

ASSOCIATION REPORT ON EXAMINATION

OF THE

RADIAN ASSET ASSURANCE INC..

AS OF

DECEMBER 31, 2003

ZONES
REPRESENTED

I
II

STATES
PARTICIPATING

NEW YORK
MISSISSIPPI

EXAMINERS

BERNARD LOTT
JAMES O'SULLIVAN



STATE OF NEW YORK
INSURANCE DEPARTMENT

25 BEAVER STREET
NEW YORK, NEW YORK 10004

Honorable Mike Pickens

January 19, 2005

Chairman, Executive Committee

Commissioner of Insurance

State of Arkansas

Honorable Janie Miller
Chairman, Southeastern Zone
Commissioner of Insurance
State of Kentucky

Honorable Gregory V. Serio
Superintendent of Insurance
State of New York

Honorable Mike Kreidler
Chairman, Western Zone
State of Washington

Sirs:

Pursuant to your instructions the examination has been made into the condition and affairs of the Radian Asset Assurance Inc., hereinafter referred to as "the Company" or "RAA", at its home office located at 335 Madison Avenue, New York, New York 10017.

The examination was conducted by the New York State Insurance Department, hereinafter referred to as "the Department" with participation from the State of Mississippi representing the Southeastern Zone.

The report on examination is respectfully submitted.

REPORT ON EXAMINATION

OF THE

RADIAN ASSET ASSURANCE INC.

AS OF

DECEMBER 31, 2003

DATE OF REPORT

JANUARY 19, 2005

EXAMINER

BERNARD LOTT

TABLE OF CONTENTS

<u>ITEM NO.</u>	<u>PAGE NO.</u>
1. Scope of examination	2
2. Description of Company	3
A. Management	5
B. Territory and plan of operation	8
C. Reinsurance	9
D. Holding company system	12
E. Abandoned Property Law	15
F. Significant operating ratios	16
G. Accounts and records	16
3. Financial statements	19
A. Balance sheet	19
B. Underwriting and investment exhibit	21
4. Losses and loss adjustment expenses	22
5. Subsequent events	23
6. Compliance with prior report on examination	24
7. Summary of comments and recommendations	25



STATE OF NEW YORK
INSURANCE DEPARTMENT
25 BEAVER STREET
NEW YORK, NEW YORK 10004

January 19, 2005

Honorable Gregory V. Serio
Superintendent of Insurance
Albany, New York 12257

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 22153 dated February 25, 2004 attached hereto, I have made an examination into the condition and affairs of Radian Asset Assurance Inc. as of December 31, 2003, and submit the following report thereon.

Wherever the designations "the Company" or "RAA" appear herein without qualification, they should be understood to indicate Radian Asset Assurance Inc.

Wherever the term "Department" appears herein without qualification, it should be understood to mean the New York Insurance Department.

The examination was conducted at the Company's administrative offices located at 335 Madison Avenue, New York, New York 10017.

1. SCOPE OF EXAMINATION

The previous examination was conducted as of December 31, 1999. This examination covered the four-year period from January 1, 2000 through December 31, 2003. Transactions occurring subsequent to this period were reviewed where deemed appropriate.

The examination comprised a complete verification of assets and liabilities as of December 31, 2003. The examination included a review of income, disbursements and company records deemed necessary to accomplish such analysis or verification and utilized, to the extent considered appropriate, work performed by the Company's independent public accountants. A review or audit was also made of the following items as called for in the Examiners Handbook of the National Association of Insurance Commissioners:

- History of Company
- Management and control
- Corporate records
- Fidelity bond and other insurance
- Territory and plan of operation
- Growth of Company
- Business in force by states
- Loss experience
- Reinsurance
- Accounts and records
- Financial statements

A review was also made to ascertain what action was taken by the Company with regard to comments and recommendations contained in the prior report on examination. This report on examination is confined to financial statements and comments on those matters, which involve departures from laws, regulations or rules, or which are deemed to require explanation or description.

2. DESCRIPTION OF COMPANY

The Securities Guaranty Reinsurance Company was established under the laws of the State of New York on June 21, 1988. Effective July 27, 1988, the name of the Company was changed to Asset Guaranty Reinsurance Company.

Vesta American Insurance Company was incorporated under the laws of New York on December 30, 1985. On April 14, 1986, the Company absorbed by merger, the United States Branch of Gothaer Insurance Company of Cologne, Germany to effect its domestication. The latter had entered the United States through New York on October 17, 1979. On July 1, 1988, the Company changed its name to Vesta American Reinsurance Corporation.

