RADIAN GROUP INC
Form 424B5
May 06, 2010
Table of Contents

Filed Pursuant to Rule 424(b)(5)
Registration No. 333-160657

Prospectus Supplement

(To Prospectus dated July 29, 2009)

50,000,000 Shares

Radian Group Inc.

Common Stock

Radian Group Inc. (Radian Group) is offering 50,000,000 shares of its common stock, par value $0.001 per share. The common stock is listed on the New York Stock Exchange under the symbol RDN . On May 3, 2010, the last reported sale price of Radian Group s common stock, as reported on the New York Stock Exchange, was $14.63 per share.

Investing in Radian Group s common stock involves a high degree of risk. You should carefully consider the discussion under Risk Factors beginning on page S-5 of this prospectus supplement, on page 5 of the accompanying prospectus and in the reports we file with the Securities and Exchange Commission that are incorporated by reference into this prospectus supplement and the accompanying prospectus.

Neither the Securities and Exchange Commission nor any state securities commission or any other regulatory body has approved or disapproved of these securities or determined if this prospectus supplement and the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Per Share	Total
Public offering price	$ 11.00	$ 550,000,000
Underwriting discount	$ 0.462	$ 23,100,000
Proceeds to Radian Group Inc. (before expenses).	$ 10.538	$ 526,900,000

The underwriters may also purchase up to an additional 7,500,000 shares of Radian Group s common stock within 30 days of the date of this prospectus supplement solely to cover over-allotments, if any.

The underwriters expect to deliver the common stock in book-entry form only, through the facilities of The Depository Trust Company on or about May 11, 2010.

Joint Bookrunning Managers

Keefe, Bruyette & Woods **Morgan Stanley**

FBR Capital Markets

Wells Fargo Securities **Northland Capital Markets**

Prospectus Supplement dated May 5, 2010

Table of Contents

TABLE OF CONTENTS

You should rely only on the information contained in, or incorporated by reference into, this prospectus supplement and the accompanying prospectus and any free writing prospectus that Radian Group authorizes to be distributed to you. You may obtain the information incorporated by reference into this prospectus supplement and the accompanying prospectus without charge by following the instructions under Where You Can Find More Information and Information Incorporated by Reference below. Radian Group has not, and the underwriters have not, authorized any other person to provide you with additional or different information. If anyone provides you with additional or different information, you should not rely on it. Radian Group is not and the underwriters are not making an offer to sell the common stock or soliciting an offer to buy the common stock in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus supplement and the accompanying prospectus, any free writing prospectus and the documents incorporated by reference is accurate only as of their respective dates. Our business, financial condition, results of operations and prospects may have changed materially since such respective dates.

Table of Contents

ABOUT THIS PROSPECTUS SUPPLEMENT

This prospectus supplement and the accompanying prospectus are part of a registration statement that Radian Group has filed with the Securities and Exchange Commission, or the SEC, using a shelf registration. This document contains two parts. The first part is the prospectus supplement, which describes the specific details regarding this offering, including the price, amount of common stock being offered, the risks of investing in the common stock and other items. The second part is the accompanying prospectus, which provides more general information about the securities Radian Group may offer from time to time under the registration statement, some of which may not apply to the common stock covered by this prospectus supplement. If there is a conflict between the information contained in this prospectus supplement, on the one hand, and the information contained in the accompanying prospectus, on the other hand, the information in this prospectus supplement will control. You should read both this prospectus supplement and the accompanying prospectus together with the additional information described in Where You Can Find More Information and the documents listed in Information Incorporated by Reference before you decide whether to invest in the common stock.

In making an investment decision, you must rely on your own examination of the Company and the terms of this offering and the common stock, including the merits and risks involved. Radian Group is not making any representation to any purchaser of the common stock regarding the legality of an investment in the common stock by such purchaser. You should not consider any information in this prospectus supplement or the accompanying prospectus to be legal, business or tax advice. You should consult your own attorney, business advisor or tax advisor for legal, business and tax advice regarding an investment in the common stock.

Unless the context otherwise requires, we use the terms Company, we, us, and our to refer to Radian Group Inc. and its subsidiaries. We generally refer to Radian Group Inc. alone, without its consolidated subsidiaries, as Radian Group.

WHERE YOU CAN FIND MORE INFORMATION

Radian Group has filed with the SEC a registration statement on Form S-3, of which this prospectus supplement and the accompanying prospectus are a part. This prospectus supplement and the accompanying prospectus do not contain all of the information set forth in the registration statement and the exhibits and schedules to the registration statement. For further information with respect to the Company and the common stock offered hereby, reference is made to the registration statement, including the exhibits and schedules to the registration statement. Statements contained in this prospectus supplement and the accompanying prospectus as to the contents of any contract or other document referred to in, or incorporated by reference in, this prospectus supplement and the accompanying prospectus are not necessarily complete and, where that contract or other document is an exhibit to the registration statement, each statement is qualified in all respects by the exhibit to which the reference relates.

We file annual, quarterly and current reports, proxy statements and other information with the SEC. These documents contain specific information regarding us. These documents, including any exhibits and schedules, may be inspected without charge at the SEC s principal office in Washington, D.C., and copies of all or any part of such documents may be obtained from the Public Reference Room of the SEC, 100 F Street, N.E., Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The SEC also maintains a website that provides online access to reports, proxy and information statements and other information regarding registrants that file electronically with the SEC at the address http://www.sec.gov. Radian Group s common stock is listed on the New York Stock Exchange under the ticker symbol RDN. Radian Group s SEC filings are also available (free of charge) from our website at www.radian.biz. Information contained on our website or any other website is not incorporated into this prospectus supplement or the accompanying prospectus and does not constitute a part of this prospectus supplement or the accompanying prospectus.

Table of Contents

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

In addition to historical information, this prospectus supplement, including the information incorporated by reference into this prospectus supplement, contains statements relating to future events or our future results. These statements are forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995. Generally, words such as may, will, should, could, would, anticipate, expect, intend, estimate, plan, project, continue, goal and believe, or other variations on these and other similar expres forward-looking statements. Forward-looking statements are only predictions and, as such, are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. Forward-looking statements are based upon assumptions as to future events or our future financial performance that may not prove to be accurate. These statements speak only as of the date they were made, and we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Actual outcomes and results may differ materially from what is expressed or implied in these forward-looking statements. The forward-looking statements, as well as our prospects as a whole, are subject to risks and uncertainties, including the following:

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

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

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

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

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

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

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

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

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

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

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

Table of Contents

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

a decrease in persistency rates of our mortgage insurance policies;

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

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

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

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

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

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

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

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

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

changes in accounting guidance from the SEC or the Financial Accounting Standards Board; and legal and other limitations on amounts we may receive from our subsidiaries as dividends or through our tax- and expense-sharing arrangements with our subsidiaries.

For more information regarding these risks and uncertainties as well as certain additional risks that we face, investors should review the discussion under Risk Factors in this prospectus supplement and the accompanying prospectus, the documents incorporated by reference into this prospectus supplement and the accompanying prospectus, including the discussion under Risk Factors in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2009 and Management s Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7 of the Form 10-K, and the discussion under Risk Factors in Part II, Item 1A of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2010 and Management s Discussion and Analysis of Financial Condition and Results of Operations in Part I, Item 2 of the Form 10-Q and those risks detailed in our subsequent reports and registration statements filed from time to time with the SEC.

Table of Contents

PROSPECTUS SUPPLEMENT SUMMARY

This summary contains basic information about us, Radian Group s common stock and this offering. It highlights selected information contained in or incorporated by reference in this prospectus supplement and the accompanying prospectus. Because this is a summary, it does not contain all of the information that you should consider before investing in the common stock. Before making an investment decision, you should read this entire prospectus supplement, including the section entitled Risk Factors, the accompanying prospectus, our financial statements and the accompanying notes to the financial statements and the other documents incorporated by reference into this prospectus supplement and the accompanying prospectus.

Radian Group Inc.

We are a credit enhancement company with a primary strategic focus on domestic first-lien residential mortgage insurance.

We have three business segments mortgage insurance, financial guaranty and financial services:

- Our mortgage insurance segment provides credit protection for mortgage lenders and other financial services companies on residential mortgage assets.

- Our financial guaranty segment has provided insurance and reinsurance of municipal bonds, structured finance transactions and other credit-based risks, and has provided credit protection on various asset classes through financial guarantees and credit default swaps. In the third quarter of 2008, we discontinued, for the foreseeable future, writing any new financial guaranty business, including accepting new financial guaranty reinsurance, other than as may be necessary to commute, restructure, hedge or otherwise mitigate losses or reduce exposure in our existing portfolio.

- Our financial services segment consists primarily of our ownership interest in Sherman Financial Group LLC (Sherman) a consumer asset and servicing firm specializing in credit card and bankruptcy-plan consumer assets. On May 3, 2010, we sold to Sherman our remaining equity interest in Sherman for approximately $172 million in cash.

Radian Group acts principally as a holding company for our insurance subsidiaries and does not have any significant operations of its own.

Our principal executive offices are located at 1601 Market Street, Philadelphia, Pennsylvania 19103, and our telephone number is (215) 231-1000. Radian Group was incorporated in Delaware in 1992.

Table of Contents

Summary of the Offering

Summary details of the offering of Radian Group s common stock under this prospectus supplement are set forth below.

Issuer	Radian Group Inc.
Common Stock	50,000,000 shares, or 57,500,000 shares if the underwriters over-allotment option is exercised in full.
Option to Purchase Additional Shares	Radian Group has granted to the underwriters an option to purchase up to 7,500,000 additional shares of common stock at the public offering price, less the underwriting discount, within 30 days from the date of this prospectus supplement, solely to cover over-allotments.
Common Stock to be outstanding immediately after this offering	132,985,829 shares, or 140,485,829 shares if the underwriters over-allotment option is exercised in full.
Public Offering Price Per Share	$11.00.
Use of Proceeds	The net proceeds from this offering, after deducting the underwriters discounts and estimated offering expenses, are expected to be approximately $526,090,000 (or approximately $605,125,000 if the underwriters exercise their over-allotment option in full).

We intend to use the net proceeds from this offering to fund working capital requirements and for general corporate purposes, which may include additional capital support for our mortgage insurance business and repurchases of, or payments on, our outstanding debt securities.

New York Stock Exchange Symbol	RDN
NOL Preservation Strategy	Radian Group had approximately $1.6 billion of net operating losses and other tax attributes for United States federal income tax purposes as of March 31, 2010. If Radian Group were to experience an ownership change as determined under Section 382 (Section 382) of the Internal Revenue Code of 1986, as amended (the Internal Revenue Code), Section 382 would impose an annual limit on the amount of the tax assets that could be used to offset income taxes, which could result in a material amount of the tax assets expiring unused and, therefore, significantly impair the value of these important tax assets. Radian Group adopted a tax benefit preservation plan in October 2009, which was amended in February and May 2010, to protect stockholder value by preserving important tax assets of the Company. Our tax benefit preservation plan is designed to discourage persons from acquiring more than 4.9% of Radian Group s outstanding common stock (or increasing their ownership if they owned more than 4.9% when our tax benefit preservation plan was adopted) by providing for the significant dilution of the ownership of any person who exceeds that threshold. The board of

Table of Contents

directors (or a committee thereof) has the discretion to grant exemptions under our tax benefit preservation plan to persons or transactions, if it determines that the acquisition was inadvertent, does not jeopardize the tax assets or is otherwise in the best interests of the Company. Our tax benefit preservation plan is subject to stockholder approval at the 2010 annual meeting of stockholders scheduled to be held on May 12, 2010, and if not approved will terminate.

