RADIAN GROUP INC
Form 10-K
March 14, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2007

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission file number 1-11356

RADIAN GROUP INC.

(Exact name of registrant as specified in its charter)

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

(215) 231-1000

(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $.001 par value per share	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES x NO ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES ¨ NO x

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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

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

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates, computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant s most recently completed second fiscal quarter. As of June 30, 2007, the aggregate market value of the registrant s common stock held by non-affiliates of the registrant was $4,341,264,984 based on the closing sale price as reported on the New York Stock Exchange. Excluded from this amount is the value of all shares beneficially owned by executive officers and directors of the registrant. These exclusions should not be deemed to constitute a representation or acknowledgement that any such individual is, in fact, an affiliate of the registrant or that there are not other persons or entities who may be deemed to be affiliates of the registrant.

(APPLICABLE ONLY TO CORPORATE REGISTRANTS)

Indicate the number of shares outstanding of each of the registrant s classes of common stock, as of the latest practicable date: 80,460,406 shares of common stock, $.001 par value per share, outstanding on March 6, 2008.

DOCUMENTS INCORPORATED BY REFERENCE

List hereunder the following documents if incorporated by reference and the Part of the Form 10-K (e.g., Part I, Part II, etc.) into which the document is incorporated: (1) Any annual report to security holders; (2) Any proxy or information statement; and (3) Any prospectus filed pursuant to Rule 424(b) or (c) under the Securities Act of 1933. The listed documents should be clearly described for identification purposes (e.g., annual report to security holders for fiscal year ended December 24, 1980).

	Form 10-K Reference Document
Definitive Proxy Statement for the Registrant s 2008 Annual Meeting of Stockholders	Part III (Items 10 through 14)

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Forward Looking Statements Safe Harbor Provisions

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

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

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

- our ability to successfully acquire additional capital in the event that capital is required to support our long-term liquidity needs and to protect our credit and financial strength ratings;

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

- a decrease in the volume of the municipal bonds, and other public finance and structured finance transactions that we insure, or a decrease in the volume of such transactions for which issuers or investors seek or demand financial guaranty insurance;

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

- reduction in the volume of reinsurance business available to us from one or more of our primary financial guaranty insurer customers due to adverse changes in their ability to generate new profitable direct financial guaranty insurance or their need for us to reinsure their risk;

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

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

the performance of our insured portfolio of higher risk loans, such as Alternative-A (Alt-A) and subprime loans, and adjustable rate products, such as adjustable rate mortgages and interest-only mortgages, which have resulted in increased losses in 2007 and may result in further losses;

reduced opportunities for loss mitigation in markets where housing values fail to appreciate or begin to decline;

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

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

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

changes in the charters or business practices of Federal National Mortgage Association and Freddie Mac, the largest purchasers of mortgage loans that we insure;

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

the application of existing federal or state consumer, lending, insurance, securities and other applicable laws and regulations, or changes in these laws and regulations or the way they are interpreted; including, without limitation: (i) the possibility of private lawsuits or investigations by state insurance departments and state attorneys general alleging that services offered by the mortgage insurance industry, such as captive reinsurance, pool insurance and contract underwriting, are violative of the Real Estate Settlement Procedures Act and/or similar state regulations, (ii) legislative and regulatory changes affecting demand for private mortgage insurance or financial guaranty insurance, or (iii) legislation and regulatory changes limiting or restricting our use of (or requirements for) additional capital, the products we may offer, the form in which we may execute the credit protection we provide or the aggregate notional amount of any product we may offer for any one transaction or in the aggregate;

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

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

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

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

- vulnerability to the performance of our strategic investments, including in particular, our investment in Sherman Financial Group LLC.

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

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Part I

Item 1. Business.
I. General

We are a credit enhancement company. Our strategic objective is to prudently grow our core mortgage credit enhancement business while providing value to our clients in the acquisition, management and distribution of credit risk, primarily in domestic and also in selected international markets. We develop and deliver credit enhancement products by applying our credit risk expertise and structured finance capabilities to the credit enhancement needs of our counterparties.

Based on this foundation of credit risk evaluation and expertise, we offer products and services through three business segments mortgage insurance, financial guaranty and financial services:

Our mortgage insurance business provides credit protection for mortgage lenders and other financial services companies on residential mortgage assets through traditional mortgage insurance as well as other mortgage-backed structured products.

Our financial guaranty business insures and reinsures municipal bonds and other credit-based risks, and provides synthetic credit protection on various asset classes through credit default swaps.

