope of the examinations to the recognition of certain tax benefits that were generated through our investment in a portfolio of residual interests in Real Estate Mortgage Investment Conduits (REMICs).

(2) Arizona, California, Florida, Georgia, New York, Ohio, Pennsylvania, Texas and New York City.

The IRS opposes the recognition of certain tax losses and deductions that were generated through our investment in a portfolio of residual interests in REMICs and has proposed adjustments denying the associated tax benefits of these items. We will contest 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. When an examination has not been settled at the local examination division level, the IRS will usually issue a 30-day letter which contains details of the proposed adjustments and the taxpayer s rights to appeal. Upon receipt of the IRS s 30-day letter, we may make a payment with the United States Department of the Treasury to avoid the accrual of the above-market-rate interest associated with our estimate of the potentially unsettled adjustment. We anticipate receiving the 30-day letter and making the payment on account during the fourth quarter of 2007 or first quarter of 2008 depending upon the outcome of certain procedural events that may take place surrounding the 1999 tax year issue described above. The cash requirement for the payment on account is anticipated to be approximately $84.0 million. Any ultimate overpayment associated with the payment on account would be recovered through a formal claim for refund process.

10 Long-Term Debt and Other Borrowings

The composition of our long-term debt and other borrowings at September 30, 2007 and December 31, 2006 was as follows:

(In thousands)	**September 30 2007**	**December 31 2006**
5.625% Senior Notes due 2013	$ 248,814	$ 248,677
7.750% Debentures due 2011	249,558	249,483
5.375% Senior Notes due 2015	249,638	249,610
Other borrowings	200,000	
	$ 948,010	$ 747,770

In April 2004, we entered into interest-rate swap contracts that effectively convert the fixed interest rate on the unsecured senior notes due 2013 to a variable rate based on a spread over the six-month LIBOR for the remaining term of the debt.

We have a $400 million, unsecured revolving credit facility, which expires in 2011. On August 15, 2007, we drew down $200 million in principal amount under the facility. The amounts drawn down bear interest at a rate equal to LIBOR plus 20 basis points (which resets monthly) as specified by the credit facility. After the draw down, the remaining amount available under the facility is $200 million.

Radian Group Inc.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

11 Stock-Based Compensation

We have an equity compensation plan, the Radian Group Inc. Equity Compensation Plan (the Plan), under which we may provide grants of incentive stock options, non-qualified stock options, restricted stock, stock appreciation rights (referred to as SARs), performance shares and phantom stock. To date, all awards granted under the Plan have been in the form of non-qualified stock options, restricted stock and phantom stock. Officers and other employees (of Radian or its affiliates) are eligible to participate in the Plan. Non-employee directors are also eligible to participate in the Plan, but are not permitted to receive grants of incentive stock options. The Plan will expire on December 31, 2008.

On November 6, 2007, the Plan was amended: (1) to clarify that the definition of retirement under the Plan for purposes of the Plan s vesting and post–termination exercise provisions includes both normal retirement after attaining age 65 with 5 years of service, and early retirement after attaining age 55 with 10 years of service; and (2) for future stock option grants, to extend the post–termination exercise period for optionees who are terminated without cause from the current 90 days to one year.

On January 1, 2006, we adopted SFAS No. 123R using a modified prospective application as permitted by SFAS No. 123R. Under this application, we are required to record compensation expense for all awards granted after the date of adoption and for the unvested portion of previously granted awards that remain outstanding at the date of adoption. Compensation cost is recognized over the periods that an employee provides service in exchange for the award.

Stock Options

Unless otherwise specified, each option vests ratably over three or four years, beginning one year after the date of grant. We generally issue shares from unissued reserved shares for exercises with an exercise price less than the treasury stock repurchase price and from treasury stock when the exercise price is greater than the treasury stock repurchase price. During the first nine months of 2007, there were 1,922,800 stock options granted, compared to 1,030,650 stock options granted during the first nine months of 2006. During the three and nine months ended September 30, 2007, we recorded $2.1 million and $4.8 million, respectively, of net expense related to stock options compared to $1.8 million and $4.9 million, respectively, of net expense in the comparable 2006 periods.

Restricted Stock

The Compensation and Human Resources Committee of our board of directors may issue shares of our common stock under a grant of restricted stock under the Plan. The shares underlying a grant are issued in consideration for services rendered having a value, as determined by our board of directors, at least equal to the par value of the common stock. While shares are subject to restrictions, a grantee may not sell, assign, transfer, pledge or otherwise dispose of the shares of our common stock, except to a successor grantee in the event of the grantee s death. All restrictions imposed under a restricted stock grant lapse after the applicable restriction period or as the Compensation Committee may determine. Restricted shares granted on or after February 5, 2007 generally vest three years from the date of grant, but may vest earlier under certain circumstances.

We granted, under the Plan, 615,970 shares of restricted stock during the first nine months of 2007, compared to 41,300 shares of restricted stock during all of 2006, in the case of each grant, vesting over two to four years.

The amount recorded as net stock-based compensation expense related to restricted stock for the three and nine months ended September 30, 2007 was $1.0 million and $3.8 million, respectively.

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Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

Phantom Stock

The Compensation Committee may grant phantom stock awards under the Plan, which entitle grantees to receive shares of our common stock on a vesting date (referred to in the Plan as the conversion date) established by the Compensation Committee. All phantom stock will be paid in whole shares of our common stock, with fractional shares paid in cash. The amount recorded as stock-based compensation expense related to phantom stock awards granted for the three and nine months ended September 30, 2007 was $(3.1) million and $(2.2) million, respectively, compared to an immaterial amount for the three months ended September 30, 2006 and $1.6 million for the nine months ended September 30, 2006.

Employee Stock Purchase Plan

We have an Employee Stock Purchase Plan (the ESPP). A total of 400,000 shares of our authorized unissued common stock have been made available under the ESPP. The ESPP allows eligible employees to purchase shares of our stock at a discount of 15% of the beginning-of-period or end-of-period (each period being the first and second six calendar months) fair market value of the stock, whichever is lower. The effect of the issuance of shares under the ESPP on our net income and earnings per share was immaterial for the three and nine months ended September 30, 2007 and 2006.

On May 8, 2007, our board of directors amended the ESPP: (1) to extend the expiration date of the plan from July 15, 2007 to July 15, 2009; and (2) notwithstanding the extension, in anticipation of our proposed merger with MGIC, to suspend the ESPP effective upon the consummation of the purchase of shares of common stock in connection with the expiration of the current offering and purchase periods under the plan on June 30, 2007.

On November 6, 2007, our board of directors: (1) re−started the ESPP by declaring two new six−month offering periods commencing on January 1 and July 1, 2008; (2) amended the eligibility criteria of the ESPP to eliminate the 18-month waiting period previously imposed on new employees; and (3) approved certain administrative amendments to the ESPP to allow for the maximum annual contributions by participants under the ESPP to be equal to the maximum amount permitted from time to time by the Internal Revenue Service.

Performance Shares

We have a Performance Share Plan (the Program). The Program is intended to motivate our executive officers by focusing their attention on critical financial indicators that measure our success. We are currently using phantom stock grants to fund awards under the Program. The Compensation Committee grants performance share awards to eligible participants with respect to performance periods of overlapping durations. Both the first and second performance periods under the Program are three-year periods that began on January 1, 2005 and January 1, 2006, respectively. Upon establishing each performance period, a target number of performance shares are established for each participant in the Program. The performance shares are denominated in shares of common stock and are settled in common shares. The amount of stock-based compensation expense related to performance shares for the three and nine months ended September 30, 2007 and 2006 was $(3.5) million and $(3.6) million, respectively, compared to $1.3 million and $2.5 million, respectively.