On December 30, 1992, Asset Guaranty Reinsurance Company purchased all of the outstanding shares of Vesta American Reinsurance Corporation. On January 26, 1993, the parent, Asset Guaranty Reinsurance Company, merged into Vesta American Reinsurance Corporation, the surviving corporation. Effective the same day, Vesta American Reinsurance Corporation formally changed its name to Asset Guaranty Insurance Company.

On December 1, 2000, pursuant to the provisions set forth in Section 1506 of the New York Insurance Law and Department Regulation 52, Radian Group Inc. (“Radian”) and Gold Acquisition Corporation filed an “application for approval of the acquisition of control of a domestic insurer” for the acquisition and control of the Company, then known as Asset Guaranty Insurance Company.

On November 13, 2000, the Company’s parent, Enhance Financial Services Group Inc. (“Enhance”) and Radian, a Delaware corporation, entered into an agreement providing for the merger of

Enhance and Gold Acquisition Corporation, a wholly-owned subsidiary of Radian, with Enhance being the surviving company. This acquisition was approved by the Department on February 21, 2001 and the merger was completed on February 28, 2001.

As a result of the merger, on February 28, 2001, Radian acquired Asset Guaranty Insurance Company. Asset Guaranty Insurance Company changed its name to Radian Asset Assurance Inc., effective January 1, 2002.

Subsequent to the examination date, on June 1, 2004, the Company merged with its affiliate, Radian Reinsurance Inc., with the surviving company being Radian Asset Assurance Inc.

The Company's charter was originally filed in the office of the Superintendent of Insurance of the State of New York on December 31, 1985 and has been amended numerous times, with the latest amendment being August 18, 2003. The latest change to the charter includes the authorization of 4,000.08 shares of Perpetual Preferred Stock, each whole share having a par value of \$1,000. As of the examination date, these shares had not been issued.

The Company's paid-in capital was \$15,000,000 consisting of 100,000 shares of common stock with a par value of \$150 per share. As of December 31, 2003, the Company's gross paid-in and contributed surplus was \$326,714,320, a \$272,637,320 increase during the period covered by this examination, as follows:

<u>Year</u>	<u>Description</u>	<u>Amount</u>
1999	Beginning gross paid in and contributed surplus	\$ 54,077,000
2001	Surplus contribution	\$ 25,000,000
2002	Surplus contribution	150,000,004
2003	Surplus contribution	<u>97,637,316</u>
	Total Surplus Contributions	<u>272,637,320</u>
12/31/03	Ending gross paid in and contributed surplus	<u>\$326,714,320</u>

A. Management

Pursuant to the Company's charter and by-laws, management of the Company is vested in a board of directors consisting of not less than thirteen nor more than twenty-one members. At December 31, 2003, the board of directors was comprised of the following fifteen members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
David J. Beidler Woodstock, NY	Senior Vice President & Director, Radian Asset Assurance Inc.
Edward M. Bowers New York, NY	Senior Vice President & Director, Radian Asset Assurance Inc.
Sally B. Campbell Fairfield, CT	Senior Vice President & Director, Radian Asset Assurance Inc.
John C. DeLuca Port Washington, NY	Senior Vice President & Director, Radian Asset Assurance Inc.
Bret S. Derman Brooklyn, NY	Senior Vice President & Director, Radian Asset Assurance Inc.
Bonita Z. Dorland New York, NY	Senior Vice President & Director, Radian Asset Assurance Inc.
Frank P. Filippis St. Davids, PA	Chairman & Chief Executive Officer, Radian Group Inc.
Martin A. Kamarck New York, NY	President & Director, Radian Asset Assurance Inc.
Jack Praschnik Ossining, NY	Senior Vice President & Director, Radian Asset Assurance Inc.
Carl R. Quint Cheltenham, PA	Executive Vice President & Director, Radian Group, Inc.
Patrick Rossi, Jr. Morris Plains, NJ	Senior Vice President & Director, Radian Asset Assurance Inc.
William M. Russell Livingston, NJ	Senior Vice President & Director, Radian Asset Assurance Inc.

Name and ResidencePrincipal Business Affiliation

Jeffrey C. Salton
Skillman, NJ

Senior Vice President & Director,
Radian Asset Assurance Inc.

John S. Williams
Greenwich, CT

Senior Vice President & Director,
Radian Asset Assurance Inc.

Howard S. Yaruss
New York, NY

Executive Vice President & Director,
Radian Group Inc.