Our financial services business consists mainly of our ownership interests in Sherman Financial Group LLC (Sherman) a consumer asset and servicing firm specializing in credit card and bankruptcy-plan consumer assets and Credit-Based Asset Servicing and Securitization LLC (C-BASS) a mortgage investment firm that specialized in credit-sensitive, residential mortgage assets and residential mortgage-backed securities.

The following shows the allocation of our equity to our three business segments at December 31, 2007:

	Equity
Mortgage Insurance	58%
Financial Guaranty	37%
Financial Services	5%

A summary of financial information for each of our business segments and a discussion of net premiums earned attributable to our domestic and international operations for each of the last three fiscal years is included in Segment Reporting in Note 20 of Notes to Consolidated Financial Statements.

Background. We began conducting business as CMAC Investment Corporation, a Delaware corporation, following our spin-off from Commonwealth Land Title Insurance Company through an initial public offering on November 6, 1992. On June 9, 1999, we merged with Amerin Corporation, an Illinois based mortgage insurance company, and were renamed Radian Group Inc. (Radian). On February 28, 2001, we entered the financial guaranty insurance business through our acquisition of Enhance Financial Services Group Inc. (EFSG), a New York-based insurance holding company that owns our principal financial guaranty subsidiaries, Radian Asset Assurance Inc. (Radian Asset Assurance) and Radian Asset Assurance Limited (RAAL). Our principal executive offices are located at 1601 Market Street, Philadelphia, Pennsylvania 19103, and our telephone number is (215) 231-1000.

Terminated Merger with MGIC Investment Corporation (MGIC). On February 6, 2007, we and MGIC, the largest private mortgage insurer in the industry, entered into an Agreement and Plan of Merger pursuant to which we agreed, subject to the terms and conditions of the merger agreement, to merge with and into MGIC, with the combined company to be renamed MGIC Radian Financial Group Inc.

On September 4, 2007, facing market conditions that had made combining the companies significantly more challenging, we and MGIC entered into a Termination and Release Agreement relating to the Agreement and

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Plan of Merger. As a result of this agreement, we and MGIC terminated the Agreement and Plan of Merger, abandoned the merger contemplated by the merger agreement and released each other from related claims. Neither party made a payment to the other in connection with the termination.

Additional Information. We maintain a website with the address www.radian.biz. We are not including or incorporating by reference the information contained on our website into this report. We make available on our website, free of charge and as soon as reasonably practicable after we file with, or furnish to, the SEC, copies of our most recently filed Annual Report on Form 10-K, all Quarterly Reports on Form 10-Q and all Current Reports on Form 8-K, including all amendments to those reports. In addition, copies of our guidelines of corporate governance, code of business conduct and ethics (which includes the code of ethics applicable to our chief executive officer, principal financial officer and principal accounting officer) and the governing charters for each committee of our board of directors are available free of charge on our website, as well as in print to any stockholder upon request.

A. Mortgage Insurance Business (*General*)

Our mortgage insurance business provides credit-related insurance coverage, principally through private mortgage insurance, and risk management services to mortgage lending institutions located throughout the U.S. and in limited, select countries outside the U.S. We provide these products and services mainly through our wholly-owned subsidiaries, Radian Guaranty Inc. (Radian Guaranty), Radian Insurance Inc. (Radian Insurance) and Amerin Guaranty Corporation (Amerin Guaranty).

Private mortgage insurance protects mortgage lenders from all or a portion of default-related losses on residential mortgage loans made mostly to home buyers who make down payments of less than 20% of the home s purchase price. Private mortgage insurance also facilitates the sale of these mortgage loans in the secondary mortgage market, most of which are sold to Freddie Mac and the Federal National Mortgage Association (Fannie Mae). We sometimes refer to Freddie Mac and Fannie Mae together as Government Sponsored Enterprises or GSEs.

Our mortgage insurance segment, through Radian Guaranty, offers private mortgage insurance coverage on residential first-lien mortgages. We have used Radian Insurance to provide credit enhancement for mortgage-related capital market transactions and to write credit insurance on mortgage-related assets such as international insurance transactions and credit default swaps. We also insured net interest margin securities (NIMS) and second-lien mortgages through Radian Insurance and second-lien mortgages in Amerin Guaranty, although we have discontinued writing new insurance for these products and other capital markets transactions. We refer to the risk associated with products other than residential first-lien mortgages as other risk in force . At December 31, 2007, our other risk in force was 23.3% of our total mortgage insurance risk in force. 78% of this other risk in force was contained in two large international transactions.