In addition to our tax benefit preservation plan, Radian Group s board of directors adopted an amendment to Radian Group s amended and restated bylaws on April 30, 2010 which is also designed to protect the Company s important tax assets. The bylaw amendment imposes certain transfer restrictions on any shares of common stock issued after the effective date of the amendment, including the shares of Radian Group s common stock to be issued in this offering. The bylaw amendment will restrict holders of Radian Group s common stock to be issued in this offering from acquiring (or otherwise becoming the owner of, directly or by attribution) more than five percent of the outstanding shares of Radian Group s common stock under Section 382 and will generally restrict current five-percent shareholders under Section 382, if any, from acquiring additional such shares. As with our tax benefit preservation plan, the board of directors (or a committee thereof) has the discretion to grant exemptions to persons or transactions from the transfer restrictions in the bylaws, if it determines that the transfer will not be likely to limit the availability of the Company s tax benefits or is otherwise in the best interests of the Company.

The board of directors has also proposed for approval by Radian Group s stockholders, at the 2010 annual meeting of stockholders, an amendment to its amended and restated certificate of incorporation to impose substantially similar transfer restrictions as those set forth in the bylaw amendment. The amendment would become effective if approved by Radian Group s stockholders at the 2010 annual meeting and would be enforceable against the holders of the shares that voted in favor of the amendment, their transferees and holders of shares of common stock issued after the amendment is approved.

If the proposed amendment to Radian s amended and restated certificate of incorporation is not approved at the 2010 annual meeting, however, the transfer restrictions imposed by the bylaw amendment will terminate immediately following the meeting.

Additionally, in general, our tax benefit preservation plan and the transfer restrictions contained in the amendment to the amended and restated bylaws and in the proposed amendment to the amended and restated certificate of incorporation will each terminate if (i) it is not re-approved by Radian Group s stockholders every three years, (ii) the Board determines that the transfer restrictions contained therein are no longer necessary for the preservation of the tax benefits, or (iii)

Table of Contents

	the Board determines that the potential limitation on the use of the tax benefits under Section 382 is no longer material to the Company.
Risk Factors	You should carefully consider the discussion under Risk Factors beginning on page S-5 of this prospectus supplement, page 5 of the accompanying prospectus and in the reports we file with the SEC that are incorporated by reference into this prospectus supplement and the accompanying prospectus to better understand the risks associated with an investment in the common stock.

The number of shares of common stock outstanding after the offering is based on 82,985,829 shares outstanding as of April 30, 2010. This number excludes as of April 30, 2010, (a) 3,104,899 shares issuable upon the exercise of stock options that are outstanding as of such date at a weighted exercise price of $29.99 per share; (b) 423,830 shares issuable upon the conversion or settlement of equity compensation awards outstanding at such date; (c) 4,899,710 shares of common stock reserved for future issuance under our equity compensation plans; (d) 1,827,798 shares of common stock available for sale under our employee stock purchase plan; and (e) 2,245,103 shares of common stock available for issuance under our savings and incentive plan. In addition, except as otherwise indicated, the information throughout this prospectus supplement assumes no exercise by the underwriters of their over-allotment option to purchase up to an additional 7,500,000 shares of common stock.

RISK FACTORS

Investing in Radian Group s common stock involves risk. You should carefully consider the risk factors discussed below and the other information contained in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference herein, before you make an investment decision regarding the common stock. These risk factors may be amended, supplemented or superseded from time to time by subsequent filings we make under the Securities Exchange Act of 1934, as amended.

The risks and uncertainties discussed below and in the documents incorporated by reference herein are not the only risks we face. Additional risks not currently known to us or that we currently consider immaterial may also harm our business, financial condition or results of operations. Our business, financial condition, or results of operations could be materially adversely affected by any of these risks and cause the value of our securities, including Radian Group s common stock, to decline. The trading price of our securities, including the common stock, could decline due to any of these risks, and you may lose all or part of your investment.

Risks Related to the Company

We have incurred significant losses on our insured products as a result of deterioration in national and regional economic conditions and we could incur significant additional losses in the future.

As a seller of credit protection, our results are subject to macroeconomic conditions and specific events that impact the production environment and credit performance of our underlying insured assets. Many of these conditions are beyond our control, including national or regional economic recessions, home price depreciation and unemployment, interest rate changes or volatility, deterioration in lending markets, and other factors. The economic recession that began in the U.S. in 2007, characterized by a nation-wide decline in home prices, high unemployment, deteriorating credit performance of mortgage and other assets and reduced liquidity for many participants in the mortgage and financial services industries, has had a negative impact on the operating environment and results of operations for each of our business segments. In particular, our results of operations and financial condition have been particularly affected by weakening economic conditions, such as depreciating home values and unemployment.

We have experienced increased delinquencies and claims in our mortgage insurance business, primarily driven by the poor performance of our late 2005 through 2008 insured books of business. Deterioration in general economic conditions, including elevated levels of unemployment and a broad decline in home prices, has increased the likelihood that borrowers will default on their mortgages. Falling home prices have increased the likelihood that borrowers with the ability to make their mortgage payments may voluntarily default on their mortgages when their mortgage balances exceed the value of their homes. We also believe that some borrowers may voluntarily default to take advantage of certain loan modification programs currently being offered or that may be offered in the future. Falling home prices make it more difficult for us to mitigate our losses when a default occurs. See *Our loss mitigation strategies are less effective in markets where housing values fail to appreciate or continue to decline.*

At March 31, 2010, approximately 54.4% of our primary mortgage insurance risk in force was concentrated in 10 states, with the highest percentages being in California, Florida and Texas. A large percentage of our second-lien mortgage insurance risk in force also is concentrated in California and Texas. Deteriorating markets in California and Florida, where non-prime and non-traditional mortgage products such as adjustable rate mortgages (ARMs) and interest-only loans are prevalent and where home prices have fallen significantly, have resulted in significant losses in our mortgage insurance business. During the prolonged period of rising home prices that preceded the current downturn in the U.S. housing market, very few mortgage delinquencies and claims were attributable to insured loans in California, despite the significant growth during this period of riskier, non-traditional mortgage products in this state. As mortgage credit performance in California and Florida has deteriorated, given the size of these markets, our loss experience has been significantly affected and will continue to be negatively affected if conditions do not improve or continue to deteriorate.

In addition to California and Florida, approximately 12.3% of our primary mortgage insurance risk in force at March 31, 2010 was concentrated in the Midwestern states of Michigan, Illinois and Ohio. This region has continued to experience higher default rates, which we believe are largely attributable to the difficult operating environment in the domestic auto industry. We expect that this trend may continue.

Our financial guaranty portfolio continues to be negatively impacted by deterioration in the credit markets and the overall economy. See *Our financial guaranty portfolio has experienced deterioration as result of general erosion in credit markets and the overall economy and is susceptible to further deterioration* below. Our financial guaranty business also has a significant portion of its insurance risk in force concentrated in a small number of states, principally California, Texas, New York, Pennsylvania, and Illinois, and could be materially and adversely affected by a continued and prolonged weakening of economic conditions in these states.

The current economic downturn and related disruption in the housing and credit markets could persist throughout 2010 and beyond. Although there has been some recent stabilization of the U.S. economy, it is difficult to predict with any degree of certainty if and when a complete recovery of the economy will occur, including a reduction in unemployment and a broad and lasting recovery in the domestic housing market. As a result, there is a great deal of uncertainty regarding our ultimate loss performance. The potential for a deepening and prolonged recession in the U.S., including rising or continued high unemployment rates and further deterioration in the housing market, may add further stress on the performance of our insured assets, which would negatively impact our financial condition and results of operations.

In addition to the impact of housing and credit market deterioration, our results of operations and financial condition could be negatively impacted by natural disasters or other catastrophic events, acts of terrorism, conflicts, event specific economic depressions or other harmful events in the regions, including in foreign countries, where our business is concentrated.

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

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

A large portion of our mortgage insurance risk in force consists of higher risk loans, such as non-prime and high-loan-to-value (LTV) loans, pool mortgage insurance and non-traditional mortgage products.

High-LTV Mortgages. We provide mortgage insurance on residential mortgage loans made mostly to home buyers who make down payments of less than 20% of the home s purchase price. As a result, we typically insure loans where borrowers have less equity at risk at origination than borrowers who make larger down payments; therefore, with respect to this loan characteristic, the loans we insure often have a higher propensity to default relative to the total mortgage market. In addition, of the mortgage loans that we insure, a portion of our mortgage insurance in force consists of insurance on mortgage loans with LTVs at origination of greater than 95%. At March 31, 2010, our mortgage insurance risk in force related to these loans represented 20.3% of our total

Table of Contents

primary insurance risk in force. We believe mortgage loans with LTVs greater than 95% default substantially more often than those with lower LTVs. In addition, when we are required to pay a claim on a higher LTV loan, it is generally more difficult to recover our costs from the underlying property, especially in areas with declining property values. We have altered our underwriting criteria to significantly restrict the number of new loans with LTVs greater than 95% and have adopted more stringent guidelines for loans with LTVs greater than 90%. While we believe these changes have improved the overall risk profile of the new business we have written, in the near term, it is likely that our results of operations and financial condition will continue to be negatively affected by the performance of our existing insured loans with high-LTVs.

Non-Prime Loans. A large percentage of the mortgage insurance we wrote in years 2005 through 2007 and, consequently, our existing mortgage insurance risk in force, is related to non-prime loans. At March 31, 2010, our non-prime mortgage insurance risk in force, including Alt-A, was approximately 19% of our total primary insurance risk in force. Historically, non-prime loans are more likely to result in claims than prime loans. In addition, our non-prime business, in particular Alt-A loans, tends to have larger loan balances relative to other loans, which often results in larger claims. We have experienced a significant increase in mortgage loan defaults related to Alt-A loans originated in 2005 through 2007. These losses have occurred more rapidly and well in excess of historical loss patterns, and have contributed in large part to the significant increase in our provision for losses. If delinquency and default to paid claim rates on non-prime loans continue to increase as is expected, in particular in California, Florida and other states where the Alt-A product is prevalent, our results of operations and financial condition will continue to be negatively affected.

Pool Mortgage Insurance. We offer pool mortgage insurance, which exposes us to an increased risk of greater loss severity compared to primary mortgage insurance. Our pool mortgage insurance products generally cover all losses in a pool of loans up to our aggregate exposure limit, which generally is between 1% and 10% of the initial aggregate loan balance of the entire pool of loans. Under pool insurance, we could be required to pay the full claim amount of every loan in the pool within our exposure limits and upon which a claim is made until the aggregate limit is reached, rather than a percentage of the loan amount, as is the case with traditional primary mortgage insurance. At March 31, 2010, approximately 7% of our total mortgage insurance risk in force was attributable to pool insurance.

