RADIAN GROUP INC
Form 10-Q
May 10, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2013

OR

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

(215) 231-1000
(Registrant's telephone number, including area code)

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 o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 172,866,785 shares of common stock, $0.001 par value per share, outstanding on May 1, 2013.

Radian Group Inc.
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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, as amended, Section 21E of the Securities Exchange Act of 1934, as amended, and the United States (“U.S.”) Private Securities Litigation Reform Act of 1995. In most cases, forward-looking statements may be identified by words such as “anticipate,” “may,” “will,” “could,” “should,” “would,” “expect,” “intend,” “plan,” “goal,” “contemplate,” “believe,” “estimat “potential,” “continue,” or the negative or other variations on these words and other similar expressions. These statements, which may 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 statement. These statements speak only as of the date they were made, and we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. We operate in a changing environment. New risks emerge from time to time and it is not possible for us to predict all risks that may affect us. The forward-looking statements, as well as our prospects as a whole, are subject to risks and uncertainties that could cause actual results to differ materially from those set forth in the forward-looking statements, including the following:

- changes in general economic and political conditions, including high unemployment rates and weakness in the U.S. housing and mortgage credit markets, a significant downturn in the U.S. or global economies, a lack of meaningful liquidity in the capital or credit markets, changes or volatility in interest rates or consumer confidence and changes in credit spreads, each of which may be accelerated or intensified by, among other things, legislative activity or inactivity or actual or threatened downgrades of U.S. credit ratings;
- changes in the way customers, investors, regulators or legislators perceive the strength of private mortgage insurers or financial guaranty providers, in particular in light of developments in the private mortgage insurance and financial guaranty industries in which certain of our former competitors have ceased writing new insurance business and have been placed under supervision or receivership by insurance regulators;
- catastrophic events or economic changes in certain geographic regions, including those affecting governments and municipalities, where our mortgage insurance exposure is more concentrated or where we have financial guaranty exposure;
- our ability to maintain sufficient holding company liquidity to meet our short- and long-term liquidity needs;
- a reduction in, or prolonged period of depressed levels of, home mortgage originations due to reduced liquidity in the lending market, tighter underwriting standards, and general reduced housing demand in the U.S., which may be exacerbated by regulations impacting home mortgage originations, including requirements established under the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”);
- the potential adverse impact on the mortgage origination market and on private mortgage insurers due to increased capital requirements for mortgage loans under proposed interagency rules to implement the third Basel Capital Accord, including in particular, the possibility that loans insured by the Federal Housing Administration (“FHA”) will receive more favorable regulatory capital treatment than loans with private mortgage insurance;
- our ability to maintain an adequate risk-to-capital position, minimum policyholder position and other surplus requirements for Radian Guaranty Inc. (“Radian Guaranty”), our principal mortgage insurance subsidiary;
- our ability to continue to effectively mitigate our mortgage insurance and financial guaranty losses;
- a more rapid than expected decrease in the current elevated levels of mortgage insurance rescissions and claim denials, which have reduced our paid losses and resulted in a significant reduction in our loss reserves, including a decrease in net rescissions or denials resulting from an increase in the number of successful challenges to previously rescinded policies or claim denials, or caused by the government-sponsored entities intervening in mortgage insurers’ loss mitigation practices, including settlements of disputes regarding loss mitigation activities;

- the negative impact that our loss mitigation activities may have on our relationships with customers and potential customers, including the potential loss of business and the heightened risk of disputes and litigation;
- the need, in the event that we are unsuccessful in defending our rescissions, denials or claim curtailments, to increase our loss reserves for, and reassume risk on, rescinded loans or denied claims, and to pay additional claims, including amounts previously curtailed;
- any disruption in the servicing of mortgages covered by our insurance policies, as well as poor servicer performance;
- adverse changes in the severity or frequency of losses associated with certain products that we formerly offered (and which remain in our insured portfolio) that are riskier than traditional mortgage insurance or financial guaranty insurance policies;
- a decrease in the persistency rates of our mortgage insurance policies, which has the effect of reducing our premium income on our monthly premium policies and could decrease the profitability of our mortgage insurance business;
- heightened competition for our mortgage insurance business from others such as the FHA, the U.S. Department of Veterans Affairs and other private mortgage insurers, including in particular, those that have been assigned higher ratings than we have, that may have access to greater amounts of capital than we do, or that are new entrants to the industry and are therefore not burdened by legacy obligations;
- changes in the charters or business practices of, or rules or regulations applicable to, Fannie Mae and Freddie Mac, the largest purchasers of mortgage loans that we insure, and our ability to remain an eligible provider to both Fannie Mae and Freddie Mac;
- changes to the current system of housing finance, including the possibility of a new system in which private mortgage insurers are not required or their products are significantly limited in effect or scope;
- the effect of the Dodd-Frank Act on the financial services industry in general, and on our mortgage insurance and financial guaranty businesses in particular, including whether and to what extent loans with private mortgage insurance may be considered "qualified residential mortgages" for purposes of the Dodd-Frank Act securitization provisions;
- the application of existing federal or state laws and regulations, or changes in these laws and regulations or the way they are interpreted, including, without limitation: (i) the resolution of existing, or the possibility of additional, lawsuits or investigations (including in particular investigations and litigation relating to captive reinsurance arrangements under the Real Estate Settlement Practices Act of 1974); and (ii) legislative and regulatory changes (a) impacting the demand for private mortgage insurance, (b) limiting or restricting the products we may offer or increasing the amount of capital we are required to hold, (c) affecting the form in which we execute credit protection, or (d) otherwise impacting our existing businesses;
- the amount and timing of potential payments or adjustments associated with federal or other tax examinations;
- 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 to estimate accurately the fair value amounts of derivative instruments in determining gains and losses on these instruments;
- volatility in our earnings caused by changes in the fair value of our assets and liabilities carried at fair value, including our derivative instruments, and the impact of variable accounting for certain of our performance-based long-term compensation awards;

- our ability to realize some or all of the tax benefits associated with our gross deferred tax assets, which will depend on our ability to generate sufficient sustainable taxable income in future periods;
- changes in accounting principles generally accepted in the United States of America or statutory accounting principles, rules and guidance, or their interpretation; and
- legal and other limitations on amounts we may receive from our subsidiaries as dividends or through our tax- and expense-sharing arrangements with our subsidiaries.

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 Item 1A of Part I of our Annual Report on Form 10-K for the year ended December 31, 2012, filed with the U.S. Securities and Exchange Commission. 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.

PART I—FINANCIAL INFORMATION
Item 1. Financial Statements. (Unaudited)
Radian Group Inc.
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(In thousands, except share and per share amounts)	March 31, 2013	December 31, 2012
ASSETS		
Investments		
Fixed-maturities held to maturity—at amortized cost (fair value $421 and $676)	$427	$679
Fixed-maturities available for sale—at fair value (amortized cost $36,552 and $39,481)	38,305	40,696
Equity securities available for sale—at fair value (cost $88,260 and $88,260)	123,050	112,139
Trading securities—at fair value	3,963,465	4,094,622
Short-term investments—at fair value	1,367,393	777,532
Other invested assets (including variable interest entity (“VIE”) assets of $76,919 and $78,006)	127,093	126,750
Total investments	5,619,733	5,152,418
Cash	29,334	31,555
Restricted cash	23,821	24,226
Deferred policy acquisition costs	74,601	88,202
Accrued investment income	32,247	34,349
Accounts and notes receivable	84,554	87,519
Property and equipment, at cost (less accumulated depreciation of $99,675 and $98,909)	7,105	7,456
Derivative assets (including VIE derivative assets of $1,578 and $1,585)	6,429	13,609
Deferred income taxes, net	17,902	—
Reinsurance recoverables	78,770	89,204
Other assets (including VIE other assets of $96,693 and $99,337)	396,453	374,662
Total assets	$6,370,949	$5,903,200
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Unearned premiums	$673,849	$648,682
Reserve for losses and loss adjustment expenses (“LAE”)	2,919,073	3,149,936
Reserve for premium deficiency (“PDR”)	3,056	3,685
Long-term debt	906,105	663,571
VIE debt—at fair value	107,401	108,858
Derivative liabilities (including VIE derivative liabilities of $66,752 and $70,467)	430,898	266,873
Payable for securities purchased	37,491	697
Accounts payable and accrued expenses (including VIE accounts payable of $367 and $366)	362,030	324,573
Total liabilities	5,439,903	5,166,875
Commitments and Contingencies (Note 15)		
Stockholders’ equity		
Common stock: par value $.001 per share; 325,000,000 shares authorized; 190,348,457 and 151,131,173 shares issued at March 31, 2013 and December 31, 2012, respectively; 172,864,500 and 133,647,216 shares outstanding at March 31, 2013 and December 31, 2012, respectively	190	151
Treasury stock, at cost: 17,483,957 and 17,483,957 shares at March 31, 2013 and December 31, 2012, respectively	(892,094)	(892,094)
Additional paid-in capital	2,342,151	1,967,414
Retained deficit	(542,741)	(355,241)
Accumulated other comprehensive income	23,540	16,095

Total stockholders' equity	931,046	736,325
Total liabilities and stockholders' equity	$6,370,949	$5,903,200

See Notes to Unaudited Condensed Consolidated Financial Statements.

Radian Group Inc.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(In thousands, except per share amounts)	Three Months Ended March 31, 2013	2012
Revenues:		
Premiums written—insurance:		
Direct	$245,467	$203,753
Assumed	(10,397)	(87,488)
Ceded	(27,885)	(38,587)
Net premiums written	207,185	77,678
(Increase) decrease in unearned premiums	(14,597)	89,687
Net premiums earned—insurance	192,588	167,365
Net investment income	26,873	34,713
Net (losses) gains on investments	(5,505)	67,459
Change in fair value of derivative instruments	(167,670)	(72,757)
Net losses on other financial instruments	(5,675)	(17,852)
Other income	1,771	1,440
Total revenues	42,382	180,368
Expenses:		
Provision for losses	132,059	266,154
Change in PDR	(629)	(20)
Policy acquisition costs	17,195	28,046
Other operating expenses	80,100	50,154
Interest expense	15,881	14,148
Total expenses	244,606	358,482
Equity in net income (loss) of affiliates	1	(11)
Pretax loss	(202,223)	(178,125)
Income tax benefit	(14,723)	(8,893)
Net loss	$(187,500)	$(169,232)
Basic net loss per share	$(1.30)	$(1.28)
Diluted net loss per share	$(1.30)	$(1.28)
Weighted-average number of common shares outstanding—basic	144,355	132,465
Weighted-average number of common and common equivalent shares outstanding—diluted	144,355	132,465
Dividends per share	$0.0025	$0.0025

See Notes to Unaudited Condensed Consolidated Financial Statements.

Radian Group Inc.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS (UNAUDITED)

(In thousands)	Three Months Ended March 31, 2013	2012
Net loss	$(187,500)	$(169,232)
Other comprehensive income, net of tax:		
Foreign currency translation adjustments:		
Unrealized foreign currency translation adjustment, net of tax	(19)	—
Less: Reclassification adjustment for net gains (losses) included in net income (loss), net of tax	—	—
Net foreign currency translation adjustment, net of tax	(19)	—
Unrealized gains on investments:		
Unrealized holding gains arising during the period, net of tax	7,485	17,214
Less: Reclassification adjustment for net gains included in net loss, net of tax	21	9,610
Net unrealized gains on investments, net of tax	7,464	7,604
Other comprehensive income	7,445	7,604
Comprehensive loss	$(180,055)	$(161,628)

See Notes to Unaudited Condensed Consolidated Financial Statements.

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Radian Group Inc.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN COMMON STOCKHOLDERS' EQUITY
(UNAUDITED)

(In thousands)	Common Stock	Treasury Stock	Additional Paid-in Capital	Retained Earnings/(Deficit)	Accumulated Other Comprehensive Income	Total
BALANCE, JANUARY 1, 2012	$151	$(892,052)	$1,966,565	$ 96,227	$ 11,400	$1,182,291
Net loss	—	—	—	(169,232)	—	(169,232)
Net unrealized gain on investments, net of tax	—	—	—	—	7,604	7,604
Issuance of common stock under benefit plans	—	—	190	—	—	190
Amortization of restricted stock	—	—	123	—	—	123
Stock-based compensation expense	—	—	(1,215)	—	—	(1,215)
Dividends declared	—	—	(333)	—	—	(333)
BALANCE, MARCH 31, 2012	$151	$(892,052)	$1,965,330	$ (73,005)	$ 19,004	$1,019,428
BALANCE, JANUARY 1, 2013	$151	$(892,094)	$1,967,414	$ (355,241)	$ 16,095	$736,325
Net loss	—	—	—	(187,500)	—	(187,500)
Net foreign currency translation adjustment, net of tax	—	—	—	—	(19)	(19)
Net unrealized gain on investments, net of tax	—	—	—	—	7,464	7,464
Issuance of common stock - stock offering	39	—	299,503	—	—	299,542
Issuance of common stock under benefit plans	—	—	271	—	—	271
Issuance of common stock under incentive plans	—	—	62	—	—	62
Amortization of restricted stock	—	—	208	—	—	208
Issuance of convertible debt (See Note 10)	—	—	77,026	—	—	77,026
Stock-based compensation expense	—	—	(1,999)	—	—	(1,999)
Dividends declared	—	—	(334)	—	—	(334)
BALANCE, MARCH 31, 2013	$190	$(892,094)	$2,342,151	$ (542,741)	$ 23,540	$931,046

See Notes to Unaudited Condensed Consolidated Financial Statements.

Radian Group Inc.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(In thousands)	Three Months Ended March 31, 2013	2012
Cash flows used in operating activities	$(165,971)	$(154,447)
Cash flows from investing activities:		
Proceeds from sales of fixed-maturity investments available for sale	1,102	15,973
Proceeds from sales of equity securities available for sale	—	3,154
Proceeds from sales of trading securities	380,030	450,214
Proceeds from redemptions of fixed-maturity investments available for sale	2,035	1,917
Proceeds from redemptions of fixed-maturity investments held to maturity	255	—
Purchases of trading securities	(232,538)	(304,512)
(Purchases)/sales and redemptions of short-term investments, net	(589,799)	116,130
Sales of other invested assets, net	2,005	682
Purchases of property and equipment, net	(362)	(381)
Net cash (used in) provided by investing activities	(437,272)	283,177
Cash flows from financing activities:		
Dividends paid	(334)	(333)
Proceeds/payments related to issuance or exchange of debt, net	381,165	—
Redemption of long-term debt	(79,372)	(132,215)
Issuance of common stock	299,542	—
Excess tax benefits from stock-based awards	50	—
Net cash provided by (used in) financing activities	601,051	(132,548)
Effect of exchange rate changes on cash	(29)	13
Decrease in cash	(2,221)	(3,805)
Cash, beginning of period	31,555	35,589
Cash, end of period	$29,334	$31,784
Supplemental disclosures of cash flow information:		
Income taxes (received) paid	$(1,983)	$732
Interest paid	$3,630	$8,061

See Notes to Unaudited Condensed Consolidated Financial Statements.

Radian Group Inc.
Notes to Unaudited Condensed Consolidated Financial Statements

1. Condensed Consolidated Financial Statements—Basis of Presentation and Business Overview

Our condensed consolidated financial statements include the accounts of Radian Group Inc. and its subsidiaries. We refer to Radian Group Inc. together with its consolidated subsidiaries as “Radian,” “we,” “us” or “our,” unless the context requires otherwise. We generally refer to Radian Group Inc. alone, without its consolidated subsidiaries, as “Radian Group.”

Our condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and include the accounts of all wholly-owned subsidiaries. Companies in which we, or one of our subsidiaries, exercise significant influence (generally ownership interests ranging from 20% to 50%), are accounted for in accordance with the equity method of accounting. VIEs for which we are the primary beneficiary are consolidated, as described in Note 5. All intercompany accounts and transactions, and intercompany profits and losses, have been eliminated. We have condensed or omitted certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with GAAP pursuant to the instructions set forth in Article 10 of Regulation S-X of the United States (“U.S.”) Securities and Exchange Commission.

The financial information presented for interim periods is unaudited; however, such information reflects all adjustments that are, in the opinion of management, necessary for the fair statement of the financial position, results of operations, comprehensive income and cash flows for the interim periods presented. Such adjustments are of a normal recurring nature. These interim financial statements should be read in conjunction with the audited financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2012. The results of operations for interim periods are not necessarily indicative of results to be expected for the full year or for any other period. The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP.

The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. While the amounts included in our condensed consolidated financial statements include our best estimates and assumptions, actual results may vary materially.

Basic net loss per share is based on the weighted-average number of common shares outstanding, while diluted net loss per share is based on the weighted-average number of common shares outstanding and common stock equivalents that would be issuable upon the exercise of stock options and other stock-based compensation. As a result of our net loss for the three months ended March 31, 2013 and 2012, 5,198,389 and 4,538,400 shares, respectively, of our common stock equivalents issued under our stock-based compensation plans were not included in the calculation of diluted net loss per share as of such date because they were anti-dilutive.

In February 2013, the Financial Accounting Standards Board issued an update to the accounting standard regarding comprehensive income. This update requires an entity to present, either on the face of the financial statements or as a separate disclosure, the changes in the accumulated balances for each component of other comprehensive income included in that separate component of equity. In addition to the presentation of changes in accumulated balances, an entity is required to present separately for each component of other comprehensive income, current period reclassifications out of accumulated other comprehensive income and other amounts of current period other comprehensive income. We adopted this update effective January 1, 2013, and in Note 11, we present the changes in the accumulated balances for each component of other comprehensive income as well as current period reclassifications out of accumulated other comprehensive income and other amounts of current period other comprehensive income.

Business Overview

We are a credit enhancement company with a primary strategic focus on domestic, residential mortgage insurance on first-lien loans (“first-liens”). We have two business segments—mortgage insurance and financial guaranty.

Radian Group Inc.
Notes to Unaudited Condensed Consolidated Financial Statements — (Continued)

Mortgage Insurance

Our mortgage insurance segment provides credit-related insurance coverage, principally through private mortgage insurance, and risk management services to mortgage lending institutions. We provide these products and services mainly through our wholly-owned subsidiary, Radian Guaranty Inc. (“Radian Guaranty”). Private mortgage insurance protects mortgage lenders from all or a portion of default-related losses on residential mortgage loans made to home buyers who generally make downpayments 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 Fannie Mae. We refer to Freddie Mac and Fannie Mae together as “Government Sponsored Enterprises” or “GSEs.”

Our mortgage insurance segment offers primary mortgage insurance coverage on residential first-liens. At March 31, 2013, primary insurance on first-liens comprised approximately 94.8% of our $37.4 billion total direct risk in force (“RIF”). We also have written pool insurance, which at March 31, 2013, comprised approximately 4.8% of our total direct RIF. In the past, we also offered other forms of credit enhancement on residential mortgage assets. These products included mortgage insurance on second-lien mortgages (“second-liens”), credit enhancement on net interest margin securities (“NIMS”), and primary mortgage insurance on international mortgages (collectively, we refer to the risk associated with these transactions as “non-traditional”). We stopped writing non-traditional business in 2007, other than a small amount of international mortgage insurance, which we discontinued writing in 2008. Our non-traditional RIF was $134 million as of March 31, 2013, representing less than 1% of our total direct RIF.