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Premiums written and earned by our mortgage insurance segment for the last three fiscal years were as follows:

	2007	2006	2005
Net premiums written (in thousands)			
Primary and Pool Insurance	$ 835,961	$ 723,213	$ 752,194
Seconds	27,236	57,935	56,092
International	35,306	20,375	25,612
Net premiums written insurance	898,503	801,523	833,898
Net premiums written credit derivatives	56,610	47,588	43,734
Net premiums written	$ 955,113	$ 849,111	$ 877,632
Net premiums earned (in thousands)			
Primary and Pool Insurance	$ 730,966	$ 715,136	$ 712,538
Seconds	32,744	52,588	50,043
International	15,549	7,028	1,584
Net premiums earned insurance	779,259	774,752	764,165
Net premiums earned credit derivatives	64,263	37,263	42,732
Net premiums earned	$ 843,522	$ 812,015	$ 806,897

1. Traditional Types of Coverage (General Mortgage Insurance)

Primary Mortgage Insurance. Primary mortgage insurance provides protection against mortgage default on prime and non-prime mortgages (discussed below under Risk in Force/Net Par Outstanding Mortgage Insurance Lender and Mortgage Characteristics) at a specified coverage percentage. When there is a claim, the coverage percentage is applied to the claim amount which consists of the unpaid loan principal, plus past due interest and certain expenses associated with the default to determine our maximum liability. We provide primary mortgage insurance on both a flow basis (which is loan-by-loan) and a structured basis (in which we insure a group of individual loans). Our structured business can be written in a second to pay or second-loss position, meaning that we are not required to make a payment until a certain amount of losses have already been recognized. See Types of Transactions below.

In 2007, we wrote $57.1 billion of primary mortgage insurance, of which 70.6% was originated on a flow basis and 29.4% was originated on a structured basis, compared to $40.1 billion of primary mortgage insurance written in 2006 of which 63.2% was originated on a flow basis and 36.8% was originated on a structured basis. Primary insurance on first-lien mortgages made up 91% of our total first-lien mortgage insurance risk in force at December 31, 2007.

Pool Insurance. We offer pool insurance on a limited basis. Pool insurance differs from primary insurance in that our maximum liability is not limited to a specific coverage percentage on each individual mortgage. Instead, an aggregate exposure limit, or stop loss, generally between 1% and 10%, is applied to the initial aggregate loan balance on a group or pool of mortgages. In addition to a stop loss, many pool policies are written in a second-loss position. We believe the deductible and stop loss features are important in limiting our exposure on a specified pool.

Premium rates for our pool insurance business are generally lower than primary mortgage insurance rates due to the aggregate stop loss. As a result of these lower premium rates, the lack of exposure limits on individual loans, and the greater concentration of risk in force associated with much of our pool insurance, the rating agency capital requirements per dollar of risk for this product are generally more restrictive than for primary insurance. In 2007, we wrote $261 million of pool insurance risk, compared to $359 million of pool insurance risk written in 2006. Pool insurance on first-lien mortgages made up approximately 9% of our total first-lien mortgage insurance risk in force at December 31, 2007.

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We write most of our pool insurance in the form of credit enhancement on residential mortgage loans underlying residential mortgage-backed securities, whole loan sales and other structured transactions. An insured pool of mortgages may contain mortgages that are already covered by primary mortgage insurance, and the pool insurance is secondary to any primary mortgage insurance that exists on mortgages within the pool. Generally, the mortgages we insure with pool insurance are similar to primary insured mortgages.

Modified Pool Insurance. We also write modified pool insurance, which differs from standard pool insurance in that it includes an exposure limit on each individual loan as well as a stop loss feature for the entire pool of loans. Modified pool insurance and the related risk in force is included in our primary mortgage statistics.

2. Types of Transactions (General Mortgage Insurance)

Our mortgage insurance business provides credit enhancement mainly through two forms of transactions. We write mortgage insurance on an individual loan basis, which is commonly referred to as flow business, and we insure multiple mortgages in a single transaction, which is commonly referred to as structured business. In flow transactions, mortgages typically are insured as they are originated, while in structured deals, we typically provide insurance on mortgages after they have been originated and closed. For 2007, our mortgage insurance business wrote $40.3 billion of flow business and $16.8 billion in structured transactions, compared to $25.4 billion of flow business and $14.7 billion in structured transactions for 2006.