NIMS. We have provided credit enhancement on net interest margin securities (NIMS). NIMS have been particularly susceptible to the disruption in the mortgage credit markets, and we stopped writing insurance on NIMS in 2007. We expect all of our NIMS to result in credit losses, with most payments expected to occur in 2011 and 2012. The fair value of our total net liabilities related to NIMS as of March 31, 2010 was $256.7 million. Because our future expected credit losses are greater than the carrying value of our liability related to NIMS, we expect a maximum additional negative impact of $35.4 million to our results of operations related to NIMS in future periods.

We insure adjustable rate loans that have resulted in significant losses and are expected to result in further losses.

At March 31, 2010, approximately 15.0% of our primary mortgage insurance risk in force consisted of ARMs, which include loans with negative amortization features, such as pay option ARMs. Our claim frequency on ARMs has been higher than on fixed-rate loans due to monthly payment increases that occur when interest rates rise or when the teaser rate (an initial interest rate that does not fully reflect the index which determines subsequent rates) expires. We consider a loan to be an ARM if the interest rate for that loan will reset at any point during the life of the loan. However, it has been our experience that ARMs with resets of less than five years from origination are more likely to result in a claim than longer-term ARMs. ARMs with resets of less than five years represented approximately half of our total primary risk in force related to ARMs at March 31, 2010. Approximately 7.0% of the ARMs that we insure are scheduled to have initial interest rate resets in 2010.

At March 31, 2010, approximately 8.1% of our primary mortgage insurance risk in force consisted of interest-only mortgages (including approximately 4.0% of our primary mortgage insurance risk in force consists

Table of Contents

of interest-only mortgages that are ARMs), where the borrower pays only the interest on a mortgage for a specified period of time, usually five to ten years, after which the loan payment increases to include principal payments. We believe that, similar to ARMs, these loans have a heightened propensity to default because of possible payment shocks after the initial low-payment period expires and because the borrower does not automatically build equity as payments are made.

Reduced liquidity in the mortgage market, tighter underwriting standards, and declining home prices in many regions in the U.S. have combined to make it more difficult for many borrowers with ARMs and interest-only mortgages to refinance their mortgages into fixed rate products. As a result, without available alternatives, many borrowers have been forced into default when their interest rates reset at a higher rate. This has resulted in significant losses for mortgage lenders and insurers as well as investors in the secondary market. Although there can be no assurance, the historically low level of interest rates in the current mortgage market may help to reduce the size of interest payment increases (and in some cases eliminate any increase) for loans resetting in the near future. In addition, the emergence of federal and private loan refinance and modification programs intended to allow borrowers to refinance or modify their existing loan structures, may allow borrowers that would not otherwise qualify for a loan refinance or modification to convert to fixed rate loans.

In the long-term, however, absent a change in the current lending environment or a positive mitigating effect from federal and private measures aimed at reducing defaults from adjustable rate resets, defaults related to these products may continue to increase. If this occurs, our results of operations will be negatively affected, possibly significantly, which could adversely affect our financial condition and results of operations.

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

In recent years, the amount of insurance we have rescinded or claims that we have denied due to fraud, misrepresentation or other violations of our insurance policies has increased significantly. These rescissions and denials have materially mitigated our paid losses and resulted in a significant reduction in our reserve for losses. Our estimate of rescissions and denials had the effect of reducing our loss reserves as of March 31, 2010 by approximately $1.4 billion. In addition, during 2009 and in the first quarter of 2010, we rescinded or denied approximately $904 million and $277 million, respectively, of first-lien claims submitted to us for payment (submitted claims), compared to approximately $166 million for 2008 and $158 million for the first quarter of 2009. Of the claims rescinded or denied in 2009 and the first quarter of 2010, approximately $440 million and $157 million, respectively, related to claims from policies where we were in a first loss position and would have paid the claim absent the rescission or denial, while approximately $464 million and $120 million, respectively, related to claims where we were in a second loss position and regardless of such rescission or denial would not have necessarily been responsible to pay the claim as a result of deductibles and other exposure limitations included in our policies. These amounts also include a small amount of submitted claims that were subsequently withdrawn by the insured. Although we expect the high level of rescissions and denials to continue in light of our significant default inventory, we can provide no assurance that rescissions and denials will continue at the increased levels we have recently experienced or will continue to materially mitigate paid losses.

The insured lenders may dispute our right to rescind coverage or deny a claim, which dispute may be made several years after such rescission or denial. Recently, we have faced an increasing number of challenges from certain of our lender customers regarding our insurance rescissions and claim denials. We are currently in discussions with these customers regarding a number of rescissions or denials that are collectively material in amount, which if not resolved, could result in arbitration or judicial proceedings. We may be unsuccessful in such proceedings, which may be costly and time consuming. The heightened risk of disputes with our customers regarding our increased rescissions and claim denials could potentially lead to the loss of one or more customers. See *Because our mortgage insurance business is concentrated among a few significant customers, our new insurance written and franchise value could decline if we lose any significant customer* and *We are subject to the risk of private litigation and regulatory proceedings.*

Table of Contents

The determination of our reserve for losses involves significant use of estimates with regard to the likelihood, magnitude and timing of a loss, including an estimate of the number of defaulted loans that will be successfully rescinded or denied. If the actual amount of rescissions and denials is much lower than our estimate, as a result of litigation settlements or other factors, our losses may be materially increased, which could have a material adverse effect on our financial condition and results of operations. For additional information regarding the determination of a reserve for losses, see Part II, Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies Reserve for Losses of our Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

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

The GSEs, rating agencies and state insurance regulators impose various capital requirements on our insurance subsidiaries. These capital requirements include risk-to-capital ratios, risk-based capital measures and surplus requirements that limit the amount of insurance that our insurance subsidiaries may write. Sixteen states currently have a statutory or regulatory requirement limiting a mortgage insurer s risk-to-capital ratio to 25 to 1. As a result of the significant losses we experienced in our mortgage insurance business, Radian Guaranty s risk-to-capital ratio grew from 8.1 to 1 at December 31, 2006 to 16.9 to 1 at March 31, 2010.

Based on current and expected future trends, we believe that we may continue to incur material losses in our mortgage insurance business. The ultimate amount of losses will depend in part on general economic conditions and other factors, including the health of credit markets, home prices and unemployment rates, all of which are difficult to predict and beyond our control. In the absence of additional new capital or capital relief through reinsurance or otherwise, Radian Guaranty s risk-to-capital ratio is expected to increase during 2010 and could reach 25 to 1 before the end of the year if losses are significantly worse than our current expectations.

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

We are actively managing Radian Guaranty s risk-to-capital ratio by pursuing alternatives to address our mortgage insurance capital needs, including this offering of common stock and by freeing up capital for use through liquidation of certain of our investments, such as the sale of Sherman, and through reinsurance or other risk transfer arrangements. See Part II, Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources of our Annual Report on Form 10-K for the fiscal year ended December 31, 2009. We cannot provide any assurance as to whether we will embark upon or we will be successful in implementing any of these alternatives, many of which require regulatory and other approvals, or whether the capital or capital relief obtained through such alternatives will be sufficient to maintain our risk-to-capital ratio at or below 25 to 1. Any future equity offerings could be dilutive to our existing stockholders,

Table of Contents

could result in a decrease in the price of the common stock, or could result in the issuance of securities that have rights, preferences and privileges that are senior to those of the common stock.

We are also preparing, if necessary, to write new first-lien mortgage insurance business through our wholly-owned subsidiary, Amerin Guaranty Corporation (Amerin Guaranty), in those states that continue to impose a 25 to 1 risk-to-capital requirement. We have received preliminary approval from the Pennsylvania Department of Insurance to use Amerin Guaranty as a first-lien mortgage insurance provider and have redomesticated Amerin Guaranty from Illinois to Pennsylvania for this purpose. However, before Amerin Guaranty may write first-lien mortgage insurance, we will need to add sufficient capital to Amerin Guaranty either from internal resources or from new capital and also will need to seek and obtain necessary regulatory or other approvals, including from the GSEs. Amerin Guaranty is currently prohibited from writing new insurance business in six states without the addition of new capital. We cannot provide any assurance as to whether we will be successful in sufficiently capitalizing Amerin Guaranty or whether we will obtain the necessary approvals for implementing this alternative.

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

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

Radian Group is an insurance holding company and our insurance subsidiaries are subject to extensive regulation, including with respect to transactions involving any of our insurance subsidiaries on the one hand and us or any of our affiliates (including another insurance subsidiary) on the other hand. During 2009, we reallocated a large portion of our investment portfolio among our insurance subsidiaries primarily to redistribute our holdings of taxable securities as part of our tax planning strategy. This reallocation was conducted pursuant to a number of transfers of investment grade securities among our insurance subsidiaries. The aggregate amounts of these transactions were reported in the statutory year-end filing for each such subsidiary. In addition, we believe that certain of these transactions required prior notice to, and in some instances, may have required the prior approval of, the insurance regulators for the insurance companies involved, which notices were not filed and which prior approvals were not obtained. While we believe all of these securities transactions were executed at the fair value of the securities transferred, and therefore were fair and reasonable to the parties involved as is required under applicable insurance regulation, we plan to discuss this matter with each of our insurance regulators, who have the discretion to impose certain sanctions, including fines or other penalties, under applicable insurance regulations.

Given the significant losses incurred by many insurers in the mortgage and financial guaranty industries, our insurance subsidiaries have been subject to heightened scrutiny by insurance regulators. We are currently in close communication with certain insurance regulatory authorities. Additionally, the Hong Kong Insurance Authority has directed Radian Insurance Inc. to continue to maintain sufficient assets in Hong Kong to cover its potential liabilities on insured loans in Hong Kong. In light of current market conditions and ongoing losses in our insurance subsidiaries, insurance departments in the jurisdictions noted above or in other jurisdictions could impose restrictions or requirements that could have a material adverse impact on our businesses.