A review of the minutes of the board of directors' meetings held during the examination period indicated that the meetings were generally well attended and each board member had an acceptable record of attendance with the exception of Frank Filippis, Jack Praschnik and John Williams, each of whom attended less than fifty percent of the meetings for which they were eligible to attend.

Members of the board have a fiduciary responsibility and must evince an ongoing interest in the affairs of the insurer. It is essential that board members attend meetings consistently and set forth their views on relevant matters so that the board may reach appropriate decisions. Individuals who fail to attend at least one-half of the regular meetings do not fulfill such criteria.

It is recommended that board members who are unable or unwilling to attend meetings consistently should resign or be replaced.

In addition, Article III, Section 3 of the Company's by-laws state that:

"[a]n annual meeting of the Board of Directors for organization, for the election of officers and for the transaction of such other business as may properly come before the meeting and three other regular meetings, all on a quarterly basis, shall be held..."

The review of the board of directors meetings held during the period covered by this examination noted that the Company only had two and three meetings during the calendar years 2001 and 2002,

respectively. The Company had four meetings in 2003. However, the meetings were not on a quarterly basis as required by the by-laws.

It is recommended that the Company adhere to its by-laws as they relate to the number and frequency of the meetings of its board of directors.

As of December 31, 2003, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Martin A. Kamarck	President
David J. Beidler	Senior Vice President
Bonita Z. Dorland	Senior Vice President
John C. DeLuca	Senior Vice President
Edward M. Bowers	Senior Vice President
Sally B. Campbell	Senior Vice President
Patrick Rossi, Jr.	Senior Vice President
Jeffrey C. Salton	Senior Vice President
Jack Praschnik	Senior Vice President

Conflict of Interest

A review of Company's conflict of interest policy noted that all board members and employees are required to sign an annual acknowledgement of Radian's "Code of Conduct." The "Code of Conduct" includes a section concerning conflicts of interest. The Company was able to provide signed acknowledgements for each year covered by this examination, with the exception of calendar year 2000.

It is recommended that the Company exercise due care in obtaining and maintaining annual signed acknowledgements of its "Code of Conduct" as it relates to conflicts of interest of its directors and employees.

In addition, as noted in the prior report on examination, the Company has not established procedures to permit its board of directors to properly oversee and handle any known or potential conflicts of interest.

It is therefore again recommended that the Company establish written procedures for enforcing the conflict of interest policy that would permit the board of directors to properly oversee and handle any known or potential conflicts of interest. It is further recommended that the board of directors maintain complete minutes of its procedures on this matter.

B. Territory and Plan of Operation

As of the examination date, the Company was licensed to write business in all fifty states, the District of Columbia, and the U.S. Virgin Islands. The Company was authorized to transact the kinds of insurance as defined in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

<u>Paragraph</u>	<u>Line of Business</u>
16(C) (D) (E) (F)	Surety
17(A)	Credit
25	Financial Guaranty

The following schedule shows the direct premiums written by the Company both in total and in New York for the period under examination:

DIRECT PREMIUMS WRITTEN

<u>Calendar Year</u>	<u>New York State</u>	<u>Countrywide</u>	Premiums written in New York State as a percentage of <u>Countrywide</u>
2000	\$ 12,951,253	\$ 40,972,792	32%
2001	\$ 28,120,637	\$ 59,468,360	47%
2002	\$ 73,459,415	\$132,265,911	56%
2003	\$109,938,648	\$187,710,520	59%

Based on the lines of business for which the Company is licensed and the Company's current capital structure, and pursuant to the requirements of Articles 13, 41 and 69 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of \$66,400,000.

The Company principally insures financial guaranty policies and reinsures financial guaranty companies, on both a treaty and facultative basis, for new and secondary market municipal bonds as well as structured corporate and real estate backed financing. The Company evaluates the risk underwriting and management of treaty customers, monitors the insured portfolio performance, and conducts a detailed underwriting review of the facultative insurance it writes. Additionally, most premiums received are credited as deferred premium revenue and are earned as the related risks amortize, thereby providing a relatively stable, predictable source of earned premiums.

C. Reinsurance

As of December 31, 2003 the Company assumed a relatively minor volume of business (3.8%) as compared to its direct writings. Relative to the risks assumed from Radian Insurance Inc., the Company reinsures those risks that are specified and agreed to by the parties in a reinsurance memorandum that is

annexed to a facilitative agreement. This agreement was submitted to the Department pursuant to Section 1505(d)(2) of the New York Insurance Law.

The Schedule F data as contained in the Company's filed annual statement was found to accurately reflect its reinsurance transactions.

