

RADIAN GROUP INC
Form 10-K
February 28, 2014

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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2013

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

RADIAN GROUP INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

1601 Market Street, Philadelphia, PA
(Address of principal executive offices)
(215) 231-1000

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Common Stock, \$.001 par value per share

Preferred Stock Purchase Rights

Securities registered pursuant to Section 12(g) of the Act: None

23-2691170

(I.R.S. Employer
Identification No.)

19103

(Zip Code)

Name of each exchange on which registered

New York Stock Exchange

New York Stock Exchange

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES NO

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Edgar Filing: RADIAN GROUP INC - Form 10-K

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

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

As of June 30, 2013, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was \$1,995,499,381 based on the closing sale price as reported on the New York Stock Exchange. Excluded from this amount is the value of all shares beneficially owned by executive officers and directors of the registrant.

These exclusions should not be deemed to constitute a representation or acknowledgment that any such individual is, in fact, an affiliate of the registrant or that there are not other persons or entities who may be deemed to be affiliates of the registrant.

The number of shares of common stock, \$.001 par value per share, of the registrant outstanding on February 25, 2014 was 173,136,580 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Definitive Proxy Statement for the Registrant's 2014 Annual Meeting of Stockholders

Form 10-K
Reference Document
Part III
(Items 10 through 14)

TABLE OF CONTENTS

		Page Number
	<u>Cautionary Note Regarding Forward Looking Statements—Safe Harbor Provisions</u>	3
PART I		
Item 1	<u>Business</u>	6
	<u>General</u>	6
	<u>Mortgage Insurance</u>	8
	<u>Business</u>	8
	<u>Direct Risk in Force</u>	11
	<u>Defaults and Claims</u>	15
	<u>Claims Management</u>	18
	<u>Risk Management</u>	19
	<u>Customers</u>	21
	<u>Sales, Marketing and Customer Support</u>	21
	<u>Competition</u>	22
	<u>Financial Guaranty</u>	23
	<u>Business</u>	23
	<u>Net Par Outstanding</u>	28
	<u>Defaults and Claims</u>	33
	<u>Risk Management</u>	34
	<u>Customers</u>	36
	<u>Investment Policy and Portfolio</u>	36
	<u>Regulation</u>	39
	<u>Employees</u>	51
Item 1A	<u>Risk Factors</u>	52
Item 1B	<u>Unresolved Staff Comments</u>	76
Item 2	<u>Properties</u>	76
Item 3	<u>Legal Proceedings</u>	76
Item 4	<u>Mine Safety Disclosures</u>	78
PART II		
Item 5	<u>Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	79
Item 6	<u>Selected Financial Data</u>	80
Item 7	<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	82
Item 7A	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	148
Item 8	<u>Financial Statements and Supplementary Data</u>	150
Item 9	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	243
Item 9A	<u>Controls and Procedures</u>	243
Item 9B	<u>Other Information</u>	243
PART III		
Item 10	<u>Directors, Executive Officers and Corporate Governance</u>	244
Item 11	<u>Executive Compensation</u>	244
Item 12	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	244
Item 13	<u>Certain Relationships and Related Transactions, and Director Independence</u>	244
Item 14	<u>Principal Accountant Fees and Services</u>	245

PART IV

Item 15	<u>Exhibits and Financial Statement Schedules</u>	<u>246</u>
	<u>SIGNATURES</u>	<u>247</u>
	<u>INDEX TO FINANCIAL STATEMENT SCHEDULES</u>	<u>249</u>
	<u>INDEX TO EXHIBITS</u>	<u>250</u>

Cautionary Note Regarding 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, Section 21E of the Securities Exchange Act of 1934 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,” “estimate,” “predict,” “project,” “potential,” “continue,” “future,” “likely” 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 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:

- changes in general economic and political conditions, including unemployment rates, changes in the U.S. housing and mortgage credit markets (including declines in home prices and property values), the performance of the U.S. or global economies, the amount of liquidity in the capital or credit markets, changes or volatility in interest rates or consumer confidence and changes in credit spreads, all of which may be impacted by, among other things, legislative activity or inactivity, actual or threatened downgrades of U.S. government credit ratings, or actual or threatened defaults on U.S. government obligations;
- 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 the fact that certain of our former competitors have ceased writing new insurance business and have been placed under supervision or receivership by insurance regulators; catastrophic events, municipal and sovereign or sub-sovereign bankruptcy filings or other economic changes in geographic regions 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, or 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”);
- 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, and an adequate minimum policyholder position and surplus for our insurance subsidiaries that provide reinsurance to Radian Guaranty;
- our ability to continue to effectively mitigate our mortgage insurance and financial guaranty losses; a more rapid than expected decrease in the 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 (including as part of one or more settlements of disputed rescissions or denials), or by Fannie Mae or Freddie Mac (the “Government-Sponsored Enterprises” or the “GSEs”) intervening in or otherwise limiting our 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 our customers and potential customers, including the potential loss of current or future business and the heightened risk of disputes and litigation;

