

RADIAN GROUP INC  
Form 10-Q  
November 06, 2014

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

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FORM 10-Q

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(Mark One)

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

For the quarterly period ended September 30, 2014

OR

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

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Radian Group Inc.  
(Exact name of registrant as specified in its charter)

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Delaware  
(State or other jurisdiction of incorporation or organization)

23-2691170  
(I.R.S. Employer Identification No.)

1601 Market Street, Philadelphia, PA  
(Address of principal executive offices)

19103  
(Zip Code)

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

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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  No

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  No

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

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

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: 191,051,817 shares of common stock, \$0.001 par value per share, outstanding on November 3, 2014.



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## GLOSSARY OF ABBREVIATIONS AND ACRONYMS

The list which follows includes the definitions of various abbreviations and acronyms used throughout this report, including the Condensed Consolidated Financial Statements, the Notes to Unaudited Condensed Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations.

Term	Definition
2013 Form 10-K	Annual Report on Form 10-K for the year ended December 31, 2013
ABS	Asset-backed securities
Alt-A	Alternative-A loan where the borrower's FICO score is generally lower and there is limited documentation
AOCI	Accumulated other comprehensive income (loss)
Appeals	Internal Revenue Service Office of Appeals
Available Assets	As defined in the proposed PMIERS, these assets generally include only the liquid assets of an insurer and exclude Unearned Premium Reserves and certain subsidiary capital
BofA Settlement Agreement	The Confidential Settlement Agreement and Release dated September 16, 2014, by and among Radian Guaranty and Countrywide Home Loans, Inc. and Bank of America, N.A., as a successor to BofA Home Loan Servicing f/k/a Countrywide Home Loan Servicing LP, in order to resolve various actual and potential claims or disputes as to mortgage insurance coverage on certain Subject Loans
Basel II	The June 2005 update to the Basel Capital Accord
Basel III	The September 2010 update to the Basel Capital Accord
BIG	Below investment grade
Carryforwards	Net operating loss carryforward and tax credit carryforward, collectively
CDO	Collateralized debt obligation
CDS	Credit default swap
CDX	A widely traded, observable credit default swap index based on a standardized, synthetic corporate collateralized debt obligation, used as a benchmark of relevant market data for valuation purposes
CFPB	Consumer Financial Protection Bureau
CLO Transaction	A collateralized loan obligation of middle market loans that we insure in a second-to-pay position through a credit default swap
Claim Severity	The percentage of the total claim amount paid
Clayton	Clayton Holdings LLC, a Delaware domiciled indirect non-insurance subsidiary of Radian Group
CMBS	Commercial mortgage-backed security
Convertible Senior Notes due 2017	Our 3.000% convertible unsecured senior notes due November 2017 (\$450 million principal amount)
Convertible Senior Notes due 2019	Our 2.250% convertible unsecured senior notes due March 2019 (\$400 million principal amount)
Default to Claim Rate	Rate at which defaulted loans result in a claim
Deficiency Amount	The assessed tax liabilities, penalties and interest associated with a formal Notice of Deficiency
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act
DTAs	Deferred tax assets
DTLs	Deferred tax liabilities
Early Stage Default	A default for which the foreclosure sale has not been scheduled or held
EFSG	Enhance Financial Services Group Inc., a New York domiciled non-insurance subsidiary of Radian Group
Exchange Act	Securities and Exchange Act of 1934, as amended