Financial Guaranty

Our financial guaranty segment has provided direct insurance and reinsurance on credit-based risks through Radian Asset Assurance Inc. (“Radian Asset Assurance”). Radian Asset Assurance is a wholly-owned subsidiary of Radian Guaranty, which allows our financial guaranty business to serve as a critical source of capital for Radian Guaranty. We have provided financial guaranty credit protection in several forms, including through the issuance of financial guaranty policies, by insuring the obligations under one or more credit default swaps (“CDS”) and through the reinsurance of both types of obligations. In 2008, we ceased writing or assuming new financial guaranty business and since then, we have significantly reduced our financial guaranty operations. In addition, we have been proactive in reducing our financial guaranty exposures through commutations and other transaction settlements in order to mitigate uncertainty, maximize the ultimate capital available for our mortgage insurance business and accelerate access to that capital.

Business Conditions

As a seller of credit protection, our results are subject to macroeconomic conditions and specific events that impact the origination environment and the credit performance of our underlying insured assets. The downturn in the housing and related credit markets that began in 2007 had a significant negative impact on the operating environment and results of operations for each of our businesses. This negative economic environment was characterized by a decrease in mortgage originations, a broad decline in home prices, mortgage servicing and foreclosure delays, and ongoing deterioration in the credit performance of mortgage and other assets originated prior to 2009, together with macroeconomic factors such as high unemployment, limited economic growth and a lack of meaningful liquidity in some sectors of the capital markets. Our results of operations continue to be negatively impacted by the mortgage insurance we wrote during the poor underwriting years of 2005 through 2008 (we refer to this portion of our mortgage insurance portfolio as our “legacy portfolio”).

In recent years, the operating environment for our businesses has shown signs of improvement. Although the U.S. economy and housing market remain weak compared to historical standards, home prices appear to be appreciating on a broad basis throughout the U.S., foreclosure activity has decreased and the credit quality of overall mortgage market originations continues to be significantly better than the credit quality of our legacy portfolio. In addition, there are signs of a broader recovery in the U.S. economy, including importantly, a reduction in unemployment. As a consequence of these and other factors, in 2012 we experienced improvement in our results of operations, with a 22% decline in new primary mortgage insurance defaults. Our new primary mortgage insurance defaults have continued to decline in 2013, including a 20% decline in the first three months of 2013 compared to the number of new primary defaults in the first quarter of 2012. Although uncertainty remains with respect to the ultimate losses we will experience in our legacy portfolio, as we continue to write new insurance on high-quality mortgages, our legacy portfolio will progressively become a smaller percentage of our total portfolio. We anticipate that sometime in the second quarter of 2013, our legacy portfolio will represent less than 50% of our total mortgage insurance portfolio.

Radian Group Inc.
Notes to Unaudited Condensed Consolidated Financial Statements — (Continued)

Currently, our business strategy primarily is focused on: (1) growing our mortgage insurance business by writing insurance on high-quality mortgages in the U.S.; (2) continuing to manage losses in our legacy mortgage insurance and financial guaranty portfolios; (3) continuing to reduce our financial guaranty exposure; and (4) continuing to effectively manage our capital and liquidity positions.

Our businesses also are significantly impacted by, and our future success may be affected by, legislative and regulatory developments impacting the housing finance industry. The GSEs are the primary beneficiaries of the majority of our mortgage insurance policies and the Federal Housing Administration (“FHA”) remains our primary competitor outside of the private mortgage insurance industry. The GSEs’ federal charters generally prohibit them from purchasing any mortgage with a loan amount that exceeds 80% of a home’s value, unless that mortgage is insured by a qualified insurer or the mortgage seller retains at least a 10% participation in the loan or agrees to repurchase the loan in the event of a default. As a result, high-loan-to-value (“LTV”) mortgages purchased by the GSEs generally are insured with private mortgage insurance. Changes in the charters or business practices of the GSEs, including the pursuit of alternatives to private mortgage insurance as a condition to purchasing high-LTV loans, could reduce the number of mortgages they purchase that are insured by us and consequently diminish our franchise value.

Since 2011, there have been numerous legislative proposals and recommendations focused on reforming the U.S. housing finance industry, including proposals that are intended to wind down the GSEs or to otherwise limit or restrict the activities and businesses of the GSEs. The future structure of the residential housing finance system remains uncertain, including the impact of any such changes on our business. Although we believe that traditional private mortgage insurance will continue to play an important role in any future housing finance structure, it is reasonably possible that new federal legislation could reduce the level of private mortgage insurance coverage used by the GSEs as credit enhancement, or even eliminate the requirement altogether, which would reduce our available market and could adversely affect our mortgage insurance business. In addition, the mortgage origination market and private mortgage insurers could be adversely impacted by regulatory matters being developed under the third Basel Capital Accord and under the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”).

Capital Preservation and Liquidity Management Initiatives

Since 2008, we have engaged in a number of strategic actions and initiatives in response to the negative economic and market conditions impacting our businesses. As a result of our strategic actions and an improving operating environment, we believe we are positioning the company for a return to profitability.

Thus far in 2013, we have made further progress toward our objectives and in support of our business strategy including by taking the following actions:

- Radian Asset Assurance continued to proactively reduce its financial guaranty portfolio through a series of risk commutations, transaction settlements and terminations.
  - In January 2013, $6.7 million of contingency reserves were released due to the commutation of the remaining $822.2 million net par reinsured by Radian Asset Assurance from Financial Guaranty Insurance Company (the “FGIC Commutation”).
  - In February 2013, the New York State Department of Financial Services approved the release of an additional $61.1 million of contingency reserves resulting from the reduction in net par outstanding.
  - During the first quarter of 2013, four CDS counterparties in our financial guaranty business exercised their termination rights with respect to nine collateralized debt obligations (“CDOs”) that we insured, which reduced our net par outstanding by $3.3 billion in the aggregate.
- In January 2013, Radian Group exchanged $195.2 million of its outstanding 5.375% Senior Notes due June 2015 for a new series of 9.000% Senior Notes due June 2017 and additional cash consideration in certain circumstances for purposes of improving its debt maturity profile. See Note 10 for further information.
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In March 2013, Radian Group issued $400 million principal amount of 2.250% convertible unsecured senior notes due March 2019 (the "2019 Convertible Senior Notes") and received net proceeds of approximately $389.8 million after deducting underwriters' discounts and offering expenses. See Note 10 for further information.

- In March 2013, Radian Group sold 39.1 million shares of common stock at a public offering price of $8.00 per share and received net proceeds of approximately $299.5 million after deducting underwriters' discounts and offering expenses.

Radian Group Inc.
Notes to Unaudited Condensed Consolidated Financial Statements — (Continued)

At March 31, 2013, Radian Group had immediately available unrestricted cash and liquid investments of $886.4 million. Approximately $71.0 million of future expected corporate expenses and interest payments have been accrued for and paid by certain subsidiaries to Radian Group as of March 31, 2013, and therefore, the total unrestricted cash and liquid investments held by Radian Group as of March 31, 2013 include these amounts. We expect to use a portion of our available liquidity to support Radian Guaranty's capital position, and we expect Radian Guaranty to maintain a risk-to-capital ratio at 20 to 1 or below for the foreseeable future.

2. Segment Reporting

Our mortgage insurance and financial guaranty segments are strategic business units that are managed separately. We allocate corporate income and expenses to our mortgage insurance and financial guaranty segments based on either an allocated percentage of time spent on each segment or internally allocated capital, which is based on the relative GAAP equity of each segment. We allocate corporate cash and investments to our segments based on internally allocated capital, which also is based on relative GAAP equity. The results for each segment for each reporting period can cause significant volatility in internally allocated capital based on relative GAAP equity, which can impact the allocations of income and expenses to our segments.

Management has determined that the allocation of our consolidated provision for taxes to the segments is no longer material to the evaluation of our business results. Therefore, beginning with the first quarter of 2013, financial information for our business segments will be disclosed on a pretax basis as pretax results are used by senior management in the allocation of resources and in assessing the performance of the segments.

Radian Group Inc.
Notes to Unaudited Condensed Consolidated Financial Statements — (Continued)

Summarized financial information concerning our segments, as of and for the periods indicated, are as follows:

(In thousands)	Three Months Ended March 31, 2013	2012
Mortgage Insurance		
Net premiums written—insurance	$217,286	$196,853
Net premiums earned—insurance	$182,992	$173,451
Net investment income	15,102	18,011
Net (losses) gains on investments	(3,237)	32,178
Change in fair value of derivative instruments	—	21
Net losses on other financial instruments	(1,877)	(709)
Other income	1,712	1,344
Total revenues	194,692	224,296
Provision for losses	131,956	234,729
Change in PDR	(629)	(20)
Policy acquisition costs	11,732	8,646
Other operating expenses	65,780	36,265
Interest expense	2,669	1,722
Total expenses	211,508	281,342
Equity in net income (loss) of affiliates	—	—
Pretax loss	$(16,816)	$(57,046)
Cash and investments	$3,186,871	$3,259,204
Deferred policy acquisition costs	29,920	49,786
Total assets	3,663,552	3,476,732
Unearned premiums	428,574	256,809
Reserve for losses and LAE	2,894,500	3,230,938
VIE debt	11,062	8,625
Derivative liabilities	—	—
New Insurance Written (“NIW”) (in millions)	$10,906	$6,465

Radian Group Inc.
Notes to Unaudited Condensed Consolidated Financial Statements — (Continued)

	Three Months Ended March 31,	
(In thousands)	2013	2012
Financial Guaranty		
Net premiums written—insurance	$(10,101)	$(119,175)
Net premiums earned—insurance	$9,596	$(6,086)
Net investment income	11,771	16,702
Net (losses) gains on investments	(2,268)	35,281
Change in fair value of derivative instruments	(167,670)	(72,778)
Net losses on other financial instruments	(3,798)	(17,143)
Other income	59	96
Total revenues	(152,310)	(43,928)
Provision for losses	103	31,425
Change in PDR	—	—
Policy acquisition costs	5,463	19,400
Other operating expenses	14,320	13,889
Interest expense	13,212	12,426
Total expenses	33,098	77,140
Equity in net income (loss) of affiliates	1	(11)
Pretax loss	$(185,407)	$(121,079)
Cash and investments	$2,486,017	$2,392,620
Deferred policy acquisition costs	44,681	58,155
Total assets	2,707,397	2,971,789
Unearned premiums	245,275	315,756
Reserve for losses and LAE	24,573	85,426
VIE debt	96,339	246,609
Derivative liabilities	430,898	202,100

A reconciliation of segment pretax loss to consolidated net loss is as follows:

	Three Months Ended March 31,	
(In thousands)	2013	2012
Mortgage Insurance pretax loss	$(16,816)	$(57,046)
Financial Guaranty pretax loss	(185,407)	(121,079)
Income tax benefit	(14,723)	(8,893)
Consolidated net loss	$(187,500)	$(169,232)

Radian Group Inc.
Notes to Unaudited Condensed Consolidated Financial Statements — (Continued)

3. Derivative Instruments

We provide a significant portion of our credit protection within our financial guaranty segment in the form of CDS. In many of our CDS transactions, primarily our corporate CDOs, we generally are required to make payments to our counterparty above a specified level of subordination, upon the occurrence of credit events related to the borrowings or bankruptcy of obligors contained within pools of corporate obligations or, in the case of pools of mortgage or other asset-backed obligations, upon the occurrence of credit events related to the specific obligations in the pool. When we provide a CDS providing protection on a specific obligation, we generally guarantee the full and timely payment of principal and interest when due on such obligation. These derivatives have various maturity dates, but the majority of the net par outstanding of our remaining insured CDS transactions, including all of our corporate CDOs, mature within five years.

The following table sets forth our gross unrealized gains and gross unrealized losses on derivative assets and liabilities as of the dates indicated. Certain contracts are in an asset position because the net present value of the contractual premium we receive exceeds the net present value of our estimate of the expected future premiums that a financial guarantor of similar credit quality to us would charge to provide the same credit protection, assuming a transfer of our obligation to such financial guarantor as of the measurement date.

(In thousands)	March 31, 2013	December 31, 2012
Balance Sheets		
Derivative assets:		
Financial Guaranty credit derivative assets	$4,851	$12,024
NIMS assets	1,578	1,585
Total derivative assets	6,429	13,609
Derivative liabilities:		
Financial Guaranty credit derivative liabilities	364,146	196,406
Financial Guaranty VIE derivative liabilities	66,752	70,467
Total derivative liabilities	430,898	266,873
Total derivative liabilities, net	$424,469	$253,264

The notional value of our derivative contracts at March 31, 2013 and December 31, 2012 was $15.0 billion and $19.2 billion, respectively.

The components of the (losses) gains included in change in fair value of derivative instruments are as follows:

(In thousands)	Three Months Ended March 31, 2013	2012
Statements of Operations		
Net premiums earned—derivatives	$4,992	$8,648
Financial Guaranty credit derivatives	(175,724)	(80,219)
Financial Guaranty VIE derivatives	3,062	(1,227)
NIMS related	—	41
Change in fair value of derivative instruments	$(167,670)	$(72,757)

Radian Group Inc.
Notes to Unaudited Condensed Consolidated Financial Statements — (Continued)

The valuation of derivative instruments may result in significant volatility from period to period in gains and losses as reported on our condensed consolidated statements of operations. Generally, these gains and losses result, in part, from changes in corporate credit or asset-backed spreads and changes in the market's perception of the creditworthiness of any: (i) primary obligor of obligations for which we provide secondary credit protection, (ii) underlying corporate entities, or (iii) the credit performance of the assets underlying asset-backed securities ("ABS"). Additionally, when determining the fair value of our liabilities, we are required to incorporate into the fair value of those liabilities an adjustment that reflects our own non-performance risk, and consequently, changes in the market's perception of our non-performance risk can also result in gains and losses on our derivative instruments. Any incurred gains or losses (which include any claim payments) on our financial guaranty contracts that are accounted for as derivatives are recognized as a change in fair value of derivative instruments. Because our fair value determinations for derivative and other financial instruments in our mortgage insurance and financial guaranty businesses are based on assumptions and estimates that are inherently subject to risk and uncertainty, our fair value amounts could vary significantly from period to period. See Note 4 for more information on our fair value of financial instruments.
The following table shows selected information about our derivative contracts:

	March 31, 2013		
($ in thousands)	Number of Contracts	Par/ Notional Exposure	Total Net Asset/ (Liability)
Product			
NIMS assets (1)	—	$—	$ 1,578
Corporate CDOs	25	9,670,390	(9,960)
Non-Corporate CDOs and other derivative transactions:			
Trust Preferred Securities ("TruPs")	13	1,071,305	(42,899)
CDOs of commercial mortgage-backed securities ("CMBS")	4	1,831,000	(95,936)
Other:			
Structured finance	5	566,116	(133,603)
Public finance	23	1,444,177	(63,122)
Total Non-Corporate CDOs and other derivative transactions	45	4,912,598	(335,560)
Assumed financial guaranty credit derivatives:			
Structured finance	32	187,454	(13,157)
Public finance	7	110,488	(618)
Total Assumed	39	297,942	(13,775)
Financial Guaranty VIE derivative liabilities (2)	1	76,792	(66,752)
Grand Total	110	$14,957,722	$ (424,469)

(1) Represents NIMS derivative assets related to consolidated NIMS VIEs. Because these investments represent financial guaranty contracts that we issued, they cannot become liabilities, and therefore, do not represent additional par exposure.

(2) Represents the fair value of a CDS included in a VIE that we have consolidated. See Note 5 for more information on this transaction, the underlying reference securities and our maximum exposure to loss from this consolidated financial guaranty transaction. The assets in the VIE represent the only funds available to pay the CDS counterparty for amounts due under the contract; therefore, the notional exposure presented for the CDS is limited to the current trust assets.

Radian Group Inc.
Notes to Unaudited Condensed Consolidated Financial Statements — (Continued)

4. Fair Value of Financial Instruments

Certain assets and liabilities are recorded at fair value. These include: available for sale securities, trading securities, VIE debt, derivative instruments, and certain other assets. All derivative instruments and contracts are recognized in our condensed consolidated balance sheets as either derivative assets or derivative liabilities. All changes in fair value of trading securities, VIE debt, derivative instruments, and certain other assets are included in our condensed consolidated statements of operations. All changes in the fair value of available for sale securities are recorded in accumulated other comprehensive income (loss).

Our estimated fair value measurements are intended to reflect the assumptions market participants would use in pricing an asset or liability based on the best information available. Assumptions include the risks inherent in a particular valuation technique (such as a pricing model) and the risks inherent in the inputs to the model. Changes in economic conditions and capital market conditions, including but not limited to, credit spread changes, benchmark interest rate changes, market volatility and changes in the value of underlying collateral or of any third-party guaranty or insurance, could cause actual results to differ materially from our estimated fair value measurements. We define fair value as the current amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In the event that our investments or derivative contracts were sold, commuted, terminated or settled with a counterparty or transferred in a forced liquidation, the amounts received or paid may be materially different from those determined in accordance with the accounting standard regarding fair value measurements. Differences may also arise between our recorded fair value and the settlement or termination value with a counterparty based upon consideration of information that may not be available to another market participant. Those differences, which may be material, are recorded as realized gains/(losses) in our condensed consolidated statements of operations in the period in which the transaction occurs. There were no significant changes to our fair value methodologies during the three months ended March 31, 2013.

We established a fair value hierarchy by prioritizing the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level I measurements) and the lowest priority to unobservable inputs (Level III measurements). The three levels of the fair value hierarchy under this standard are described below:

Level I	—	Unadjusted quoted prices for identical assets or liabilities in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
Level II	—	Prices or valuations based on observable inputs other than quoted prices in active markets for identical assets and liabilities; and
Level III	—	Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

The level of market activity used to determine the fair value hierarchy is based on the availability of observable inputs market participants would use to price an asset or a liability, including market value price observations. We provide a qualitative description of the valuation techniques and inputs used for Level II recurring and non-recurring fair value measurements in our audited annual financial statements as of December 31, 2012. For a complete understanding of those valuation techniques and inputs used as of March 31, 2013, these unaudited condensed consolidated financial statements should be read in conjunction with the audited annual financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2012.

Radian Group Inc.
Notes to Unaudited Condensed Consolidated Financial Statements — (Continued)

The following is a list of those assets and liabilities that are measured at fair value by hierarchy level as of March 31, 2013:

(In millions)	Level I	Level II	Level III	Total
Assets and Liabilities at Fair Value				
Investment Portfolio:				
U.S. government and agency securities	$734.1	$465.5	$—	$1,199.6
State and municipal obligations	—	669.9	19.2	689.1
Money market instruments	631.7	—	—	631.7
Corporate bonds and notes	—	1,450.5	2.7	1,453.2
Residential mortgage-backed securities (“RMBS”)	—	599.5	—	599.5
CMBS	—	296.1	3.1	299.2
Other ABS	—	220.1	1.5	221.6
Hybrid securities	—	144.0	—	144.0
Equity securities (1)	113.9	137.0	0.4	251.3
Other investments (2)	—	2.6	77.3	79.9
Total Investments at Fair Value (3)	1,479.7	3,985.2	104.2	5,569.1
Derivative Assets	—	—	6.4	6.4
Other Assets (4)	—	—	96.5	96.5
Total Assets at Fair Value	$1,479.7	$3,985.2	$207.1	$5,672.0
Derivative Liabilities	$—	$—	$430.9	$430.9
VIE debt (5)	—	—	107.4	107.4
Total Liabilities at Fair Value	$—	$—	$538.3	$538.3

(1) Comprising broadly diversified domestic equity mutual funds included within Level I and various preferred and common stocks invested across numerous companies and industries included within Levels II and III.