12 Recent Accounting Pronouncements

In April 2006, the FASB issued FASB Staff Position (FSP) No. FIN 46(R)-6, Determining the Variability to Be Considered in Applying FASB Interpretation No. 46(R) (FSP FIN 46(R)-6), which addresses how a reporting enterprise should determine the variability to be considered in applying FASB Interpretation

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No. 46(R) (FIN 46R). The variability that is considered in applying FIN 46R affects the determination of (i) whether the entity is a variable interest entity, (ii) which interests are variable interests in the entity and (iii) which party, if any, is the primary beneficiary of the variable interest entity. That variability will affect any calculation of expected losses and expected residual returns, if such a calculation is necessary. FSP FIN 46(R)-6 became effective July 1, 2006. The adoption of this FSP did not have a material impact on our condensed consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS No. 157). SFAS No. 157 (i) defines fair value, (ii) establishes a framework for measuring fair value in GAAP and (iii) expands disclosure requirements about fair value measurements. SFAS No. 157 is effective for all financial statements issued for fiscal years beginning after November 15, 2007. Management currently is considering the impact that may result from the adoption of SFAS No. 157.

In September 2006, the FASB issued SFAS No. 158, Employer s Accounting for Defined Benefit Pension and Other Postretirement Plans (SFAS No. 158). SFAS No. 158 requires us to recognize the funded status of a benefit plan measured as the difference between plan assets at fair value (with limited exceptions) and the benefit obligation in our condensed consolidated balance sheets. For a pension plan, the benefit obligation is the projected benefit obligation; for any other postretirement benefit plan, such as a retiree health care plan, the benefit obligation is the accumulated postretirement benefit obligation. SFAS No. 158 also requires us to recognize as a component of accumulated other comprehensive income, net of tax, the gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost. Amounts recognized in accumulated other comprehensive income, including the gains or losses, prior service costs or credits, and the transition asset or obligation remaining, are adjusted as they are subsequently recognized as components of net periodic benefit cost pursuant to the recognition and amortization provisions of those statements. In addition, SFAS No. 158 requires us to measure defined benefit plan assets and obligations as of the date of our fiscal year-end statement of financial position (with limited exceptions), and to disclose in the notes to financial statements additional information about certain effects on net periodic benefit cost for the next fiscal year that arise from delayed recognition of the gains or losses, prior service costs or credits, and transition asset or obligation. Employers with publicly traded equity securities were required to initially recognize the funded status of a defined benefit postretirement plan and to provide the required disclosures as of the end of the fiscal year ending after December 15, 2006. The requirement to measure plan assets and benefit obligations as of the date of the employer s fiscal year-end statement of financial position is effective for fiscal years ending after December 15, 2008. We adopted this statement effective December 31, 2006. The implementation of SFAS No. 158 did not have a material impact on our condensed consolidated financial statements. See Note 14.

In September 2006, the SEC released Staff Accounting Bulletin (SAB) No. 108 (SAB No. 108). This release expresses the staff s views regarding the process of quantifying financial statement misstatements and addresses diversity in practice in quantifying financial statement misstatements and the potential for the build up of improper amounts on the balance sheet. SAB No. 108 is effective for annual financial statements covering the first fiscal year ending after November 15, 2006. Management has reviewed the SAB in connection with our consolidated financial statements for the current and prior periods, and has determined that its adoption did not have an impact on any of these financial statements.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS No. 159). SFAS No. 159 permits entities to choose to measure financial instruments and certain other items at fair value. Items eligible for fair value measurement option established by this statement are (i) recognized financial assets and financial liabilities (with some exceptions), (ii) firm commitments that would otherwise not be recognized at inception and that involve only financial instruments, (iii) nonfinancial insurance contracts and warranties that the insurer can settle by paying a third party to provide

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those goods or services and (iv) host financial instruments resulting from separation of an embedded nonfinancial derivative instrument from a nonfinancial hybrid instrument. SFAS No. 159 is effective as of the beginning of an entity s first fiscal year that begins after November 15, 2007. Management currently is considering the impact, if any, that may result from the adoption of SFAS No. 159.

In April 2007, the FASB issued FSP No. FIN 39-1, an amendment of FASB Interpretation No. 39, Offsetting of Amounts Related to Certain Contracts (FSP FIN 39-1). FSP FIN 39-1 replaces the terms conditional contracts and exchange contracts with the term derivative instruments and permits a reporting entity to offset fair value amounts recognized for the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) against fair value amounts recognized for derivative instruments executed with the same counterparty under the same master netting arrangement that have been offset in the statement of financial position. FSP FIN 39-1 is effective for fiscal years beginning after November 15, 2007, with early adoption permitted. Management currently is considering the impact, if any, that may result from the adoption of FSP FIN 39-1.

In September 2005, Statement of Position (SOP) 05-1, Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection With Modifications or Exchanges of Insurance Contracts (SOP 05-1), was issued. This SOP provides guidance on accounting by insurance enterprises for deferred acquisition costs on internal replacements of insurance and investment contracts other than those specifically described in SFAS No. 97, Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments . SOP 05-1 is effective for internal replacements occurring in fiscal years beginning after December 15, 2006. The adoption of SOP 05-1 on January 1, 2007, did not have a material impact on our condensed consolidated financial statements.

The Emerging Issues Task Force (EITF) reached a consensus on EITF Issue No. 06-4, The Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements (EITF 06-4). EITF 06-4 addresses whether the postretirement benefit associated with an endorsement split-dollar life insurance arrangement is effectively settled in accordance with SFAS No. 106, Employers Accounting for Postretirement Benefits Other Than Pensions and APB Opinion No. 12 Omnibus Opinion 1967 upon entering into such an arrangement. EITF 06-4 is effective for fiscal years beginning after December 15, 2007. Management is considering the impact, if any, that may result from the adoption of EITF 06-4.

The EITF reached a consensus on EITF Issue No. 06-5, Accounting for Purchases of Life Insurance Determining the Amount that Could be Realized in Accordance with FASB Technical Bulletin No. 85-4 (EITF 06-5). EITF 06-5 addresses (i) whether a policyholder should consider any additional amounts included in the contractual terms of the insurance policy other than the cash surrender value in determining the amount that could be realized under the insurance contract in accordance with Technical Bulletin No. 85-4, (ii) whether a policyholder should consider the contractual ability to surrender all of the individual-life policies (or certificates in a group policy) at the same time in determining the amount that could be realized under the insurance contract in accordance with Technical Bulletin No. 85-4 Accounting for Purchases of Life Insurance and (iii) whether the cash surrender value component of the amount that could be realized under the insurance contract in accordance with Technical Bulletin No. 85-4 should be discounted in accordance with APB Opinion No. 21, Interest on Receivables and Payables , when contractual limitations on the ability to surrender a policy exist. EITF 06-5 is effective for fiscal years beginning after December 15, 2006. The impact of adopting EITF 06-5 effective January 1, 2007, was not material to our condensed consolidated financial statements.

In May 2007, the FASB issued FSP No. FIN 48-1, Definition of Settlement in FASB Interpretation No. 48 (FSP FIN 48-1), which clarifies when a tax position is considered settled under FIN 48. FSP FIN 48-1 is applicable at the adoption of FIN 48, which was January 1, 2007 for us, and did not have a material impact on our tax position at September 30, 2007.

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Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

The EITF reached a consensus on EITF Issue No. 06-11, Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards (EITF 06-11). EITF 06-11 addresses how an entity should recognize the income tax benefit received on dividends that are (a) paid to employees holding equity-classified nonvested shares, equity-classified nonvested share units, or equity-classified outstanding share options and (b) charged to retained earnings under SFAS 123R. EITF 06-11 is effective for fiscal years beginning after December 15, 2007. Management is considering the impact, if any, that may result from the adoption of EITF 06-11.

