

**TRIAD GUARANTY INC.
AUDIT COMMITTEE CHARTER**

STATEMENT OF POLICY

The Audit Committee (the “Committee”) is a committee of the Board of Directors (the “Board”) of Triad Guaranty Inc. (the “Company”). The Committee assists the Board in fulfilling its responsibility to provide independent review and oversight of:

- the quality and integrity of the Company’s financial statements;
- the soundness of the Company’s systems of internal accounting and financial controls;
- the independence and performance of the Company’s independent registered public accounting firm (the “independent auditor”);
- the performance of the Company’s internal audit function; and
- the Company’s compliance with legal and regulatory requirements and its ethics programs.

In so doing, it is the Committee’s responsibility to maintain free and open communication with the Board, the independent auditor, internal auditors, and the financial, accounting and executive management of the Company. The Committee shall have full access to all books, records, facilities, and personnel of the Company and shall be entitled to rely upon the accuracy of the financial and other information provided to it by the management of the Company.

The Committee’s role is review and oversight. Management remains responsible for preparation and fair presentation of the Company’s financial statements and public disclosures. Management is also responsible for maintaining appropriate financial and accounting policies and a system of internal controls designed and implemented to assure compliance with accounting standards and laws and regulations. The independent auditor is responsible for auditing the financial statements (in accordance with generally accepted auditing standards), reviewing the Company’s internal control over financial reporting and reviewing the Company’s unaudited interim financial statements.

ORGANIZATION

The Committee shall be composed of at least three directors appointed by the Board, each of whom must:

A. Be an independent director as defined under the categorical independence standards attached as Annex A to the Company’s Corporate Governance Guidelines, as the same may be amended from time to time.

B. Be an independent director as defined under Section 10A(m) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) and under the rules of the Securities and Exchange Commission (the “SEC”) under Section 10A of the Exchange Act.

C. Not have participated in the preparation of the financial statements of the Company or any current subsidiary of the Company at any time during the past three years.

D. Be able to read and understand fundamental financial statements, including the Company's balance sheet, income statement and cash flow statement.

At least one member of the Committee must have, in the judgment of the Board, past employment experience in finance or accounting, requisite professional certification in accounting, or any other comparable experience or background which results in the individual's financial sophistication, including being or having been a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities. In addition, at least one member of the Committee must be, as determined by the Board, an "audit committee financial expert" as such term is defined in Item 407(d)(5)(ii) of Regulation S-K. The Board will make the determination of the Committee members' independence, financial literacy, "audit committee financial expert" status and other qualifications. Each member of the Committee shall serve until the earlier of his or her death, resignation, retirement or removal by the Board or until his or her successor shall be appointed.

The Board shall designate a Chairman of the Committee (the "Committee Chair"), or, if it fails to do so, the members of the Committee shall elect a Committee Chair by majority vote. The Committee Chair will supervise the conduct of the meetings and will have other responsibilities as this Charter or the Committee may specify from time to time.

RESPONSIBILITIES

In performing its primary functions of review and oversight, the Committee shall have the following responsibilities and authority:

Financial Reporting and Internal Control

1. Review and discuss the annual audited financial statements with management and the independent auditor, including disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations," prior to the filing of the Company's annual report on Form 10-K, and any major issues regarding accounting principles and practices, as well as the adequacy of internal controls, that could significantly affect the Company's financial statements. Discuss with the independent auditor all matters required to be discussed by generally accepted auditing standards, including Statement of Auditing Standards No. 61, "Communication with Audit Committees," ("SAS No. 61"), as amended, or such successor standard that may be promulgated by the Public Company Accounting Oversight Board (the "PCAOB"). Recommend to the Board that the Company's audited financial statements be included in the Company's annual report on Form 10-K.

2. Review and discuss the quarterly financial statements, including disclosures made in "Management's Discussion and Analysis of Financial Condition and Results of Operations", with management and the independent auditor prior to the filing of the Company's quarterly report on Form 10-Q. Discuss with the independent auditor all matters required to be discussed by generally accepted auditing standards, including SAS No. 61, as amended.

3. Review with management and the independent auditor the quarterly earnings press release, financial supplements and any earnings guidance to be provided to the public.
4. Review with the independent auditor, the internal auditors, and management the adequacy and effectiveness of the internal controls of the Company in accordance with Section 404 of the Sarbanes-Oxley Act of 2002.