(2) Comprising TruPs ($0.9 million) and short-term certificates of deposit (“CDs”) ($1.7 million) included within Level II, and lottery annuities ($0.4 million) and a guaranteed investment contract held by a consolidated VIE ($76.9 million) within Level III.

(3) Does not include fixed-maturities held to maturity ($0.4 million) and certain other invested assets ($50.2 million), primarily invested in limited partnerships, accounted for as cost-method investments and not measured at fair value.

(4) Primarily comprising manufactured housing loan collateral related to two consolidated financial guaranty VIEs.

(5) Comprising consolidated debt related to NIMS VIEs ($11.1 million) and amounts related to financial guaranty VIEs ($96.3 million).

Radian Group Inc.
Notes to Unaudited Condensed Consolidated Financial Statements — (Continued)

The following is a list of those assets and liabilities that are measured at fair value by hierarchy level as of December 31, 2012:

(In millions)	Level I	Level II	Level III	Total
Assets and Liabilities at Fair Value				
Investment Portfolio:				
U.S. government and agency securities	$137.8	$433.8	$—	$571.6
State and municipal obligations	—	669.0	19.0	688.0
Money market instruments	638.0	—	—	638.0
Corporate bonds and notes	—	1,373.6	—	1,373.6
RMBS	—	663.4	—	663.4
CMBS	—	237.3	—	237.3
Other ABS	—	252.4	1.7	254.1
Foreign government securities	—	117.7	—	117.7
Hybrid securities	—	211.9	—	211.9
Equity securities (1)	98.9	166.0	1.0	265.9
Other investments (2)	—	2.5	79.0	81.5
Total Investments at Fair Value (3)	874.7	4,127.6	100.7	5,103.0
Derivative Assets	—	—	13.6	13.6
Other Assets (4)	—	—	99.2	99.2
Total Assets at Fair Value	$874.7	$4,127.6	$213.5	$5,215.8
Derivative Liabilities	$—	$—	$266.9	$266.9
VIE debt (5)	—	—	108.9	108.9
Total Liabilities at Fair Value	$—	$—	$375.8	$375.8

(1) Comprising broadly diversified domestic equity mutual funds included within Level I and various preferred and common stocks invested across numerous companies and industries included within Levels II and III.
(2) Comprising TruPs ($0.9 million) and short-term CDs ($1.6 million) included within Level II, and lottery annuities ($1.0 million) and a guaranteed investment contract held by a consolidated VIE ($78.0 million) within Level III.
(3) Does not include fixed-maturities held to maturity ($0.7 million) and certain other invested assets ($48.7 million), primarily invested in limited partnerships, accounted for as cost-method investments and not measured at fair value.
(4) Primarily comprising manufactured housing loan collateral related to two consolidated financial guaranty VIEs.
(5) Comprising consolidated debt related to NIMS VIEs ($9.9 million) and amounts related to financial guaranty VIEs ($99.0 million).

Radian Group Inc.
Notes to Unaudited Condensed Consolidated Financial Statements — (Continued)

When determining the fair value of our liabilities, we are required to incorporate into the fair value of those liabilities an adjustment that reflects our own non-performance risk. Our five-year CDS spread is an observable quantitative measure of our non-performance risk and is used by typical market participants to determine the likelihood of our default; the CDS spread actually used in the valuation of specific fair value liabilities is typically based on the remaining term of the insured obligation. As our CDS spread tightens or widens, it has the effect of increasing or decreasing, respectively, the fair value of our liabilities with a corresponding impact on our results of operations. The following tables quantify the estimated impact of our non-performance risk on our derivative assets, derivative liabilities and net VIE liabilities (in aggregate by type) presented in our condensed consolidated balance sheets as of the dates indicated:

(In basis points)	March 31, 2013	December 31, 2012	March 31, 2012	December 31, 2011
Radian Group's five-year CDS spread	513	913	1,521	2,732

(In millions)	Fair Value Liability before Consideration of Radian Non-Performance Risk March 31, 2013	Impact of Radian Non-Performance Risk March 31, 2013	Fair Value Liability Recorded March 31, 2013
Product			
Corporate CDOs	$ 85.3	$ 75.4	$ 9.9
Non-Corporate CDO-related (1)	724.2	374.8	349.4
NIMS-related (2)	12.8	3.3	9.5
Total	$ 822.3	$ 453.5	$ 368.8

(In millions)	Fair Value Liability before Consideration of Radian Non-Performance Risk December 31, 2012	Impact of Radian Non-Performance Risk December 31, 2012	Fair Value (Asset) Liability Recorded December 31, 2012
Product			
Corporate CDOs	$ 98.8	$ 101.6	$ (2.8)
Non-Corporate CDO-related (1)	696.6	509.3	187.3
NIMS-related (2)	13.0	4.7	8.3
Total	$ 808.4	$ 615.6	$ 192.8

(1) Includes the net fair value liability recorded within derivative assets and derivative liabilities, but does not include the net fair value liability of derivative assets or derivative liabilities within our consolidated VIEs, as Radian Group's credit spread has no impact on the financial instruments in these VIEs.
(2) Includes NIMS VIE debt and NIMS derivative assets.

Non-performance risk is commonly measured by default probability, with a credit spread tightening indicating a lesser probability of default. Radian Group's five-year CDS spread at March 31, 2013, implied a market view that there is a 31.8% probability that Radian Group will default in the next five years, as compared to a 47.7% implied probability of default at December 31, 2012. The cumulative impact of our non-performance risk on our derivative assets, derivative liabilities and net VIE liabilities decreased by $162.1 million during the first three months of 2013, as presented in the table above.

Radian Group Inc.
Notes to Unaudited Condensed Consolidated Financial Statements — (Continued)

The following is a rollforward of Level III assets and liabilities measured at fair value for the quarter ended March 31, 2013:

(In millions)	Beginning Balance at January 1, 2013	Realized and Unrealized Gains (Losses) Recorded in Earnings (1)	Purchases	Sales	Issuances	Settlements	Transfers Into (Out of) Level III (2)	Ending Balance at March 31, 2013
Investments:								
State and municipal obligations	$19.0	$ 0.2	$—	$—	$—	$—	$ —	$19.2
Corporate bonds and notes	—	—	2.7	—	—	—	—	2.7
CMBS	—	—	3.1	—	—	—	—	3.1
Other ABS	1.7	—	—	—	—	0.2	—	1.5
Equity securities	1.0	—	—	0.6	—	—	—	0.4
Other investments	79.0	(1.6)	0.4	0.1	—	0.4	—	77.3
Total Level III Investments	100.7	(1.4)	6.2	0.7	—	0.6	—	104.2
NIMS derivative assets	1.6	—	—	—	—	—	—	1.6
Other assets	99.2	3.3	—	—	—	6.0	—	96.5
Total Level III Assets	$201.5	$ 1.9	$6.2	$0.7	$—	$ 6.6	$ —	$202.3
Derivative liabilities, net	$254.9	$ (167.7)	$—	$—	$—	$ (3.5)	$ —	$426.1
VIE debt	108.9	(3.3)	—	—	—	4.8	—	107.4
Total Level III Liabilities, net	$363.8	$ (171.0)	$—	$—	$—	$ 1.3	$ —	$533.5

(1) Includes unrealized gains (losses) for the quarter ended March 31, 2013, relating to assets and liabilities still held at March 31, 2013 as follows: $(1.5) million for investments, $0.8 million for other assets, $(172.6) million for derivative liabilities and $(2.5) million for VIE debt.

(2) Transfers are recognized at the end of the period as the availability of market observed inputs change from period to period.

Radian Group Inc.
Notes to Unaudited Condensed Consolidated Financial Statements — (Continued)

The following is a rollforward of Level III assets and liabilities measured at fair value for the quarter ended March 31, 2012:

(In millions)	Balance at January 1, 2012	Realized and Unrealized Gains (Losses) Recorded in Earnings (1)	Purchases	Sales	Issuances	Settlements	Transfers Into (Out of) Level III (2)	Ending Balance at March 31, 2012
Investments:								
State and municipal obligations	$62.5	$ 6.7	$—	$—	$—	$ 11.1	$ —	$58.1
RMBS	45.5	6.2	—	—	—	0.5	—	51.2
CMBS	35.4	(11.4)	—	—	—	—	—	24.0
CDOs	5.5	0.8	—	—	—	(0.1)	—	6.4
Other ABS	2.9	0.8	—	—	—	—	—	3.7
Hybrid securities	4.8	0.1	—	4.9	—	—	0.2	0.2
Equity securities	0.8	0.6	—	—	—	—	0.7	2.1
Other investments	6.8	0.8	—	0.5	—	—	—	7.1
Total Level III Investments	164.2	4.6	—	5.4	—	11.5	0.9	152.8
NIMS derivative assets	1.6	—	0.1	—	—	—	—	1.7
Other assets	104.0	3.4	—	—	—	6.1	—	101.3
Total Level III Assets	$269.8	$ 8.0	$0.1	$5.4	$—	$ 17.6	$ 0.9	$255.8
Derivative liabilities, net	$110.6	$ (72.8)	$—	$—	$—	$ (4.3)	$ —	$187.7
VIE debt	228.2	(36.0)	—	—	—	9.0	—	255.2
Total Level III Liabilities, net	$338.8	$ (108.8)	$—	$—	$—	$ 4.7	$ —	$442.9

(1) Includes unrealized gains (losses) for the quarter ended March 31, 2012, relating to assets and liabilities still held at March 31, 2012, as follows: $(2.9) million for investments, $0.6 million for other assets, $(82.2) million for derivative liabilities, and $(36.3) million for VIE debt.

(2) Transfers are recognized at the end of the period as the availability of market observed inputs change from period to period.

For markets in which inputs are not observable or limited, we use significant judgment and assumptions that a typical market participant would use to evaluate the market price of an asset or liability. Given the level of judgment necessary, another market participant may derive a materially different estimate of fair value. These assets and liabilities are classified in Level III of our fair value hierarchy. For fair value measurements categorized within Level III of the fair value hierarchy, we use certain significant unobservable inputs in estimating fair value. Those inputs primarily relate to the probability of default, the expected loss upon default, and our own non-performance risk as it relates to our liabilities.

Radian Group Inc.
Notes to Unaudited Condensed Consolidated Financial Statements — (Continued)

The following table summarizes the significant unobservable inputs used in our recurring Level III fair value measurements as of March 31, 2013:

(In millions)	Fair Value March 31, 2013 (1)	Valuation Technique	Unobservable Input	Range/ Weighted Average
Level III Investments:				
State and municipal obligations	$19.2	Discounted cash flow	Discount rate	8.8 %
			Expected loss	19.0 %
Other investments	76.9	Discounted cash flow	Discount rate	2.4 %
Level III Derivative Assets:				
Corporate CDOs	3.1	Base correlation model	Radian correlation to corporate index	85.0 %
			Average credit spread	<0.1% - 2.6 %
			Own credit spread (2)	1.3 % - 6.2 %
CDOs of CMBS	1.7	Discounted cash flow	Radian correlation to CMBS transaction index	72.0 % - 85.0 %
			Own credit spread (2)	1.3 % - 6.2 %
NIMS derivative assets	1.6	Discounted cash flow	NIMS credit spread	43.9 %
			Own credit spread (2)	1.6 %
Level III Derivative Liabilities/VIEs:				
Corporate CDOs	13.0	Base correlation model	Radian correlation to corporate index	85.0 %
			Average credit spread	<0.1% - 2.6 %
			Own credit spread (2)	1.3 % - 6.2 %
CDOs of CMBS	97.6	Discounted cash flow	Radian correlation to CMBS transaction index	72.0 % - 85.0 %
			Own credit spread (2)	1.3 % - 6.2 %
TruPs CDOs	42.9	Discounted cash flow	Principal recovery	72.0 %
			Principal recovery (stressed)	62.0 %
			Probability of conditional liquidity payment	0.8 % - 9.9 %
			Own credit spread (2)	1.3 % - 6.2 %
TruPs - related VIE liabilities	66.8	Discounted cash flow	Discount rate	12.5 %
Other non-corporate CDOs and derivative transactions	210.4	Risk-based model	Average life (in years)	<1 - 20
			Own credit spread (2)	1.3 % - 6.2 %
NIMS VIE	11.1	Discounted cash flow	NIMS credit spread	43.6 %
			Own credit spread (2)	1.6 % - 8.6 %

(1)

Excludes certain assets and liabilities for which we do not develop quantitative unobservable inputs. The fair value estimates for these assets and liabilities are developed using third-party pricing information, generally without adjustment.

(2) Represents the range of Radian Group’s CDS spread that a typical market participant might use in the valuation analysis based on the remaining term of the investment.

Radian Group Inc.
Notes to Unaudited Condensed Consolidated Financial Statements — (Continued)

The following table summarizes the significant unobservable inputs used in our recurring Level III fair value measurements as of December 31, 2012:

(In millions)	Fair Value December 31, 2012 (1)	Valuation Technique	Unobservable Input	Range/ Weighted Average
Level III Investments:				
State and municipal obligations	$ 19.0	Discounted cash flow	Discount rate	8.8 %
			Expected loss	19.0 %
Other investments	78.0	Discounted cash flow	Discount rate	1.9 %
Level III Derivative Assets:				
Corporate CDOs	8.8	Base correlation model	Radian correlation to corporate index	85.0 %
			Average credit spread	<0.1% - 2.7 %
			Own credit spread (2)	8.0 % - 9.1 %
CDOs of CMBS	1.6	Discounted cash flow	Radian correlation to CMBS transaction index	72.0 % - 85.0 %
			Own credit spread (2)	8.0 % - 9.1 %
TruPs CDOs	1.6	Discounted cash flow	Principal recovery	65.0 %
			Principal recovery (stressed)	60.0 %
			Probability of conditional liquidity payment	0.8 % - 36.7 %
			Own credit spread (2)	8.0 % - 9.1 %
NIMS derivative assets	1.6	Discounted cash flow	NIMS credit spread	44.0 %
			Own credit spread (2)	8.5 %
Level III Derivative Liabilities/VIEs:				
Corporate CDOs	6.0	Base correlation model	Radian correlation to corporate index	85.0 %
			Average credit spread	<0.1% - 2.7 %
			Own credit spread (2)	8.0 % - 9.1 %
CDOs of CMBS	76.3	Discounted cash flow	Radian correlation to CMBS transaction index	72.0 % - 85.0 %
			Own credit spread (2)	8.0 % - 9.1 %
TruPs CDOs	12.7	Discounted cash flow	Principal recovery	65.0 %
			Principal recovery (stressed)	60.0 %
			Probability of conditional liquidity payment	0.8 % - 36.7 %
			Own credit spread (2)	8.0 % - 9.1 %

TruPs - related VIE liabilities	70.4	Discounted cash flow	Discount rate				13.4	%
Other non-corporate CDOs and derivative transactions	101.4	Risk-based model	Average life (in years)	<1		-	20	
			Own credit spread (2)	8.0	%	-	9.1	%
NIMS VIE	9.9	Discounted cash flow	NIMS credit spread				43.7	%
			Own credit spread (2)	8.5	%	-	10.9	%

(1) Excludes certain assets and liabilities for which we do not develop quantitative unobservable inputs. The fair value estimates for these assets and liabilities are developed using third-party pricing information, generally without adjustment.

(2) Represents the range of Radian Group’s CDS spread that a typical market participant might use in the valuation analysis based on the remaining term of the investment.

The significant unobservable inputs in the fair value measurement of our investment securities noted above include an interest rate used to discount the projected cash flows and an expected loss assumption. This expected loss assumption generally represents the principal shortfall we believe that a typical market participant would expect on our security as a result of the obligor’s failure to pay. In addition, our other investments include a guaranteed investment contract for which the counterparty’s non-performance risk is considered in the discount rate. Significant increases (decreases) in either the discount rates or loss estimates in isolation would result in a lower (higher) fair value measurement. Changes in these assumptions are independent and may move in either similar or opposite directions.

The significant unobservable inputs used in the fair value measurement of our derivative assets, derivative liabilities and VIE debt relate primarily to projected losses. In addition, when determining the fair value of our liabilities, we are required to incorporate into the fair value of those liabilities an adjustment that reflects our own non-performance risk, if applicable, as discussed below.

For our corporate CDOs, we estimate the correlation of the default probability between the corporate entities and Radian—the higher the correlation percentage, the higher the probability that both the corporate entities and Radian will default together. In addition, a widening of the average credit spread increases the expected loss for our transactions, and therefore, increases the related liability.

For our CDOs of CMBS transactions, we use the CMBX index that most directly correlates to our transaction with respect to vintage and credit rating, and then we estimate losses by applying a correlation factor. Because we own the senior tranche, an increase in this factor generally increases the expected loss for our transactions, and therefore, increases our related liability.

For our TruPs CDOs, the performance of each underlying reference obligation is measured by a standard and distressed pricing, which indicates the expected principal recovery. An increase in the standard and stressed principal recovery decreases the loss severity of the transaction, and therefore, in isolation, decreases the related liability. We also assign these transactions a probability that we will be required to pay a liquidity claim, which generally would increase our related liability. See “Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Radian Group—Long-Term Liquidity Needs—Financial Guaranty” for additional information on when we may be required to pay a liquidity claim.

For our TruPs-related VIE liabilities, the fair value is estimated using similar inputs as in the estimated fair value of our TruPs CDOs, except there is no non-performance risk adjustment, as the derivative liability is limited to the segregated assets already held by the VIE.

For our other non-corporate CDOs, we utilize the internal credit rating, average remaining life, and current par outstanding for each transaction to project both expected losses and an internally developed risk-based capital amount. An increase in the average remaining life typically increases the expected loss of the transactions, and therefore, increases our related liability. An upgrade (downgrade) in the internal credit rating typically decreases (increases) the expected loss of the transactions, and therefore, decreases (increases) our related liability.

For all fair value measurements where we project our non-performance risk, including VIE debt, we utilize a market observed credit spread for Radian, which we believe is the best available indicator of the market’s perception of our non-performance risk. In isolation, a widening (tightening) of this credit spread typically decreases (increases) our related liability. The assumption used to project our own non-performance risk is independent from the other unobservable inputs used in our fair value measurements. The net impact on our reported assets and liabilities from increases or decreases in our own credit spread and from increases or decreases in other unobservable inputs depends upon the magnitude and direction of the changes in each input; such changes may result in offsetting effects to our recorded fair value measurements, or they may result in directionally similar impacts, which may be material.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. At March 31, 2013, our total Level III assets were approximately 3.7% of total assets measured at fair value and total Level III liabilities accounted for 100% of total liabilities measured at fair value.