13 Other Information

Since September 2002, our board of directors has authorized five separate repurchase programs, including the current 6.0 million share program, for the repurchase, in the aggregate, of up to 21.5 million shares of our common stock on the open market. At September 30, 2007, we had repurchased approximately 20.4 million shares under these programs for a total cost of approximately $1.0 billion, including 0.4 million shares during the first nine months of 2007 at a cost of approximately $22.8 million. All share repurchases made to date were funded from available working capital, and were made from time to time depending on market conditions, share price and other factors.

We also may purchase shares on the open market to meet option exercise obligations and to fund 401(k) matches and may consider additional stock repurchase programs in the future.

Until September 30, 2004, our financial guaranty segment also included our ownership interest in Primus Guaranty, Ltd. (Primus), a Bermuda holding company and parent to Primus Financial Products, LLC, a provider of credit risk protection to derivatives dealers and credit portfolio managers on individual investment-grade entities. In September 2004, Primus issued shares of its common stock in an initial public offering. We sold a portion of our shares in Primus as part of this offering. As a result of our reduced ownership and influence over Primus after the initial public offering, we reclassified our investment in Primus to our equity securities portfolio. Accordingly, beginning with the fourth quarter of 2004, we began recording changes in the fair value of the Primus securities as other comprehensive income rather than recording income or loss as equity in net income of affiliates. In 2005 and during the first quarter of 2006, we sold all of our remaining interest in Primus, recording a pre-tax gain of $2.8 million in the last half of 2005 and a pre-tax gain of $21.4 million in the first quarter of 2006.

In January 2007, Radian Guaranty received a $51.5 million dividend from Sherman. Our insurance subsidiaries may be limited in the amount that they may pay in dividends to us during the next 12 months without first obtaining insurance department approval.

On February 6, 2007, we and MGIC entered into an Agreement and Plan of Merger pursuant to which we agreed, subject to the terms and conditions of the merger agreement, to merge with and into MGIC, with the combined company to be re-named MGIC Radian Financial Group Inc.

On September 4, 2007, facing market conditions that had made combining the companies significantly more challenging, we and MGIC entered into a Termination and Release Agreement relating to the Agreement and Plan of Merger. As a result of this agreement, we and MGIC terminated the Agreement and Plan of Merger, abandoned the merger contemplated by the merger agreement and released each other from related claims. Neither party made a payment to the other in connection with the termination.

We have discontinued mortgage insurance operations at Radian Europe Limited (Radian Europe) and are in the process of cancelling its authorization to engage in the business of insurance in the United Kingdom and

Radian Group Inc.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

other European Union member states, following which we intend to liquidate the company. No business has been written by Radian Europe, which held approximately $60 million in capital as of September 30, 2007. We expect the capital held by Radian Europe, net of expenses related to the closure, to be distributed initially to Radian Guaranty in the fourth quarter of 2007 and the liquidation of Radian Europe to be completed shortly thereafter. We currently have several reinsurance arrangements in place in Australia and are currently seeking a license to allow Radian Australia to fully transact both mortgage insurance and financial guaranty business in Australia.

14 Benefit Plans

We maintain a noncontributory defined benefit pension plan (the Pension Plan) covering substantially all of our full-time employees. Effective December 31, 2006, we (1) froze all benefits accruing under the Pension Plan and (2) suspended all forms of participation under the Pension Plan. Prior to the suspension, all salaried and hourly employees of Radian and its participating subsidiaries were eligible to participate in the Pension Plan upon attaining 20 $^1/2$ years of age and one year of eligible service. We recorded a curtailment loss of approximately $370,000 in the fourth quarter of 2006 as a result of the freezing of the Pension Plan.

The Pension Plan suspension was aimed at preparing for the future termination of the Pension Plan, and reflects a broader reliance on the Radian Group Inc. Savings Incentive Plan (the Savings Plan) as the primary retirement vehicle for our employees. On February 5, 2007, our board of directors approved the termination of the Pension Plan, effective June 1, 2007. We expect to record an immaterial settlement loss upon termination of the Pension Plan, which remains subject to regulatory approval.

In the first quarter of 2007, we amended the Pension Plan to (1) accelerate the vesting of accrued benefits under the Pension Plan for all participants in the plan who are employees of Radian or its affiliates at any time between December 31, 2006 and the termination date of June 1, 2007; and (2) enhance the distribution options under the Pension Plan to offer an immediate annuity option and an immediate lump sum option in connection with the June 1, 2007 termination date. On November 7, 2007, the Pension Plan was further amended to extend the lump sum distribution right to terminated vested participants who did not commence receiving benefits prior to January 1, 2007.

We terminated the Radian Group Inc. Supplemental Executive Retirement Plan (the SERP) effective December 31, 2006, and adopted a new nonqualified restoration plan (the Benefit Restoration Plan or BRP), effective January 1, 2007. The BRP is intended to provide additional retirement benefits to Radian employees that are eligible to participate in the Savings Plan and whose benefits under the Savings Plan are limited by applicable IRS limits on eligible compensation.

In addition, we discontinued the split-dollar life insurance policies used to finance the SERP. Each participant in the SERP received an initial balance in the BRP equal to the present value of the participant s SERP benefit as of January 1, 2007.

On November 6, 2007, the BRP was amended and restated: (1) to mandate a lump sum form of payment (rather than offering an annuity election) for participants who separate from service after 2007; (2) to de−link discretionary contributions under the BRP from discretionary contributions under the Savings Plan; (3) to provide us with flexibility to waive the eligibility requirements for discretionary contributions under the BRP to allow otherwise ineligible employees, such as those involuntarily terminated during the year, to participate in such contributions; and (4) to conform the BRP s definitions to the final regulations under Section 409A of the Internal Revenue Code.

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Radian Group Inc.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

The assumed discount rate for each of our benefit plans is based on assumptions intended to estimate the actual termination liability of the plan. The discount rate is a composite rate used to approximate the actual termination liability comprised of lump sum payments and an annuity purchase.

The components of the Pension Plan/SERP benefit and net periodic postretirement benefit costs are as follows (in thousands):

	Three Months Ended September 30			
	Pension Plan/SERP		Postretirement Welfare Plan	
	2007	2006	2007	2006
Service cost	$	$ 1,495	$ 3	$ 2
Interest cost	443	549	15	16
Expected return on plan assets	(352)	(376)		
Amortization of prior service cost		63	(2)	(2)
Recognized net actuarial loss (gain)		94	(2)	
Net periodic benefit cost	$ 91	$ 1,825	$ 14	$ 16

	Nine Months Ended September 30			
	Pension Plan/SERP		Postretirement Welfare Plan	
	2007	2006	2007	2006
Service cost	$	$ 4,137	$ 9	$ 7
Interest cost	1,223	1,633	45	47
Expected return on plan assets	(1,050)	(1,130)		
Amortization of prior service cost		189	(6)	(5)
Recognized net actuarial loss (gain)		282	(6)	(3)
Net periodic benefit cost	$ 173	$ 5,111	$ 42	$ 46

15 Selected Financial Information of Registrant Radian Group Inc.

The following is selected financial information for the parent company:

(In thousands)	**September 30 2007**	**December 31 2006**
Investment in subsidiaries, at equity in net assets	$ 4,252,235	$ 4,774,918
Total assets	4,440,737	4,865,381

Long-term debt and other borrowings	948,010	747,770
Total liabilities	993,245	797,824
Total stockholders equity	3,447,492	4,067,557
Total liabilities and stockholders equity	4,440,737	4,865,381

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Radian Group Inc.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

16 Commitments, Contingencies and Off-Balance-Sheet Arrangements

As previously disclosed in the joint proxy statement/prospectus for our 2007 annual meeting of stockholders, on February 8, 2007, a purported stockholder class action lawsuit related to our proposed merger with MGIC (the Action) was filed in the Court of Common Pleas, Philadelphia County, Civil Trial Division in the State of Pennsylvania (the Court of Common Pleas) by Catherine Rubery against Radian Group and its directors. The lawsuit alleged, among other things, that the merger consideration to be received by Radian stockholders was inadequate and that the individual defendants, among other things, breached their duties of care, loyalty, good faith and independence to the stockholders in connection with the merger. The complaint sought class action status as well as injunctive, declaratory and other equitable relief. As discussed above, we and MGIC agreed to mutually terminate our pending merger on September 4, 2007. The plaintiff in this matter withdrew her complaint on September 20, 2007.