In structured mortgage insurance transactions, we typically insure the individual mortgages included in the structured portfolio up to specified levels of coverage. Most structured mortgage insurance transactions that we have insured involved non-traditional mortgages, such as non-prime mortgages or mortgages with higher than average balances. A single structured mortgage insurance transaction may include primary insurance or pool insurance, and an increasing number of structured transactions have both primary and pool components. We are not currently writing such business on non-prime mortgages.

We also have insured mortgage-related assets, such as mortgage-backed securities in structured transactions. In these transactions, similar to our financial guaranty insurance business, we insured the timely payment of principal and interest to the holders of debt securities, the payment for which is backed by a pool of residential mortgages. Unlike our traditional flow and structured transactions, in our residential mortgage-backed securities transactions, we do not insure the payment of the individual loans in the pool, but rather that there will be aggregate payments on the pool of loans sufficient to meet the principal and interest payment obligations to the holders of the debt securities. Some structured transactions include a risk-sharing component under which the insured or a third-party assumes a first-loss position or shares in losses in some other manner. Given market conditions, we are not currently writing such business.

Opportunities for structured transactions depend on a number of macroeconomic factors, and thus, the volume of structured transactions we enter into can vary significantly from year to year. In 2007, we wrote $16.8 billion of primary mortgage insurance in structured transactions, consisting of approximately 20.5% prime loans and 79.5% non-prime loans, compared to $14.7 billion of primary new insurance written in structured transactions in 2006, of which 27.1% was prime loans and 72.9% was non-prime loans. Also in 2007, we wrote $258.9 million of pool mortgage insurance risk in structured transactions, compared to $324.3 million in 2006. For 2008, we expect to write less business in structured transactions, and these transactions will primarily contain higher credit quality mortgage loans.

3. Non-Traditional Forms of Credit Enhancement (General Mortgage Insurance)

In addition to traditional mortgage insurance, we provide other forms of credit enhancement on residential mortgage assets. Until recently, these products were a growing part of our total mortgage insurance business. However, in light of the current housing and credit market turmoil, characterized by declining home prices in certain markets, deteriorating credit performance of mortgage assets particularly subprime and reduced liquidity for many participants in the mortgage industry, we have significantly reduced or eliminated the amount of non-traditional business we have been writing. With respect to both second-lien mortgages and NIMS, which have resulted in significant losses in our mortgage insurance business during 2007, we do not expect to insure these products again in the future.

Second-Lien Mortgages. In addition to insuring first-lien mortgages, to a lesser extent, we also provided primary or modified pool insurance on second-lien mortgages. Beginning in 2004, we began limiting our participation in these transactions to situations (1) where there was a loss deductible or other first-loss protection that preceded our loss exposure or (2) where a lender otherwise was required to share in a significant portion of any losses. Despite these measures, our second-lien business was largely susceptible to the disruption in the housing market and the subprime mortgage market during 2007. We significantly reduced the amount of new second-lien business we had been writing in a first-loss position during the first quarter of 2007. We wrote $30 million of second-lien mortgage insurance risk in 2007, with no risk written in the fourth quarter, compared to $280 million of risk written in 2006 and $668 million written in 2005. See Management s Discussion and Analysis of Financial Condition and Results of Operations Overview of Business Results Mortgage Insurance Second-Lien Mortgages below for information regarding our recent loss experience and total loss expectations with respect to second-lien mortgages.

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

On the NIMS bonds for which we have provided credit protection, our policy covers any principal and interest shortfalls on the insured bonds. For certain deals, we only insured a portion of the NIMS bond that was issued. The NIMS transactions that we have insured were typically rated BBB or BB at inception based on the amount of subordination and other factors. The $604 million of risk in force associated with NIMS at December 31, 2007, representing 1.3% of our total risk in force, comprised 37 deals with an average notional balance of $16 million ($59 million at origination) and a total notional balance of $704 million. The average expiration of our existing NIMS transactions is approximately two years. At December 31, 2007, our risk in force related to NIMS had decreased by approximately $108 million from September 30, 2007, primarily reflecting the normal, rapid paydown of the insured securities. In addition, in the fourth quarter of 2007, as a risk mitigation initiative, we purchased, at a discount to par, some of our insured NIMS bonds, thereby contributing to the reduction in our overall risk on NIMS.