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Notes to Unaudited Condensed Consolidated Financial Statements — (Continued)

Other Fair Value Disclosure

The carrying value and estimated fair value of other selected assets and liabilities not carried at fair value on our condensed consolidated balance sheets were as follows as of the dates indicated:

	March 31, 2013		December 31, 2012	
(In millions)	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets:				
Fixed-maturities held to maturity (1)	$0.4	$0.4	$0.7	$0.7
Other invested assets (1)	50.2	56.9	48.7	57.4
Liabilities:				
Long-term debt (1)	906.1	1,290.3	663.6	704.8
Non-derivative financial guaranty liabilities (2)	177.0	251.9	232.9	308.1

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(1) These estimated fair values would be classified in Level II of the fair value hierarchy.
(2) These estimated fair values would be classified in Level III of the fair value hierarchy.

5. VIEs

As of March 31, 2013, we have determined that we are the primary beneficiary of our NIMS transactions and certain financial guaranty structured finance transactions. Our control rights in these VIEs, which we obtained due to an event of default or breach of a performance trigger as defined in the transaction, generally provide us with either a right to replace the VIE servicer or, in some cases, the right to direct the sale of the VIE assets. In those instances where we have determined that we are the primary beneficiary, we consolidate the assets and liabilities of the VIE. We have elected to carry the financial assets and financial liabilities of these VIEs at fair value. The following relates to our consolidated and unconsolidated VIEs.

Financial Guaranty Insurance Contracts

Our interests in VIEs for which we are not the primary beneficiary are accounted for as insurance, reinsurance or credit derivatives. For insurance and reinsurance contracts, we record reserves for losses and LAE, and for credit derivatives, we record cumulative changes in fair value as a derivative asset or liability.

In continually assessing our involvement with VIEs, we consider certain events such as the VIE’s failure to meet certain contractual conditions, including performance tests and triggers, servicer termination events and events of default, that, should they occur, may provide us with additional control rights over the VIE for a limited number of our transactions. The occurrence of these events would cause us to reassess our initial determination of whether we are the primary beneficiary of a VIE. In addition, changes to its governance structure that would allow us to direct the activities of a VIE or our acquisition of additional financial interests in the VIE, would also cause us to reassess our determination of whether we are the primary beneficiary of a VIE. Many of our financial guaranty contracts provide us with substantial control rights over the activities of VIEs upon the occurrence of default or other performance triggers described above. Therefore, additional VIEs may be consolidated by us if these events were to occur. Prior to the occurrence of these contingent conditions, another party (typically the collateral manager, servicer or equity holder) involved with the transaction holds the power to manage the VIE’s assets and to impact the economic performance of the VIE, without our ability to control or direct such powers.

In the second quarter of 2012, Radian Asset Assurance entered into a commutation with one of its derivative counterparties (the “Counterparty”) to commute credit protection through CDS on six directly insured TruPs CDO transactions, representing $699.0 million of net par outstanding at the time of the commutation (the “Terminated TruPs CDOs”). In consideration for this commutation, Radian Asset Assurance paid an amount, a significant portion of which (the “LPV Initial Capital”) was deposited with a limited purpose vehicle (an “LPV”) to cover the Counterparty’s potential future losses on the TruPs bonds underlying the Terminated TruPs CDOs (the “Terminated TruPs Bonds”).

As a result of this transaction, we consolidated the LPV VIE that was formed upon execution. Also as part of this transaction, the LPV entered into a CDS (the “Residual CDS”) with the Counterparty to provide for payments to the Counterparty for future losses relating to the Terminated TruPs Bonds. The LPV Initial Capital, together with investment earnings (collectively, the “LPV Capital”), represent the only funds available to pay the Counterparty for amounts due under the Residual CDS. Radian Asset Assurance has no further obligation for claims related to the Terminated TruPs CDOs. The Residual CDS terminates concurrently with the Terminated TruPs Bonds for which we had provided credit protection and provides for payment to the Counterparty substantially in accordance with the terms of our original CDS protection for the Terminated TruPs Bonds. In addition, pursuant to an agreement with the Counterparty, if any LPV Capital amount is remaining following the maturity of the Residual CDS, Radian Asset Assurance is entitled to these remaining funds.

For GAAP accounting purposes, we evaluated the LPV (a VIE) to determine if we would be considered the primary beneficiary of the VIE. We have the obligation to absorb the majority of the VIE’s losses and the right to receive the majority of any remaining funds through our residual interest agreement. In addition, we have the ability to impact the activities of the VIE in certain limited ways that could impact the economic performance of this VIE. As a result of these obligations and rights, we concluded that we are the primary beneficiary of the VIE. The consolidated assets of the LPV primarily consist of a guaranteed investment contract that is presented within other invested assets, which would be used to settle any obligations of this VIE under the Residual CDS. The Residual CDS represents the liability of the VIE, for which the Counterparty does not have recourse to our general credit for this consolidated liability. The Residual CDS held by the LPV is carried at fair value and we have also elected to carry the investments at fair value.

We also consolidate the assets and liabilities associated with two other financial guaranty structured finance transactions. In these transactions, we provide guarantees for VIEs that own manufactured housing loans. Prior to their consolidation, these transactions had been accounted for as insurance contracts. Due to the contractual provisions that allow us to replace and appoint the servicer who manages the collateral underlying the assets of the transactions, we concluded that we have the power to direct the activities of these VIEs. In addition, as the guarantor of certain classes of debt issued by these VIEs, we have the obligation to absorb losses that could be significant to these VIEs. The assets of these VIEs may only be used to settle the obligations of the VIEs, while due to the nature of our guarantees, creditors have recourse to our general credit as it relates to the VIE debt. However, due to the seniority of the bonds we insure in these transactions, we do not expect to incur a loss from our involvement with these two VIEs; as such, we did not have a net liability recorded for these transactions as of March 31, 2013 and do not expect to pay any losses. We had also previously consolidated the assets and liabilities associated with one CDO of ABS VIE that was commuted in the second quarter of 2012. The consolidated assets of this CDO of ABS VIE were accounted for as trading securities and represented assets to be used to settle the obligation of this VIE.

Radian Group Inc.
Notes to Unaudited Condensed Consolidated Financial Statements — (Continued)

The following tables provide a summary of our maximum exposure to losses, and the financial impact on our condensed consolidated balance sheets, our condensed consolidated statements of operations and our condensed consolidated statements of cash flows as of and for the periods indicated, as it relates to our consolidated and unconsolidated financial guaranty insurance contracts and credit derivative VIEs:

(In thousands)	Consolidated March 31, 2013	Consolidated December 31, 2012	Unconsolidated March 31, 2013	Unconsolidated December 31, 2012
Balance Sheet:				
Other invested assets	$76,919	$ 78,006	$—	$ —
Derivative assets	—	—	1,732	3,201
Premiums receivable	—	—	2,687	2,859
Other assets	96,693	99,337	—	—
Unearned premiums	—	—	2,345	2,513
Reserve for losses and LAE	—	—	14,112	14,376
Derivative liabilities	66,752	70,467	336,430	175,781
VIE debt—at fair value	96,339	98,983	—	—
Accounts payable and accrued expenses	3,001	365	—	—
Maximum exposure (1)	118,431	120,939	4,977,626	5,096,718

(1) The difference between the carrying amounts of the net asset/liability position and maximum exposure related to VIEs is primarily due to the difference between the face amount of the obligation and the recorded fair values, which include an adjustment for our non-performance risk, as applicable. For those VIEs that have recourse to our general credit, the maximum exposure is based on the net par amount of our insured obligation. For any VIEs that do not have recourse to our general credit, the maximum exposure is generally based on the recorded net assets of the VIE, as of the reporting date.

(In thousands)	Consolidated Three Months Ended March 31, 2013	Consolidated Three Months Ended March 31, 2012	Unconsolidated Three Months Ended March 31, 2013	Unconsolidated Three Months Ended March 31, 2012
Statement of Operations:				
Premiums earned	$—	$—	$324	$509
Net investment income	443	2,014	—	—
Net loss on investments	(1,530)	(2,863)	—	—
Change in fair value of derivative instruments—gain (loss)	3,062	(1,227)	(160,975)	(81,673)
Net gain (loss) on other financial instruments	1,155	(30,085)	—	—
Provision for losses—(decrease) increase	—	—	(10)	6,219
Other operating expenses	503	716	—	—
Net Cash Inflow	114	196	1,215	2,827

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Radian Group Inc.
Notes to Unaudited Condensed Consolidated Financial Statements — (Continued)

NIMS VIEs

Our control rights in our NIMS transactions, which we obtained due to an event of default or breach of a performance trigger as defined in the transaction, generally provide us with either a right to replace the VIE servicer or, in some cases, the right to direct the sale of the VIE assets. As the guarantor of either all or a significant portion of the debt issued by each NIMS VIE, we have the obligation to absorb losses that are significant to the VIEs. In those instances where we have determined that we are the primary beneficiary, we consolidate the assets and liabilities of the VIE. We have elected to carry the financial assets and financial liabilities of these VIEs at fair value. Our VIE debt includes amounts for which third parties do not have recourse to us.

In total, our net cash inflow related to NIMS during 2013 has been primarily investment income on bonds held. We have two remaining NIMS transactions, which mature in December 2013 and May 2035, respectively. The following tables provide a summary of our maximum exposure to losses, and the financial impact on our condensed consolidated balance sheets, our condensed consolidated statements of operations and our condensed consolidated statements of cash flows as of and for the periods indicated, as it relates to our consolidated NIMS VIEs:

(In thousands)	March 31, 2013	December 31, 2012
Balance Sheet:		
Derivative assets	$1,578	$1,585
VIE debt—at fair value	11,062	9,875
Maximum exposure (1)	14,061	14,061

(1) The difference between the carrying amounts of the net asset/liability position and maximum exposure related to VIEs is primarily due to the difference between the face amount of the obligation and the recorded fair values, which include an adjustment for our non-performance risk. The maximum exposure is based on the net par amount of our insured obligation as of the reporting date.

(In thousands)	Three Months Ended March 31, 2013	2012
Statement of Operations:		
Net investment income	$55	$138
Change in fair value of derivative instruments—loss	—	(5)
Net loss on other financial instruments	(1,199)	(2,524)
Net Cash Inflow	49	3,281

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Radian Group Inc.
Notes to Unaudited Condensed Consolidated Financial Statements — (Continued)

6. Investments

Securities within our investment portfolio determined to be "held to maturity" and "available for sale" consisted of the following as of the dates indicated:

	March 31, 2013			
(In thousands)	Amortized Cost	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
Fixed-maturities held to maturity:				
Bonds and notes:				
State and municipal obligations	$427	$421	$—	$6
	$427	$421	$—	$6
Fixed-maturities available for sale:				
U.S. government and agency securities	$3,434	$3,741	$307	$—
State and municipal obligations	17,961	18,711	807	57
Corporate bonds and notes	14,686	15,341	1,026	371
RMBS	48	48	2	2
Other investments	423	464	41	—
	$36,552	$38,305	$2,183	$430
Equity securities available for sale (1)	$88,260	$123,050	$34,790	$—
Total debt and equity securities	$125,239	$161,776	$36,973	$436

(1) Comprising broadly diversified domestic equity mutual funds ($108.9 million fair value) and various preferred and common stocks invested across numerous companies and industries ($14.2 million fair value).

	December 31, 2012			
(In thousands)	Amortized Cost	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
Fixed-maturities held to maturity:				
Bonds and notes:				
State and municipal obligations	$679	$676	$3	$6
	$679	$676	$3	$6
Fixed-maturities available for sale:				
U.S. government and agency securities	$4,969	$5,305	$336	$—
State and municipal obligations	17,922	17,995	116	43
Corporate bonds and notes	15,618	16,369	1,110	359
RMBS	50	51	3	2
Other investments	922	976	54	—
	$39,481	$40,696	$1,619	$404
Equity securities available for sale (1)	$88,260	$112,139	$23,879	$—
Total debt and equity securities	$128,420	$153,511	$25,501	$410

(1) Comprising broadly diversified domestic equity mutual funds ($98.9 million fair value) and various preferred and common stocks invested across numerous companies and industries ($13.2 million fair value).

Radian Group Inc.
Notes to Unaudited Condensed Consolidated Financial Statements — (Continued)

The trading securities within our investment portfolio, which are recorded at fair value, consisted of the following as of the dates indicated:

(In thousands)	March 31, 2013	December 31, 2012
Trading securities:		
U.S. government and agency securities	$461,797	$428,519
State and municipal obligations	670,385	669,975
Corporate bonds and notes	1,437,828	1,357,175
RMBS	599,471	663,307
CMBS	299,210	237,294
Other ABS	221,641	254,102
Foreign government securities (1)	—	117,686
Hybrid securities	144,012	211,944
Equity securities	128,217	153,722
Other investments	904	898
Total	$3,963,465	$4,094,622

(1) As of March 31, 2013, there were no foreign government securities in our investment portfolio. We sold our investment in foreign government securities during the first quarter of 2013, as our market view of these investments changed, and their performance did not meet our expectations.

For trading securities held at March 31, 2013 and December 31, 2012, we had net losses during 2013 and net gains during 2012 in the amount of $(10.5) million and $29.8 million, respectively.

The following tables show the gross unrealized losses and fair value of our securities deemed “available for sale” and “held to maturity”, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of the dates indicated:

March 31, 2013:	Less Than 12 Months			12 Months or Greater			Total		
($ in thousands) Description of Securities	# of securities	Fair Value	Unrealized Losses	# of securities	Fair Value	Unrealized Losses	# of securities	Fair Value	Unrealized Losses
State and municipal obligations	—	$—	$—	2	$5,989	$63	2	$5,989	$63
Corporate bonds and notes	—	—	—	5	4,855	371	5	4,855	371
RMBS	1	29	2	—	—	—	1	29	2
Total	1	$29	$2	7	$10,844	$434	8	$10,873	$436

December 31, 2012:	Less Than 12 Months			12 Months or Greater			Total		
($ in thousands) Description of Securities	# of securities	Fair Value	Unrealized Losses	# of securities	Fair Value	Unrealized Losses	# of securities	Fair Value	Unrealized Losses
State and municipal	—	$—	$—	2	$6,004	$49	2	$6,004	$49

obligations									
Corporate bonds and notes	—	—	—	6	5,329	359	6	5,329	359
RMBS	1	31	2	—	—	—	1	31	2
Total	1	$31	$2	8	$11,333	$408	9	$11,364	$410

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Radian Group Inc.
Notes to Unaudited Condensed Consolidated Financial Statements — (Continued)

During the first three months of 2013 and 2012, there were no credit losses recognized in earnings.
Impairments of a security due to credit deterioration that result in a conclusion that the present value of cash flows expected to be collected will not be sufficient to recover the amortized cost basis of the security are considered other-than-temporary. Other declines in the fair value of a security (for example, due to interest rate changes, sector credit rating changes or company-specific rating changes) that result in a conclusion that the present value of cash flows expected to be collected will not be sufficient to recover the amortized cost basis of the security, also may serve as a basis to conclude that an other-than-temporary impairment has occurred. To the extent we determine that a security is deemed to be other-than-temporarily impaired, we recognize an impairment loss.
We hold securities in an unrealized loss position that we did not consider to be other-than-temporarily impaired as of March 31, 2013. For all investment categories, the unrealized losses of 12 months or greater duration as of March 31, 2013, were generally caused by interest rate or credit spread movements since the purchase date of such securities. As of March 31, 2013, we expected the present value of cash flows to be collected from these securities to be sufficient to recover the amortized cost basis of these securities. At March 31, 2013, we did not have the intent to sell any debt securities in an unrealized loss position, and we determined that it is more likely than not that we will have the ability to hold the securities until recovery or maturity; therefore, we did not consider these investments to be other-than-temporarily impaired at March 31, 2013.
The contractual maturities of fixed-maturity investments are as follows:

	March 31, 2013			
	Held to Maturity		Available for Sale	
(In thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less (1)	$—	$—	$5,242	$5,274
Due after one year through five years (1)	120	120	11,183	11,346
Due after five years through ten years (1)	—	—	3,053	3,166
Due after ten years (1)	307	301	17,026	18,471
RMBS (2)	—	—	48	48
Total	$427	$421	$36,552	$38,305

(1) Actual maturities may differ as a result of calls before scheduled maturity.
(2) RMBS are shown separately given their varying maturity dates.

7. Reinsurance

In our mortgage insurance business, we use reinsurance as a risk management tool to reduce our net RIF and to help manage our regulatory risk-to-capital ratio. We have primarily used reinsurance in our financial guaranty business to the extent necessary in specific transactions to comply with applicable single risk limits. However, in January 2012, as part of a transaction with one of our primary insurers (discussed below), we ceded $1.8 billion of financial guaranty's direct public finance risk as a means to reduce our net par outstanding. Although the use of reinsurance does not discharge an insurer from its primary liability to the insured, the reinsuring company assumes the related liability under these arrangements. Included in other assets are unearned premiums on risk that we have ceded of $75.0 million and $64.5 million at March 31, 2013 and December 31, 2012, respectively.

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Notes to Unaudited Condensed Consolidated Financial Statements — (Continued)

The effect of assumed or ceded reinsurance in our mortgage insurance and financial guaranty businesses on net premiums written and earned is as follows:

	Three Months Ended March 31,	
(In thousands)	2013	2012
Net premiums written-insurance:		
Direct	$245,467	$203,753
Assumed	(10,397)	(87,488)
Ceded	(27,885)	(38,587)
Net premiums written-insurance	$207,185	$77,678
Net premiums earned-insurance:		
Direct	$207,940	$192,016
Assumed	2,211	(10,685)
Ceded	(17,563)	(13,966)
Net premiums earned-insurance	$192,588	$167,365

In January 2013, we commuted $822.2 million of financial guaranty net par outstanding as a part of the FGIC Commutation. This transaction reduced our net premiums written by $12.6 million and reduced our net premiums earned by $2.5 million. In January 2012, Radian Asset Assurance entered into a transaction with subsidiaries of Assured Guaranty Ltd. (collectively “Assured”) that included the commutation of $13.8 billion of financial guaranty net par outstanding that Radian Asset Assurance had reinsured from Assured, and the cession of $1.8 billion of direct public finance business to Assured. This transaction reduced our net premiums written by $119.8 million and reduced our net premiums earned by $22.2 million.

During the second quarter of 2012, Radian Guaranty entered into a quota share reinsurance agreement with a third-party reinsurance provider (the “Initial Quota Share Reinsurance Transaction”). Through the Initial Quota Share Reinsurance Transaction, Radian Guaranty agreed to cede to the third party reinsurance provider 20% of its NIW beginning with the business written in the fourth quarter of 2011. As of March 31, 2013, RIF ceded under the Initial Quota Share Reinsurance Transaction was $1.5 billion. Radian Guaranty has the ability, at its option, to recapture two-thirds of the reinsurance ceded as part of this transaction on December 31, 2014, which would result in Radian Guaranty reassuming the related RIF in exchange for a payment of a predefined commutation amount from the reinsurer.