As of the December 31, 2003, the Company was protected by the following ceded reinsurance coverage:

<u>Type of Treaty</u>	<u>Cession</u>
<u>Surety:</u>	
Quota share:	
Mining Bonds	100% quota share not to exceed the reinsurer's single bond limit of 10% of its capital and surplus.
Landfill Bonds	75% quota share not to exceed the reinsurer's single bond limit of 10% of its capital and surplus.
Quota share – Trikem Overseas Ltd.	91% quota share of \$130,465,430 policy limit.
Aggregate Excess of Loss – Spokane Downtown Foundation Parking Revenue Bonds	Maximum of \$15,000,000 excess of \$100,000,000 Company's retention.
<u>Financial Guaranty:</u>	
Aggregate Excess of Loss – with Radian Reinsurance	\$50,000,000 excess of \$200,000,000 Company's retention.

The excess of loss reinsurance agreement with Radian Reinsurance was submitted to the Department pursuant to the provision of Section 1505(d)(2) of the New York Insurance Law.

In addition to its treaty reinsurance program, the Company also maintains facultative coverage.

The majority of this coverage is pursuant to an agreement with an authorized affiliate, Radian Reinsurance Inc., whereby both companies assume and cede business and accept their proportionate share of the liabilities under each policy as specified and agreed to by both parties in a reinsurance memorandum. This agreement was submitted to the Department pursuant to Section 1505(d)(2) of the New York Insurance Law.

All ceded reinsurance contracts in effect at December 31, 2003 were reviewed. The contracts, with the exception of a facultative agreement with XL Financial Assurance Ltd. all contained the required standard clauses including insolvency clauses meeting the requirements of Section 1308 of the New York Insurance Law.

The Arbitration clause of the XL Financial Assurance Ltd. stated that arbitration shall take place in London, England.

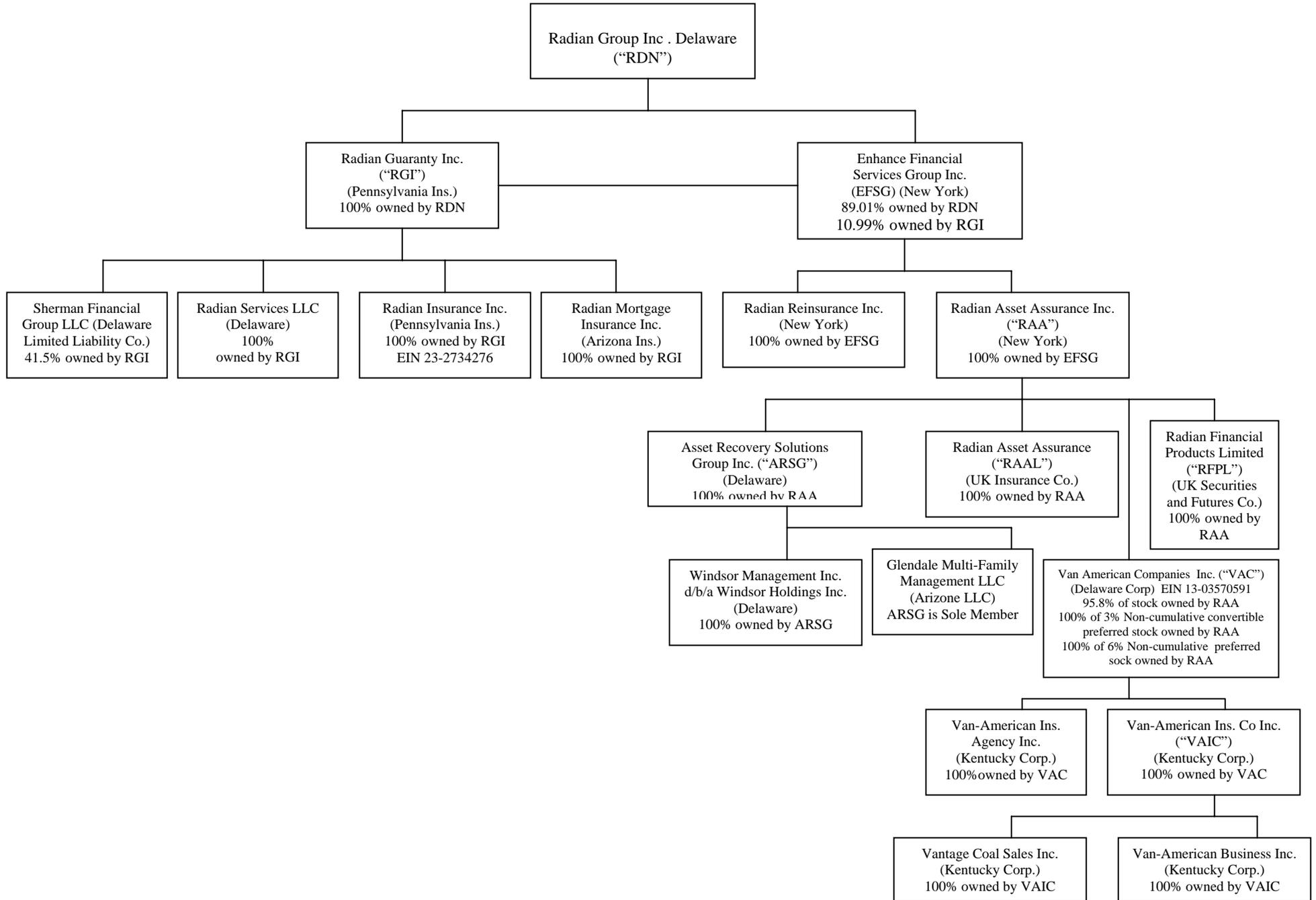
It is recommended that the arbitration clause be amended to state that arbitration shall take place in New York State.