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

During the third quarter of 2008, Radian Group contributed its ownership interest in Radian Asset Assurance Inc. (Radian Asset Assurance) to Radian Guaranty. While this reorganization provided Radian Guaranty with substantial regulatory capital, it also makes the capital adequacy of our mortgage insurance business dependent, to a significant degree, on the performance of our financial guaranty business. If the performance of our financial guaranty portfolio deteriorates materially, including if we are required to establish one or more significant statutory reserves as a result of defaults in our insured obligations, or we make commutation payments to terminate insured obligations in excess of the statutory reserves for such obligations, the regulatory capital of Radian Guaranty also would be negatively impacted. Any decrease in the capital support derived from our financial guaranty business could, therefore, negatively impact the franchise value of our mortgage insurance business, and potentially lead to our inability to continue to write new mortgage insurance business. *See Our financial guaranty portfolio has experienced deterioration as a result of general erosion in credit markets and the overall economy and is susceptible to further deterioration* and *We face risks associated with our financial guaranty insurance customers and our second-to-pay liabilities from these entities.*

As of March 31, 2010, Radian Asset Assurance maintained a statutory surplus of approximately $1.0 billion and total claims paying resources of approximately $2.5 billion. We expect our financial guaranty business to issue significant dividends to Radian Guaranty over time as our existing financial guaranty portfolio matures and the exposure is reduced. The timing and amount of these cash infusions will depend on the dividend capacity of our financial guaranty business, which is governed by New York insurance laws. If our financial guaranty exposure is reduced on an accelerated basis through the recapture of insured business from our primary financial guaranty reinsurance customers or otherwise, Radian Asset Assurance may have the ability to issue dividends to Radian Guaranty more quickly and in greater amounts. If, however, the performance of our financial guaranty portfolio deteriorates materially, or the amount we pay to terminate any particular financial guaranty exposure is larger than the amount of the reserves for such exposure, our financial guaranty statutory surplus could be reduced and our financial guaranty business would likely have less capacity to issue dividends to Radian Guaranty, and could be restricted from issuing dividends altogether.

Our financial guaranty portfolio has experienced deterioration as a result of general erosion in credit markets and the overall economy and is susceptible to further deterioration.

As discussed in Management s Discussion and Analysis of Financial Condition and Results of Operations Overview of Business Results Financial Guaranty Credit Performance, in Item 7 of Part II of our Annual Report on Form 10-K for the fiscal year ended December 31, 2009, we have experienced credit deterioration in our financial guaranty portfolio as a result of general deterioration in credit markets and the overall economy. In particular, we have experienced credit deterioration within our insured portfolio of trust preferred securities (TruPs) collateralized debt obligations (CDOs). For our sole remaining CDO of asset backed securities (ABS) transaction with $462.6 million in net par outstanding as of March 31, 2010, we currently expect to begin paying claims in respect of interest shortfalls in 2011, and possibly earlier, if the deterioration is worse than projected. Upon our initial claim payment obligation, the statutory capital of Radian Asset Assurance (and consequently Radian Guaranty) would be reduced by an amount equal to the present value of our expected future net losses (net of taxes on this transaction). See Management s Discussion and Analysis of Financial Condition and Results of Operations Overview of Business Results Financial Guaranty, in

Item 7 of Part II of our Annual Report on Form 10-K for the fiscal year ended December 31, 2009 for additional information regarding this CDO of ABS transaction and certain circumstances where we may be obligated to pay outstanding principal prior to the legal final maturity date of our TruPs CDOs. While we have sought to underwrite our insured credits with levels of subordination or other credit enhancement designed to protect us from loss in the event of poor performance of the underlying collateral, we cannot be certain that such levels of subordination will protect us from future material losses in light of the significantly higher rates of delinquency and losses currently being observed within our insured credits.

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

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

We face risks associated with our financial guaranty insurance customers and our second-to-pay liabilities from these entities.

As a result of rating agency downgrades of our financial guaranty insurance subsidiaries financial strength ratings, all of our unaffiliated primary reinsurance customers in our financial guaranty reinsurance business currently have the right to take back or recapture an aggregate of $25.5 billion of business previously ceded to us under their reinsurance agreements with us. While our treaties with our primary reinsurance customers do not permit our reinsurance customers to selectively recapture business previously ceded to us under their treaties, because we have entered into multiple treaties with each customer it is possible that a customer may choose to recapture business only under those treaties that they perceive as covering less risky portions of our reinsurance portfolio. This could potentially leave us with risk that is more concentrated in troubled asset classes.

Our reinsurance customers are primarily responsible for surveillance, loss mitigation and salvage on the risks that they cede to us. Some of these customers are experiencing financial difficulties, and therefore, may be less willing to or capable of performing these tasks to the extent necessary to minimize potential losses and/or maximize potential salvage on the credits we reinsure. Due to their current financial difficulties, they may have different incentives to eliminate long-term liabilities than we do. We generally do not have direct access to the insured obligation or the right to perform our own loss mitigation or salvage work on these transactions. We also have limited visibility with respect to the performance of many of the obligations we reinsure. See *If the estimates we use in establishing loss reserves for our mortgage insurance or financial guaranty businesses are incorrect, we may be required to take unexpected charges to income, which could hurt our capital position* below. In addition, our primary reinsurance customers may delegate their loss adjustment functions to third parties, the cost of which would then be proportionally allocated to us and any other reinsurers for the insured transaction. Accordingly, the losses and loss adjustment expenses allocated to us on our reinsured risks may be

Table of Contents

significantly higher than otherwise would have been the case if we were responsible for surveillance, loss mitigation and salvage for these risks. This could have a material adverse effect on our financial condition and operating results.

Approximately $23.6 billion or 92.2% of Radian Asset Assurance s net par reinsurance exposure outstanding as of March 31, 2010, was ceded from primary insurer customers that are subsidiaries of one holding company. Consequently, such financial guaranty reinsurance is now dependent upon the surveillance and loss mitigation abilities of primary insurers under this one holding company.

We have insured certain transactions on a second-to-pay basis, meaning that we are obligated to pay claims in these transactions only to the extent that another insurer fails to pay such a claim. Consequently, if the conservator for an insolvent financial guarantor rejects payment of all or a portion of a claim, we may be required to pay all or a portion of such claim. Because many insurers are currently experiencing significant financial difficulties, the likelihood of our having to pay a claim on our second-to-pay transactions has increased. In 2009, two of the companies that are the primary obligors on certain of the transactions for which we have provided second-to-pay protection, Syncora Guarantee Inc. (Synorca) and Financial Guaranty Insurance Company (FGIC), suspended all claims payments following orders by the New York Insurance Department (NYID). On March 24, 2010, Ambac Assurance Corporation (Ambac) established a segregated account pursuant to Wisconsin law for certain CDS, policies insuring RMBS, certain student loan policies and certain other policies, with respect to some of which we have provided second-to-pay protection. The Office of the Commissioner of Insurance of the State of Wisconsin has commenced rehabilitation proceedings with respect to such segregated account. A portion of our second-to-pay exposure to Ambac s insured obligation may be included in the segregated account. As of March 31, 2010, Syncora, FGIC and Ambac are the primary insurers on $1.4 billion net par outstanding (or 46.0%) of our second-to-pay exposure, and $97.7 million (or 7.1%) of such exposure to those three primary insurers is rated below investment grade.

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

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

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

Some of Freddie Mac s and Fannie Mae s more recent programs require less insurance coverage than they historically have required, and they have the ability to further reduce coverage requirements, which could reduce the amount of mortgage insurance purchased and have an adverse effect on our business, financial condition and

Table of Contents

operating results. For a number of years, the GSEs have had programs under which lenders could choose, for certain loans, a mortgage insurance coverage percentage that was only the minimum required by the GSE s charter, with the GSEs paying a lower price for these loans (charter coverage). The GSEs have also had programs under which, for certain loans, they would accept a level of mortgage insurance above the requirements of their charters, but below their standard coverage without any decrease in the purchase price they would pay for these loans (reduced coverage). In September 2009, Fannie Mae announced that, effective January 1, 2010, it would expand broadly the types of loans eligible for charter coverage, and also that it would eliminate its reduced coverage program in the second quarter of 2010. To the extent lenders selling loans to Fannie Mae chose charter coverage for loans that we insure, our revenues would likely be reduced.

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

In September 2008, the FHFA was appointed as the conservator of the GSEs to control and direct the operations of the GSEs. The appointment of a conservator may increase the likelihood that the business practices of the GSEs will be changed in ways that may have a material adverse effect on us. In particular, if the private mortgage insurance industry does not have the ability, due to capital constraints, to continue to write sufficient business to meet the needs of the GSEs, the GSEs may seek alternatives other than private mortgage insurance to conduct their business. The appointment of a conservator also increases the likelihood that the U.S. Congress will examine the role and purpose of the GSEs in the domestic housing market and potentially make certain structural and other changes to the GSEs. It is uncertain if and when such changes may be proposed, which could be as early as spring of 2010, and what the proposals would entail, which could include the abolishment of the GSEs and the replacement of the GSEs with a yet to be determined new system. Although we believe that private mortgage insurance will continue to play an important role in any future structure involving the GSEs, there is a possibility that new federal legislation could reduce the level of private mortgage insurance coverage used by the GSEs as credit enhancement or perhaps even eliminate the requirement altogether. In connection with the Homeownership Affordability and Stability Plan, the FHFA will allow the GSEs to refinance their own qualifying loans without mortgage insurance if the original loan does not have mortgage insurance.

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

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

Our mortgage insurance subsidiaries have been downgraded substantially below AA-/Aa3 by Standard and Poor s Ratings Service (S&P) and Moody s Investor Service (Moody s). In response to these ratings actions, we have presented business and financial plans to Freddie Mac and Fannie Mae for how to restore profitability and ultimately regain a higher rating for our mortgage insurance business. See *The long-term capital adequacy*

Table of Contents

of Radian Guaranty depends, in part, upon the performance of our financial guaranty portfolio above for risks associated with this plan. Our ratings are also driven by the rating agencies views of the mortgage insurance industry as a whole. If the capital credit we receive from the rating agencies and GSEs with respect to our plans is less than they believe may be required by our mortgage insurance business, we could lose our eligibility with the GSEs and/or be further downgraded by the rating agencies. Our remediation plans include projections of our future financial performance, including the effect of significant changes to the underwriting and pricing of our business. Although their initial reactions to our plans were favorable, we cannot be certain that either of the GSEs will continue to accept our plans or if we will be able to retain our eligibility status with either of them. Loss of our eligibility status with the GSEs would likely have an immediate and material adverse impact on the franchise value of our mortgage insurance business and our future prospects and could negatively impact our results of operations and financial condition.

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

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

If the volume of new mortgage originations continues to decrease or persists at low levels for a prolonged period of time, we may experience fewer opportunities to write new insurance business, which could reduce our existing insurance in force and have a significant negative effect on both our ability to execute our business plans and our overall franchise value.

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

Our mortgage insurance business depends to a significant degree on a small number of lending customers. As of March 31, 2010, our top 10 mortgage insurance customers were generally responsible for over half of our primary new insurance written in 2010 and two mortgage insurance customers each accounted for more than 10% of our consolidated revenues. Accordingly, maintaining our business relationships and business volumes with our largest lending customers is important to the success of our business. Challenging market conditions have adversely affected, and may continue to adversely affect, the financial condition of a number of our largest lending customers. These customers could become subject to serious financial constraints that may jeopardize the viability of their business plans or their access to additional capital, forcing them to consider alternatives such as bankruptcy or consolidation with others in the industry. In addition, as a result of current market conditions, our lending customers may seek to diversify their exposure to any one or more mortgage insurers, may decide to write business only with those mortgage insurers that they perceive to have the strongest financial position, or may decide to write more business with the FHA. See *Our mortgage insurance business faces intense competition.*

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

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

Our mortgage insurance business faces intense competition.