Under the Initial Quota Share Reinsurance Transaction, for the three months ended March 31, 2013, ceded premiums written were $6.1 million and ceded premiums earned were $7.8 million. Ceding commissions under the Initial Quota Share Reinsurance Transaction for the three months ended March 31, 2013 were $1.5 million.

In the fourth quarter of 2012, Radian Guaranty and the same third-party reinsurance provider entered into a second quota share reinsurance agreement (the “Second Quota Share Reinsurance Transaction”). The limitation on ceded risk is $750 million initially and the parties have the ability to mutually increase the amount of ceded risk up to a maximum of $2 billion. As of March 31, 2013, RIF ceded under the Second Quota Share Reinsurance Transaction was $0.9 billion. The agreed upon terms also provide that, effective as of December 31, 2015, Radian Guaranty will have the ability, at its option (the “Commutation Option”), to recapture one-half of the reinsurance ceded with respect to conventional GSE loans, which would result in Radian Guaranty reassuming the related RIF in exchange for a payment of a predefined commutation amount from the reinsurer. Pursuant to the original terms of the Second Quota Share Reinsurance Transaction:

(i) Radian Guaranty agreed to cede to the reinsurer 20% of all premiums and losses incurred with respect to conventional GSE loans and will initially receive a 35% ceding commission; provided, that if we do not exercise our Commutation Option, the ceding commission will be reduced to 30% for the portion of the ceded RIF that was subject to the Commutation Option; and

(ii) Radian Guaranty has the ability to cede 100% of all premiums and losses incurred with respect to non-conventional portfolio loans and will receive a 25% ceding commission. We do not expect the volume of such portfolio loans to be material.

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Under the Second Quota Share Reinsurance Transaction, for the three months ended March 31, 2013, ceded premiums written were $16.4 million and ceded premiums earned were $2.8 million. Ceding commissions under the Second Quota Share Reinsurance Transaction for the three months ended March 31, 2013 were $5.8 million. Effective April 1, 2013, Radian Guaranty amended the original terms of the transaction to reduce the percentage of all premiums and losses incurred on new business that will be ceded to the reinsurer under this reinsurance agreement on a prospective basis from 20% to 5% with respect to NIW on conventional GSE loans.

8. Losses and LAE

Our reserve for losses and LAE, as of the dates indicated, consisted of:

(In thousands)	March 31, 2013	December 31, 2012
Mortgage insurance reserves	$2,894,500	$3,083,608
Financial guaranty reserves	24,573	66,328
Total reserve for losses and LAE	$2,919,073	$3,149,936

The following table presents information relating to our mortgage insurance reserves for losses, including our estimate of defaults incurred but not reported ("IBNR"), and LAE as of the dates indicated:

	Three Months Ended March 31,	
(In thousands)	2013	2012
Mortgage Insurance		
Balance at beginning of period	$3,083,608	$3,247,900
Less reinsurance recoverables (1)	83,238	151,569
Balance at beginning of period, net of reinsurance recoverables	3,000,370	3,096,331
Add losses and LAE incurred in respect of default notices reported and unreported in:		
Current year (2)	182,534	218,345
Prior years	(50,578)	16,384
Total incurred	131,956	234,729
Deduct paid claims and LAE related to:		
Current year (2)	—	—
Prior years	309,927	218,193
Total paid	309,927	218,193
Balance at end of period, net of reinsurance recoverables	2,822,399	3,112,867
Add reinsurance recoverables (1)	72,101	118,071
Balance at end of period	$2,894,500	$3,230,938

(1) Related to ceded losses on captive reinsurance transactions, capital markets reinsurance transactions ("Smart Home") and quota share reinsurance transactions.

(2) Related to underlying defaulted loans with a most recent date of default notice in the year indicated. For example, if a loan had defaulted in a prior year, but then subsequently cured and later re-defaulted in the current year, that default would be considered a current year default.

The ultimate amount and timing of future losses will depend, in part, on general economic conditions and other factors, including the status of credit markets, home prices and unemployment rates, all of which are difficult to predict and beyond our control. Our mortgage insurance incurred losses are driven primarily by new mortgage insurance defaults and any changes in the assumptions used to determine our loss reserves.

Our mortgage insurance loss reserves declined in the first quarter of 2013, primarily as a result of a decrease in our total inventory of defaults, as the volume of paid claims, defaulted loans that cure (“cures”), and insurance rescissions and claim denials outpaced new default notices received during the quarter. Additionally, we experienced favorable reserve development on prior year defaults, as discussed below. Total paid claims increased for the three months ended March 31, 2013 from the comparable period in 2012, mainly as a result of our recent effort to improve the efficiency of our claim review process. In prior periods, our process for reviewing claims received for non-compliance with our insurance policies lengthened the claim resolution period. Delays created by foreclosure slowdowns, servicer issues, and loan modification programs also had lengthened the claim resolution period. We cannot be certain of the ultimate impact of these factors on our business or results of operations, or the timing of this impact.

For the three months ended March 31, 2013, reserves established for new default notices reported in the current quarter were the primary driver of our total incurred losses. Favorable reserve development on default notices reported in prior years partially mitigated the impact from new defaults, as the benefit to prior year defaults from higher cures and claim curtailments was more than previously estimated.

For the three months ended March 31, 2012, reserves established for new default notices were the primary driver of total incurred losses. In addition, our results for the three months ended March 31, 2012, were negatively affected by a $27.0 million decrease in our estimated reinsurance recoverable from our Smart Home transactions. This decrease was a result of trends in lower claims paid and higher insurance rescissions and claim denials than were previously estimated to occur by the scheduled maturity dates of our Smart Home transactions.

In recent years, our default inventory has experienced an increase in its weighted average age, as measured by the number of monthly payments missed, and because we apply higher estimated “default to claim rates” (rate at which defaulted loans are expected to result in claim) on our more aged delinquent loans, this has resulted in a higher reserve per default. As a consequence, our aggregate weighted average default to claim rate assumption, which is net of estimated denials, rescissions and reinstatements, used in estimating our reserve for losses was 49% at March 31, 2013, compared to 47% at December 31, 2012. As of March 31, 2013, our aggregate weighted average default to claim rate estimate, excluding pending claims, was 40%, and ranged from 20% for insured loans that had missed two to three monthly payments to 46% for such loans that had missed 12 or more monthly payments.

Our reserve for losses also includes the impact of our estimate of future rescissions and denials, which remain elevated compared to levels experienced before 2009. The elevated levels of our rate of insurance rescissions and claim denials have reduced our paid losses and have resulted in a significant reduction in our loss reserves. The impact of our estimate of net future rescissions and denials reduced our loss reserves as of March 31, 2013 and December 31, 2012 by approximately $392 million and $455 million, respectively. Conversely, the impact of our estimate of future reinstatements of previously rescinded policies and denied claims increased our loss reserves as of March 31, 2013 and December 31, 2012 by approximately $259 million and $303 million, respectively, as further described below.

The amount of estimated rescissions and denials incorporated into our reserve analysis at any point in time is affected by a number of factors, including not only our estimated rate of rescissions and denials on future claims, but also the volume and attributes of our defaulted insured loans, our estimated default to claim rate and our estimated claim severity, among other assumptions. Although we expect the amount of estimated rescissions and denials embedded within our reserve for losses to remain elevated as compared to levels before 2009, we expect them to decrease over time, as the defaults related to our legacy portfolio decline as a proportion of our total default portfolio and as we realize the results through actual rescissions and denials, or the commutations of insured loans. In the event that we experience a more rapid than expected decrease in the level of future insurance rescissions and claim denials from the current levels, it could have a material adverse effect on our paid losses and loss reserves.

Our reported rescission and denial activity in any given period is subject to challenge by our lender customers. Recently, we have seen an increase in claim denials compared to rescissions, resulting primarily from the failure of our lender customers to provide the documentation required to perfect a claim submission. Subsequent to our initial claim denials, lenders have demonstrated an ability to produce the additional information needed to perfect a claim for a significant portion of previously denied claims. As a result of increases in claim denials during 2012, we expect that a portion of previously denied claims will be resubmitted with the required documentation and ultimately paid, and we have considered this expectation in developing our IBNR reserve estimate. This IBNR reserve estimate was $275.8 million and $323.0 million at March 31, 2013 and December 31, 2012, respectively. For 2013, our IBNR reserve estimate of $275.8 million includes our estimate of future reinstatements of previously denied claims and rescinded policies of $166.3 million and $92.5 million, respectively. These reserves relate to $465.3 million of claims that were denied within the preceding 12 months and $767.9 million of policies that were rescinded within the preceding 24 months.

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The following table illustrates the amount of first-lien claims submitted to us for payment that were rescinded or denied, for the periods indicated, net of any reinstatements of previously rescinded policies or denied claims within each period:

	Three Months Ended March 31,	
(In millions)	2013	2012
Rescissions	$15.3	$33.3
Denials	27.2	212.4
Total first-lien claims submitted for payment that were rescinded or denied (1)	$42.5	$245.7

(1) Includes an amount related to a small number of submitted claims that were subsequently withdrawn by the insured.

We estimate our claim liability related to the potential future reinstatement of these previously rescinded policies and denied claims by estimating an initial gross reinstatement rate at the time of denial or rescission, which then declines over a 12 or 24 month timeframe as certain denials and rescissions are reinstated. As of March 31, 2013, for previously denied claims, this initial gross reinstatement assumption begins at approximately 60% and declines to 0% after 12 months, while for previously rescinded policies, the initial assumed reinstatement rate begins at approximately 20% and declines to 0% after 24 months. Our IBNR reserve estimate also includes projected impacts from future estimated rescissions (with respect to reinstated denials) and future claim curtailments (with respect to both reinstated denials and rescissions). Therefore, at any particular point in time, our IBNR reserve estimate with respect to previously rescinded policies or denied claims is affected not only by our initial reinstatement assumption, but also by the length of time since the denial or rescission, our estimated likelihood of such reinstatements resulting in a paid claim, expected claim curtailments on such paid claims, as well as potential settlement discussions with our lender customers.

The cumulative amount of first-lien claims submitted to us for payment that have been rescinded in the last two years for primary loans and in the last three years for pool loans, and then subsequently were challenged (“rebutted”) by the lenders and policyholders, but have not been reinstated, was $842.5 million for the applicable period through March 31, 2013.

While the total potential claim amount of non-overturned rebuttals outstanding represents all challenged rescissions for which coverage has not been reinstated, our ongoing, active discussions with our lender customers typically involve only a small number of these non-overturned rebuttals. Accordingly, we expect that some portion of these rescinded claims may be reinstated in future periods. Absent litigation or other legal proceedings in which we are not successful, we do not expect that these discussions are likely to result in settlements that would materially impact our liquidity or results of operations.

We also accrue for the premiums that we expect to refund to our lender customers in connection with our estimated insurance rescission activity. Our accrued liability for such refunds, which is included within accounts payable and accrued expenses on our condensed consolidated balance sheets, was $47.5 million and $48.0 million as of March 31, 2013 and December 31, 2012, respectively.

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Rescission and denial rates in 2011 and 2012 have been affected by an increase in the number of claims received that we are reviewing for potential violations of our insurance policies. The following table shows the cumulative rescission/denial rates in our total first-lien portfolio, net of both actual and expected reinstatements, as of March 31, 2013, with respect to claims received in each quarter indicated below:

Claim Received Quarter	Cumulative Rescission/Denial Rate for Each Quarter (1)	Percentage of Total Claims Resolved (2)
Q3 2010	16.1%	100%
Q4 2010	17.5%	100%
Q1 2011	20.9%	99%
Q2 2011	25.8%	99%
Q3 2011	31.2%	99%
Q4 2011	27.6%	97%
Q1 2012	22.8%	91%
Q2 2012	19.2%	73%
Q3 2012	15.3%	55%

(1) The cumulative rescission/denial rates represent the ratio of claims rescinded or denied to claims received (by claim count). Rescissions and denials are net of actual reinstatements, plus our current estimate for expected reinstatements of previously rescinded or denied claims. These amounts represent the cumulative rates for each quarter as of March 31, 2013. As discussed in footnote (2) below, these rates remain subject to change based on differences between estimated and actual reinstatements of previously rescinded policies or denied claims. Until all of the claims received during the periods shown have been internally resolved, the rescission/denial rates for each quarter are projections and remain subject to change.

(2) The percentage of claims resolved for each quarter presented in the table above, represents the number of claims that have been internally resolved as a percentage of the total number of claims received for that specific quarter. A claim is considered internally resolved when it is either paid or it is concluded that the claim should be denied or rescinded, though such denials or rescissions could be challenged and, potentially reinstated or overturned. For the fourth quarter of 2012 and first quarter of 2013, a significant portion of claims received for those quarters have not been internally resolved; therefore, we do not believe the cumulative rescission/denial rates for those periods are presently meaningful.

We considered the sensitivity of first-lien loss reserve estimates at March 31, 2013 by assessing the potential changes resulting from a parallel shift in severity and default to claim rate. For example, assuming all other factors remain constant, for every one percentage point change in primary claim severity (which we estimate to be 27% of unpaid principal balance at March 31, 2013), we estimated that our loss reserves would change by approximately $83 million at March 31, 2013. For every one percentage point change in pool claim severity (which we estimate to be 45% of unpaid principal balance at March 31, 2013), we estimated that our loss reserves would change by approximately $4 million at March 31, 2013. For every one percentage point change in our overall default to claim rate (which we estimate to be 49% at March 31, 2013), we estimated a $50 million change in our loss reserves at March 31, 2013.

Estimating the loss reserves in both our mortgage insurance and financial guaranty business segments involves significant reliance upon assumptions and estimates with regard to the likelihood, magnitude and timing of each potential loss. The models, assumptions and estimates we use to establish loss reserves may not prove to be accurate, especially during an extended economic downturn or a period of extreme market volatility and uncertainty, as has existed for the last several years. Our reserves could be impacted in the future by the continued delay of the U.S.

economy to fully recover from the most recent recession and prolonged economic downturn, including high unemployment, uncertainty in the housing, municipal, foreign sovereign and related credit markets, which could increase our mortgage insurance or financial guaranty losses beyond our existing expectations. As such, we cannot be certain that our reserve estimate will be adequate to cover ultimate losses on incurred defaults.

See Note 9 for information regarding our financial guaranty net claim liabilities.

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9. Financial Guaranty Insurance Contracts

The following table includes information as of March 31, 2013 regarding our financial guaranty claim liabilities, segregated by the surveillance categories that we use in monitoring the risks related to these contracts:

	Surveillance Categories				
($ in thousands)	Performing	Special Mention	Intensified Surveillance	Case Reserve	Total
Number of policies	7	120	70	85	282
Remaining weighted-average contract period (in years)	21	18	20	25	19
Insured contractual payments outstanding:					
Principal	$2,148	$821,654	$652,191	$123,141	$1,599,134
Interest	195	431,399	356,182	32,411	820,187
Total	$2,343	$1,253,053	$1,008,373	$155,552	$2,419,321
Gross claim liability	$1	$22,169	$264,492	$47,979	$334,641
Less:					
Gross potential recoveries	—	7,588	286,068	68,766	362,422
Discount, net	—	353	(66,397)	1,445	(64,599)
Net claim liability (prior to reduction for unearned premium)	$1	$14,228	$44,821	$(22,232)	$36,818
Unearned premium revenue	$7	$16,980	$11,747	$—	$28,734
Net claim liability reported in the balance sheet	$—	$6,853	$37,847	$(22,232)	$22,468
Reinsurance recoverables	$—	$—	$—	$—	$—

A net claim liability is established for a performing credit if there is evidence that credit deterioration has occurred and the expected loss on the credit exceeds the unearned premium revenue for the contract based on the present value of the expected net cash inflows and outflows. Included in accounts and notes receivable and unearned premiums on our condensed consolidated balance sheets are the present values of premiums receivable and unearned premiums that are received on an installment basis. The premiums receivable is net of commissions on assumed reinsurance business. The present values of premiums receivable and unearned premiums that are received on an installment basis were $28.3 million and $30.7 million, respectively, as of March 31, 2013, and $28.9 million and $33.6 million, respectively, as of December 31, 2012.

The accretion of these balances is included in either premiums written and premiums earned (for premiums receivable) or policy acquisition costs (for commissions) on our condensed consolidated statements of operations. The accretion included in premiums earned for the three months ended March 31, 2013 was $0.2 million compared to $0.3 million for the comparable period of 2012. There was an immaterial amount of accretion recorded in policy acquisition costs for the three months ended March 31, 2013 and 2012.

The nominal (non-discounted) premiums, net of commissions that are expected to be collected on financial guaranty contracts with installment premiums, included in premiums receivable as of March 31, 2013, was $35.5 million and is expected to decrease over time as the portfolio runs off. The activity related to the net present value of premiums receivable during the three months ended March 31, 2013 and 2012 was not material. The weighted-average risk-free rate used to discount the premiums receivable and premiums to be collected was 2.6% at March 31, 2013.

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Premiums earned were affected by the following for the periods indicated:

(In thousands)	Three Months Ended March 31, 2013	2012
Refundings	$4,753	$8,224
Recaptures/commutations	(2,447)	(16,269)
Unearned premium acceleration upon establishment of case reserves	65	—
Reinsurance agreements	—	(5,995)
Foreign exchange revaluation, gross of commissions	(768)	212
Adjustments to installment premiums, gross of commissions	2,692	94
Total adjustment to premiums earned	$4,295	$(13,734)

The following table shows the expected contractual premium revenue from our existing financial guaranty portfolio, assuming no prepayments (“refundings”) of any financial guaranty obligations, as of March 31, 2013:

(In thousands)	Ending Net Unearned Premiums	Unearned Premium Amortization	Accretion	Total Premium Revenue
Second Quarter 2013	$220,786	$6,742	$226	$6,968
Third Quarter 2013	214,181	6,605	220	6,825
Fourth Quarter 2013	205,534	8,647	217	8,864
2013	205,534	21,994	663	22,657
2014	183,168	22,366	821	23,187
2015	165,724	17,444	752	18,196
2016	150,560	15,164	707	15,871
2017	136,441	14,119	647	14,766
2013-2017	136,441	91,087	3,590	94,677
2018-2022	78,216	58,225	2,467	60,692
2023-2027	39,420	38,796	1,535	40,331
2028-2032	17,320	22,100	950	23,050
After 2032	—	17,320	1,099	18,419
Total	$—	$227,528	$9,641	$237,169

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The following table shows the significant components of changes in our financial guaranty claim liability for the three months ended March 31, 2013 and 2012, excluding $2.1 million and $2.4 million, respectively, related to our trade credit reinsurance and surety business, which is excluded from the accounting standard regarding accounting for financial guaranty insurance contracts by insurance enterprises.