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 United States District Court for the Eastern District of Pennsylvania. The complaints, which are substantially similar, allege that Radian was aware of and failed to disclose the actual financial condition of C-BASS prior to Radian Group s declaration of a material impairment to its investment in C-BASS. Two motions have been filed seeking appointment as lead Plaintiff, the first on behalf of the Institutional Investors Iron Workers Local No. 25 Pension Fund and the City of Ann Arbor Employees Retirement System and the second on behalf of the Tulare County Employees Retirement Association. The court will consider these motions and appoint lead plaintiff by November 13, 2007. While it is still very early in the pleadings stage, we do not believe that these allegations have any merit.

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 guarantee the payment of up to $25.0 million of a revolving credit facility issued to Sherman, which expires in December 2007. Our guaranty facilitates the issuance and renewal of the facility, which Sherman may use for general corporate purposes. There were no amounts outstanding under this facility at September 30, 2007.

As part of the non-investment-grade allocation component of our investment program, we have committed to invest $55 million in alternative investments that are primarily private equity structures. At September 30, 2007, we had unfunded commitments of $26.0 million. These commitments have capital calls over a period of at least six years, and certain fixed expiration dates or other termination clauses.

Our mortgage insurance business utilizes its underwriting skills to provide an outsourced underwriting service to its customers. We give recourse to our customers on loans we underwrite for compliance. Typically, we agree that if we make a material error in underwriting a loan, we will remedy, indemnify, make whole, repurchase, or place additional mortgage insurance coverage on the loan. Providing these remedies means we assume some credit risk and interest-rate risk if an error is found during the limited remedy period in the agreements governing these services. We paid losses for sales and remedies from reserves in the first nine months of 2007 of approximately $3.9 million and our reserve for such expenses at September 30, 2007 was $2.3 million. We closely monitor this risk and negotiate our underwriting fee structure and recourse agreements on a client-by-client basis.

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

The following analysis should be read in conjunction with our unaudited condensed consolidated financial statements and the notes thereto included in this report and our audited financial statements, notes thereto and Management s Discussion and Analysis of Financial Condition and Results of Operations included in our Form 10-K for the fiscal year ended December 31, 2006 for a more complete understanding of our financial position and results of operations.

Business Summary

Termination of Merger with MGIC Investment Corporation (MGIC)

On February 6, 2007, we and MGIC entered into an Agreement and Plan of Merger pursuant to which we agreed, subject to the terms and conditions of the merger agreement, to merge with and into MGIC, with the combined company to be re-named MGIC Radian Financial Group Inc.

On September 4, 2007, facing market conditions that had made combining the companies significantly more challenging, we and MGIC entered into a Termination and Release Agreement relating to the Agreement and Plan of Merger. As a result of this agreement, we and MGIC terminated the Agreement and Plan of Merger, abandoned the merger contemplated by the merger agreement and released each other from related claims. Neither party made a payment to the other in connection with the termination.

Overview

Our principal business segments are mortgage insurance, financial guaranty and financial services. The following table shows the percentage contributions to equity allocated to each business segment as of September 30, 2007:

	Equity
Mortgage Insurance	55%
Financial Guaranty	41%
Financial Services	4%

Mortgage Insurance

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

Our mortgage insurance segment, through Radian Guaranty, offers primary and pool mortgage insurance coverage on residential first-lien mortgages. At September 30, 2007, primary insurance on domestic first-lien mortgages made up approximately 90% of our total domestic first-lien mortgage insurance risk in force, and pool insurance on domestic first-lien mortgages made up approximately 10% of our total domestic first-lien mortgage insurance risk in force. We use Radian Insurance to provide credit enhancement for mortgage-related capital market transactions and to write credit insurance on mortgage-related assets, including net interest margin

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securities (NIMS), international insurance and reinsurance transactions, second-lien mortgages, home equity loans and credit default swaps (collectively, we refer to the risk associated with these transactions as other risk in force). We also insure second-lien mortgages through Amerin Guaranty.

We have discontinued mortgage insurance operations at Radian Europe Limited (Radian Europe) and are in the process of cancelling its authorization to engage in the business of insurance in the United Kingdom and other European Union member states, following which we intend to liquidate the company. No business has been written by Radian Europe, which held approximately $60 million in capital as of September 30, 2007. We expect the capital held by Radian Europe, net of expenses related to the closure, to be distributed initially to Radian Guaranty in the fourth quarter of 2007 and the liquidation of Radian Europe to be completed shortly thereafter. We currently have several reinsurance arrangements in place in Australia and are currently seeking a license to allow Radian Australia to fully transact both mortgage insurance and financial guaranty business in Australia.

Financial Guaranty

Our financial guaranty segment mainly insures and reinsures credit-based risks. Financial guaranty insurance typically provides an unconditional and irrevocable guaranty to the holder of a financial obligation of full and timely payment of principal and interest when due.

Our financial guaranty segment offers the following products:

- insurance of public finance obligations, including tax-exempt and taxable indebtedness of states, counties, cities, special service districts, other political subdivisions and tribal finance and for enterprises such as airports, public and private higher education and health care facilities, project finance and private finance initiative assets in sectors such as schools, healthcare and infrastructure projects. The issuers of public finance obligations we insure are typically rated investment-grade (BBB-/Baa3 or higher) at the time we issue our insurance policy, without the benefit of our insurance;

- insurance of structured finance obligations, including collateralized debt obligations (CDOs) and asset-backed securities, consisting of funded and non-funded (synthetic) obligations that are payable from or tied to the performance of a specific pool of assets. Examples of the pools of assets that underlie structured finance obligations include residential and commercial mortgages, a variety of consumer loans, corporate loans and bonds, equipment receivables and real and personal property leases. The structured finance obligations we insure are generally rated investment-grade at the time we issue our insurance policy, without the benefit of our insurance;

- financial solutions products (which we group as part of our structured finance business), including guaranties of securities exchange clearing houses, excess-Securities Investor Protection Corporation insurance for brokerage firms and excess-Federal Deposit Insurance Corporation insurance for banks; and

- reinsurance of domestic and international public finance obligations, including those issued by sovereign and sub-sovereign entities, as well as reinsurance of structured finance, financial solutions and trade credit reinsurance obligations.

We provide these products and services mainly through Radian Asset Assurance Inc., our principal financial guaranty subsidiary (Radian Asset Assurance) and through Radian Asset Assurance Limited (RAAL), an insurance subsidiary of Radian Asset Assurance authorized to conduct financial guaranty business in the United Kingdom and, subject to compliance with the European passporting rules, other European Union jurisdictions. RAAL accounted for $3.6 million and $10.4 million of direct premiums written in the three and nine months ended September 30, 2007 (or 11.2% and 11.5% of financial guaranty s direct premiums written in the three and nine months ended September 30, 2007), compared to $2.3 million and $6.4 million of direct premiums written in the corresponding periods of 2006 (or 7.6% and 5.9% of financial guaranty s direct premiums written in the three and nine months ended September 30, 2006).

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In October 2005, we announced that we would be exiting the trade credit reinsurance line of business. Accordingly, this line of business has been placed into run-off and we have ceased initiating new trade credit reinsurance contracts. There were no material trade credit reinsurance premiums written in 2007 or 2006.

Financial Services

Our financial services segment includes the credit-based businesses conducted through our affiliates, Credit-Based Asset Servicing and Securitization LLC (C-BASS) and Sherman Financial Services Group LLC (Sherman). We currently hold a 46% equity interest in C-BASS and a 21.8% equity interest in Sherman.