The U.S. mortgage insurance industry is highly dynamic and intensely competitive. Our competitors include other private mortgage insurers and federal and state governmental and quasi-governmental agencies, principally the VA and the FHA, which has significantly increased its competitive position in the mortgage market.

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

Beginning in 2008, the FHA has substantially increased its market share, including by insuring a number of loans that would meet our current underwriting guidelines at a lower cost to the borrower than a loan that carries our mortgage insurance. The FHA s share of the mortgage insurance market increased significantly to 81.0% for 2009 from 53.6% for 2008. For information regarding certain legislative developments that have enhanced the FHA s competitive position, see *Legislation and regulatory changes and interpretations could harm our mortgage insurance business* below. In light of the capital constraints that the private mortgage insurance industry has faced, and the need by private mortgage insurers to tighten underwriting guidelines based on past loan performance, we anticipate that the FHA will continue to maintain a strong market position and could increase its market position to the point that private mortgage insurers may be perceived as less significant to the future of the housing finance market. One or more private mortgage insurers may seek to regain market share from the FHA or other mortgage insurers by reducing pricing (as was recently publicly announced by one private mortgage insurer) or loosening their underwriting guidelines, which could increase their competitive position in the industry and reduce the amount of business available to us.

It appears that the improvement in the credit quality of new loans being insured in the current market, combined with the deterioration of the financial strength ratings of most existing private mortgage insurance companies, in part due to their legacy books of insured mortgages, could encourage new entrants to our industry. One potential new entrant, who appears to have significant capital commitments, has publicly disclosed that it has received a license to write mortgage insurance business in 45 states and has received GSE approval. Our inability to compete with other providers, including any new entrants that are not burdened by legacy credit risks, could have a material adverse effect on our business position, financial condition and operating results.

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

- mortgage lenders structuring mortgage originations to avoid private mortgage insurance, mostly through 80-10-10 loans or other forms of simultaneous second loans. The use of simultaneous second

Table of Contents

- loans increased significantly during the recent past to become a competitive alternative to private mortgage insurance, particularly in light of (i) the potential lower monthly cost of simultaneous second loans compared to the cost of mortgage insurance in a low interest-rate environment and (ii) possible negative borrower, broker and realtor perceptions about mortgage insurance;

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

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

As a result of the recent and continuing turmoil in the housing credit market, many of these alternatives to private mortgage insurance are not currently available in the mortgage market, although simultaneous second loans are still available and their use may grow again. If market conditions were to change, however, we again could face significant competition from these alternatives as well as others that may develop.

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

We depend on reliable, consistent third-party servicing of the loans that we insure. Dependable servicing generally ensures timely billing and effective loss mitigation opportunities for delinquent or near-delinquent loans. Many of our customers also serve as the servicers for loans that we insure, whether the loans were originated by such customer or another lender. Therefore, the same market conditions affecting our customers as discussed above in *Because our mortgage insurance business is concentrated among a few significant customers, our new insurance written and franchise value could decline if we lose any significant customer* will also affect their ability to effectively maintain their servicing operations. In addition, current housing trends have led to a significant increase in the number of delinquent mortgage loans requiring servicing. These increases have strained the resources of servicers, reducing their ability to undertake loss mitigation efforts, including the processing of potential loan modifications through the U.S. Treasury Department s Home Affordable Modification Program (HAMP), which could help limit our losses.

Managing a substantially higher volume of under-performing loans could create operational difficulties that our servicers may not have the resources to overcome. If a disruption occurs in the servicing of mortgage loans covered by our insurance policies, this, in turn, could contribute to a rise in delinquencies and/or claims among those loans and could have a material adverse effect on our business, financial condition and operating results.

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

The Federal Deposit Insurance Corporation, the GSEs and lenders have adopted programs to modify loans to make them more affordable to borrowers with the goal of reducing the number of foreclosures. In February 2009, the U.S. Treasury Department announced the Homeowner Affordability and Stability Plan, of which HAMP is a part, which provides certain guidelines for loan modifications and allocates $75 billion for this purpose. Some of the eligibility criteria require current information about borrowers, such as the borrowers current income and non-mortgage debt payment. Because the GSEs and the lenders do not share such information with us, we cannot determine with certainty the number of loans in our delinquent inventory that are eligible to participate in such programs. As of March 31, 2010, we believe approximately 36,338 loans in our delinquent loan inventory have begun the trial modification period under HAMP and that approximately 5,928 of delinquent loans have cured after entering HAMP.

While modifications made under these programs are increasing, it is unclear whether they will ultimately result in a significant number of successful loan modifications, in particular in light of the high level of re-default rates for loans that have been modified through these programs. In addition, the eligibility guidelines may be changed, which may make it more difficult for some loans to be eligible for modification. As of December 1, 2009, the GSEs changed how the net present value test is used for determining whether loan modifications may be offered under HAMP. These changes made it more difficult for some loans to be modified under HAMP. While we lack sufficient data to determine the impact of these changes, we believe that they may decrease the number of our loans that will participate in HAMP. In January 2010, the U.S. Treasury Department further modified the HAMP eligibility requirements. Effective June 1, 2010 a servicer may evaluate and initiate a HAMP trial modification for a borrower only after the servicer receives certain documents that allow the servicer to verify the borrower s income and the cause of the borrower s financial hardship. Previously, these documents were not required to be submitted prior to a trial modification period commencing, but had to be submitted in order for a modification to be successfully completed. We believe that this may further decrease the number of new HAMP trial modifications.

In March, 2010, the U.S. Treasury Department announced a further initiative under HAMP to encourage servicers to reduce the principal balance of defaulted loans. Based on our review of the proposed application of this program, we do not expect the program to result in a material increase in the number of our delinquent loans modified under HAMP. In addition, the U.S. Treasury Department also is supporting legislative changes to allow judicial modifications including principal reductions for home mortgages during bankruptcy proceedings. If a mortgage balance is reduced as a result of the new HAMP program or bankruptcy, we would still be responsible under our master insurance policy to pay the original balance if the borrower re-defaulted on that mortgage after its balance has been reduced. Various government entities and private parties have adopted foreclosure moratoriums. A moratorium does not affect the accrual of interest and other expenses on a loan. Unless a loan is modified during a moratorium to cure the default, at the expiration of the moratorium, additional interest and expenses would be due (subject to the limitation in our master policy with respect to interest), which could result in our losses on loans subject to the moratorium being higher than if there had been no moratorium.

There is no guarantee that these loan modification programs will be fully implemented or that they will continue to be available. Even if a loan is modified, we do not know how many modified loans will subsequently re-default or whether they may eventually result in losses that would be greater than we would have suffered if the loan had not been modified. As a result, we cannot ascertain, with confidence, whether these programs will provide material benefits to us. Any termination or temporary cessation of any of these programs could result in an increased number of claims in our mortgage insurance business and could have a material adverse effect on our business, financial condition and results of operations.

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

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

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

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

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

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

In our mortgage insurance business, we enter into agreements with our mortgage lender customers that commit us to insure loans using pre-established underwriting guidelines. Once we accept a lender into our delegated underwriting program, we generally insure a loan originated by that lender even if the lender does not follow our specified underwriting guidelines. Under this program, a lender could commit us to insure a material number of loans with unacceptable risk profiles before we discover the problem and terminate that lender s delegated underwriting authority as well as pursuing other rights that may be available to us, such as our rights to rescind coverage or deny claims. Our ability to rescind coverage or deny claims may also be challenged by our mortgage lender customers, may lead to the loss of one or more customers, or may lead to litigation with a customer. The performance of loans insured through programs of delegated underwriting has not been tested over a period of extended adverse economic conditions, and the program could lead to greater losses than we anticipate in light of the current economic downturn. Greater than anticipated losses could have a material adverse effect on our business, financial condition and operating results.

We face risks associated with our contract underwriting business.

We provide contract underwriting services for certain of our mortgage lender customers, including on loans for which we are not providing mortgage insurance. Under the terms of our contract underwriting agreements, we agree that if we make material errors that lead to a default in connection with these services, the mortgage lender may, subject to certain conditions, require us to purchase the loans, issue mortgage insurance on the loans, or indemnify the lender against future loss associated with the loans. Accordingly, we assume some credit risk and interest-rate risk in connection with providing these services. In the first quarter of 2010, we underwrote $1.2 billion in principal amount of loans for customers through contract underwriting. Depending on market conditions, a significant amount of our underwriting services may be performed by independent contractors hired by us on a temporary basis. If these independent contractors make more material errors than we anticipate, the resulting need to provide greater than anticipated recourse to mortgage lenders could have a material adverse effect on our business, financial condition and operating results.

Table of Contents

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

The credit ratings of Radian Group and the insurance financial strength ratings assigned to our insurance subsidiaries were downgraded multiple times since 2008 and may be subject to further downgrade. In December 2009, S&P downgraded the financial strength ratings of our financial guaranty insurance subsidiaries to BB- and also downgraded Radian Group s other subsidiaries, including Radian Guaranty and Amerin Guaranty to B+. At our request, S&P also withdrew the financial strength ratings of Radian Asset Assurance Limited (RAAL). We have also requested that Moody s withdraw its ratings of RAAL. On February 4, 2010, Moody s affirmed the ratings of our mortgage insurance subsidiaries but changed their outlook to negative. In response to current market conditions, the rating agencies are engaged in ongoing monitoring of the mortgage insurance and financial guaranty industries and could take action, including by downgrading or warning of the strong possibility of downgrade, with respect to one or more companies in a specific industry. Although we remain in frequent contact with the rating agencies and have prepared action plans to address rating agency actions, we are generally not provided with much advance notice of an impending rating decision, which could come at any time.

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

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

In accordance with accounting principles generally accepted in the United States of America (GAAP), we generally do not establish reserves in our mortgage insurance business until we are notified that a borrower has failed to make at least two consecutive payments when due. We maintain an extensive database of claim payment history and use models, based on a variety of loan characteristics, including the status of the loan as reported by its servicer and the type of loan product to determine the likelihood that a default will reach claim status. Because our mortgage insurance reserving does not account for the impact of future losses that we expect to incur with respect to non-defaulted loans, our obligation for ultimate losses that we expect to incur at any period end is not reflected in our financial statements, except to the extent that a premium deficiency exists. As a result, future losses beyond what we have projected or lower premiums than we have projected may have a material impact on future results as delinquencies occur.

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

We establish loss reserves in both our mortgage insurance and financial guaranty businesses to provide for the estimated cost of future claims. Because our reserves represent our best estimate of claims, these reserves may be insufficient to satisfy the full amount of claims that we ultimately have to pay. Setting our loss reserves requires significant judgment by management with respect to the likelihood, magnitude and timing of anticipated losses. The models and estimates we use to establish loss reserves may prove to be inaccurate, especially during an extended economic downturn or a period of extreme credit market volatility, as currently exists. Many of the programs and initiatives that have been implemented to prevent or forestall foreclosures have resulted in fewer defaulted loans moving to claim, and consequently, an increase in the aging of our inventory of defaulted loans. As a result, the number of our defaulted loans that have been in default for 240 or more days, which represents our most aged category of defaulted loans, currently represents a larger portion of our default inventory than has typically been the case. While these loans are generally assigned a higher loss reserve based on our belief that they are more likely to result in a claim, we also assume based on historical trends that a significant portion of these loans will cure and not result in a claim. Given current market conditions, the limited number of cures we are currently seeing among this inventory of loans, and the significant period of time that these loans have been in default, it is possible that the ultimate cure rate for these defaulted loans will be significantly less than historical rates, and therefore, our current estimates of cures for this inventory of defaults. If our estimates are inadequate, we may be required to increase our reserves, which would have a material adverse effect on our financial condition, capital position and operating results, as well as our ability to continue to write new business.