	Three Months Ended March 31,	
(In thousands)	2013	2012
Claim liability at beginning of period	$64,291	$60,550
Incurred losses and LAE:		
Increase in gross claim liability	8,390	187,111
Increase in gross potential recoveries	(3,946)	(301,598)
(Increase)/decrease in discount	(3,555)	146,579
Increase in unearned premiums	(797)	(704)
Incurred losses and LAE	92	31,388
Paid losses and LAE:		
Current years	1	—
Prior years	(41,915)	(8,889)
Paid losses and LAE:	(41,914)	(8,889)
Claim liability at end of period	$22,469	$83,049
Components of incurred losses and LAE:		
Claim liability established in current period	$104	$—
Changes in existing claim liabilities	(12)	31,388
Total incurred losses and LAE	$92	$31,388
Components of decrease in discount:		
(Increase)/decrease in discount related to net claim liabilities established in current period	$(128)	$150,611
Increase in discount related to existing net claim liabilities	(3,427)	(4,032)
Total (increase)/decrease in discount	$(3,555)	$146,579

Paid losses during the first quarter of 2013 include the impact of the FGIC Commutation.

In the first quarter of 2012, we significantly increased our estimated gross claim liability associated with a project finance credit with net par outstanding of $69 million at March 31, 2012, based primarily on refinancing risk upon the maturity or scheduled principal amortization of the insured obligations beginning in 2017. Revenues for the project, however, serve as collateral for our insured risk, and we have also projected a full recovery of the gross claim over time, which has resulted in both an increase in our potential recovery and discount amounts.

Our financial guaranty loss reserve estimate involves significant judgment surrounding the estimated probability of the likelihood, magnitude and timing of each potential loss based upon different loss scenarios. The probabilities, assumptions and estimates we use to establish our financial guaranty loss reserves are subject to uncertainties, particularly given the current economic and credit environments, including uncertainties regarding our public finance municipal exposures and international sovereign risk exposures. We continue to monitor the uncertainties surrounding our portfolio, and it is possible that the actual losses paid could differ materially from our present estimates.

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The weighted-average risk-free rates used to discount the gross claim liability and gross potential recoveries were as follows as of the dates indicated:

March 31, 2013	2.09	%
December 31, 2012	2.00	%
March 31, 2012	2.26	%
December 31, 2011	2.80	%

10. Long-Term Debt
The carrying value of our long-term debt at March 31, 2013 and December 31, 2012 was as follows:

(In thousands)		March 31, 2013	December 31, 2012
5.625%	Senior Notes due 2013	$—	$79,449
5.375%	Senior Notes due 2015	54,798	249,868
3.000%	Convertible Senior Notes due 2017 (1)	338,966	334,254
9.000%	Senior Notes due 2017	190,563	—
2.250%	Convertible Senior Notes due 2019 (2)	321,778	—
	Total long-term debt	$906,105	$663,571

(1) The principal amount of these notes is $450 million.
(2) The principal amount of these notes is $400 million.

In January 2013, we exchanged $195.2 million of our 5.375% Senior Notes due June 2015 (the “Old Notes”) for a new series of 9.000% Senior Notes due June 2017 (the “New Notes”) and additional cash consideration in certain circumstances for purposes of improving our debt maturity profile. This transaction, which is accounted for as an extinguishment of debt, resulted in a loss of $3.9 million, primarily as a result of the requirement to record the New Notes at fair value. Both the Old Notes and the New Notes have covenants customary for securities of this nature, including covenants related to the payments of the notes, reports, compliance certificates, and the modification of covenants. Additionally, the indentures governing the Old Notes and New Notes include covenants restricting us from encumbering the capital stock of a designated subsidiary (as defined in the respective indentures for the notes) or disposing of any capital stock of any designated subsidiary unless either all of the stock is disposed of or we retain more than 80% of the stock.

2019 Convertible Senior Notes

In March 2013, we issued $400 million principal amount of the 2019 Convertible Senior Notes and received net proceeds of approximately $389.8 million. Interest is payable semi-annually on March 1 and September 1 of each year, commencing on September 1, 2013. The 2019 Convertible Senior Notes have covenants customary for securities of this nature, including covenants related to payments of the notes, reports, compliance certificates and the modification of covenants.

At any time on or after March 8, 2016, we may redeem all or part of the notes, but only if the last reported sale price of our common stock for 20 or more trading days in a period of 30 consecutive trading days ending on, and including, the trading day prior to the date we provide notice of redemption exceeds 130% of the conversion price in effect on each such trading day. The redemption price will be equal to 100% of the unpaid principal amount of the notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date (unless the redemption date falls after a regular record date but on or prior to the immediately succeeding interest payment date, in which case we will pay the full amount of accrued and unpaid interest to the holder of record as of the close of business on such regular record date, and the redemption price will be equal to 100% of the principal amount of notes to be redeemed).

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Holders of the notes will be able to convert the notes, at their option, before the close of business on the business day immediately preceding December 1, 2018, only under the following circumstances:

1. During any calendar quarter commencing after March 31, 2013 (and only during such calendar quarter), if the last reported sale price of our common stock for each of at least 20 trading days (whether or not consecutive) during the 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter, is greater than or equal to 130% of the applicable conversion price on each applicable trading day;
2. During the five business day period after any five consecutive trading day period in which the trading price per $1,000 principal amount of the notes (for each trading day during that five day measurement period) was less than 98% of the product of the last reported sale price of the common stock and the applicable conversion rate on such trading day;
3. Any time prior to the close of business on the business day prior to the redemption date if we call the notes for redemption; or
4. Upon the occurrence of specified corporate events as described in the indenture for the notes.

Upon a conversion, we will satisfy our conversion obligation by paying or delivering, as the case may be, cash, shares of our common stock or a combination of cash and shares of our common stock, at our election. The conversion rate initially is 94.3396 shares of our common stock per $1,000 principal amount of notes (corresponding to an initial conversion price of approximately $10.60 per share of common stock). The conversion rate is subject to adjustment in certain events, but will not be adjusted for accrued and unpaid interest, if any. In addition, following certain corporate events, we will, under certain circumstances, increase the conversion rate for a holder who elects to convert its notes in connection with that corporate event.

This transaction is accounted for under the accounting standard for convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) and specifies that issuers of such instruments should separately account for the liability and equity components in a manner that reflects the entity’s nonconvertible debt borrowing rate when the interest cost is recognized in subsequent periods. Our convertible notes fall within the scope of this standard due to our ability to elect to repay the convertible notes in cash.

We have determined that the embedded conversion option in the convertible notes is not required to be separately accounted for as a derivative under the accounting standard for derivatives and hedging. The carrying amount of the liability component was calculated by measuring the fair value of a similar liability that does not have an associated equity component. The carrying amount of the equity component representing the embedded conversion option was determined by deducting the fair value of the liability component from the initial proceeds ascribed to the convertible notes as a whole. The excess of the principal amount of the liability component over its carrying amount is amortized as a component of interest expense over the expected life of a similar liability that does not have an associated equity component using the effective interest method. The equity component is not remeasured as long as it continues to meet the conditions for equity classification as prescribed in the accounting standard for derivative financial instruments indexed to, and potentially settled in, an entity’s own common stock and the accounting standard for determining whether an instrument (or an embedded feature) is indexed to an entity’s own stock.

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Issuance and transaction costs incurred at the time of the issuance of the convertible notes are allocated to the liability and equity components in proportion to the allocation of proceeds and accounted for as debt issuance costs and equity issuance costs, respectively. The convertible notes are reflected on our condensed consolidated balance sheets as follows:

(In thousands)	March 31, 2013	
Liability component:		
Principal	$400,000	
Less: debt discount, net (1)	(78,222	)
Net carrying amount	$321,778	
Equity component (net of tax impact) (2) (3)	$77,026	

(1) Included within long-term debt and is being amortized over the life of the convertible notes.
(2) Included within additional paid-in capital, net of related issuance costs.
(3) A full valuation allowance has been recorded against the deferred income tax impact.

The following table sets forth total interest expense recognized related to the convertible notes for the period indicated:

(In thousands)	Three Months Ended March 31, 2013	
Contractual interest expense	$675	
Amortization of debt issuance costs	92	
Amortization of debt discount	819	
Total interest expense	$1,586	
Effective interest rate of the liability component	6.25	%

If we fail to comply with applicable debt covenants, it could result in a default under our long-term debt and accelerate our obligation to repay our outstanding debt. Regulatory action that results in the appointment of a receiver for one or more of our significant insurance subsidiaries could constitute an event of default under our long-term debt.

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Notes to Unaudited Condensed Consolidated Financial Statements — (Continued)

11. Accumulated Other Comprehensive Income
The following table shows the rollforward of accumulated other comprehensive income for the periods indicated:

	Three Months Ended March 31, 2013		
(In thousands)	Before tax	Tax effect	Net of tax
Balance at beginning of period	$24,904	$8,809	$16,095
Other comprehensive income:			
Foreign currency translation adjustments:			
Unrealized foreign currency translation adjustment	(29)	(10)	(19)
Less: Reclassification adjustment	—	—	—
Net foreign currency translation adjustments	(29)	(10)	(19)
Unrealized gains on investments:			
Unrealized holding gains arising during the period	11,515	4,030	7,485
Less: Reclassification adjustment for net gains included in net loss (1)	67	46	21
Net unrealized gains on investments	11,448	3,984	7,464
Other comprehensive income	11,419	3,974	7,445
Balance at end of period	$36,323	$12,783	$23,540

	Three Months Ended March 31, 2012		
(In thousands)	Before tax	Tax effect	Net of tax
Balance at beginning of period	$12,039	$639	$11,400
Other comprehensive income:			
Foreign currency translation adjustments:			
Unrealized foreign currency translation adjustment	—	—	—
Less: Reclassification adjustment	—	—	—
Net foreign currency translation adjustments	—	—	—
Unrealized gains on investments:			
Unrealized holding gains arising during the period	26,483	9,269	17,214
Less: Reclassification adjustment for net gains included in net loss (1)	14,785	5,175	9,610
Net unrealized gains on investments	11,698	4,094	7,604
Other comprehensive income	11,698	4,094	7,604
Balance at end of period	$23,737	$4,733	$19,004

(1) Included in net (losses) gains on investments on our condensed consolidated statements of operations.

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12. Income Taxes

We provide for income taxes in accordance with the provisions of the accounting standard regarding accounting for income taxes. As required under this standard, our deferred tax assets and liabilities are recognized under the balance sheet method, which recognizes the future tax effect of temporary differences between the amounts recorded in our condensed consolidated financial statements and the tax bases of these amounts. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the periods in which the deferred tax asset or liability is expected to be realized or settled.

Given the impact on our pre-tax results of net gains or losses resulting from our derivative transactions and our investment portfolio, and the continued uncertainty around our ability to rely on certain short-term financial projections, which directly affects our ability to estimate an effective tax rate for the full year, we record our interim period income tax provision (benefit) based on actual results of operations.

For federal income tax purposes, we had approximately $1.9 billion of net operating loss (“NOL”) carryforwards as of March 31, 2013. To the extent not utilized, the NOL carryforwards will expire during tax years 2028 through 2032. To protect our ability to utilize our NOLs and other tax assets from an “ownership change” under U.S. federal income tax rules, we adopted certain tax benefit preservation measures, including amendments to our certificate of incorporation and by-laws and the adoption of a tax benefit preservation plan. These tax benefit preservation measures will expire if our stockholders do not re-approve them at the upcoming 2013 Annual Meeting of Stockholders to be held on May 15, 2013.

As of March 31, 2013, before consideration of our valuation allowance, we had deferred tax assets (“DTA”), net of deferred tax liabilities, of approximately $1,037.1 million.

We are required to establish a valuation allowance against our DTA when it is more likely than not that all or some portion of our DTA will not be realized. At each balance sheet date, we assess our need for a valuation allowance and this assessment is based on all available evidence, both positive and negative, and requires management to exercise judgment and make assumptions regarding whether such DTA will be realized in future periods. Future realization of our DTA will ultimately depend on the existence of sufficient taxable income of the appropriate character (ordinary income or capital gains) within the applicable carryback and carryforward periods provided under the tax law. The primary sources of negative evidence that we considered are our cumulative losses in recent years, and the continued uncertainty around our future results. We also considered several sources of positive evidence when assessing the need for a valuation allowance, such as future reversals of existing taxable temporary differences, future projections of taxable income, taxable income within the applicable carryback periods, and potential tax planning strategies. In making our assessment of the more likely than not standard, the weight assigned to the effect of both negative and positive evidence is commensurate with the extent to which such evidence can be objectively verified.

A valuation allowance of approximately $1,019.2 million and $989.7 million was recorded against our net DTA of approximately $1,037.1 million and $989.7 million at March 31, 2013 and December 31, 2012, respectively. The remaining DTA of approximately $17.9 million at March 31, 2013, represents our NOL carryback, which we may be able to utilize as part of a compromised settlement against the adjustments proposed by the Internal Revenue Service (“IRS”) relating to tax years 2000 through 2007, as discussed in more detail below.

Radian Group Inc.
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We are currently contesting proposed adjustments resulting from the examination by the IRS of our 2000 through 2007 tax years. The IRS opposes the recognition of certain tax losses and deductions that were generated through our investment in a portfolio of non-economic Real Estate Mortgage Investment Conduits (“REMIC”) residual interests and has proposed adjustments denying the associated tax benefits of these items. The proposed adjustments relating to the 2000 through 2007 tax years, if sustained, will result in additional income taxes of approximately $128 million plus proposed penalties of approximately $42 million. Additionally, we would incur interest on any sustained adjustments. We appealed these proposed adjustments to the IRS Office of Appeals (“Appeals”) and made “qualified deposits” with the U.S. Department of the Treasury in the amount of approximately $85.0 million in June 2008 relating to the 2000 through 2004 tax years and approximately $4.0 million in May 2010 relating to the 2005 through 2007 tax years in order to avoid the accrual of above-market-rate interest with respect to the proposed adjustments. In December 2010, we reached a tentative settlement agreement with Appeals. However, because we had claimed a refund of approximately $105.0 million with respect to our 2006 and 2007 taxable years based on a carryback of an NOL generated from our 2008 taxable year, review of the tentative settlement agreement by the Joint Committee on Taxation (“JCT”) was required. After the JCT completed its review, Appeals reconsidered the tentative settlement and informed us that it was no longer willing to enter into a settlement based on the originally proposed terms.

We have made several attempts to reach a compromised settlement with Appeals, but in January 2013, we were notified that Appeals had rejected our latest settlement offer and plans to issue a formal notice of deficiency within three to six months. Upon receipt of the notice of deficiency, we will have 90 days to either pay the assessed tax liabilities, penalties and interest (the “deficiency amount”) in full or petition the U.S. Tax Court to litigate the deficiency amount. Litigation of the deficiency amount may result in substantial legal expenses and the litigation process could take several years to resolve. We can provide no assurance regarding the outcome of any such litigation or whether a compromised settlement with the IRS will ultimately be reached. After discussions with outside counsel about the issues raised in the examination, we believe that an adequate provision for income taxes has been made for the potential liabilities that may result from this matter. However, if the ultimate resolution of this matter produces a result that differs materially from our current expectations, there could be a material impact on our effective tax rate, financial condition, results of operations and cash flows.

13. Statutory Information

Under state insurance regulations, Radian Guaranty is required to maintain minimum surplus levels and, in certain states, a minimum amount of statutory capital relative to the level of net RIF, or “risk-to-capital” as described below. Sixteen states (the “RBC States”) currently impose a statutory or regulatory risk-based capital requirement (the “Statutory RBC Requirement”). The most common Statutory RBC Requirement is that a mortgage insurer’s risk-to-capital ratio not exceed 25 to 1. In some of the RBC States, the Statutory RBC Requirement is that a mortgage insurer must maintain a minimum policyholder position, which is based on both risk and surplus levels (the “MPP Requirement”). Unless an RBC State grants a waiver or other form of relief, if a mortgage insurer is not in compliance with the Statutory RBC Requirement of such RBC State, it may be prohibited from writing new mortgage insurance business in that state. Radian Guaranty’s domiciliary state, Pennsylvania, is not one of the RBC States. During the three months ended March 31, 2013, the RBC States accounted for approximately 55.0% of Radian Guaranty’s total primary NIW.

We actively manage Radian Guaranty’s statutory capital position in various ways, including: (1) through internal and external reinsurance arrangements; (2) by seeking opportunities to reduce our risk exposure through commutations or other negotiated transactions; (3) by contributing additional capital from Radian Group to our mortgage insurance subsidiaries; and (4) by realizing gains in our investment portfolio through open market sales of securities. Radian Group had unrestricted cash and liquid investments of $886.4 million as of March 31, 2013. We expect to use a portion of our remaining available liquidity to further support Radian Guaranty’s capital position. In addition, while our other mortgage insurance subsidiaries are not subject to Statutory RBC Requirements, these subsidiaries, which provide reinsurance to Radian Guaranty but do not write direct business of their own, are subject to certain minimum capital and statutory surplus requirements. All of these subsidiaries were in compliance with their respective capital and statutory surplus requirements as of March 31, 2013. Some of these subsidiaries may require additional capital contributions in the future to maintain minimum capital levels in order for Radian Guaranty to continue to receive appropriate statutory credit and thus continue to utilize reinsurance arrangements with these subsidiaries.

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Radian Guaranty's statutory net loss and statutory policyholders' surplus as of or for the periods indicated were as follows:

(In millions)	As of and for the Three Months Ended March 31, 2013	As of and for the Year Ended December 31, 2012
Statutory net loss	$(1.8)	$(175.9)
Statutory surplus	1,098.3	926.0
Contingency reserve	7.4	—

The components of Radian Guaranty's risk-to-capital calculation appear in the table below. For purposes of the risk-to-capital requirements imposed by certain states, statutory capital is defined as the sum of statutory policyholders' surplus (i.e., statutory-basis capital and surplus) plus statutory contingency reserves.

($ in millions)	March 31, 2013	December 31, 2012
RIF, net (1)	$20,537.1	$19,226.7
Statutory surplus	$1,098.3	$926.0
Statutory contingency reserve	7.4	—
Statutory capital	$1,105.7	$926.0
Risk-to-capital	18.6:1	20.8:1

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(1) RIF, net excludes risk ceded through reinsurance contracts and RIF on defaulted loans.

We intend to maintain Radian Guaranty's risk-to-capital ratio at 20 to 1 or below for the foreseeable future, including, if necessary, by making contributions to Radian Guaranty from Radian Group's available liquidity. Radian Guaranty had not exceeded the Statutory RBC Requirement or MPP Requirement in any RBC State as of March 31, 2013.

The improvement in Radian Guaranty's risk-to-capital ratio in the first three months of 2013 was primarily due to a capital contribution from Radian Group to Radian Guaranty of $115 million, the release of contingency reserves at Radian Asset Assurance, and the impact of the quota share reinsurance transactions entered into in 2012. This benefit was partially offset by an increase in net RIF at Radian Guaranty.

Radian Asset Assurance is a wholly-owned subsidiary of Radian Guaranty. If our financial guaranty portfolio performs worse than anticipated, including if we are required to establish (or increase) one or more statutory reserves on defaulted obligations that we insure, or if we make net commutation payments to terminate insured financial guaranty obligations in excess of the then established statutory reserves for such obligations, the statutory capital of Radian Guaranty would also be negatively impacted. We establish statutory financial guaranty reserves at the time of default, whereas for GAAP reporting purposes, loss reserves are established when estimated losses exceed unearned premiums, regardless of whether a default has occurred. Any decrease in the statutory policyholders' surplus in our financial guaranty business would have a direct negative impact on Radian Guaranty's capital position and may affect its ability to remain in compliance with the Statutory RBC Requirements.

