

**TRIAD GUARANTY INC.
COMPENSATION COMMITTEE CHARTER**

STATEMENT OF POLICY

The Compensation Committee (the “Committee”) is a committee of the Board of Directors (the “Board”) of Triad Guaranty Inc. (the “Company”). The Committee’s role is to:

- set salaries and other compensation for the Company’s executive officers, including bonuses, grants of stock options and other incentive programs;
- administer the Company’s 2006 Long-Term Stock Incentive Plan;
- discharge the Board's responsibilities relating to compensation of the Company's executive officers and directors;
- review and discuss with management, prior to filing with the Securities and Exchange Commission (the “SEC”), the Company’s Compensation Discussion and Analysis disclosure and recommend to the Board that such Compensation Discussion and Analysis disclosure be included in the Company's annual report on Form 10-K (or in the Company’s timely filed annual proxy statement); and
- prepare and submit the annual Committee report that the rules of the SEC require to be included in the Company's annual report on Form 10-K (or in the Company’s timely filed annual proxy statement).

The Committee shall have full access to all books, records, facilities and personnel of the Company and the authority to retain independent legal counsel and other advisers and consultants, as it determines necessary, in order to fully and properly discharge its responsibilities.

ORGANIZATION

The membership of the Committee shall consist of at least three members, each of whom, in the opinion of the Board, meets the applicable requirements for service on the Committee under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and applicable rules and regulations of any securities exchange, automated quotation system or other regulated market where the Company’s securities are listed or traded. The members of the Committee shall be appointed and replaced by the Board. 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. All members of the Committee shall have been determined by the Board to meet the categorical independence standards attached as Annex A to the Company’s Corporate Governance Guidelines, as may be amended from time to time. In addition, unless otherwise determined by the Board, each member will qualify as a “non-employee director” as defined in Rule 16b-3 promulgated under the Exchange Act and as an “outside director” as defined in Section 162(m) of the Internal Revenue Code of 1986, as amended.

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

The specific authority and responsibilities of the Committee shall include the following:

Compensation Philosophy and Program

1. Review the Company's overall compensation philosophy on an annual basis. The Company's current compensation philosophy is as follows:
 - to attract, retain and motivate employees who contribute to the long-term success of the Company;
 - to reward individual employee success through the use of incentive compensation; and
 - to align the interests of all employees, especially executive officers, with those of the Company's stockholders in the pursuit of creating long-term value.
2. Review and approve the Company's compensation programs and practices for executive officers consistent with the Committee's compensation philosophy.
3. Review the compensation and general human resource programs and practices of the Company and its subsidiaries to ensure that they are competitive and are effectively designed to attract, retain and reward executive officers with the talent to drive success.

Compensation of Chief Executive Officer and Other Executive Officers

4. Review at least annually goals and objectives relevant to the compensation of the President and Chief Executive Officer and the other executive officers of the Company.
5. Evaluate the performance of the executive officers in light of approved goals and objectives and approve compensation for the executive officers based on those evaluations and any other factors as it deems appropriate, including how each executive officer's performance contributes to or impacts:
 - the Company's corporate strategy and goals as expressed in the Company's annual business plan;
 - various specific metrics of Company performance selected for their perceived correlation to Company success; and
 - the Company's financial results and prospects on a generally accepted accounting principles (GAAP) basis and non-GAAP basis.
6. Evaluate the aggregate compensation of all executive officers in light of the Company's performance.

7. Review and discuss with management, prior to filing with the SEC, the Company's Compensation Discussion and Analysis disclosure and recommend to the Board that such Compensation Discussion and Analysis disclosure be included in the Company's annual report on Form 10-K (or in the Company's timely filed annual proxy statement).

8. Prepare and submit the annual Committee report as required by the rules of the SEC, with such assistance from management and any outside advisors as the Committee deems appropriate, to be included in the Company's annual report on Form 10-K (or in the Company's timely filed annual proxy statement).

Compensatory and Benefit Plans

9. Periodically evaluate the terms of all cash- and equity-based incentive compensation plans in which any executive officer of the Company participates to ensure they are consistent with the Company's compensation policy.

10. Administer the Company's equity-based incentive compensation plans and other employee benefit plans adopted by the Board that contemplate administration by the Committee.

11. Annually evaluate and, if appropriate, modify the methodology for awarding cash- and equity-based incentive compensation to all non-executive employees (including new hires) and other service providers, and the levels of such compensation.

12. Approve all grants of stock options and other equity-based awards, subject to the terms and conditions of the applicable plans.

Employment and Severance Arrangements

13. Review and approve any proposed employment agreement, severance agreement, change in control agreement or other material compensatory agreement with any executive officer of the Company, and all amendments to such agreements.

14. Review and approve any severance, retention or other termination policies of the Company. Review and approve any exceptions to any such policies which are proposed to be made with respect to any current or former executive officer.

Director Compensation

15. Review and recommend annually to the Board the appropriate level of cash- and equity-based compensation for the Chairman and the other directors, including additional compensation for service as a member or chair of a Board committee or as Lead Independent Director.

Operational Matters

16. The Committee shall meet as necessary, but not less than two times per year. Additional meetings may occur as the Committee or the Committee Chair deem advisable. 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.

17. 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. No executive officer whose performance or compensation is to be discussed at a Committee meeting shall attend such meeting during the Committee's discussion of such officer's compensation.

18. The Committee has the authority to retain independent legal counsel or other advisors. The Company shall provide appropriate funding, as determined by the Committee, for the engagement of such counsel or other advisors as the Committee deems necessary and for the ordinary expenses necessary for the Committee to carry out its duties; provided that the Committee shall keep the Company's Chief Financial Officer advised as to the general range of anticipated expenses for outside consultants and advisers and shall obtain Board approval for expenditures exceeding, in the aggregate, \$100,000 in any fiscal year.

19. The Committee shall report regularly to the Board.

20. 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.

21. The Committee shall review and reassess annually the adequacy of this Charter and recommend any proposed changes to the Board for approval.

22. The Committee shall perform annually a self-assessment of the Committee.

23. 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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