In 2003, the Company applied to the California Department of Insurance to obtain authorization as a monoline financial guaranty insurer in that state. At that time, the California Insurance code provided that an insurer licensed by California to write financial guaranty insurance may also transact only surety insurance. In order for the Company to obtain its California license, it may not transact in or write credit or residual value insurance in any state. Effective April 30, 2003, the Company entered into an assumption reinsurance agreement with its affiliate, Radian Reinsurance Inc., which allowed for the Company to transfer its credit insurance exposure, to Radian Reinsurance Inc. The agreement was

submitted to the Department pursuant to the provision of Section 1505(d)(2) of the New York Insurance Law.

D. Holding Company System

On February 28, 2001, Radian acquired the Company and became the ultimate parent. The following is an abbreviated organization chart showing the pertinent members of the holding company system:



A review of the holding company registration statements filed with this Department indicated that such filings were complete and were filed in a timely manner, pursuant to Article 15 of the New York Insurance Law and Department Regulation 52.

At December 31, 2003, the Company was party to the following agreements with other members of its holding company system:

Expense Allocation and Service Agreement

Effective May 17, 2003, the Company entered into an expense allocation and service agreement with Radian. Under the terms of the agreement, Radian Group Inc. provides such services as are reasonably required by the Company for the operation of its business, including, but not limited to: accounting; record keeping; tax; information services and data processing; treasury, investment and management services; internal auditing; and administrative services. The agreement states that these services shall be provided at a cost that is reasonable, equitable and equal to the cost incurred by Radian in providing such services. The agreement was submitted to the Department pursuant to Section 1505(d)(2) of the New York Insurance Law.

Tax Allocation Agreement

Effective January 1, 2002, the Company is a party to a tax allocation agreement with Radian. Examination review of this agreement and corresponding documentation noted that it was in compliance with, and had been filed with the Department pursuant to the provisions of Department Circular Letter No. 33 (1979).

Aggregate Excess of Loss Reinsurance Agreement with Radian Reinsurance Inc.

The Company and Radian Reinsurance Inc. are parties to this continuous agreement, effective May 1, 2003 until terminated. Radian Reinsurance Inc., the reinsurer, agrees to indemnify the Company during the term of this agreement, up through and including any “extended coverage period”, for losses in respect to its Insured Obligations. “Insured obligations” mean “municipal obligations”, “special revenue bonds”, “industrial development bonds”, “corporate obligations”, “asset-backed securities”, “consumer debt obligations”, and “utility first mortgage obligations”. This agreement has been submitted to the Department pursuant to Section 1505(d)(2) of the New York Insurance Law.

D. Abandoned Property Law

Section 1316 of the New York Abandoned Property Law provides that amounts payable to a resident of this state from a policy of insurance, if unclaimed for three years, shall be deemed to be abandoned property. Such abandoned property shall be reported to the comptroller on or before the first day of April each year. Such filing is required of all insurers regardless of whether or not they have any abandoned property to report.

The Company’s abandoned property reports for the period covered by this examination were all filed on a timely basis pursuant to the provisions of Section 1316 of the New York State Abandoned Property Law.

F. Significant Operating Ratios

The following ratios have been computed as of December 31, 2003 based upon the results of this examination:

Net premiums written to surplus as regards policyholders	.37 to 1
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	54%
Premiums in course of collection to surplus as regards policyholders	3%

All of the above ratios fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners.