As of March 31, 2013, Radian Asset Assurance maintained claims paying resources of $1.7 billion (which included statutory policyholders' surplus, contingency reserves, unearned premium reserves, the present value of installment premiums and loss and LAE reserves). As of March 31, 2013, the statutory policyholders' surplus of Radian Asset Assurance was approximately $1.2 billion. In July 2012, Radian Asset Assurance paid an ordinary dividend of $54 million to Radian Guaranty. We expect that Radian Asset Assurance will have the capacity to pay another ordinary dividend of approximately $37 million to Radian Guaranty in July 2013.

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Due to current expectations with respect to the credit performance of the Terminated TruPs Bonds, we have established an associated salvage recovery for statutory accounting purposes, which as of March 31, 2013, was approximately $76.8 million and is included in Radian Asset Assurance's and Radian Guaranty's statutory policyholders' surplus as of March 31, 2013. Although Radian Asset Assurance has no further obligation for claims related to the Terminated TruPs CDOs, the amount of salvage recovery remains at risk and the actual amount of salvage that we ultimately recover will depend on the future performance of the Terminated TruPs Bonds, including, in the case of four of the Terminated TruPs CDOs, the risk that an event of default occurs and is continuing after 2016 or 2017, as applicable. If such event of default were to occur, it would result in a loss for such Terminated TruPs CDOs that would be determined based on the difference between the par value and the market value thereof. If the LPV is required to make payments to the Counterparty pursuant to the terms of the Residual CDS, Radian Asset Assurance's projected and actual salvage recovery from the LPV may be materially reduced or eliminated.

We and our insurance subsidiaries are subject to comprehensive, detailed regulation that is principally designed for the protection of our insured policyholders rather than for the benefit of investors, by the insurance departments in the various states where our insurance subsidiaries are licensed to transact business. Insurance laws vary from state to state, but generally grant broad supervisory powers to state agencies or officials to examine insurance companies and enforce rules or exercise discretion affecting almost every significant aspect of the insurance business, including the power to revoke or restrict an insurance company's ability to write new business.

The GSEs and state insurance regulators impose various capital requirements on our insurance subsidiaries. These include risk-to-capital ratios, risk-based capital measures and surplus requirements that potentially limit the amount of insurance that each of our insurance subsidiaries may write. The GSEs and our state insurance regulators also possess significant discretion with respect to our insurance subsidiaries. If Radian Guaranty's regulatory risk-based capital position fails to comply with applicable state statutory or regulatory risk-based capital requirements, including if waivers or similar relief from the states that impose such statutory or regulatory risk-based capital requirements are not obtained or renewed or are revoked: (i) insurance regulators or the GSEs may limit or cause Radian Guaranty to cease writing new mortgage insurance; (ii) the GSEs may terminate or otherwise restrict Radian Guaranty's eligibility to insure loans purchased by the GSEs; (iii) Radian Guaranty's customers may decide not to insure loans with Radian Guaranty or may otherwise limit the type or amount of business done with Radian Guaranty; and (iv) state or federal regulators could pursue regulatory actions or proceedings, including possible supervision or receivership actions, against us in the future. Our failure to maintain adequate levels of capital could also lead to intervention by the various insurance regulatory authorities, which could materially and adversely affect our business, business prospects and financial condition. As of March 31, 2013, the amount of restricted net assets held by our consolidated subsidiaries (which represents our equity investment in those insurance subsidiaries) totaled $1.2 billion of our consolidated net assets.

14. Selected Financial Information of Registrant—Radian Group

(In thousands)	March 31, 2013	December 31, 2012
Investment in subsidiaries, at equity in net assets	$1,188,325	$1,234,229
Total assets	2,042,505	1,550,619
Long-term debt	906,105	663,571
Total liabilities	1,111,459	814,294
Total stockholders' equity	931,046	736,325
Total liabilities and stockholders' equity	2,042,505	1,550,619

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15. Commitments and Contingencies
Legal Proceedings
We are routinely involved in a number of legal actions and proceedings. The outcome of legal proceedings is always uncertain. The legal proceedings could result in adverse judgments, settlements, fines, injunctions, restitutions or other relief that could require significant expenditures or have other effects on our business. In accordance with applicable accounting standards and guidance, we establish accruals for a legal proceeding only when we determine both that it is probable that a loss has been incurred and the amount of the loss is reasonably estimable. We accrue the amount that represents our best estimate of the probable loss; however, if we can only determine a range of estimated losses, we accrue an amount within the range that, in our judgment, reflects the most likely outcome, and if none of the estimates within the range is more likely, we accrue the minimum amount of the range.
In the course of our regular review of pending legal matters, we determine whether it is reasonably possible that a potential loss relating to a legal proceeding may have a material impact on our liquidity, results of operations or financial condition. If we determine such a loss is reasonably possible, we disclose information relating to any such potential loss, including an estimate or range of loss or a statement that such an estimate cannot be made. On a quarterly and annual basis, we review relevant information with respect to legal loss contingencies and update our accruals, disclosures and estimates of reasonably possible losses or range of losses based on such reviews. We are often unable to estimate the possible loss or range of loss until developments in such matters have provided sufficient information to support an assessment of the range of possible loss, such as quantification of a damage demand from plaintiffs, discovery from other parties and investigation of factual allegations, rulings by the court on motions or appeals, analysis by experts, and the progress of settlement negotiations. In addition, we generally make no disclosures for loss contingencies that are determined to be remote. For matters for which we disclose an estimated loss, the disclosed estimate reflects the reasonably possible loss or range of loss in excess of the amount accrued, if any.
Any loss estimates are inherently subjective, based on currently available information, and are subject to management’s judgment and various assumptions. Due to the inherently subjective nature of these estimates and the uncertainty and unpredictability surrounding the outcome of legal proceedings, actual results may differ materially from any amounts that have been accrued.
On August 13, 2010, American Home Mortgage Servicing, Inc. (“AHMSI”) filed a complaint against Radian Guaranty in the U.S. District Court for the Central District of California, on its own behalf and as servicer for certain RMBS insured by Radian Guaranty under 27 separate bulk primary mortgage insurance policies. AHMSI contends that in 2008, it mistakenly sent cancellation notices to Radian Guaranty for certain loans covered under these policies, and that Radian Guaranty wrongfully refused to reinstate coverage for these loans after AHMSI discovered the error. We believe that approximately 680 loans, which relate to approximately $20 million of RIF, were affected by this error. According to AHMSI, Radian Guaranty’s refusal to reinstate coverage was in breach of its contractual duties under the policies and in bad faith. AHMSI is seeking money damages and injunctive relief requiring Radian Guaranty to reinstate full coverage on all loans insured under the policies. On October 18, 2010, Radian Guaranty filed a motion to dismiss this case, which the court granted on December 16, 2010, stating that AHMSI failed to establish that it is the real party in interest. On January 5, 2011, AHMSI filed an amended complaint that included the trustees of the securities as additional plaintiffs to the complaint. On May 31, 2011, Radian answered the amended complaint and, subsequently, filed a counterclaim seeking a declaratory judgment that, among other things, it is not in breach of its contractual duties. Radian also filed, and the court subsequently dismissed, a third party complaint against Sand Canyon Corporation, the servicer who allegedly made the error that led to the cancellation of the certificates of insurance, seeking indemnity and/or contribution. We expect that we will ultimately resolve this legal matter through a combination of the reinstatement of certain performing loans and payment of an amount to the plaintiff that is not

expected to have a material impact on our liquidity, results of operations or financial condition.

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On August 1, 2011, Radian Guaranty filed a lawsuit against Quicken Loans Inc. (“Quicken”) in the U.S. District Court for the Eastern District of Pennsylvania. On September 5, 2012, Radian Guaranty filed an amended complaint. Radian Guaranty’s complaint, as amended, seeks a declaratory judgment that it properly rescinded mortgage insurance coverage under Radian Guaranty’s master insurance policy and delegated underwriting endorsement for approximately 220 home mortgage loans originated by Quicken based upon deficiencies and improprieties in the underwriting process. The approximately 220 home mortgage loans relate to an aggregate RIF of approximately $13 million. On October 25, 2012, Quicken answered Radian Guaranty’s amended complaint and asserted counterclaims against Radian Guaranty for alleged breach of contract and bad faith. On November 19, 2012, Radian Guaranty moved to dismiss Quicken’s counterclaims. Quicken has filed a response to Radian Guaranty’s motion to dismiss, and on January 11, 2013, Radian Guaranty filed a reply in further support of its motion to dismiss. This litigation is in the early stages of the proceedings, and therefore, we are unable to estimate whether a loss is reasonably possible in this matter.
We have been named as a defendant in a number of putative class action lawsuits alleging, among other things, that our captive reinsurance agreements violate the Real Estate Settlement Practices Act of 1974 (“RESPA”). On December 9, 2011, an action titled Samp v. JPMorgan Chase Bank, N.A. (the “Samp case”), was filed in the U.S. District Court for the Central District of California. The defendants are JPMorgan Chase Bank, N.A., its affiliates (collectively, “JPMorgan”), and several mortgage insurers, including Radian Guaranty. The plaintiffs purport to represent a class of borrowers whose loans allegedly were referred to mortgage insurers by JPMorgan in exchange for reinsurance agreements between the mortgage insurers and JPMorgan’s captive reinsurer. Plaintiffs assert violations of RESPA. Radian Guaranty and some of the other mortgage insurer defendants moved to dismiss this lawsuit for lack of standing because they did not insure any of the plaintiffs’ loans. The court denied that motion on May 7, 2012, and on October 4, 2012, Radian Guaranty filed a new motion to dismiss on a number of grounds. On December 21, 2012, plaintiffs filed an opposition to that motion. On May 7, 2013, the court granted Radian Guaranty’s motion and dismissed the plaintiffs’ claims with prejudice. The court ruled that the plaintiffs could not state a claim against Radian Guaranty because it did not insure their loans, and, in addition, ruled that their claims were barred by the statute of limitations.
Each of the cases described below are putative class actions (with alleged facts substantially similar to the facts alleged in the Samp case discussed above) in which Radian Guaranty has been named as a defendant:

- On December 30, 2011, a putative class action under RESPA titled White v. PNC Financial Services Group was filed in the U.S. District Court for the Eastern District of Pennsylvania. On September 29, 2012, plaintiffs filed an amended complaint. In this case, Radian Guaranty has insured the loan of one of the plaintiffs. On November 26, 2012, Radian Guaranty filed a motion to dismiss the plaintiffs’ claims as barred by the statute of limitations. Plaintiff has filed an opposition to the motion to dismiss.
- On January 13, 2012, a putative class action under RESPA titled Menichino, et al. v. Citibank, N.A., et al., was filed in the U.S. District Court for the Western District of Pennsylvania. Radian Guaranty was not named as a defendant in the original complaint. On December 4, 2012, plaintiffs amended their complaint to add Radian Guaranty as an additional defendant. On February 4, 2013, Radian Guaranty filed a motion to dismiss the claims against it as barred by the statute of limitations. On April 5, 2013, plaintiffs filed an opposition to the motion to dismiss.
- On April 5, 2012, a putative class action under RESPA titled Riddle v. Bank of America Corporation, et al. was filed in the U.S. District Court for the Eastern District of Pennsylvania. On January 4, 2013, Radian Guaranty moved to dismiss plaintiffs’ claims as barred by the statute of limitations. The court denied that motion on April 11, 2013, and ordered a brief period of discovery limited to the statute of limitations issue. The discovery period is scheduled to end on June 14, 2013.
- On April 5, 2012, a putative class action under RESPA titled Manners, et al. v. Fifth Third Bank, et al. was filed in the U.S. District Court for the Western District of Pennsylvania. On September 28, 2012, plaintiffs filed an amended complaint adding three borrowers whose loans were insured by Radian Guaranty. On November 28, 2012, Radian

Guaranty moved to dismiss plaintiffs’ claims as barred by the statute of limitations, and on January 28, 2013, plaintiffs filed an opposition to the motion to dismiss.

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- On May 18, 2012, a putative class action under RESPA titled Hill, et al. v. Flagstar Bank FSB, et al. was filed in the U.S. District Court for the Eastern District of Pennsylvania. In this case, Radian Guaranty has insured the loan of one of the plaintiffs. On January 28, 2013, plaintiffs filed an amended complaint. On March 28, 2013, Radian Guaranty filed a motion to dismiss plaintiffs' claims as barred by the statute of limitations.
- On May 31, 2012, a putative class action under RESPA titled Barlee, et al. v. First Horizon National Corporation, et al. was filed in the U.S. District Court for the Eastern District of Pennsylvania. On October 9, 2012, plaintiffs filed an amended complaint, and on November 5, 2012, Radian Guaranty filed a motion to dismiss the amended complaint for lack of standing because it did not insure any of the plaintiffs' loans. Plaintiffs filed an opposition to the motion to dismiss, and on January 16, 2013, Radian Guaranty filed a reply in further support of its motion to dismiss. On February 27, 2013, the court granted Radian Guaranty's motion to dismiss and Radian Guaranty has been dismissed from this lawsuit.
- On June 28, 2012, a putative class action under RESPA titled Cunningham, et al. v. M&T Bank Corporation, et al. was filed in the U.S. District Court for the Middle District of Pennsylvania. On October 9, 2012, plaintiffs filed an amended complaint in which they added one borrower whose loan was insured by Radian Guaranty. On December 10, 2012, Radian Guaranty moved to dismiss plaintiffs' claims as barred by the statute of limitations, and on February 11, 2013, plaintiffs filed an opposition to the motion to dismiss.
- On January 4, 2013, a putative class action under RESPA titled Ba, et al. v. HSBC USA, Inc., et al., was filed in the U.S. District Court for the Eastern District of Pennsylvania. On February 26, 2013, Radian Guaranty moved to dismiss this lawsuit for lack of standing because it did not insure any of the plaintiffs' loans. On March 25, 2013, plaintiffs voluntarily dismissed Radian Guaranty from this lawsuit.

With respect to the Samp case and the other similar putative class actions discussed above, Radian Guaranty believes that the claims are without merit and intends to vigorously defend itself against these claims. We are not able to estimate the reasonably possible loss or range of loss for these matters because the proceedings are in a very preliminary stage and there is uncertainty as to the likelihood of a class being certified or the ultimate size of a class.

In addition to the litigation discussed above, we are involved in litigation that has arisen in the normal course of our business. We are contesting the allegations in each such pending action and management believes, based on current knowledge and after consultation with counsel, that the outcome of such litigation will not have a material adverse effect on our consolidated financial condition. However, the outcome of litigation and other legal and regulatory matters is inherently uncertain, and it is possible that one or more of the matters currently pending or threatened could have an unanticipated effect on our liquidity, financial condition or results of operations for any particular period.

In addition to the private lawsuits discussed above, we and other mortgage insurers have been subject to inquiries from the Minnesota Department of Commerce and the Office of the Inspector General of the U.S. Department of Housing and Urban Development ("HUD"), requesting information relating to captive reinsurance. The Dodd-Frank Act amended RESPA and transferred the authority to implement and enforce RESPA from HUD to the Consumer Financial Protection Bureau ("CFPB"). In January 2012, we and other mortgage insurers received a request for information and documents from the CFPB relating to captive reinsurance arrangements, and in June 2012, we and other mortgage insurers received a Civil Investigative Demand ("CID") from the CFPB as part of its investigation to determine whether mortgage lenders and private mortgage insurance providers engaged in acts or practices in violation of the Dodd-Frank Act, RESPA and the Consumer Financial Protection Act. On April 4, 2013, we reached a settlement with the CFPB, which was approved by the U.S. District Court for the Southern District of Florida on April 9, 2013. The settlement concludes the investigation with respect to the Company without the CFPB making any findings of wrongdoing. As part of the settlement, Radian Guaranty agreed not to enter into new captive reinsurance arrangements for a period of ten years and to pay a civil penalty of $3.75 million. We have not entered into any new captive reinsurance arrangements since 2007. During the high-claim years that followed the most recent economic downturn, captive arrangements have proven to represent a critical component of our loss mitigation strategy, effectively serving as designed to protect our capital position during a period of stressed losses. As of December 31, 2012, we had received total cash reinsurance recoveries from these captive reinsurance arrangements of approximately $750 million.

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We are also currently contesting proposed adjustments resulting from the examination by the IRS of our 2000 through 2007 tax years. The IRS opposes the recognition of certain tax losses and deductions that were generated through our investment in a portfolio of non-economic REMIC residual interests currently held by Commonwealth Mortgage Assurance Company of Texas, one of our wholly-owned subsidiaries. We appealed the proposed adjustments and reached a tentative settlement agreement with Appeals. Upon subsequent review and consideration, however, Appeals informed us that it was no longer willing to settle on the originally proposed terms. After several attempts to reach a compromised settlement, we were notified in January 2013 that Appeals rejected our latest offer and plans to issue a formal notice of deficiency within three to six months. Upon receipt of the notice, we will have 90 days to pay the assessed tax liabilities, penalties and interest or petition the U.S. Tax Court to litigate the matter. Litigation of the deficiency amount may result in substantial legal expenses and the litigation process could take several years to resolve. We can provide no assurance regarding the outcome of any such litigation or whether a compromised settlement with the IRS may ultimately be reached. See Note 12 for additional information.

Under our master insurance policy, any suit or action arising from any right of the insured under the policy must be commenced within two years after such right first arose for primary insurance and within three years for certain other policies, including certain pool insurance policies. We continue to face a number of challenges from certain lender customers regarding our insurance rescissions and claim denials, which have resulted in some reversals of our decisions regarding rescissions or denials. We are currently in discussions with customers regarding rescissions and claim denials, which if not resolved, could result in arbitration or additional judicial proceedings. The assumptions embedded in our estimated default to claim rate on our in-force default inventory includes an adjustment to our estimated rescission and denial rate, to account for the fact that we expect a certain number of policies for which an initial intent to rescind letter has been sent to our lender customers to remain in-force and ultimately to be paid, as a result of valid challenges by such policy holders during the limited period specified in such letters. See Note 8 for further information.

Further, we have identified a significant number of loans in our total defaulted portfolio (in particular, our older defaulted portfolio) for which “appropriate proceedings” (actions or proceedings such as foreclosure that provide the insured with title to the property) may not have been commenced within the outermost deadline in our master insurance policy. We currently are in discussions with the servicers for these loans regarding this potential violation and our corresponding rights under the master insurance policy. While we can provide no assurance regarding the outcome of these conversations or the ultimate resolution of these issues, it is possible that this matter could result in arbitration or legal proceedings.

The elevated levels of our rate of rescissions, claim denials and claim curtailments (related to servicer negligence) have led to an increased risk of litigation by lenders, policyholders and servicers challenging our right to rescind coverage, deny claims or curtail claim amounts. Although we believe that our loss mitigation actions are justified under our policies, if we are not successful in defending these actions, we may need to reassume the risk on and increase loss reserves for previously rescinded policies or pay additional claims on curtailed amounts. See Note 8 for further information.