In addition to establishing mortgage insurance loss reserves for defaulted loans, we are required under GAAP to establish a premium deficiency reserve for our mortgage insurance products if the amount by which the net present value of expected future losses for a particular product and the expenses for such product exceeds the net present value of expected future premiums and existing reserves for such product. We evaluate whether a premium deficiency exists at the end of each fiscal quarter. As of March 31, 2010, a premium deficiency reserve of $24.1 million existed for our second-lien mortgage insurance business. Because our evaluation of premium deficiency is based on our best estimate of future losses, expenses and premiums, the evaluation is inherently uncertain and may prove to be inaccurate. Although no premium deficiency existed on our first-lien mortgage insurance business at March 31, 2010, there can be no assurance that additional premium deficiency reserves will not be required for this product or our other mortgage insurance products in future periods.

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

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

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

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

Table of Contents

As a holding company, Radian Group relies on its operating subsidiaries to fund its dividend payments and to meet its obligations, has intercompany payment obligations under the tax sharing agreement and could be required to provide capital support for our mortgage insurance subsidiaries if required by insurance laws or regulators, the GSEs or the rating agencies.

Radian Group acts principally as a holding company for our insurance subsidiaries and does not have any significant operations of its own. Radian Group s most significant liquidity demands for the foreseeable future include funds for (i) the payment of certain corporate expenses (which are fully reimbursed through expense-sharing arrangements with our subsidiaries), (ii) interest payments on our outstanding long-term debt (which are fully reimbursed through expense-sharing arrangements with our subsidiaries), (iii) repayment of the principal amount of our outstanding long-term debt, including the principal amount of our debentures due in June 2011, of which $160.3 million is outstanding as of March 31, 2010, as well as $250 million in principal amount of senior notes due in each of 2013 and 2015, (iv) payments to our insurance subsidiaries under our tax-sharing agreement, including our current estimate of approximately $57 million to be paid to Radian Guaranty and our other subsidiaries in October 2010, and a maximum of $77 million, which may be required to be paid to Radian Guaranty in October 2011, (v) capital support for our insurance subsidiaries and (vi) the payment of dividends on common stock. Radian Group had immediately available directly or through an unregulated direct subsidiary, unrestricted cash and marketable securities of approximately $300 million at March 31, 2010.

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

In addition, Radian Group may be required to make additional payments to its subsidiaries under its tax-sharing agreement as follows:

In November 2009, new tax legislation was enacted that permits a company to extend the existing carryback period from two years to up to five years for net operating losses (NOLs) incurred in 2008 or 2009. Taxpayers are only entitled to extend the carryback period for either the 2008 or 2009 tax year, but not both years. While an analysis of the overall impact remains dependent upon the potential outcome of our IRS Appeals initiative, we do not believe that this legislation will have a material impact on Radian Group s consolidated federal income tax; however, if we make an election to extend our carryback provision, we currently estimate that Radian Group may be required to make additional payments to its subsidiaries under the tax-sharing agreement ranging from approximately $16 million to $37 million.

As of the balance sheet dates, certain of our mortgage insurance subsidiaries, other than Radian Guaranty may not be able to utilize estimated NOLs since they may not generate sufficient taxable income on a separate company basis. If those subsidiaries were to generate taxable income, then Radian Group may be required to make payments to the extent such NOL had been utilized on a consolidated basis. Currently, we do not estimate a need to fund material obligations under the provisions described in this paragraph with regard to subsidiary NOLs incurred to date.

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

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

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

We provide credit enhancement in the form of derivative contracts. The gains and losses on these derivative contracts are derived from internally generated models, which may differ from models used by our counterparties or others in the industry. We estimate fair value amounts using market information, to the extent available, and valuation methodologies that we deem appropriate in order to estimate the fair value amounts that would be exchanged to sell an asset or transfer a liability. Considerable judgment is required to interpret available market data to develop the estimates of fair value. Since there currently is no active market for many derivative products, we have had to use assumptions as to what could be realized in a current market exchange. In the event that our investments or derivative contracts were sold or transferred in a forced liquidation, the fair values received or paid could be materially different than those reflected in our financial statements. See Part II, Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies Derivative Instruments and VIE Liabilities of our Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

Temporary market or credit spread changes as well as actual credit improvement or deterioration in our derivative contracts are reflected in changes in fair value of derivative instruments. Because the adjustments referenced above are reflected on our statements of operations, they affect our reported earnings and create earnings volatility. Additionally, beginning in 2008, in accordance with the accounting pronouncement regarding fair value measurements, we made an adjustment to our derivatives valuation methodology to account for our own non-performance risk by incorporating our observable CDS spread into the determination of fair value of our credit derivatives. Our five-year CDS spread increased significantly since January 2007, was 983 basis points as of March 31, 2010 and was 636 basis points as of April 30, 2010. This market perception of our high risk of non-performance has had the effect of reducing our derivative liability valuations by approximately $2.1 billion as of March 31, 2010. The sale of shares of common stock in this offering could cause our CDS spread to further decrease. If our CDS spread remains at its current level or tightens significantly, and other credit spreads utilized in our fair value methodologies remained constant, our earnings could be significantly reduced.

Our international operations subject us to risks.

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

- dependence on regulatory and third-party approvals;
- foreign governments monetary policies and regulatory requirements;

Table of Contents

economic downturns in targeted foreign mortgage origination markets;

interest-rate volatility in a variety of countries;

political risk and risks of war, terrorism, civil disturbances or other events that may limit or disrupt markets;

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

potentially adverse tax consequences;

restrictions on the repatriation of earnings; and

foreign currency exchange rate fluctuations.

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

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

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

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

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

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

S-24

Table of Contents

may require us to incur significant expenses. The inability to make necessary modifications to our systems in a timely and cost-effective manner may have adverse effects on our business, financial condition and operating results.

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

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

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

We face litigation risk in the ordinary course of operations, including the risk of class action lawsuits. In April 2008, a purported class action lawsuit was filed against Radian Group, the Compensation and Human Resources Committee of the board of directors and individual defendants in the U.S. District Court for the Eastern District of Pennsylvania, alleging violations of the Employee Retirement Income Securities Act as it relates to our Savings Incentive Plan. For additional information regarding this class action lawsuit, see Part I, Item 3, Legal Proceedings of our Annual Report on Form 10-K for the fiscal year ended December 31, 2009. We cannot predict whether other actions may be brought against us in the future. Any such proceedings could have an adverse affect on our consolidated financial position, results of operations or cash flows.

On October 3, 2007, we received a letter from the staff of the Chicago Regional Office of the SEC stating that the staff is conducting an investigation involving Radian Group and requesting production of certain documents. The staff has also requested that certain of our current and former employees and directors provide voluntary testimony in this matter. We believe that the investigation generally relates to the previously proposed merger with Mortgage Guaranty Insurance Corporation and Radian Group s investment in C-BASS. We are cooperating with the requests of the SEC. The SEC staff has informed us that this investigation should not be construed as an indication by the Commission or its staff that any violation of the securities laws has occurred, or as a reflection upon any person, entity or security.

From time to time we have disputes with our customers. If not resolved, these disputes could lead to arbitration or litigation proceedings. Recently, we have faced an increasing number of challenges from certain of our lender customers regarding our insurance rescissions and claim denials. We are currently in discussions with these customers regarding a number of rescissions or denials that are collectively material in amount, which, if not resolved, could result in arbitration or judicial proceedings. There has been increased litigation in our industry relating to rescissions and claim denials. Although we are not a party to any such litigation, we cannot predict whether such actions may be brought against us and since certain litigation relates to mortgage insurance policy terms and practices that are widely used in the mortgage insurance industry, the outcome of this litigation may impact us. If this litigation results in a change in mortgage insurance policy terms and practices that are widely used by the mortgage insurance industry, including by us, or we engage in material litigation with any customer and the customer limits the amount of business they conduct with us or terminates our business relationship altogether, it could have a negative impact on our business and results of operations.

Our senior management and board of directors have been required to devote significant time to these and related matters and will likely be required to devote substantial additional time to these matters in the future.

Table of Contents

There can be no assurance that these lawsuits, regulatory investigations and other legal matters will not have a disruptive effect upon the operations of the business. In addition, we have incurred (and are likely to continue to incur), substantial expenses in connection with such matters, including substantial fees for attorneys and other professional advisors.

We are unable at this time to predict the outcome of these actions or reasonably estimate a range of damages in the event plaintiffs in these or other additional litigation prevail under one or more of their claims. In addition, we are cooperating with the SEC regarding the above investigation but we cannot predict the outcome of any such investigation or other regulatory proceedings. Depending on the outcome of any such investigation or other regulatory proceeding, we may be required to pay material fines, consent to injunctions on future conduct or suffer other penalties, remedies or sanctions. The ultimate resolution of these matters could have a material adverse impact on our financial results, financial condition, and liquidity, and on the trading price of the common stock. There can be no assurance that additional lawsuits, regulatory and other matters will not arise.

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

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

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

We have concluded that a small valuation allowance is required with regard to our $621.6 million net deferred tax asset (DTA) and a more substantial valuation allowance could become necessary.

As of March 31, 2010, we have a net deferred tax asset (DTA) in the amount of $621.6 million. We are required to establish a valuation allowance against our DTA when it is more likely than not that all or some portion of our DTA will not be realized. At each balance sheet date, we assess our need for a valuation allowance and this assessment is based on all available evidence, both positive and negative, and requires management to exercise judgment and make assumptions regarding whether such DTA will be realized in future periods. Future realization of our DTA will ultimately depend on the existence of sufficient taxable income of the appropriate character (ordinary income or capital gains) within the applicable carryforward period provided under the tax law. Among the more significant positive evidence that we considered in determining the amount of valuation

Table of Contents

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

A valuation allowance of approximately $6.9 million was recorded within our $621.6 million DTA related to certain state NOLs. These state NOLs were generated by our operating subsidiaries and, due to limitations imposed upon the utilization of such NOLs by the various tax jurisdictions, we cannot be certain that these NOLs will be fully utilized during the applicable carryforward periods. If, in the future, our assumptions and estimates that resulted in our forecast of future taxable income prove to be incorrect, an additional valuation allowance could become necessary. Recognition of an additional valuation allowance could have a material adverse effect on our financial condition, results of operations, and liquidity.