The underwriting ratios presented below are on an earned/incurred basis and encompass the four-year period covered by this examination:

	<u>Amounts</u>	<u>Ratios</u>
Losses and loss adjustment expenses incurred	\$101,747,183	35.19%
Other underwriting expenses incurred	146,971,279	50.84
Net underwriting gain	<u>40,377,879</u>	<u>13.97</u>
Premiums earned	<u>\$289,096,341</u>	<u>100.00%</u>

G. Accounts and Records

(i) Custodian Agreement

The Company answered affirmatively to the following General Interrogatory in its filed annual Statement as of December 31, 2003:

“Excluding items in Schedule E, real estate, mortgage loans and investments held physically in the reporting entity’s office, vaults or safety deposit boxes, were all stocks, bonds and other securities, owned throughout the current year held pursuant to a custodial agreement with a qualified bank or trust company in accordance with Part 1-General, Section IV.H - Custodial or Safekeeping Agreements of the NAIC Financial Condition Examiners Handbook?”

A review of the State Street Bank & Trust agreement, however, found it to be lacking two of the protective covenants set forth in the guidelines from the NAIC Examiners Handbook. The missing safeguards are as follows:

1. That the national bank, state bank or trust company as custodian shall not be liable for any failure to take any action required to be taken hereunder in the event and to the extent that the taking of such action is prevented or delayed by war (whether declared or not and including existing wars), revolution, insurrection, riot, civil commotion, act of God, accident, fire, explosions, stoppage of labor, strikes or other differences with employees, laws, regulations, orders or other acts of any governmental authority, or any other cause whatever beyond its reasonable control;
2. That the foreign bank acting as a custodian, or a United States custodian's foreign agent, or a foreign clearing corporation is only holding foreign securities or securities required by the foreign country in order for the insurer to do business in that country. A United States custodian must hold all other securities.

It is recommended that the Company amend its custodial agreement to include the above safeguards. It is also recommended that the Company take due care to correctly complete the General Interrogatories of its annual statement.

(ii) CPA Engagement Letter

The review of the audit engagement contract entered into between the Company’s ultimate parent and its certified public accounting firm, Deloitte & Touche LLP, revealed that the contract was not in compliance with Part 89.2 of Department Regulation 118.

It is recommended that the Company incorporate the provisions of Part 89.2 of Department Regulation 118 into its audit engagement letter with its certified public accountant.

(iii) Workpaper Retention

A review of a draft of the Company's record retention schedule and policy found that most of the financial records are to be maintained only up to seven years. This policy appears to be more restrictive than Part 243.2(b) (7) of Department Regulation 152, which requires that an insurer maintain financial records for the longer of six years or the filing of the report on examination.

It is recommended that Company establish a records retention policy that complies with all applicable parts of Department Regulation 152.

FINANCIAL STATEMENTSA. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as determined by this examination as of December 31, 2003 and as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$670,790,190	\$ 0	\$670,790,190
Preferred stocks	32,251,568		32,251,568
Common stocks	74,204,394		74,204,394
Cash and cash equivalents and short-term investments	67,332,561		67,332,561
Receivable for securities	514,897		514,897
Investment income due and accrued	9,722,604		9,722,604
Uncollected premiums and agents' balances in the course of collection	12,937,040	132,217	12,804,823
Funds held by or deposited with reinsured companies	72,969		72,969
Current federal and foreign income tax recoverable and interest thereon	609,052		609,052
Net deferred tax asset	19,786,180	18,656,148	1,130,032
Prepaid expenses and other receivables	<u>531,295</u>	<u>531,295</u>	<u>0</u>
Totals assets	<u>\$888,752,750</u>	<u>\$19,319,660</u>	<u>\$869,433,090</u>

Liabilities, Surplus and Other Funds

Losses	\$ 18,580,760
Reinsurance payable on paid losses and loss adjustment expenses	2,433,761
Loss adjustment expenses	1,266,553
Other expenses (excluding taxes, licenses and fees)	361,660
Taxes, licenses and fees (excluding federal and foreign income taxes)	3,100,267
Current federal and foreign income taxes	3,642,091
Unearned premiums	298,177,971
Ceded reinsurance premiums payable (net of ceding commissions)	1,394,870
Funds held by company under reinsurance treaties	6,696,360
Provision for reinsurance	284,495
Payable to parent, subsidiaries and affiliates	18,076,402
Payable for securities	2,961,520
Contingency reserve	<u>59,462,418</u>
 Total liabilities	 \$416,439,128