Relationship with the Independent Auditor

5. The Committee has the sole authority to engage, set compensation for, oversee and dismiss the independent auditor and to pre-approve all services provided by the independent auditor. The independent auditor shall report directly to the Committee.
6. Prior to the beginning of each annual audit, meet with the independent auditor and financial management of the Company to review the scope of the proposed audit plan, staffing and the audit procedures to be utilized, including coordination of independent audit work with the work of the Company's accounting (and if applicable, internal audit) personnel.
7. Annually review all relationships between the independent auditor and the Company in order to assess the auditor's independence. Evaluate and engage in discussions concerning any disclosed issues, relationships or services that may impact the independent auditor's objectivity, qualifications, performance and independence, as well as any attempt by management or other representatives of the Company to restrict the audit or influence its results. Take, or recommend that the Board take, appropriate action to oversee the independence of the independent auditor.
8. Approve, in advance, all audit services, and all non-audit services provided by the independent auditor that are not specifically prohibited under the Sarbanes-Oxley Act. Notwithstanding the foregoing, non-audit services need not be approved in advance only if (i) the aggregate amount of all such non-audit services are not more than 5% of all amounts paid to the independent auditor during the fiscal year, (ii) they were not recognized to be non-audit services at the time of the engagement and (iii) they are promptly brought to the attention of the Committee and approved prior to the completion of the audit. The Committee may delegate pre-approval authority to one or more members of the Committee, but all such decisions must be presented to the full Committee at its next regularly scheduled meeting.
9. Review, at least annually, the qualifications, performance and independence of the independent auditor. In conducting its review and evaluation, the Committee should obtain and review a report by the independent auditor describing: (i) the auditing firm's internal quality-control procedures; (ii) any material issues raised by the most recent internal quality-control review, or peer review, of the auditing firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the auditing firm, and any steps taken to deal with any such issues; and (iii) all relationships between the independent auditor and the Company, consistent with PCAOB Rule 3526, "Communication with Audit Committees Concerning Independence" or such successor standard that may be promulgated by the PCAOB.
10. Assure the rotation of the audit partners as required by law.

11. Present its conclusions with respect to the independent auditor to the Board and, if necessary, recommend that the Board take appropriate action to satisfy itself of the qualifications, performance and independence of the independent auditor.

12. The Committee shall confirm with the independent auditor that the independent auditor is not aware of any violations of Rule 13b2-2 promulgated by the SEC relating to improper influence on the conduct of audits or any illegal act that would require it to inform Company management and the Committee.

Internal Audit Function

13. Oversee the internal audit function of the Company including its independence, authority, obligations, proposed audit plans for the coming year, and the coordination of such plans with the independent auditor. The internal auditors shall report functionally to the Committee Chair but shall have an administrative relationship to the Company's general counsel, who, in consultation with the Committee Chair, shall be responsible for hiring, compensation, performance review, and termination of the employment of the internal auditors.

14. At least quarterly, review and discuss the Company's internal audit reports and management's responses thereto.

Legal, Regulatory and Ethical Matters

15. Establish procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal controls, or auditing matters, and the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.

16. Review, with the Company's general counsel, any legal matter that could have a significant impact on the Company's financial statements.

17. Periodically review the Company's compliance program for its Code of Conduct and its Code of Ethics for The Chief Executive Officer, The Chief Financial Officer and Other Senior Financial Personnel.

Operational Matters and Reports

18. A majority of the total number of members of the Committee shall constitute a quorum at all Committee meetings. The Committee shall keep regular minutes of its meetings and shall file such minutes and all written consents executed by its members with the Secretary of the Company.

19. The Committee shall meet periodically in separate executive sessions with each of management, the independent auditor and the internal auditors.

20. The Committee may request any officer or other employee of the Company, or any representative of the Company's legal counsel or other advisors, to attend a meeting or to meet with any members or representatives of the Committee.

21. The Committee has the authority to retain independent legal, accounting or other advisors. The Company shall provide appropriate funding, as determined by the Committee, for the engagement of the independent auditor and such other advisors as the Committee deems necessary and for the ordinary expenses necessary for the Committee to carry out its duties.
22. The Committee shall report regularly to the Board with respect to any issues related to the quality or integrity of the Company's financial statements, the adequacy and effectiveness of internal controls, the Company's compliance with legal or regulatory requirements or its ethics programs, the performance and independence of the independent auditor, or the performance of the internal audit function.
23. The Committee shall review any management letters or internal control reports prepared by the independent auditor, by the Company's accounting personnel or by the Company's internal audit function, if any, and management's responses to such letters or reports.
24. The Committee shall submit the report of the Committee as required by the rules of the SEC to be included in the Company's annual proxy statement.
25. The Committee may conduct or authorize investigations into or studies of matters within the Committee's scope of responsibilities under this Charter or as may be assigned to it by the Board from time to time.
26. The Committee shall review and reassess annually the adequacy of this Charter and recommend any proposed changes to the Board for approval.
27. The Committee shall annually perform a self-assessment of the Committee.
28. The Committee may perform any other activities consistent with this Charter, the Company's bylaws, any guidelines or other policies adopted by the Board from time to time, and applicable law as the Committee or the Board deems necessary or appropriate.

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