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

We have generated substantial NOLs, loss carryforwards and other tax attributes for U.S. federal income tax purposes that can be used to reduce our future U.S. federal income tax obligations. Our ability to fully use these tax assets (including NOLs of approximately $1,615 million as of March 31, 2010) will be adversely affected if we have an ownership change within the meaning of Section 382 of the Internal Revenue Code. An ownership change is generally defined as a greater than 50 percentage point increase in equity ownership by five-percent shareholders (as that term is defined for purposes of Section 382 of the Internal Revenue Code) over the lowest percentage of stock owned by such shareholders at any time during a rolling three-year testing period. We may experience an ownership change in the future as a result of changes in our stock ownership.

On October 8, 2009, the board of directors adopted our tax benefit preservation plan (which was amended on February 12, 2010 and May 3, 2010), in order to protect our ability to utilize our NOLs and other tax assets from an ownership change under U.S. federal income tax rules. However, there is no guarantee that our tax benefit preservation plan will be effective in protecting our NOLs and other tax assets. Determining whether an ownership change has occurred is subject to uncertainty, both because of the complexity and ambiguity of Section 382 of the Internal Revenue Code and because of limitations on a publicly traded company s knowledge as to the ownership of, and transactions in, its securities. Therefore, we cannot assure you that the IRS or other taxing authority will not claim that we experienced an ownership change before we adopted our tax benefit preservation plan and attempt to reduce the benefit of our tax assets. Furthermore, while our tax benefit preservation plan is intended to deter acquisitions that may adversely affect our tax position, such acquisitions may still occur. In addition, our tax benefit preservation plan may make it more difficult and more expensive to acquire us, and may discourage open market purchases of the common stock or a non-negotiated tender or exchange offer for the common stock. Accordingly, our tax benefit preservation plan may limit a stockholder s ability to realize a premium over the market price of the common stock in connection with any stock transaction. Our tax benefit preservation plan is subject to stockholder approval at the Radian Group 2010 annual meeting of stockholders. If our tax benefit preservation plan is not approved at the annual meeting, it will terminate immediately after the meeting. See Risks Related to the Offering and the Common Stock *Radian Group s board of directors adopted an amendment to Radian Group s amended and restated bylaws to impose certain transfer restrictions on the common stock issued in this offering.*

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

Our business and legal liabilities are affected by the application of federal or state consumer lending and insurance laws and regulations, or by unfavorable changes in these laws and regulations. For example, HERA includes reforms to the FHA, and provides the FHA with greater flexibility in establishing new products and increases the FHA s competitive position against private mortgage insurers. This law increased the maximum loan amount that the FHA can insure and established a higher minimum cash down-payment. HERA also contained provisions, called the Hope for Homeownership program, by which the FHA is authorized to refinance distressed mortgages in return for lenders and investors agreeing to write down the amount of the original mortgage. The EESA and the U.S. Treasury Department s Homeowner Affordability and Stability Plan include provisions that encourage further use of the Hope for Homeowners program and further strengthen support for

FHA programs by easing restrictions in these programs. We cannot predict with any certainty the long-term impact of these changes upon demand for our products. However, beginning in 2008, the FHA has materially increased its market share, in part by insuring a number of loans that would meet our current underwriting guidelines, as a result of these recent legislative and regulatory changes. See *Our mortgage insurance business faces intense competition* above. Any further increase in the competition we face from the FHA or any other government sponsored entities could harm our business, financial condition and operating results.

We and other mortgage insurers have faced private lawsuits alleging, among other things, that our captive reinsurance arrangements constitute unlawful payments to mortgage lenders under the anti-referral fee provisions of The Real Estate Settlement Practices Act of 1974 (RESPA) and that we have failed to comply with the notice provisions of the Fair Credit Reporting Act (FCRA). In addition, class action lawsuits have been brought against a number of large lenders alleging that their captive reinsurance arrangements violated RESPA. While we are not currently a defendant in any case related to RESPA or FCRA, there can be no assurance that we will not be subject to any future litigation under RESPA or FCRA or that the outcome of such litigation will not have a material adverse affect on us.

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

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

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

The laws and regulations affecting the municipal, structured finance and trade credit debt markets, as well as other governmental regulations, may be changed in ways that could adversely affect our financial guaranty business. The United States Congress is currently considering financial reform legislation, which may include additional regulation of CDS and ABS. This legislation may result in, among other things, the imposition of additional reporting, capital and collateral requirements on our financial guaranty business. Moreover, such reform legislation, if adopted, may make it more difficult for us to commute, restructure, hedge or otherwise mitigate losses or reduce exposure on our existing portfolio. The scope and form of such legislation is uncertain and we continue to monitor developments related to financial reform. Any changes to reporting, capital or collateral requirements or that limit our ability to participate in loss mitigation transactions could have a material adverse effect on our business, financial condition and operating results. In addition, while we are still analyzing the potential impact, we believe it is possible that the recently enacted Patient Protection and Affordable Care Act of 2010 could adversely affect some of the healthcare institutions we have insured in our public finance line of business.

At the state level, our regulators are continuing to consider modification of the laws, rules and regulations applicable to financial guarantors, including placing additional restrictions on the writing and holding of risk in the form of CDS. These legislative initiatives could result in additional constraints on our holding risk and limitations on our ability to conduct future financial guaranty business, including additional restrictions and limitations on our ability to declare dividends or more stringent statutory capital requirements for all or certain segments of our financial guaranty businesses. Any of these changes could have a material adverse effect on our business, financial condition and operating results.

We continue to monitor developments in these areas of possible reform.

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

In 1988, the Basel Committee on Banking Supervision developed the Basel Capital Accord (the Basel I), which set out international benchmarks for assessing banks capital adequacy requirements. In June 2005, the Basel Committee issued an update to Basel I (as revised in November 2005, Basel II). Basel II was implemented by many banks in the U.S. and many other countries in 2009 and may be implemented by the remaining banks in the U.S. and many other countries in 2010. Basel II affects the capital treatment provided to mortgage insurance by domestic and international banks in both their origination and securitization activities. The Basel II provisions related to residential mortgages and mortgage insurance may provide incentives to certain of our bank customers not to insure mortgages having a lower risk of claim and to insure mortgages having a higher risk of claim.

Risks Related to the Offering and the Common Stock

Radian Group s common stock may be subject to substantial price fluctuations due to a number of factors and those fluctuations may prevent stockholders from reselling the common stock at a profit.

Stock markets are subject to significant price and trading volume fluctuations and the market price of the common stock and that of other companies in our industries has been and may continue to be volatile. The market price for the common stock has varied between a high of $15.98 and a low of $1.20 during the 12-month period ended March 31, 2010. It is difficult to predict whether the price of the common stock will rise or fall. Stock markets in general have recently experienced relatively high levels of volatility. These broad market fluctuations, as well as economic, financial, regulatory and other factors, such as prevailing interest rates, interest rate volatility, changes in our industries and the results of operations of our competitors, may adversely affect the trading price of the common stock. In addition, trading prices of the common stock will be influenced by our financial condition, operating results and prospects.

If the average closing price per share of the common stock on the New York Stock Exchange is less than $1.00 over any consecutive 30-trading-day period, Radian Group would fail to satisfy one of the requirements for continued listing on the New York Stock Exchange. If the common stock were to be delisted from the New York Stock Exchange, the liquidity of the common stock would be adversely impacted and, as a result, the market price for the common stock could become more volatile and decline significantly.

The market price of the common stock could be negatively affected by future sales or the possibility of future sales of substantial amounts of additional equity securities by Radian Group.

Though we have no current plans to do so, we may need to issue additional equity or equity-linked securities in the future for a number of reasons, including to raise capital beyond the capital raised in this offering in order to finance our operations and business strategy. Radian Group s sale of a substantial amount of equity securities following this offering, including additional shares of common stock or other equity or equity-linked securities senior to the common stock or convertible into common stock, or the perception that these sales might occur, could cause the market price of the common stock to decline. If such sales reduce the market price of the common stock, Radian Group s ability to raise additional capital in this manner may be adversely affected, and it may be difficult for you to sell your shares at a time and price that you deem appropriate.

Table of Contents

In addition, as of March 31, 2010, Radian Group had outstanding 82,915,064 shares of its common stock and options to purchase approximately 3,122,670 shares of its common stock (of which approximately options to purchase 2,296,352 shares were vested as of that date), 423,830 shares issuable upon the conversion or settlement of equity awards outstanding at such date, and a substantial number of shares of common stock are reserved for issuance under our equity compensation plans, our employee stock purchase plan and our savings and incentive plan. We are unable to predict the effect, if any, that future sales or issuances of shares of common stock or other equity or equity-linked securities will have on the trading price of the common stock.

The price of the common stock could also be affected by hedging or arbitrage trading activity that we expect to develop involving the common stock.

Radian Group cannot assure you that it will continue to pay dividends on the common stock, or, if it does, that it will maintain its current dividend rate.

Radian Group declared cash dividends on common stock equal to $0.02 per share in each quarter of 2007 and the first and second quarters of 2008. In July 2008, Radian Group reduced its quarterly common stock dividend to $0.0025 per share. As a holding company, Radian Group depends, in part, upon its subsidiaries ability to transfer funds to it in order to pay dividends. Radian Group s insurance subsidiaries, which have historically been an important source of funds, including funds to pay dividends, have dividend payment restrictions based on regulatory limitations. If Radian Group does not receive adequate distributions from its operating subsidiaries, then it may not be able to make, or may have to reduce, dividend payments on the common stock. In addition, even if Radian Group has sufficient funds to pay dividends, it may choose not to do so. Radian Group s dividend policy, and any current or future restrictions on its ability to pay dividends, could adversely affect the market price of the common stock. For more information, see Risks Related to the Company *As a holding company, Radian Group relies on its operating subsidiaries to fund its dividend payments and to meet its obligations, has intercompany payment obligations under the tax sharing agreement and could be required to provide capital support for our mortgage insurance subsidiaries if required by insurance laws or regulators, the GSEs or the rating agencies*

Radian Group s board of directors adopted an amendment to Radian Group s amended and restated bylaws to impose certain transfer restrictions on the common stock issued in this offering.

Radian Group s board of directors adopted an amendment to Radian Group s amended and restated bylaws on April 30, 2010 which is designed to protect our important tax assets (the Bylaw Amendment). The Bylaw Amendment imposes certain transfer restrictions on any shares of common stock issued after the effective date of this amendment, including shares of common stock issued in this offering. We have substantial NOLs, loss carryforwards and other tax attributes for United States federal income tax purposes (tax benefits) that can generally be used to offset our future taxable income and therefore reduce our United States federal income tax obligations. As of March 31, 2010, we had approximately $1.6 billion of NOL carryforwards. Our ability to use these NOL carryforwards and other tax benefits, however, will be adversely affected if Radian Group has an ownership change as defined under Section 382 of the Internal Revenue Code. In general, an ownership change will occur if the five-percent shareholders (as defined under Section 382) collectively increase their ownership in Radian Group (as determined for Section 382 purposes) by more than 50 percentage points over the lowest percentage of stock of Radian Group owned by such shareholders at any time during a rolling three-year testing period. The Bylaw Amendment is described in more detail under Description of the Common Stock Anti-takeover Provisions Bylaw Amendment. The transfer restrictions prohibit any person from transferring, directly or indirectly, any of the shares of common stock restricted by the Bylaw Amendment if the transfer would (i) create or result in a person becoming a five-percent shareholder under Section 382 of the Internal Revenue Code or (ii) increase the stock ownership of any existing five-percent shareholder under Section 382. Because of the difficulties in tracing ownership of the common stock issued by Radian Group which subsequently is traded over the New York Stock Exchange, persons acquiring shares in market transactions, after the effective date of the Bylaw Amendment, may be unable to demonstrate that such shares are not subject to the transfer restrictions.