Approximately 39% or $234 million of our total risk in force on NIMS as of December 31, 2007 was written in the first half of 2007. Almost all of our 2007 NIMS business was with large national lenders, reflecting our decision to diversify away from doing NIMS with monoline subprime lenders. In addition, the 2007 NIMS bonds and the mortgage securitizations underlying the NIMS bonds, have been structured with more over-collateralization to meet adjustments to the ratings methodologies employed by the major ratings agencies.

NIMS are a relatively unproven product with volatile performance history, particularly in the current declining housing market. Like second-liens, NIMS bonds have largely been susceptible to the disruption in the housing market and the subprime mortgage market during 2007. See Management s Discussion and Analysis of Financial Condition and Results of Operations Overview of Business Results Mortgage Insurance NIMS below for information regarding our total loss expectations with respect to NIMS.

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Domestic Credit Default Swaps. In our mortgage insurance business, we sold protection on residential mortgage-backed securities through credit default swaps. A credit default swap is an agreement to pay our counterparty should an underlying security or the issuer of such security suffer a specified credit event, such as nonpayment, downgrade or a reduction of the principal of the security as a result of defaults in the underlying collateral. A credit default swap operates much like a financial guaranty insurance policy in that our obligation to pay is absolute. Unlike with most of our mortgage insurance and financial guaranty products, however, our ability to engage in loss mitigation is generally limited. Further, in a credit default swap structure, there is no requirement that our counterparty hold the security for which credit protection is provided. This has the effect of greatly increasing the volume and liquidity in the market. In 2007, our mortgage insurance segment did not write any new credit protection on residential mortgage-backed securities in credit default swap form, compared to $32 million in notional value written in 2006. We are not currently writing any such business. See Management s Discussion and Analysis of Financial Condition and Results of Operations Overview of Business Results Mortgage Insurance Credit Default Swap below for information regarding our total loss expectations with respect to credit default swaps.

International Mortgage Insurance Operations. Our International Mortgage Group carefully reviews and assesses international markets for opportunities to expand our mortgage insurance operations in areas where we believe our business would produce acceptable risk adjusted returns. In 2007, we wrote $197 million of mortgage insurance risk related to our international business compared to $86 million in 2006.

International mortgage insurance transactions can take the form of primary or pool mortgage insurance, reinsurance or credit default swaps. In the fourth quarter of 2005, we wrote $7.3 billion in notional value of credit protection in credit default swap form on two large AAA tranches of mortgage-backed securities, one in Germany and one in Denmark. Due to foreign currency changes since we underwrote such risk, the current U.S. dollar-denominated risk has increased to $8.2 billion, representing 18.2% of our total risk in force. See Management s Discussion and Analysis of Financial Condition and Results of Operations Overview of Business Results Mortgage Insurance Credit Default Swaps below.

We currently have several reinsurance arrangements in place in Australia. We recently cancelled the authorization of Radian Europe Limited (Radian Europe) to engage in the business of insurance in the United Kingdom and other European Union member states. No business had been written by Radian Europe. Approximately $62 million, which represents Radian Europe s capital, was distributed back to Radian Guaranty in the fourth quarter of 2007.

We have written our international mortgage insurance business through Radian Insurance. As discussed below under Ratings S&P , S&P recently downgraded Radian Insurance from AA- to A-, triggering termination rights under five of our international transactions. We believe the S&P downgrade will make it difficult for us to continue to write international mortgage insurance business through Radian Insurance, and we are in the process of exploring other alternatives for writing such business.

4. Premium Rates (General Mortgage Insurance)

We cannot change our premium rates after we issue coverage. Accordingly, we determine premium rates in our mortgage insurance business on a risk-adjusted basis that includes borrower, loan and property characteristics. We use proprietary default and prepayment models to project the premiums we should charge, the losses and expenses we should expect to incur and the capital we need to hold in support of our risk. We establish pricing in an amount that we expect will allow a reasonable return on allocated capital.

Premiums for our mortgage insurance may be paid by the lender, which will in turn charge a higher interest rate to the borrower, or directly by the borrower. We price our borrower-paid flow business based on rates that we have filed with the various state insurance departments. We generally price our structured business and some lender-paid business based on the specific characteristics of the insured portfolio, which can vary significantly from portfolio to portfolio depending on a variety of factors, including the quality of the underlying loans, the credit history of the borrowers, the amount of coverage required and the amount, if any, of credit protection or subordination in front of our risk exposure.

