LIQUIDITY AND CAPITAL RESOURCES

The Company's sources of funds consist primarily of premiums and investment income. Funds are applied primarily to the payment of the Company's claims and operating expenses.

Cash flows from operating activities for 2001 were $481.1 million as compared to $280.0 million for 2000. The increase resulted from an increase in net premiums written and investment income partially offset by an increase in operating expenses. The 2001 operating cash flows included $61.8 million as the result of the Financial Guaranty acquisition. Positive cash flows are invested pending future payments of claims and other expenses; cash flow shortfalls, if any, are funded through sales of short-term investments and other investment portfolio securities.

Stockholder's equity plus redeemable preferred stock of $40.0 million increased from $1.4 billion at December 31, 2000 to $2.3 billion at December 31, 2001. This increase resulted from the issuance of stock and, reduced by expenses, associated with the acquisition of Financial Guaranty of $574.7 million, net income of $360.4 million and proceeds from the issuance of common stock associated with incentive plans of $39.7 million. Offsetting this was $10.1 million of dividends paid, a decrease in the market value of securities available for sale of $14.3 million, net of tax, and the purchase of treasury shares of $5.7 million.

As of December 31, 2001, the Company and its subsidiaries had plans to invest in significant information technology and infrastructure upgrades at an estimated cost of approximately $25 million to $30 million over the next two years. Cash flow from operations will be used to fund these expenditures.

The Company owns a 46% interest in C-BASS. The Company has not made any capital contributions to C-BASS since the Company acquired its interest in C-BASS in connection with the acquisition of Financial Guaranty. C-BASS has paid $12.8 million of dividends to the Company for the year-to-date period ended December 31, 2001.

The Company owns a 45.5% interest in Sherman. The Company has made $15.0 million of capital contributions to Sherman since the Company acquired its interest in Sherman in connection with the acquisition of Financial Guaranty. In conjunction with the acquisition, the Company has guaranteed payment of up to $25.0 million of a revolving credit facility issued to Sherman. At December 31, 2001, there were no outstanding amounts on this facility.

Singer and ECS, which were acquired as a result of the Financial Guaranty acquisition, had been engaged in the purchase, servicing and securitization of assets, including state lottery awards, structured settlement payments and viatical settlements. Both Singer and ECS are currently operating on a run-off basis. Their operations consist of servicing the prior originations of non-consolidated special purpose vehicles containing approximately $600.0 million and $568.0 million of off-balance sheet assets and liabilities, respectively. The Company's investment in the non-consolidated special purpose vehicles at December 31, 2001 is $32.0 million and the results of these subsidiaries are not material to the financial results of the Company.

The Company obtained long-term financing through privately placed ten-year Senior Unsecured Notes with a face value of $250 million. The notes were issued on May 29, 2001 at an offering price of 99.615% of par value with registration rights and mature on June 1, 2011. The notes bear interest at 7.75% which is payable semi-annually in June and December. Financial Guaranty was party to a credit agreement (as amended, the "Credit Agreement") with major commercial banks providing Financial Guaranty with a borrowing facility aggregating up to $175.0 million, the proceeds of which were used for general corporate purposes. The outstanding principal balance under the Credit Agreement of $173.7 million was retired on May 29, 2001 with proceeds from the Senior Unsecured Notes. On October 12, 2001, pursuant to the terms of the offering for the privately placed Senior Unsecured Notes, the Company commenced an offer to exchange the privately placed notes for notes (on substantially identical terms and conditions) registered under the Securities Act of 1933, as amended. This exchange of notes was completed in December 2001.

As stated in note 1 of the Notes to Consolidated Financial Statements under the caption "Subsequent Events," in January 2002, the Company sold $220 million of Senior Convertible Debentures. The Company also closed on a $50 million Senior Revolving Credit Facility in February 2002.

The Company believes that Radian Guaranty will have sufficient funds to satisfy its claims payments and operating expenses and to pay dividends to the Company for at least the next 12 months. The Company also believes that it will be able to satisfy its long-term (more than 12 months) liquidity needs with cash flow from Mortgage Insurance and Financial Guaranty. As a holding company, the Company conducts its principal operations through Mortgage Insurance and Financial Guaranty. The Company's ability to pay dividends on the $4.125 Preferred Stock is dependent upon dividends or other distributions from Mortgage Insurance or Financial Guaranty. In connection with obtaining approval from the New York Insurance Department for the change of control of Financial Guaranty when the Company acquired Financial Guaranty, Financial Guaranty agreed not to declare or pay dividends for a period of two years following consummation of the acquisition. Consequently, the Company cannot rely upon or expect any dividends or other distributions from Financial Guaranty in 2002. Based on the Company's current intention to pay quarterly common stock dividends of approximately $0.02 per share, the Company will require distributions from Mortgage Insurance of $10.8 million annually to pay the dividends on the outstanding shares of $4.125 Preferred Stock and common stock. In addition, the Company will require distributions from Mortgage Insurance of $29.4 million annually to pay the debt service on its long-term