Surplus and Other Funds

Common capital stock	\$ 15,000,000
Gross paid in and contributed surplus	326,714,320
Unassigned funds (surplus)	<u>111,279,639</u>
 Surplus as regards policyholders	 <u>452,993,959</u>
 Total liabilities, surplus and other funds	 <u>\$869,433,087</u>

NOTE: The Internal Revenue Service is currently conducting its audits of the consolidated federal income tax returns filed on behalf of the Company for tax years 2000 and 2001. All material adjustments, if any, made subsequent to the date of examination and arising from said audits, are reflected in the financial statements included in this report. It should be noted that the Internal Revenue Service has requested an extension of the statute of limitations for the 2000 tax year. To date, this request has not been granted. No audits by the Internal Revenue service, covering tax years 2002 and 2003, have commenced. The examiner is unaware of any potential exposure of the Company to any tax assessment and no liability has been established herein relative to such contingency.

B. Underwriting and Investment Exhibit

Surplus as regards policyholders increased \$362,425,569 during the four-year examination period January 1, 2000 through December 31, 2003 detailed as follows:

Statement of Income

Underwriting Income

Premiums earned		\$289,096,341
Deductions:		
Losses incurred	\$96,933,086	
Loss adjustment expenses incurred	4,814,097	
Other underwriting expenses incurred	<u>146,971,279</u>	
Total underwriting deductions		<u>248,718,462</u>
Net underwriting gain or (loss)		\$ 40,377,879

Investment Income

Net investment income earned	\$87,818,352	
Net realized capital gain	<u>2,887,895</u>	
Net investment gain or (loss)		90,706,247

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$ (409,192)	
Aggregate write-ins for miscellaneous income	<u>9,232,954</u>	
Total other income		<u>8,823,762</u>
Net income after dividends to policyholders but before federal and foreign income taxes		\$139,907,888
Federal and foreign income taxes incurred		<u>26,263,852</u>
Net income		<u>\$113,644,036</u>

any such reserves. As of the examination date, the Company discounted certain financial guaranty liabilities at an annual rate of 4.05%. The amount of discount reflected as a reduction in the Company's loss reserves was \$245,000.

Reserves for losses and loss adjustment expenses for the Company's other lines of business are based on reports and individual loss estimates received from ceding companies, net of salvage and subrogation. In addition, a liability is included for losses and loss adjustment expenses incurred but not reported.

In addition to case reserves, the Company is required to establish and maintain contingency reserves for the protection of insureds and claimants against the effect of excessive losses occurring during adverse economic cycles. The amount requires for these reserves depend on the type of bonds being insured and are established pursuant to the provisions of Section 6903(a) of the New York Insurance Law. Reinsurers are required to establish a contingency reserve equal to their proportionate share of the reserve established by the primary insurer. As of December 31, 2003, the Company reported contingency reserves in the amount of \$59,462,418.

5. SUBSEQUENT EVENTS

On January 14, 2004, the Company announced that it will have claims from a single manufactured housing transaction which the Company reinsured from an affiliate, Radian Insurance Inc. The Company received its first default notice on this claim on January 27, 2004. The Company has established \$111.25 million in loss reserves for this transaction in 2004. The transaction was reserved at \$15.25 million at December 31, 2003.

In May 2004, Moody's provided the Company with an initial insurance financial strength rating of "Aa3". Concurrently, and in anticipation of the merger of Radian Reinsurance Inc. into the Company, Moody's downgraded Radian Reinsurance's financial strength rating to "Aa3" from "Aa2". Effective June 1, 2004, Radian Reinsurance Inc. was merged with and into Radian Asset Assurance Inc. The merged company was rated "Aa3" by Moody's.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

A review was made into the actions taken by the Company with regards to the comments and recommendations contained in the prior report on examination. The seven recommendations and the corresponding action taken by the Company are as follows (page numbers refer to the prior report):

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Management</u>	
i. It was recommended that the Company adhere to the provisions of Section 1411 (a) of the New York Insurance Law as regards the board of directors' approval of investments.	6
The Company has complied with this recommendation.	
ii. It was recommended that the Company's investment committee maintain complete minutes of their meetings as per the provisions of Section 1411(a) of the New York Insurance Law.	6
The Company has complied with this recommendation.	
B. <u>Conflict of Interest</u>	
i. It was recommended that the Company establish written procedures for enforcing such a policy and permit the board of directors to properly oversee and handle any known or potential conflicts.	8
The Company has not complied with this recommendation. A similar comment is made in this report.	