Other

Securities regulations became effective in 2005 that impose enhanced disclosure requirements on issuers of ABS (including mortgage-backed securities). To allow our customers to comply with these regulations at that time, we typically were required, depending on the amount of credit enhancement we were providing, to provide (1) audited financial statements for the insurance subsidiary participating in the transaction, or (2) a full and unconditional holding company-level guarantee for our insurance subsidiaries’ obligations in such transactions. Radian Group has guaranteed two structured transactions for Radian Guaranty involving approximately $149.0 million of remaining credit exposure as of March 31, 2013.

On March 1, 2011, our subsidiary, Enhance Financial Services Group Inc. (“EFSG”) sold its 45% interest in the holding company of a Brazilian insurance company, which specializes in surety and agricultural insurance, to another owner for a nominal purchase price. This holding company and its subsidiaries are subject to regulation by The Superintendence of Private Insurance, the regulatory agency responsible for the supervision and control of the insurance market in Brazil. Although EFSG wrote off its entire interest in this company in 2005 and has sold its ownership interest, under Brazilian law, it is possible that EFSG could become liable for its proportionate share of the liabilities of the company related to the period in which EFSG was a significant shareholder, if the company was to become insolvent and had insufficient capital to satisfy its outstanding liabilities. EFSG’s share of the liabilities of the company attributable to this period was approximately $103.4 million as of December 31, 2010, the date of the most recent financial information available to us.

As part of the non-investment-grade allocation component of our investment program, we had unfunded commitments of $7.5 million at March 31, 2013, related to alternative investments that are primarily private equity structures. These commitments have capital calls expected through 2015, with the possibility of additional calls through 2017, and certain fixed expiration dates or other termination clauses.

Our mortgage insurance business provides an outsourced underwriting service to its customers known as contract underwriting. Typically, we agree that if we make a material error in underwriting a loan, we will provide a remedy to the customer, by purchasing the loan or placing additional mortgage insurance coverage on the loan, or by indemnifying the customer against loss up to a maximum specified amount. By providing these remedies, we assume some credit risk and interest-rate risk if an error is found during the limited remedy period in the agreements governing our provision of contract underwriting services. Recently, we limited the recourse available to our contract underwriting customers to apply only to those loans that are simultaneously underwritten for compliance with secondary market compliance and for potential mortgage insurance. In the first three months of 2013, we paid losses related to contract underwriting remedies of approximately $0.7 million. Rising mortgage interest rates or further economic uncertainty may expose our mortgage insurance business to an increase in such costs. In the first three months of 2013, our provision for contract underwriting expenses was approximately $0.6 million and our reserve for contract underwriting obligations at March 31, 2013 was $3.5 million. We 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.

We have incentive, retention and severance agreements with certain employees in our financial guaranty business. The total cost expected to be incurred under these agreements is $14.5 million, of which $5.6 million of unearned retention expense has not been recorded as of March 31, 2013. The remaining cost for these agreements is expected to be recorded by the end of 2015.

16. Capital Stock

In March 2013, we sold 39.1 million shares of our common stock at a public offering price of $8.00 per share. We received net proceeds of approximately $299.5 million after deducting underwriters' discounts and offering expenses.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following analysis should be read in conjunction with our unaudited condensed consolidated financial statements and the notes thereto included in this report and our audited financial statements, notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in our Annual Report on Form 10-K for the year ended December 31, 2012, for a more complete understanding of our financial position and results of operations. In addition, investors should review the "Forward Looking Statements—Safe Harbor Provisions" above and the "Risk Factors" detailed in Item 1A of Part I of our Annual Report on Form 10-K for the year ended December 31, 2012, for a discussion of those risks and uncertainties that have the potential to affect our business, financial condition, results of operations, cash flows or prospects in a material and adverse manner. The results of operations for interim periods are not necessarily indicative of results to be expected for the full year or for any other period.

Overview

We are a credit enhancement company with a primary strategic focus on domestic, first-lien residential mortgage insurance ("first-lien"). We have two business segments—mortgage insurance and financial guaranty. Our mortgage insurance segment provides credit-related insurance coverage, principally through private mortgage insurance, and risk management services to mortgage lending institutions. We conduct our business primarily through Radian Guaranty Inc. ("Radian Guaranty"), our principal mortgage insurance subsidiary. Our financial guaranty segment has provided direct insurance and reinsurance on credit-based risks, and credit protection on various asset classes through financial guarantees and credit default swaps ("CDS"). While we discontinued writing new financial guaranty business in 2008, we continue to provide financial guaranty insurance on our existing portfolio of public finance and structured finance credits. In addition, our principal financial guaranty subsidiary, Radian Asset Assurance Inc. ("Radian Asset Assurance"), is a wholly-owned subsidiary of Radian Guaranty, which allows our financial guaranty business to serve as a critical source of capital support for our mortgage insurance business.

As a seller of credit protection, our results are subject to macroeconomic conditions and specific events that impact the origination environment and the credit performance of our underlying insured assets. The downturn in the housing and related credit markets that began in 2007 had a significant negative impact on the operating environment and results of operations for each of our businesses. This negative economic environment was characterized by a decrease in mortgage originations, a broad decline in home prices, mortgage servicing and foreclosure delays, and ongoing deterioration in the credit performance of mortgage and other assets originated prior to 2009, together with macroeconomic factors such as high unemployment, limited economic growth and a lack of meaningful liquidity in some sectors of the capital markets. Our results of operations continue to be negatively impacted by the mortgage insurance we wrote during the poor underwriting years of 2005 through 2008 (we refer to this portion of our mortgage insurance portfolio as our "legacy portfolio").

In recent years, the operating environment for our businesses has shown signs of improvement. Although the United States ("U.S.") economy and housing market remain weak compared to historical standards, home prices appear to be appreciating on a broad basis throughout the U.S., foreclosure activity has declined and the credit quality of overall mortgage market originations continues to be significantly better than the credit quality of our legacy portfolio. In addition, there are signs of a broader recovery in the U.S. economy, including importantly, a reduction in unemployment. As a consequence of these and other factors, we have experienced improvement in our results of operations, including a 20% decline in new primary mortgage insurance defaults in the three months ended March 31, 2013, compared to the number of new defaults in the comparable period of 2012 that led to a significant reduction in incurred losses.

Currently, our business strategy primarily is focused on: (1) growing our mortgage insurance business by writing new insurance on high-quality mortgages in the U.S.; (2) continuing to manage losses in our legacy mortgage insurance and financial guaranty portfolios; (3) continuing to reduce our financial guaranty exposure; and (4) continuing to effectively manage our capital and liquidity positions. Although uncertainty remains with respect to the ultimate losses we will experience in our legacy portfolio, as we continue to write new insurance on high-quality mortgages, our legacy portfolio will progressively become a smaller percentage of our total portfolio. We anticipate that sometime in the second quarter of 2013, our legacy portfolio will represent less than 50% of our total mortgage insurance portfolio. In light of this important compositional change in our mortgage insurance portfolio and assuming that improving macroeconomic trends continue, we believe we are positioning the company to return to profitability.

Although significant uncertainty remains, based on our projections, which exclude the effect of changes in our stock price on compensation expense (see "—Key Factors Affecting Our Results—Operating Expenses"), we expect a return to a marginal level of profitability for our mortgage insurance segment in 2013. For more information, see "Results of Operations—Mortgage Insurance" and "Results of Operations—Financial Guaranty."

Our businesses also are significantly impacted by, and our future success may be affected by, legislative and regulatory developments impacting the housing finance industry. Freddie Mac and Fannie Mae (referred to collectively as "Government Sponsored Enterprises" or "GSEs") are the primary beneficiaries of the majority of our mortgage insurance policies and the Federal Housing Administration ("FHA") remains our primary competitor outside of the private mortgage insurance industry. Federal and state efforts to support homeowners and the housing market, including through the enhanced Homeowner Affordable Refinance Program ("HARP 2"), have had a positive impact on our business in recent periods. Various regulatory agencies have produced, and are now in the process of developing additional, new rules under the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") that are expected to have a significant impact on the housing finance industry, and the U.S. Congress is planning for reforms of the housing finance market, including the future roles that the FHA and the GSEs will play in such market.

Key Factors Affecting Our Results

Mortgage Insurance

- Premiums. Premiums on our mortgage insurance products are paid either on a monthly installment basis ("monthly premium"), in a single payment at origination ("single premium"), as a combination of up-front premium at origination plus a monthly renewal, or in some cases, as an annual or multi-year premium. A change in the amount of insurance in force from one period compared to another will generally increase (when insurance in force is higher) or decrease (when insurance in force is lower) premiums earned during the period. Premiums earned are also affected by premium rates that are based on a number of borrower, loan and property characteristics.

New insurance written ("NIW") increases our insurance in force and premiums earned. Cancellations of our insurance policies and other reductions of insurance in force, such as rescissions of coverage and claims paid, reduce insurance in force, and generally have a negative effect on premiums earned. Cancellations of single premium policies accelerate the earning of remaining unearned premiums, if any. This unearned premium is immediately recognized upon cancellation. The measure for assessing the impact of policy cancellations on insurance in force is our persistency rate, defined as the percentage of insurance in force that remains on our books after any 12-month period. Our insurance premiums on our monthly insurance policies are earned over time; therefore higher persistency rates on monthly insurance policies enable us to earn more premiums and recover more of our policy acquisition costs, and generally result in increased profitability. For single premium policies, however, assuming all other factors remain constant, profitability increases when persistency rates are lower. Rescissions, which are discussed in further detail below, result in a full refund of the inception-to-date premiums received, and therefore, premiums earned are affected by any changes in our accrual for estimated rescission refunds. Additionally, premiums ceded to third party reinsurance counterparties decrease premiums earned.

- NIW. NIW is affected by the overall size of the mortgage origination market, the penetration percentage of private mortgage insurance into the overall mortgage origination market and our market share of the private mortgage insurance market. The overall mortgage origination market is influenced by macroeconomic factors such as interest rates and housing prices, as well as credit availability. The percentage of private mortgage insurance penetration mainly is influenced by the competition from FHA insurance and the relative percentage of originations that are for purchased homes versus refinances. Typically, private mortgage insurance penetration is significantly higher on purchased homes than on refinances as a result of higher average loan-to-value ratios ("LTVs"). Radian Guaranty's share of the private mortgage insurance market is influenced by competition in the private mortgage insurance market and our ability to maintain existing levels of new mortgage originations from our current customers or to gain new customers.

- Losses. Incurred losses represent the estimated claim payments on newly defaulted insured loans as well as any change in the prior estimate for previously existing defaults. Our mortgage insurance incurred losses are driven primarily by new mortgage insurance defaults and changes in the estimates we use to determine our losses, including estimates with respect to the likelihood, magnitude and timing of anticipated losses, and our estimate of the rate at which we expect defaults will ultimately result in paid claims. Other factors influencing incurred losses include:
  - The product mix of our total direct risk in force (“RIF”) (loans with higher risk characteristics generally result in higher delinquencies and claims);
  - The average loan size (higher average loan amounts generally result in higher losses incurred);
  - The percentage of coverage on insured loans (higher percentages of insurance coverage result in higher incurred losses) and the presence of structural mitigants such as deductibles or stop losses;
  - Changes in housing values (declines in housing values negatively impact our ability to mitigate our losses and also may negatively affect a borrower’s willingness to continue to make mortgage payments when the home value is less than the mortgage balance);
  - The distribution of claims over the life cycle of a portfolio (historically, claims are relatively low during the first two years after a loan is originated and then increase substantially over a period of several years before declining; however, as is evident with much of our legacy portfolio, several factors can impact and change this cycle, including the economic environment, the credit risk of the borrower, housing prices and unemployment rates);
  - Our ability to mitigate potential claims through rescissions, denials, cancellations and the curtailment of claims submitted to us. Generally, we rescind insurance coverage when we conclude through our review of the underwriting of a loan that the loan was not originated in accordance with the underwriting guidelines specified at origination. Generally, we deny claims when the documentation we receive is not sufficient to perfect the claim in accordance with our master insurance policy. In addition, we may cancel coverage or curtail claim payments when we identify servicer negligence, or we may make other adjustments to claims as permitted by our master insurance policy. These actions all result in a reduction in our incurred losses. Conversely, if rescissions are successfully challenged or denied claims are re-submitted as perfected claims, in each case at rates that are higher than expected, our incurred losses will increase.
- Operating Expenses. Our operating expenses are generally affected by both the level of NIW, as well as the level of RIF. Additionally, our operating expenses are impacted by compensation expense associated with changes in the estimated future value of certain performance awards that have been granted to our officers and directors under our equity compensation plan and are impacted by changes in our stock price. Because these awards are cash-settled, the related expense is adjusted quarterly based on changes in our current stock price and other factors utilized to estimate the ultimate payout of each award.
- Investment Income. Investment income is affected by the average investment balances held and the average yield on our overall portfolio.
- Third-Party Reinsurance. We use third-party reinsurance in our mortgage insurance business to manage capital and risk. When we enter into a reinsurance agreement, the reinsurer receives a premium and, in exchange, agrees to insure an agreed upon portion of any incurred losses. This arrangement has the impact of reducing our earned premiums but also reduces our net RIF, which provides capital relief and reduces our incurred losses by any incurred losses ceded in accordance with the reinsurance agreement. In the past, we also have entered into reinsurance transactions designed to transfer all or a portion of the risk associated with certain higher risk mortgage insurance products.

Financial Guaranty

- Premiums. We earn premiums on our financial guaranty insurance policies and on other forms of credit protection we provide. In our financial guaranty business, premiums are earned in proportion to the level of amortization of insured principal over the contract period or over the period that coverage is provided. Since we have discontinued writing new financial guaranty insurance, our premiums earned have been reduced commensurate with the decrease in our net par outstanding. Premiums on our structured finance contracts are generally paid on a periodic basis (monthly or quarterly installment premiums) and are earned on a monthly basis. Premiums on our public finance contracts were generally paid as single up-front premiums and are generally earned over the life of the contract. In addition, we recognize the remaining unearned premium revenue when securities that we insure are redeemed or otherwise retired ("refundings") and this results in the extinguishment of the financial guaranty policies insuring such securities. Furthermore, our earned premiums are reduced by premiums ceded through reinsurance agreements.
- Net Par Outstanding. Our net par outstanding represents risk exposure on insured contracts. As noted above, our net par outstanding has been declining since we discontinued writing new financial guaranty business. The decline in our net par outstanding is driven by scheduled maturities within the financial guaranty portfolio and negotiated commutations and other transactions that we have entered into proactively to reduce our net par outstanding.

Factors outside of our control also are likely to affect the decline in our net par outstanding. Low interest rates may induce the issuers of our public finance obligations to refinance the obligations that we insure, thereby reducing our net par outstanding. A significant portion of our financial guaranty net par outstanding is subject to termination at any time by our CDS counterparties or by our non-affiliated primary insurance customers that have ceded exposure to us. Various market factors may make it economically attractive for our counterparties to exercise their early termination rights and cancel our insurance coverage.

- Changes in Fair Value of Obligations. Many of our structured finance contracts are accounted for as derivatives or variable interest entities ("VIEs"), which are carried at fair market value. Our results are therefore impacted by changes in the fair value of these contracts. The estimated fair value of these obligations and instruments is measured as of a specific point in time and may be influenced by changes in interest rates, credit spreads (of both the underlying collateral as well as Radian Group Inc.'s ("Radian Group") credit spread), credit ratings and other market, asset-class and transaction-specific conditions and factors that may be unrelated to our obligation to pay future claims.

Radian Group's credit spread reflects the perceived risk of default that investors associate with us, which we are required to consider when determining the fair market values of our obligations. A higher credit spread is indicative of a higher perception of risk. With all else remaining constant, when our credit spread increases, or widens, the fair value liability of our insured obligations declines, and when our credit spread decreases, or tightens, the fair value liability of our insured obligations increases.

Because we generally do not settle our insurance contracts before maturity (other than in a negotiated termination), in the absence of actual credit losses on which we are obligated to make claim payments, unrealized gains or losses related to changes in fair value are expected to reverse before or at the maturity of these obligations. In addition, if we agree to settle obligations prior to maturity at amounts that are greater or less than their fair values at the time of settlement, it could result in the realization of additional gains or losses.

- Losses/Credit Performance. Our financial guaranty incurred losses are driven primarily by economic conditions that affect the ability of the issuers of our insured obligations to meet such financial obligations and by adverse developments in the assumptions used to determine our losses, including assumptions with respect to the likelihood, magnitude and timing of anticipated losses. Stronger economic conditions increase the likelihood that obligors will have the ability to pay interest and principal on the bonds we insure. Weaker economic conditions often place strains on the revenue flows available to pay interest and principal. Other factors influencing defaults and incurred losses include:
  - Our ability, and the ability of the primary insurers (primarily subsidiaries of Assured Guaranty Ltd. (collectively "Assured")) from whom we have ceded reinsurance, to mitigate claims;
  - The performance of the primary insurers from whom we have either ceded reinsurance or who have the primary obligation to pay claims on our second-to-pay obligations (if such primary insurers have financial difficulties, they may be unable or unwilling to devote sufficient resources to loss mitigation efforts or could fail to pay claims on transactions where we have second-to-pay obligations);
  - Real estate values, which can affect the ability of municipalities and other governmental entities to generate sufficient tax revenues to satisfy their financial obligations;
  - The potential impact of federal, state and local budgetary constraints affecting funding and payments (including Medicare and Medicaid payments) to healthcare, long term care, educational and other governmental and non-governmental entities whose obligations we insure;
  - Potential changes to entitlement programs, such as Social Security, Medicare and Medicaid, that could affect the ability of individuals and entities to utilize the services provided by the entities whose obligations we insure;
  - Performance of commercial and residential mortgage loans and other types of indebtedness that we insure;
  - The movement of interest rates (should interest rates rise, the interest component of our aggregate exposure will increase on the variable rate obligations we insure, and as a result, will increase the strain on the obligors to make payments on these obligations; consequently, the likelihood of default and amount of any claim payments would increase).

While all of these factors affect losses on underlying transactions we insure, our ultimate loss is impacted by the structure of each transaction, including the subordinated exposure that we do not insure and that absorbs losses before we would incur losses.

Results of Operations—Consolidated

Radian Group serves as the holding company for our insurance subsidiaries and does not have any significant operations of its own. Because of this, our consolidated results reflect, and are fully explained by, the financial results and performance of our two business segments—mortgage insurance and financial guaranty. Our net loss for the three months ended March 31, 2013 reflects the impact of significant unrealized net losses on derivatives as discussed further under "Results of Operations—Financial Guaranty."

The following table highlights selected information related to our consolidated results of operations for the three months ended March 31, 2013 and 2012:

	Three Months Ended March 31,		% Change
($ in millions)	2013	2012	2013 vs. 2012
Net loss	$(187.5)	$(169.2)	10.8 %
Change in fair value of derivative instruments	(167.7)	(72.8)	n/m
Provision for losses	132.1	266.2	(50.4)
Other operating expenses	80.1	50.2	59.6