C-BASS

C-BASS is a mortgage investment and servicing company specializing in the credit risk of subprime single-family residential mortgages. Since February 2007, the market for subprime mortgages has experienced significant turmoil, with market dislocations accelerating to unprecedented levels. In the first quarter of 2007, C-BASS reported a total net loss of $14.7 million before returning to profitability by reporting total net income of $35.4 million in the second quarter of 2007. During the five month period from February 1, 2007 through June 30, 2007, C-BASS s financial statements included the payment of approximately $290.3 million to satisfy lenders margin calls on loans to C-BASS, which it handled with its available liquidity.

During the third quarter there were several events that significantly impacted C-BASS. Those events included the following:

- On July 17, 2007, C-BASS completed its acquisition of Fieldstone Investment Corporation (Fieldstone), a mortgage banking company that originated, sold, and invested primarily in non-conforming single family residential mortgage loans, for approximately $187 million, including closing costs. C-BASS used approximately $90 million in cash to fund this acquisition.

- On July 19, 2007, in order to support C-BASS s liquidity position, we and MGIC Investment Corporation (MGIC), each entered into a $50 million unsecured revolving credit facility agreement with C-BASS that is payable on demand and is scheduled to expire December 31, 2007.

- On July 20 and 23, 2007, C-BASS drew down the entire $50 million on each facility ($100 million in total.)

- On July 26 and 27, 2007, C-BASS received an additional $200 million in margin calls bringing the total margin calls for the month to $362.7 million. As of the close of business on July 27th, C-BASS had paid only $263.5 million of the $362.7 million in outstanding margin calls.

- Prior to July 29, 2007, a number of qualified buyers showed a strong interest in C-BASS, and both we and MGIC received multiple preliminary indications of interest above C-BASS s book value. Due diligence was ongoing until July 29, 2007 when the increase in margin calls over the prior few days significantly jeopardized C-BASS s liquidity position, resulting in a withdrawal of all interested buyers at that time.

On July 29, 2007, we concluded that there were indicators that a material charge for impairment of our investment in C-BASS was required under accounting principles generally accepted in the United States of America (GAAP); however, we could not determine the amount or range of amounts of the potential impairment until financial information was received from C-BASS. In November 2007, we received financial statements from C-BASS as of September 30, 2007, at which point we made a final determination with respect to impairment.

On July 30, 2007, in accordance with the terms of our credit facility with C-BASS, we demanded full and immediate payment of all amounts owed to us under the loan. These amounts currently remain outstanding as we continue to cooperate with C-BASS while they search for additional liquidity, as discussed below. Amounts drawn on these facilities bear interest at a rate of one-month LIBOR at the date the amount is drawn plus 2.875%. If the loan is called for payment, but remains unpaid as currently is the case, the facility bears interest at LIBOR plus 6.875%. In addition, a 0.375% facility fee is payable to us and MGIC.

Since July 31, 2007, with the cooperation of its lenders, including us and MGIC, C-BASS has been working with its financial advisor, The Blackstone Group L.P., and potential investors, to evaluate strategic alternatives. As a result of that process, on September 27, 2007, C-BASS agreed to sell to a third party financial institution substantially all of its interests in Litton Loan Servicing LP (Litton), a servicer of residential mortgage loans, for approximately $467.9 million. The assets being purchased include the equity in Litton and certified interest only strips. In addition, the purchaser will (1) assume certain limited liabilities set forth in the purchase agreement and (2) pursuant to a separate agreement to be executed upon closing, have the option to purchase from the current owners of C-BASS, including us, 45% of the equity of C-BASS for nominal consideration. As a condition to this sale, on November 16, 2007, the C-BASS employees, lenders and creditors, including us, entered into an agreement (the Override Agreement) establishing (i) the terms for the distribution of the consideration from the sale among all interested parties and (ii) an agreement among the outstanding lenders and creditors to continue to forebear from exercising any recourse rights under their existing obligations with C-BASS. The purchase agreement contains certain representations, warranties, covenants, events of default and other provisions customary for acquisition agreements and as specifically agreed to by the parties.

The sale of Litton is expected to close in the fourth quarter of 2007 or early in 2008, subject to the satisfaction of regulatory and other approvals set forth in the purchase agreement. It remains uncertain to us whether the sale of Litton will be completed, and if not completed, whether C-BASS will be able to secure additional liquidity or the continued cooperation of its lenders.

We account for our investment in C-BASS under the equity method of accounting in accordance with Accounting Principles Board (APB) Opinion No. 18, The Equity Method of Accounting for Investments in Common Stock (APB Opinion No. 18). During the third quarter 2007, C-BASS incurred a loss of $935 million and in accordance with APB Opinion No. 18, we recognized our portion of losses of approximately $441 million. This resulted in a reduction in our equity investment in C-BASS from $468 million to $27 million at September 30, 2007. In addition to the recognition of losses, we completed an impairment analysis which resulted in the charge-off of the remaining carrying value of $27 million in the equity investment in C-BASS at September 30, 2007.

We applied SFAS No. 114, Accounting by Creditors for Impairment of a Loan (SFAS No. 114) to the demand loan. We measured impairment based on the present value of expected future cash flows discounted at the demand loan s effective interest rate. Based on such analysis, we continue to carry the demand loan at $50 million.

EITF 98-13, Accounting by an Equity Method Investor for Investee Losses When the Investor Has Loans to and Investments in Other Securities of the Investee (EITF 98-13), requires that when the recognition of equity losses reduces our equity investment to zero, we should continue to report our share of equity method losses in our income statement and should apply those equity method losses to our other investments in or loans to C-BASS. In October 2007, the fair value of C-BASS s securities portfolio declined, generating additional charges to its earnings. As a result of the additional losses at C-BASS, and continued application of APB Opinion No. 18 and EITF 98-13, a full or partial impairment of the $50 million demand note may be required in the fourth quarter of 2007.

Sherman

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 credit card receivables through its subsidiary CreditOne and has a variety of other similar ventures related to consumer assets.

On September 19, 2007, Radian Guaranty sold to Sherman Capital, L.L.C. (Sherman Capital), an entity owned by the management of Sherman: (1) all of Radian Guaranty s preferred interests in Sherman and (2) 1,672,547 Class A Common Units in Sherman, representing approximately 43.4% of Radian Guaranty s total common interests in Sherman, for a cash purchase price of approximately $277.9 million, plus a future contingent payment. The amount of the contingent payment, if any, will depend on the extent that Sherman Capital s after-tax return on 1,425,335 of the Class A Common Units acquired in the transaction exceeds approximately 16% annually. The contingent payment is payable to Radian Guaranty on December 31, 2013 or earlier upon the closing of a sale of Sherman. We recorded a gain of $181.7 million on the sale of our interest in Sherman.

Before giving effect to this transaction, Radian Guaranty and Mortgage Guaranty Insurance Corporation (MGIC Guaranty), a subsidiary of MGIC, each held approximately 40.96% of the Class A Common Units in Sherman (Class A Common Units represented approximately 94% of the total equity in Sherman) and half of the total preferred units. Entities owned by Sherman s management, including Sherman Capital, owned the remaining Class A Common Units and all of the Class B Common Units. In connection with the closing of the current transaction, the interests in Sherman were recapitalized into a single class of interests. As a result, Radian Guaranty now owns approximately 21.8% of the outstanding equity in Sherman and Mortgage Guaranty owns approximately 24.2% of the outstanding equity in Sherman, with entities controlled by Sherman s management controlling the remaining interests.