Term	Definition
Extraordinary Dividend	A dividend distribution required to be approved by an insurance company's primary regulator that is greater than would be permitted as an ordinary dividend, which does not require regulatory approval
FASB	Financial Accounting Standards Board
FGIC	Financial Guaranty Insurance Company
FGIC Commutation	The January 2013 commutation of the remaining \$822.2 million net par outstanding that had been reinsured by Radian Asset Assurance from FGIC
FHA	Federal Housing Administration
FHFA	Federal Housing Finance Agency
FICO	Fair Isaac Corporation
First-liens	First-lien mortgage loans
Flow business	With respect to mortgage insurance, transactions in which mortgage insurance is provided on mortgages on an individual loan basis as they are originated. Flow business contrasts with Structured Transactions, in which mortgage insurance is provided on a group of mortgages after they have been originated
Foreclosure Stage Default	The Stage of Default indicating that the foreclosure sale has been scheduled or held
Freddie Mac Agreement	The Master Transaction Agreement between Radian Guaranty and Freddie Mac entered into in August 2013
Future Legacy Loans	With respect to the BofA Settlement Agreement, Legacy Loans where a claim decision has been or will be communicated by Radian Guaranty after February 13, 2013
GAAP	Accounting principles generally accepted in the United States of America
GSEs	Government-Sponsored Enterprises (Fannie Mae and Freddie Mac)
HARP	Home Affordable Refinance Program
HARP 2	The FHFA's extension of and enhancements to the HARP program
HUD	U.S. Department of Housing and Urban Development
IBNR	Incurred but not reported
IIF	Insurance in force
Implementation Date	With respect to the BofA Settlement Agreement, a date to be determined by the parties that is within 90 days of receipt of consent by the GSEs
Initial QSR Transaction	Initial quota share reinsurance agreement entered into with a third-party reinsurance provider in the second quarter of 2012
Insureds	With respect to the BofA Settlement Agreement, Countrywide Home Loans, Inc. and Bank of America, N.A., as a successor to BofA Home Loan Servicing f/k/a Countrywide Home Loans Servicing LP
IRS	Internal Revenue Service
JPMorgan	JPMorgan Chase Bank, N.A. and its affiliates
LAE	Loss adjustment expenses, which include the cost of investigating and adjusting losses
Legacy Loans	With respect to the BofA Settlement Agreement, loans that were originated or acquired by an Insured and were insured by Radian Guaranty prior to January 1, 2009, excluding such loans that were refinanced under HARP 2
Legacy Portfolio	Mortgage insurance written during the poor underwriting years of 2005 through 2008, together with business written prior to 2005
Loss Mitigation Activity/Activities	Activities such as rescissions, denials, claim curtailments and cancellations
LPV	A limited purpose vehicle created in connection with the termination of six TruPs transactions in 2012

LTV

Loan-to-value which is calculated as the percentage of the original loan amount to the original value of the property

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Term	Definition
MD&A	Management's Discussion and Analysis of Financial Condition and Results of Operations
Minimum Required Assets	A risk-based minimum required asset amount as defined in the proposed PMIERS
Monthly Premium	Premiums on mortgage insurance products paid on a monthly installment basis
Moody's	Moody's Investor Service
MPP Requirement	Certain states' statutory or regulatory risk-based capital requirement that the mortgage insurer must maintain a minimum policyholder position, which is calculated based on both risk and surplus levels
NAIC	National Association of Insurance Commissioners
NIMS	Net interest margin securities
NIW	New insurance written
NOL	Net operating loss
NYSDFS	New York State Department of Financial Services
OCI	Other comprehensive income (loss)
PDR	Premium deficiency reserve
PMIERS	Private Mortgage Insurer Eligibility Requirements issued by the FHFA for public comment on July 10, 2014
PMIERS Financial Requirements	Financial requirements of the PMIERS
PML	Probable maximum loss, representing the anticipated value of the largest potential loss affecting the insured exposure under a highly stressed scenario
PREPA	Puerto Rico Electric Power Authority
PRHTA	Puerto Rico Highway & Transportation Authority
Primaries	Counterparties to certain reinsurance transactions, which are the primary insurers of the underlying credits
Puerto Rico	The Commonwealth of Puerto Rico
Puerto Rico Exposure	Indebtedness issued by Puerto Rico and certain of its agencies and instrumentalities and insured by Radian Asset Assurance
QSR	Quota share reinsurance
QSR Reinsurance Transactions	The Initial QSR Transaction and Second QSR Transaction, collectively
Quicken	Quicken Loans Inc.
Radian	Radian Group Inc. together with its consolidated subsidiaries
Radian Asset Assurance	Radian Asset Assurance Inc., a New York domiciled insurance subsidiary of Radian Guaranty
Radian Group	Radian Group Inc., the registrant
Radian Guaranty	Radian Guaranty Inc., a Pennsylvania domiciled insurance subsidiary of Radian Group
Radian Insurance	Radian Insurance Inc., a Pennsylvania domiciled insurance subsidiary of Radian Guaranty
RBC States	Risk-based capital states, which are those states that currently impose a statutory or regulatory risk-based capital requirement
Recovery Act	The Puerto Rico Public Corporations Debt Enforcement and Recovery Act
Refunding	Recognition of remaining unearned premium that is earned upon redemption or other retirement (including defeasance) of a security that our financial guaranty segment insures
REMIC	Real Estate Mortgage Investment Conduit
REO	Real Estate Owned
RESPA	Real Estate Settlement Procedures Act of 1974