As with our tax benefit preservation plan, the board of directors (or a committee thereof) has the discretion to grant exemptions to persons or transactions from the transfer restrictions in the Bylaw Amendment, if the board of directors (or such committee) determines that the transfer will not be likely to limit the availability of the Company s tax benefits or is otherwise in the best interests of the Company.

For purposes of Section 382 of the Internal Revenue Code, and under our tax benefit preservation plan and the Bylaw Amendment, unless the Company has actual knowledge to the contrary, the Company is entitled to rely on filings of Schedules 13D, 13F and 13G to identify the holders of the common stock who may be subject to such provisions. The rules for determining ownership for the purposes of our tax preservation plan and the Bylaw Amendment track the definition of ownership for the purposes of Section 382 of the Internal Revenue Code, which differs from the traditional concepts of beneficial ownership under the federal securities laws. For instance, an institutional investment adviser that owns the common stock through multiple funds would be deemed to beneficially own such shares for federal securities laws, but the shares would not be aggregated for purposes of Section 382 ownership. Consequently, an investor in the common stock is not able to rely upon the definition of beneficial ownership under the federal securities laws in determining whether or not such investor is in compliance with the requirements of our tax benefit preservation plan or the Bylaw Amendment. Although the Section 382 definition of ownership generally is more narrow than beneficial ownership under the federal securities laws, any ambiguity created by the differences in these definitions may discourage investors from acquiring the common stock.

Additionally, it is possible that one or more stockholders could challenge the enforceability of the transfer restrictions contained in the Bylaw Amendment, and a court could find that the Bylaw Amendment is unenforceable, either in general or as applied to a particular stockholder or particular fact situation. This potential for litigation regarding the enforceability of the transfer restrictions may discourage investors from acquiring the common stock. However, as Radian Group currently intends to retain our tax benefit preservation plan in place, subject to stockholder approval, even in light of the Bylaw Amendment, it is unlikely that any investor will seek to exceed the limits included in our tax benefit preservation plan and so will not be likely to have any reason to challenge the Bylaw Amendment.

Finally, if the Charter Amendment (as described and defined below) is not approved by the stockholders at the 2010 annual meeting, the transfer restrictions imposed by the Bylaw Amendment will terminate immediately following the meeting and the shares of common stock issued in this offering will not be subject to these transfer restrictions. Nevertheless, the Bylaw Amendment may prevent investors from purchasing the common stock and may make it more difficult to accomplish transactions that stockholders may otherwise deem to be in their best interest.

Radian Group has proposed, for approval by its stockholders, at its 2010 annual meeting, an amendment to its amended and restated certificate of incorporation to impose certain transfer restrictions in the common stock.

Radian Group has proposed, for approval by its stockholders at its 2010 annual meeting scheduled to be held May 12, 2010, an amendment to its amended and restated certificate of incorporation (the Charter Amendment) to impose certain transfer restrictions on the common stock, which are designed to protect our important tax assets. These transfer restrictions are substantially similar to the transfer restrictions set forth in the Bylaw Amendment. The Charter Amendment would become effective if approved by the stockholders and would be enforceable against the holders of the shares that voted in favor of the amendment, their transferees, and holders of shares of common stock issued after the amendment is approved. Radian Group intends to presume, with regard to each share of common stock issued before the effectiveness of the Charter Amendment that is proposed to be transferred, that it was voted in favor of the Charter Amendment, or is subject to the transfer restrictions in the amended and restated bylaws, unless the stockholder can demonstrate otherwise to Radian

Table of Contents

Group s reasonable satisfaction. In certain circumstances, Radian Group also intends to assert that stockholders have waived the right to challenge or are estopped from challenging the enforceability of the Charter Amendment, unless a stockholder establishes, to Radian Group s satisfaction, that such stockholder did not vote in favor of the Charter Amendment. However, similar to the Bylaw Amendment, it is possible that one or more stockholders could challenge the enforceability of the transfer restrictions contained in the Charter Amendment, and a court could find that the Charter Amendment is unenforceable, either in general or as applied to a particular stockholder or particular fact situation. This potential for litigation regarding the enforceability of the transfer restrictions may discourage investors from acquiring the common stock. However, as Radian Group currently intends to retain our tax benefit preservation plan in place, subject to stockholder approval, even if the Charter Amendment is adopted, it is unlikely that any investor will seek to exceed the limits included in our tax benefit preservation plan and so will not be likely to have any reason to challenge the Charter Amendment.

Provisions in Radian Group s organizational documents, the tax benefit preservation plan, applicable state law and regulatory restrictions could delay or prevent a change in control of the Company, or cause a change in control of the Company to have adverse regulatory consequences, any of which could adversely affect the price of the common stock.

Certain provisions of Radian Group s amended and restated certificate of incorporation and amended and restated bylaws may delay, defer or prevent a tender offer or takeover attempt, including attempts that might result in a premium over the market price for its securities. These provisions include:

- that directors can be removed only for cause and only upon the vote of the holders of shares entitled to cast a majority of the votes that all stockholders are entitled to cast in an election of directors;

- that we may issue preferred stock with such rights, preferences, privileges and limitations as the board of directors may establish;

- that special meetings of stockholders may only be called by the chairman of the board, a majority of the board of directors or the holders of a majority of the shares of common stock then outstanding;

- advance notice procedures with regard to the nomination, other than by or at the direction of the board of directors or a committee of the board, of candidates for election as directors;

- procedures providing that a notice of proposed stockholder nominations for the election of directors must timely be given in writing to our secretary generally not less than 90 days prior to the meeting at which directors are to be elected; and

- transfer restrictions that prohibit any person from transferring, directly or indirectly, any of the shares of common stock restricted by the Bylaw Amendment if the transfer would (i) create or result in a person becoming a five-percent shareholder under Section 382 of the Internal Revenue Code or (ii) increase the stock ownership of any existing five-percent shareholder under Section 382.

The board of directors has adopted our tax benefit preservation plan with The Bank of New York Mellon, as rights agent. Our tax benefit preservation plan, which is described in more detail under Description of the Common Stock Anti-takeover Provisions Tax Benefit Preservation Plan, is intended to protect stockholder value by preserving important tax assets of the Company. Our tax benefit preservation plan, which grants stockholders the right to acquire additional shares of the common stock at a price less than market price if any person becomes an acquiring person (as defined in our tax benefit preservation plan), may make it more difficult and more expensive to acquire us, and may discourage open market purchases of common stock or a non-negotiated tender or exchange offer for the common stock. Accordingly, our tax benefit preservation plan may limit a stockholder s ability to realize a premium over the market price of the common stock in connection with any stock transaction. Our tax benefit preservation plan is subject to stockholder approval at the 2010 annual meeting of stockholders.

The Bylaw Amendment also restricts persons from acquiring (or otherwise becoming the owner of, directly or by attribution) more than five percent of the outstanding shares of common stock issued after the effective date

of the amendment, including shares of common stock issued in this offering, and will generally restrict current five-percent shareholders, if any, from acquiring additional such shares. Similarly, if the Charter Amendment is adopted, it will impose the same transfer restrictions as set forth in the Bylaw Amendment on the holders of the shares that voted in favor of the amendment, their transferees, and holders of shares of common stock issued after the amendment is approved. Therefore, both the Bylaw Amendment and the Charter Amendment may affect the market value of the common stock or prevent accumulations of substantial blocks of shares in which stockholders might receive a substantial premium over market value.

The application of various state insurance laws also could be a significant deterrent to any person interested in acquiring control of us. The insurance and insurance holding company laws of each of the jurisdictions in which our insurance subsidiaries are incorporated or commercially domiciled govern any acquisition of control of our insurance subsidiaries or of us. In general, these laws provide that no person or entity may directly or indirectly acquire control of an insurance company unless that person or entity has received the prior approval of the insurance regulatory authorities. An acquisition of control would be presumed in the case of any person or entity who purchases 10% or more of the outstanding common stock, unless the applicable insurance regulatory authorities determine otherwise.

Section 203 of the Delaware General Corporation Law applies to Radian Group because it is a publicly-traded Delaware corporation. Pursuant to Section 203, with certain exceptions, a Delaware corporation may not engage in any of a broad range of business combinations, such as mergers, consolidations and sales of assets, with an interested stockholder, as defined in Section 203. Under certain circumstances, Section 203 makes it more difficult for a person who would be an interested stockholder to effect various business combinations with a corporation for a three-year period, although the stockholders may elect to exclude a corporation from the restrictions imposed thereunder. The provisions of Section 203 may encourage companies interested in acquiring Radian Group to negotiate in advance with the board of directors, because the stockholder approval requirement would be avoided if a majority of the directors then in office approve either the business combination or the transaction that results in the stockholder becoming an interested stockholder. These provisions also may have the effect of preventing changes in Radian Group s management, and they could make it more difficult to accomplish transactions that stockholders may otherwise deem to be in their best interest.

Management will have broad discretion to use the proceeds from this offering, and we may not use them successfully.

We intend to use the net proceeds from this offering to fund working capital requirements and for general corporate purposes, which may include additional capital support for our mortgage insurance business and repurchases of, or payments on, our outstanding debt securities. Our management will have broad discretion as to the use of the offering proceeds. Accordingly, you will be relying on the judgment of our management and board of directors with regard to the use of these proceeds and you will not have the opportunity, as part of your investment decision, to assess whether proceeds are being used appropriately. It is possible that the proceeds will be invested in a way that does not yield a favorable, or any, return for the Company.

Our NOLs and other tax assets may be challenged by the IRS.

The amount of our NOLs has not been audited or otherwise validated by the IRS. The IRS could challenge the amount of our NOLs and other tax assets, which could result in an increase in our liability in the future for income taxes. In addition, determining whether an ownership change has occurred is subject to uncertainty, both because of the complexity and ambiguity of Section 382 of the Internal Revenue Code and because of limitations on a publicly traded company s knowledge as to the ownership of, and transactions in, its securities. Therefore, we cannot assure you that the IRS or other taxing authority will not claim that we experienced an ownership change and attempt to reduce the benefit of the Company s tax assets even if the Charter Amendment is adopted.

Table of Contents

USE OF PROCEEDS

We estimate that the net proceeds from this offering will be approximately $526,090,000, after deducting estimated underwriting discounts and commissions and estimated offering expenses and assuming an offering price of $11.00 per share. We estimate the aggregate net proceeds to us will be approximately $605,125,000 if the underwriters exercise in full their over-allotment option to purchase additional shares.