In connection with the above-referenced sale of a portion of its equity interests in Sherman, Radian Guaranty also entered into an Option Agreement with Meeting Street Investments LLC (MS LLC), an entity owned by Sherman s management. Under the Option Agreement, Radian Guaranty granted to MS LLC an irrevocable option (the Call Option) to require Radian Guaranty to sell to MS LLC all of Radian Guaranty s remaining interests in Sherman at anytime during the one year period following September 19, 2007. The purchase price under the Call Option will be equal to: (1) the product of (a) Radian Guaranty s ownership percentage in Sherman as of the date of sale under the Option Agreement and (b) $1.5 billion, minus (2) 50% of all future distributions made by Sherman with respect to Radian Guaranty s remaining interests in Sherman through the date of sale under the Option Agreement. The Option Agreement terminates one year from September 19, 2007.

Ratings

The following table illustrates the current financial strength ratings assigned to our principal insurance subsidiaries.

	MOODY S	MOODY S OUTLOOK	S&P	S&P OUTLOOK	FITCH	FITCH OUTLOOK
Radian Guaranty	Aa3	(1)	AA	Negative	AA-	Negative
Radian Insurance	Aa3	(1)	AA	Negative	AA-	Negative
Amerin Guaranty	Aa3	(1)	AA	Negative	AA-	Negative
Radian Europe Limited			AA	Negative	AA-	Negative
Radian Australia Limited						
Radian Asset Assurance	Aa3	Stable	AA	Stable	A+	Evolving
Radian Asset Assurance Limited	Aa3	Stable	AA	Stable	A+	Evolving

(1) Each Moody s rating for our mortgage insurance subsidiaries is currently under review for possible downgrade.

Radian Group currently has been assigned a senior debt rating of A- (Negative Outlook) by S&P, A2 (under review for possible downgrade) by Moody s and A+ (Ratings Watch Negative) by Fitch. In addition, the trusts that have issued money market committed preferred custodial trust securities for the benefit of Radian Asset Assurance have been rated A by S&P and BBB+ (Evolving Outlook) by Fitch. Our credit ratings generally impact the interest rates that we pay on money that we borrow. A downgrade in our credit ratings could increase our cost of borrowing, which could have an adverse affect on our liquidity, financial condition and operating results.

S&P

On September 25, 2007, S&P removed Radian Group and its mortgage insurance subsidiaries from CreditWatch status and affirmed its ratings for these entities with a negative outlook. S&P had placed these entities on CreditWatch with negative implications (CreditWatch Negative for Radian Group) on August 7, 2007, based on its view of the likelihood of the merger occurring.

According to S&P, its negative outlook for Radian Group and its mortgage insurance subsidiaries reflects previous lapses in our enterprise risk management (ERM), significant losses from non-traditional products and our strategic investment in C-BASS, the relative underperformance of our mortgage insurance results compared with others in the mortgage insurance industry and the very challenging environment for the mortgage insurance industry. Further, S&P has publicly stated that its current ratings for these entities are predicated on its expectations that we will (1) generate underwriting profits in 2009 in our traditional mortgage insurance business, (2) maintain excellent capitalization, (3) strengthen our ERM capabilities, (4) narrow the disparity in the operating performance of our traditional mortgage insurance business with that of others in the industry and (5) maintain a reasonable market share in the mortgage insurance industry. According to S&P, a failure to satisfy any of these expectations would result in a one-notch downgrade of our ratings. In addition, although S&P has stated that it is not currently a concern, S&P has indicated that it would downgrade our mortgage insurance financial strength ratings by two notches if we were unable to maintain our access to the flow channel of business.

S&P has continued to maintain the AA ratings on our financial guaranty subsidiaries with a stable outlook, stating that Radian Asset Assurance s capital position and operating capabilities are largely independent of those of our mortgage insurance companies.

Moody s

On August 1, 2007, following our announcement of the C-BASS impairment, Moody s affirmed the insurance financial strength ratings of our insurance subsidiaries and the senior debt rating of Radian Group, but changed its outlook for these entities to stable from under review for possible upgrade. On September 5, 2007, following the termination of our merger with MGIC, Moody s placed its ratings for these entities under review for possible downgrade, citing the deterioration in the residential mortgage market as a growing concern for the mortgage industry as a whole and for us in particular due to our exposure to NIMS and second-lien transactions.

According to Moody s, its review of our ratings will focus on the capital adequacy of our mortgage insurance franchise in light of (1) the higher losses we expect to incur on our insured portfolio, (2) the viability of our revised business strategy to focus on relationships with large lenders and traditional mortgage insurance products, (3) the extent of continued support from lenders and from the GSEs and (4) the cohesiveness and capability of our senior management team in navigating us through the current stress period. In addition, Moody s also stated that it will also be evaluating our ability to improve the volume and credit quality of our insured portfolio with new business writings, which could serve to offset some of the earnings deterioration expected on our existing portfolio.

Moody s has continued to maintain its Aa3 ratings, with a stable outlook, on our financial guaranty subsidiaries. According to Moody s, the affirmation of its ratings for these entities reflects their stable earnings, limited exposure to residential mortgage risk, and the diversity of their direct financial guaranty and reinsurance portfolios.

Fitch

On July 31, 2007, following our announcement of the C-BASS impairment, Fitch placed the long-term debt rating of Radian Group and the insurer financial strength ratings of all of our insurance subsidiaries on Ratings Watch Negative. Additionally, all obligations insured by Radian Asset Assurance and RAAL were placed on Ratings Watch Negative.

On September 5, 2007, following the termination of our merger with MGIC, Fitch downgraded the long-term debt rating of Radian Group to A- from A and the insurer financial strength ratings of all of our mortgage insurance subsidiaries to AA- from AA and revised its outlook for these entities to Negative. Additionally, Fitch downgraded the insurance financial strength ratings of our financial guaranty subsidiaries to A+ from AA and revised its outlook for these entities to Evolving. As a result of this downgrade, one reinsurance customer in our financial guaranty business had the right to recapture approximately $1.0 billion in net par outstanding insured by us. On September 25, 2007, this insurer waived its right to recapture this business, without additional cost to us.

We believe Fitch s downgrade of Radian Asset Assurance is unwarranted, and on September 5, 2007, we formally requested that Fitch immediately withdraw all of its ratings for Radian Group and its subsidiaries. We also informed Fitch that we would no longer be providing information to Fitch in support of its ratings. On September 9, 2007, Fitch announced that it would not honor our request in light of the current high level of investor interest in both the mortgage insurance and financial guaranty industries, but that Fitch would instead monitor investor interest and make a decision with respect to our request at a future date based on market feedback. Fitch also acknowledged that it would withdraw our ratings regardless of investor interest if it believed that it no longer had enough access to adequate public and non-public information to credibly maintain its ratings.

In addition to these Radian specific ratings developments, the rating agencies have indicated that they are engaged in on-going monitoring of the mortgage insurance and financial guaranty industries and the mortgage-backed securities market to assess the adequacy of, and where necessary refine, their capital models. Determinations of ratings by the rating agencies are affected by a variety of factors, including macroeconomic conditions, economic conditions affecting the mortgage insurance and financial guaranty industries, changes in regulatory conditions, competition, underwriting and investment losses and the perceived need for additional capital. A downgrade of our credit ratings or the insurance financial strength ratings of our subsidiaries could have a material, negative affect on our consolidated financial condition and results of operations. See Risk Factors Downgrade or potential downgrade of our credit ratings or the insurance financial strength ratings assigned to any of our operating subsidiaries could weaken our competitive position and affect our financial condition for more information regarding the risks associated with a downgrade of our credit or insurance financial strength ratings.

Overview of Business Results

As a holder of credit risk, our results are subject to macroeconomic conditions and specific events that impact the production environment and credit performance of our underlying insured assets. The current mortgage cycle, characterized by declining home prices in certain markets, deteriorating credit performance of mortgage assets particularly subprime and reduced liquidity for many participants in the mortgage industry, has had, and we believe will continue to have, a significant impact on the results of operations of each of our business segments.

Mortgage Insurance

The current mortgage cycle is expected to result in significant, but manageable, losses in our traditional mortgage insurance business as well as in certain non-traditional mortgage insurance products NIMS and second-lien mortgages that we insure.