Term	Definition
RGRI	Radian Guaranty Reinsurance Inc., a Pennsylvania domiciled insurance subsidiary of EFSG
RIF	Risk in force
Risk-to-capital	Under certain state regulations, a minimum ratio of statutory capital calculated relative to the level of net risk in force
RMAI	Radian Mortgage Assurance Inc., a Pennsylvania domiciled insurance subsidiary of Radian Guaranty
RMBS	Residential mortgage-backed securities
S&P	Standard & Poor's Financial Services LLC
SAP	Statutory accounting practices include those required or permitted, if applicable, by the insurance departments of the respective states of domicile of our insurance subsidiaries
SEC	United States Securities and Exchange Commission
Second QSR Transaction	Second quota share reinsurance transaction entered into with a third-party reinsurance provider in the fourth quarter of 2012
Second-liens	Second-lien mortgage loans
Senior Notes due 2015	Our 5.375% unsecured senior notes due June 2015 (\$250 million principal amount)
Senior Notes due 2017	Our 9.000% unsecured senior notes due June 2017 (\$195.5 million principal amount)
Senior Notes due 2019	Our 5.500% unsecured senior notes due June 2019 (\$300 million principal amount)
Servicing Only Loans	With respect to the BofA Settlement Agreement, loans other than Legacy Loans that were or are serviced by the Insureds and were 90 days or more past due as of July 31, 2014, or if servicing has been transferred to a servicer other than the Insureds, 90 days or more past due as of the transfer date
Settlement Agreement	An agreement between Quicken Loans Inc. and Radian Guaranty, effective August 15, 2014, to settle and fully resolve certain litigation
Single Premium	Premiums on mortgage insurance products paid in a single payment at origination
Sovereign	Sovereign and sub-Sovereign, collectively
Stage of Default	The stage a loan is in relative to the foreclosure process, based on whether or not a foreclosure sale has been scheduled or held (i.e., Early Stage Defaults and Foreclosure Stage Defaults)
Statutory RBC Requirement	Risk-based capital requirement imposed by the RBC States, requiring a minimum surplus level and, in certain states, a minimum ratio of statutory capital relative to the level of Risk-to-capital
Stressed European Countries	Greece, Spain, Italy, Hungary, Portugal and Ireland, collectively
Structured Transactions	With respect to mortgage insurance, transactions in which mortgage insurance is provided on a group of mortgages after they have been originated. Structured Transactions contrast with Flow business, in which mortgage insurance is provided on mortgages on an individual loan basis as they are originated
Subject Loans	Loans covered under the BofA Settlement Agreement, comprising Legacy Loans and Servicing Only Loans
Terminated TruPs Bonds	TruPs bonds underlying certain TruPs collateralized debt obligations that were terminated in a commutation transaction in 2012
Time in Default	The time period from the point a loan reaches default status (based on the month the default occurred) to the current reporting date

TruPs	Trust preferred securities
TruPs Liquidity Claim	An obligation of Radian Asset Assurance to pay its CDS counterparty the outstanding par amount with respect to four insured TruPs bonds, which may arise if an event of default under any of these TruPs bonds (e.g. failure to pay interest or a breach of a covenant requiring the maintenance of a certain level of performing collateral) exists as of the termination date of the relevant TruPs CDS contract
U.S.	The United States of America

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Term	Definition
U.S. Treasury	United States Department of the Treasury
Unearned Premium Reserves	Premiums received but not yet earned
VIE	Variable interest entity is a legal entity subject to the variable interest entity subsections of the accounting standard regarding consolidation, and generally includes a corporation, trust or partnership in which, by design, equity investors do not have a controlling financial interest or do not have sufficient equity at risk to finance activities without additional subordinated financial support
Walkaway	Termination of a transaction at the option of the counterparty to certain of our CDS transaction