<u>ITEM</u>	<u>PAGE NO.</u>
ii. It was recommended that the board of directors maintain complete minutes of its proceedings on such matters.	8
The Company has not complied with this recommendation. A similar comment is made in this report.	
C. <u>Custodial Agreements</u>	
i. It was recommended that the Company amend their custodian agreements to meet the necessary safeguards and controls permitted by the Department, for the custody or safekeeping of securities.	16
During the period covered by this exam, the Company has obtained a new agreement with State Street Bank. This new agreement was reviewed and found to be missing certain required safeguards. A similar recommendation will be made in this report.	
ii. It was recommended that the Company exercise due care in obtaining and maintaining custodian agreements.	17
The Company has complied with this recommendation.	
D. <u>Accounts and Records</u>	
It was recommended that the Company maintain accurate and complete workpapers supporting amounts in its filed annual statements.	18
The Company has complied with this recommendation.	

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Management</u>	
i. It is recommended that board members who are unable or unwilling to attend meetings consistently should resign or be replaced.	6
ii. It is recommended that the Company adhere to its by-laws as they relate to the number and frequency of the meetings of its board of directors.	7
iii. It is recommended that the Company exercise due care in obtaining and maintaining annual signed acknowledgements of its “Code of Conduct” as it relates to conflicts of interest of its directors and employees.	8

<u>ITEM</u>	<u>PAGE NO.</u>
iv. It is therefore again recommended that the Company establish written procedures for enforcing a policy that would permit the board of directors to properly oversee and handle any known or potential conflicts of interest.	8
v. It is further recommended that the board of directors maintain complete minutes of its procedures on this matter.	8
B. <u>Reinsurance</u>	
i. It is recommended that the arbitration clause be amended to state that arbitration shall take place in New York State.	11
C. <u>Accounts and Records</u>	
(i) <u>Custodial Agreement</u>	
It is recommended that the Company amend its custodial agreement to include the above safeguards.	17
It is also recommended that the Company take due care to correctly complete the General Interrogatories of its annual statement.	17
(ii) <u>CPA Engagement Letter</u>	
It is recommended that the Company incorporate the provisions of Part 89.2 of Department Regulation 118 into its audit engagement letter with its certified public accountant.	18
(iii) <u>Workpaper Retention</u>	
It is recommended that Company establish a records retention policy that complies with all applicable parts of Department Regulation 152.	18

Respectfully submitted,

Bernard Lott
Senior Insurance Examiner

STATE OF NEW YORK)
)SS:
)
COUNTY OF NEW YORK)

BERNARD LOTT, being duly sworn, deposes and says that the foregoing report, subscribed to by him, is true to the best of his knowledge and belief.

Bernard Lott

Subscribed and sworn to before me

this _____ day of _____, 2005.

State of Pennsylvania
County of Montgomery

EXAMINER'S AFFIDAVIT AS TO STANDARDS AND PROCEDURES
USED IN AN EXAMINATION

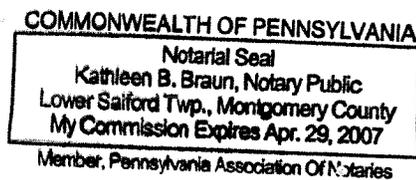
James F. O'Sullivan, BEING DULY SWORN, STATES AS FOLLOWS:

1. I have authority to represent the State of Mississippi in the examination of Radian Asset Assurance Inc.
2. Mississippi is accredited under the National Association of Insurance Commissioners Financial Regulation Accreditation Standards.
3. I have reviewed the examination work papers and examination report and the examination of Radian Asset Assurance Inc. was performed in a manner consistent with the standards and procedures required by the State of Mississippi.

The affiant says nothing further.

[Signature]
Examiner's Signature

Subscribed and sworn before me by James F. O'Sullivan on this 15th day of March 2006.



[Signature]
Notary Public

My commission expires 4-29-07 [date].

Appointment No. 22153

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, GREGORY V. SERIO, Superintendent of Insurance of the State of New York,
pursuant to the provisions of the Insurance Law, do hereby appoint:

Bernard Lott

as proper person to examine into the affairs of the

RADIAN ASSET ASSURANCE, INC.

and to make a report to me in writing of the condition of the said

Corporation

with such other information as he shall deem requisite.

*In Witness Whereof, I have hereunto subscribed by the
name and affixed the official Seal of this Department, at
the City of New York,*

this 25th day of February, 2004





GREGORY V. SERIO
Superintendent of Insurance