Traditional Mortgage Insurance. Despite the overall strength of the United States economy and continued strong employment, we continued to experience poor financial results in our traditional mortgage insurance business during the third quarter of 2007. We again experienced an increase in delinquencies in the third quarter of 2007, primarily driven by the poor performance of the late 2005 through 2007 vintage books of business, a lack of refinance capacity in the current mortgage market, which is forcing many borrowers, in particular those with adjustable rate mortgages (ARMs), into foreclosure, and from home price depreciation in many parts of the United States. While losses generally have increased across all mortgage insurance product lines, a disproportionate percentage of our increased losses are attributable to Alternative A (Alt-A) mortgages. Markets in California and Florida, where the Alt-A product and ARMs are prevalent, continue to have a

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significant negative impact on our mortgage insurance business results. Approximately 37% of the total increase in mortgage insurance loss reserves during the third quarter of 2007 was attributable to these states, which together represent 18% of our mortgage insurance risk in force. In addition, our results also continue to be negatively impacted by the poor housing market in the Midwestern United States.

In addition to the increase in new delinquencies, our mortgage insurance loss provision for the quarter ended September 30, 2007, was negatively impacted by higher loan balances on delinquent loans, higher rates of delinquencies moving into claim status and an increase in claims paid. See Results of Operations Mortgage Insurance Quarter and Nine Months Ended September 30, 2007 Compared to Quarter and Nine Months Ended September 30, 2006 Provision for Losses. We currently expect to pay total mortgage insurance claims (including second-liens) of between $160 million and $175 million in the fourth quarter of 2007 and between $700 million and $800 million in 2008.

While we and the mortgage lenders have recently tightened our underwriting guidelines considerably, the early performance of business written in 2006 and much of 2007 has been poor, providing early evidence that this business will likely be unprofitable. Until these books of business have sufficiently seasoned, we expect to continue to experience poor results in our traditional mortgage insurance business. These results have been, and will likely continue to be, exacerbated by the deteriorating domestic housing market that has existed throughout 2007 and is predicted to continue into 2009.

Our current projection for ultimate losses on our traditional mortgage insurance portfolio is based on our expectation of home price movement over the next three years on a metropolitan statistical area (MSA) by MSA basis. These predictions include our expectation for home price appreciation in some MSAs and severe home price depreciation in other MSAs. Based on these predictions, we expect incurred losses from our traditional mortgage insurance portfolio to be approximately 90% to 100% of earned premiums from this portfolio for 2007, between 80% and 100% of earned premiums in 2008 and between 60% and 70% of earned premiums in 2009, before returning to a more normalized ratio of approximately 50% in 2010. We refer to this scenario as our base-case prediction for ultimate losses in our traditional mortgage insurance portfolio. The timing of such losses is difficult to predict and could occur earlier than we currently anticipate in light of the early deterioration of certain recent vintages of our mortgage insurance business.

If home prices were to decline more rapidly than our current expectations, in particular in areas where our mortgage insurance business is more concentrated, we would likely incur significantly higher losses than our current predictions. For example, if home prices in California, Florida, the Midwest and all of the metropolitan statistical areas that we believe are especially vulnerable to home price depreciation were to decline by 20% over the next three years, the cumulative loss ratios during this period would exceed our base-case predictions by approximately 30% to 35%. We refer to this scenario as our stress-case prediction for ultimate losses in our traditional mortgage insurance portfolio.

We protect against losses well in excess of our expectations on some of the risk associated with more risk sensitive and unproven products by reinsuring it through Smart Home transactions. In 2004, we developed Smart Home as a way to effectively transfer catastrophic risk from our portfolio to investors in the capital markets. Ceded premiums written for the three and nine months ended September 30, 2007 and 2006 include $3.3 million and $9.7 million, respectively, and $3.5 million and $8.5 million, respectively, related to the Smart Home transactions. As of September 30, 2007, there have been no ceded losses as a result of the Smart Home transactions.

Since August 2004, we have completed four Smart Home arrangements, with the last one of these transactions closing in May 2006. Details of these transactions (aggregated) as of the initial closing of each transaction and as of September 30, 2007 are as follows:

	Initial	As of September 30, 2007
Pool of mortgages (par value)	$ 14.72 billion	$ 7.19 billion
Risk in force (par value)	$ 3.90 billion	$ 1.82 billion
Notes sold to investors/risk ceded (principal amount)	$ 718.6 million	$ 611.6 million

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At September 30, 2007 and December 31, 2006, approximately 6% and 10%, respectively, of our primary risk in force was included in Smart Home arrangements. In these transactions, we reinsure the middle layer risk positions, while retaining a significant portion of the total risk comprising the first-loss and most remote risk positions.

In addition to Smart Home, we transfer a portion of the risk we write on loans originated by certain lender-customers to captive reinsurance companies affiliated with such lender-customers. We had approximately 54 active captive reinsurance agreements in place at September 30, 2007. As of September 30, 2007, approximately 40.6% of our primary risk in force was subject to captive reinsurance. This percentage can be volatile as a result of increases or decreases in the volume of structured transactions, which are not typically eligible for captive reinsurance arrangements. Reinsurance recoveries from Smart Home and captive reinsurance would be approximately $50 million in the aggregate over the next three years under our projected base-case loss scenario discussed above. However, in our stress-case scenario, we would expect to realize approximately $270 million of recoveries during this period.

Despite our poor operating results for the quarter, we are encouraged by recent positive trends in the mortgage insurance market. Market turmoil has led to a tightening of mortgage underwriting standards, which should result in better performing books of mostly prime business in the future. We also are seeing a continued increased demand for our traditional mortgage insurance product as alternative products, such as 80-10-10 mortgages, which were a common alternative to mortgage insurance in 2005 and 2006, have declined significantly due to higher interest rates and diminished liquidity available in the mortgage origination and capital markets for these products. We also believe that the private mortgage insurance market has benefited from the tax deductibility for eligible borrowers of mortgage insurance premiums and an increase in the number of low down payment mortgage loans purchased by the GSEs. As a result of these positive trends, our primary new insurance written increased by 64% in the third quarter of 2007 compared to the corresponding period in 2006. This increase reflects a 74% increase in new insurance written generated by our traditional flow business.

The persistency rate, which is defined as the percentage of insurance in force that remains on our books after any 12-month period was 72.8% for the twelve months ended September 30, 2007, compared to 65.7% for the twelve months ended September 30, 2006. This increase was due to a decline in refinancing activity from the high levels in 2005 and 2006, mainly due to rising mortgage interest rates and decreasing home price appreciation. The persistency rate for structured products during the twelve months ended September 30, 2007 was 65.1% compared to 75.8% for our flow business. We anticipate a continued gradual improvement in persistency rates during the remainder of 2007.

NIMS. A NIMS represents the securitization of a portion of the excess cash flow and prepayment penalties from a mortgage backed security comprised mostly of subprime mortgages. The majority of this excess cash flow consists of the spread between the interest rate on the mortgage-backed security and the interest generated from the underlying mortgage collateral. Historically, issuers of mortgage backed securities would have earned this excess interest over time as the collateral ages, but market efficiencies have enabled these issuers to sell a portion of their residual interests to investors in the form of NIMS bonds. Typically, the issuer will retain a significant portion of the residual interests, which is subordinated to the NIMS bond in a first loss position, so that the issuer will suffer losses associated with any shortfalls in residual cash flows before the NIMS experiences any losses.