5. Underwriting (General Mortgage Insurance)

Delegated Underwriting. We have a delegated underwriting program with a number of our customers. Our delegated underwriting program enables us to meet lenders demands for immediate insurance coverage by having us commit to insure loans that meet agreed-upon underwriting guidelines. Our delegated underwriting program currently involves only lenders that are approved by our risk management group, and we routinely audit loans submitted under this program. Once we accept a lender into our delegated underwriting program, however, we generally insure all loans submitted to us by that lender even if the lender has, without our knowledge, not followed our specified underwriting guidelines. A lender could commit us to insure a number of loans with unacceptable risk profiles before we discover the problem and terminate that lender s delegated underwriting authority. We mitigate this risk through periodic, on-site reviews of selected delegated lenders. As of December 31, 2007, approximately 43% of our total first-lien mortgage insurance in force was originated on a delegated basis, compared to 36% as of December 31, 2006.

Contract Underwriting. Our mortgage insurance business also utilizes its underwriting skills to provide an outsourced underwriting service to its customers known as contract underwriting. For a fee, we underwrite our customers loan files for secondary market compliance (*i.e.*, for sale to GSEs), while concurrently assessing the file for mortgage insurance, if applicable. Contract underwriting continues to be a popular service to our mortgage insurance customers. During 2007, loans underwritten via contract underwriting accounted for 12.3% of applications, 11.5% of commitments for insurance and 10.1% of insurance certificates issued for flow business.

We give recourse to our customers on loans that we underwrite for compliance. Typically, we agree that if we make a material error in underwriting a loan, we will provide a remedy to the customer by repurchasing or placing additional mortgage insurance on the loan, or by indemnifying the customer against loss. Providing these remedies means we assume some credit risk and interest-rate risk if an error is found during the limited remedy period, which may be up to seven years, but typically is only two years. Rising mortgage interest rates or an economic downturn may expose the mortgage insurance business to an increase in such costs. During 2007, we processed requests for remedies on less than 1% of the loans underwritten and sold a number of loans previously acquired as part of the remedy process. We expect this may increase in 2008 due to the increases in delinquencies and foreclosures throughout the mortgage industry. We closely monitor this risk and negotiate our underwriting fee structure and recourse agreements on a client-by-client basis. We also routinely audit the performance of our contract underwriters to ensure that customers receive quality underwriting services.

B. Financial Guaranty Business (*General*)

Our financial guaranty business mainly insures and reinsures credit-based risks through our wholly-owned subsidiary, Radian Asset Assurance and through its wholly-owned subsidiary, RAAL, located in the United Kingdom.

Financial guaranty insurance typically provides an unconditional and irrevocable guaranty to the holder of a financial obligation of full and timely payment of principal and interest when due. Financial guaranty insurance may be issued at inception of an insured obligation or may be issued for the benefit of a holder of an obligation in the secondary market, to institutional holders. Financial guaranty insurance generally lowers an issuer s cost of borrowing when the insurance premium is less than the value of the spread (commonly referred to as the credit spread) between the market yield required to be paid on the insured obligation (carrying the credit rating of the insurer) and the market yield required to be paid on the obligation if sold on the basis of its uninsured credit

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rating. Financial guaranty insurance also can increase the marketability of obligations issued by infrequent or unknown issuers or obligations with complex structures. Investors generally benefit from financial guaranty insurance through increased liquidity in the secondary market, reduced exposure to price volatility caused by changes in the credit quality of the underlying insured issue, and added protection against loss in the event of the obligor s default on its obligation.

Our financial guaranty business offers the following products:

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

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

Financial Solutions Financial solutions products (which we include as part of our structured finance business), including guaranties of securities exchange clearinghouses, excess-Securities Investor Protection Corporation (SIPC) insurance for brokerage firms and excess-Federal Deposit Insurance Corporation (FDIC) insurance for banks; and

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

In October 2005, we exited the trade credit reinsurance line of business. Accordingly, this line of business has been placed into run-off and we have ceased initiating new trade credit reinsurance contracts.

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The following table summarizes the net premiums written and earned by our financial guaranty business s various products for the last three fiscal years:

	Year Ended December 31 2007	2006 (In thousands)	2005
Net premiums written:			
Public finance direct	$ 60,117	$ 79,655	$ 73,049
Public finance reinsurance	86,821	81,065	77,797
Structured finance direct	16,594	18,772	21,023
Structured finance reinsurance	21,933	18,676	20,422
Trade credit reinsurance	1,264	4,599	35,023