When we provide credit enhancement on a NIMS bond, our policy covers any principal and interest shortfalls on the insured bonds. For certain deals, we only insure a portion of the NIMS that was issued. The NIMS transactions that we insure are typically rated BBB or BB at inception based on the amount of subordination and other factors. The $712 million of risk in force associated with NIMS at September 30, 2007, representing 1.7% of our total risk in force, comprises 39 deals with an average notional balance of $22 million ($62 million at origination) and a total notional balance of $855 million. The average expiration of our existing NIMS transactions is approximately two years. At October 31, 2007, our risk in force related to NIMS had decreased by approximately $30 million from September 30, 2007 to $682 million at October 31, 2007, reflecting the normal, rapid paydown of the insured securities.

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The loans underlying the NIMS bonds that we insure continued to show significant deterioration during the third quarter of 2007, leading to higher and sooner-than-expected delinquencies, and are moving into foreclosure and liquidation at an accelerated rate. This deterioration is being exacerbated by the lack of liquidity and the reduced refinance opportunities in the mortgage origination market that worsened considerably in the third quarter of 2007. As a result, at September 30, 2007, we have a mark-to-market reserve of approximately $432 million related to our NIMS portfolio. Of this amount, approximately $372 million represents our total expected principal credit losses related to NIMS. We expect to pay the majority of these claims beginning in 2010. As of September 30, 2007, we have earned approximately $250 million in premiums related to NIMS, and we expect to earn an additional $86 million over the remaining life of this product. We ceased writing new NIMS business during the second quarter of 2007 and do not anticipate writing NIMS business in the future as we move to implement a business model focused primarily on traditional mortgage insurance.

In the third quarter of 2007, in light of the deteriorating market conditions discussed above, we refined our mark-to-market methodology for NIMS to include projected losses on every NIMS deal, regardless of performance. In order to accomplish this, in addition to expected credit losses, this fair value mark is approximated by incorporating further loss stresses, future premiums and an amount equal to the rate of return that a counterparty would require in assuming this exposure from us. This is discussed in more detail below under Critical Accounting Policies.

Second-Lien Mortgages. In addition to insuring first-lien mortgages, to a lesser extent, we also provide primary or modified pool insurance on second-lien mortgages (second-liens). Like NIMS, second-liens is another product that has largely been susceptible to the disruption in the housing market and the subprime mortgage market. We significantly reduced the amount of new second-liens business we had been writing in a first-loss position in the first quarter of 2006.

As of September 30, 2007, our total exposure to second-liens was approximately $1.0 billion or approximately 2.3% of our total mortgage insurance risk in force. Of our total exposure to second-liens, approximately 47% represents a seasoned segment of our portfolio comprised of transactions written in 2005 or earlier, with prime collateral or in which we are in a second loss position. This portion of our second-lien portfolio continues to perform generally within our expectations. The remaining 53% of our total exposure to second-liens relates to two groups of transactions that have been particularly affected by the disruption in the subprime market. We expect that a significant portion of our total future losses with respect to second-liens will come from these two groups of transactions.

The first of these groups, representing approximately $458 million of exposure or 45% of our total exposure to second-liens, comprises two structured transactions entered into in late 2005 and early 2006. Claims paid during 2007 have included a significant number of claims from the first of these transactions, covering the first 10% of aggregate losses on a pool of subprime second-lien mortgages. We split losses with our counterparty under this transaction on a 50-50 basis. As discussed in prior quarters, we began experiencing a significant increase in filed claims from this transaction during the third quarter of 2006 and have paid approximately $53.3 million in net claims on this transaction as of September 30, 2007. At September 30, 2007, our net exposure remaining under this transaction was $25.3 million or approximately half of the $50.7 million in gross remaining exposure. In addition to this transaction, we also have a supplemental policy on the same pool of mortgages that covers certain losses in excess of the 10% aggregate stop-loss. Based on delinquency and loss patterns to date, we currently expect cumulative losses on the entire pool of mortgages covered by these two transactions to be over 30%, resulting in future losses to us of approximately $183 million. We are working constructively with our counterparty to attempt to satisfy all claims issues in a fair way that mitigates overall losses as much as possible.

The second of the two groups, representing approximately $77 million of exposure or 8% of our total exposure to second-liens, comprises a series of transactions entered into in the second half of 2006 and early 2007. Our risk under these transactions represents 5% of cumulative losses, attaching at 10% of cumulative losses and detaching at 15% of cumulative losses. Although cumulative losses related to this transaction were minimal at September 30, 2007, the early delinquency and claims patterns for this transaction have been far worse than our expectations. As a result, we currently assume that the cumulative losses related to this transaction will be approximately 20%, resulting in future losses to us equal to our total exposure of approximately $77 million.

Our second-lien book of business will be almost entirely paid down by 2010. As a result, we expect that much of the approximate $324 million in projected future losses resulting from this product will be incurred over that time period. Against these losses, we expect to earn an additional $100 million in premiums over the remaining life of the portfolio. Losses in our second-lien portfolio are particularly sensitive to changes in home prices, and therefore, we cannot be certain that actual losses in our second-lien portfolio will not differ materially from our projections.

Although losses with respect to our second-lien business, much like in our traditional first-lien mortgage insurance business, will be incurred and paid over time as delinquencies develop and claims are filed, the net present value of the expected future losses and expenses above expected future premiums on the second-lien business has been recorded in the third quarter of 2007 as a $155.2 million premium deficiency reserve. The accounting principle governing this is discussed below in Critical Accounting Policies-Reserve for Losses .

Financial Guaranty

The third quarter presented a difficult business production environment for the financial guaranty industry and Radian Asset Assurance in particular. In our direct public finance and structured products businesses, widened spreads on credit default swaps in the overall financial guaranty market, including on Radian Group, made it more difficult to write new business. This trend worsened towards the end of the third quarter. Despite this difficult business environment, there have been limited, selective opportunities in these markets. In addition, despite the difficult operating environment, we experienced strong growth in both facultative and treaty reinsurance business during the third quarter. Due to the widening of credit spreads during the quarter, we incurred a mark-to-market loss in our financial guaranty business of approximately $256 million. We believe this mark is almost entirely spread driven and represents no material credit impairment. As a result, this mark should reverse over time as the transactions mature.

The overall credit performance of our financial guaranty portfolio remained at an adequate level during the third quarter. However, we were required to establish a $50 million allocated non-specific reserve for the one direct market-value transaction remaining in our financial guaranty portfolio. This credit is discussed in detail below under Results of Operations Financial Guaranty Quarter and Nine Months Ended September 30, 2007 Compared to Quarter and Nine Months Ended September 30, 2006 Provision for Losses. In addition, we increased our allocated non-specific reserve for six non-CDO subprime Residential Mortgage-Backed Securities (RMBS) transactions, representing $137.9 million in aggregate par outstanding, by an aggregate $15.5 million due to performance deterioration of these transactions. We are continuing to monitor our non-CDO RMBS exposure, which represents 0.9% or approximately $1.0 billion of our total financial guaranty net par outstanding at September 30, 2007 (of this exposure 0.5% or approximately $581.5 million was subprime RMBS), as well as our CDO RMBS exposure, in light of the market disruptions that have continued in the third quarter.

Financial Services

Sherman increased collection revenues from portfolios owned and experienced continued growth in its banking segment during the nine months ended September 30, 2007, compared to the first nine months of 2006. These increases were offset by higher amortization and interest expense, as well as expenses related to joint venture operations. Sherman s results for the balance of 2007 and into 2008 are expected to continue to be profitable, although less profitable when compared to Sherman s results for the first nine months of 2007. As discussed above, as a result of the rapid deterioration of the subprime mortgage market, C-BASS s liquidity position became materially stressed in late July due to excess margin calls from its lenders, resulting in our concluding that our investment had been materially impaired. See Business Summary Financial Services C-BASS above.

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Results of Operations Consolidated

Quarter and Nine Months Ended September 30, 2007 Compared to Quarter and Nine Months Ended September 30, 2006

The following table summarizes our consolidated results of operations for the quarters and nine months ended September 30, 2007 and 2006 (in millions):

	Three Months Ended		Nine Months Ended	
	September 30	% Change	September 30	% Change