the need, in the event that we are unsuccessful in defending our loss mitigation activities, to increase our loss reserves for, and reassume risk on, rescinded or cancelled 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 Federal Housing Administration, the U.S. Department of Veterans Affairs and other private mortgage insurers, including with respect to private mortgage insurers, those that have been assigned higher ratings than we have, that may have access to greater amounts of capital than we do, that are less dependent on capital support from their subsidiaries than we are or that are new entrants to the industry, and therefore, are not burdened by legacy obligations;

changes in requirements to remain an eligible insurer to the GSEs (which are expected to be released in 2014 and implemented following a transition period), which may include, among other items, more onerous risk-to-capital ratio requirements, higher capital requirements for loans insured prior to 2009 and a limitation on the amount of capital credit available for the equity in our subsidiaries, including capital attributable to our financial guaranty business;

changes in the charters or business practices of, or rules or regulations applicable to, the GSEs;

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 Procedures 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 or future prospects;

the amount and timing of potential payments or adjustments associated with federal or other tax examinations, including adjustments proposed by the Internal Revenue Service resulting from the examination of our 2000 through 2007 tax years, which we are currently contesting;

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, substantially all of our investment portfolio and certain of our long-term incentive compensation awards;

our ability to realize some or all of the tax benefits associated with our gross deferred tax assets, which will depend, in part, 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 this Annual Report on Form 10-K. We caution you not to place undue reliance on these forward-looking statements, which are current only as of the date on which we issued this report. We do not intend to, and we disclaim any duty or obligation to, update or revise any forward-looking statements to reflect new information or future events or for any other reason.

PART I

Item 1. Business.

I. General

We are a credit enhancement company with a primary strategic focus on domestic residential mortgage insurance on first-lien mortgage loans (“first-liens”). 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. See “—Mortgage Insurance.” 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 also offered credit protection on various asset classes through financial guaranty policies 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 consisting primarily of public finance and structured finance insured transactions. 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 an important source of capital support for our mortgage insurance business. See “—Financial Guaranty.” A summary of financial information for our business segments for each of the last three fiscal years is included in Note 3 of Notes to Consolidated Financial Statements. Radian Group Inc. (“Radian Group”) serves as the holding company for our insurance subsidiaries and does not have any significant operations of its own.

Business Overview and Operating Environment. 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 financial crisis and 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 both of our business segments. This 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 employment growth, limited economic growth and a lack of meaningful liquidity in many sectors of the capital markets. More recently, we have experienced a period of economic recovery and the operating environment for our businesses has improved. Our results of operations have continued to improve as the negative impact from losses on the mortgage insurance we wrote during the poor underwriting years of 2005 through 2008 (we refer to this portion of our mortgage insurance portfolio, together with business written prior to 2005, as our “legacy portfolio”) has been reduced and we continue to write a high volume of insurance on higher credit quality loans. As of December 31, 2013, our legacy portfolio had been reduced to approximately 40% of our total primary risk in force (“RIF”), while insurance on loans written after 2008 constituted approximately 60% of our primary RIF.

Currently, our business strategy is primarily focused on: (1) growing our mortgage insurance business by writing insurance on high-quality mortgages in the U.S. and exploring other potential alternatives for providing credit-based services to the mortgage finance market; (2) continuing to manage losses in our legacy mortgage insurance and financial guaranty portfolios; (3) continuing to reduce our legacy mortgage insurance and financial guaranty exposures; and (4) continuing to effectively manage our capital and liquidity positions.

Since the financial crisis began in 2007, we have engaged in a number of strategic actions and initiatives in response to the negative economic and market conditions impacting our businesses. These actions include the following:

We significantly tightened our mortgage insurance underwriting standards to focus primarily on insuring high credit quality, first-liens originated in the U.S. and we ceased writing mortgage insurance on non-traditional and other inherently riskier products (referred to collectively, as “non-traditional” risk). See “—Mortgage Insurance—Business—Traditional Risk.”

We expanded our claims management and loss mitigation efforts to better manage losses in the weak housing market and high default and claim environment.

Through risk commutations, ceded reinsurance and other transaction settlements and terminations of insured risk, we reduced our direct primary RIF associated with our mortgage insurance portfolio, including non-traditional mortgage

insurance RIF.

• We reduced our financial guaranty net par outstanding primarily through risk commutations, discounted security purchases, ceded reinsurance and transaction settlements and terminations.

6

We discontinued writing new financial guaranty business and Radian Group contributed its ownership interest in Radian Asset Assurance to Radian Guaranty. Although this structure makes the capital adequacy of our mortgage insurance business dependent, to a significant degree, on the successful run-off of our financial guaranty business, the structure has provided Radian Guaranty with substantial regulatory capital and, through dividends from Radian Asset Assurance, has increased liquidity at Radian Guaranty.

During 2013, we made further progress in support of our business strategy, including the following:

In 2013, we wrote \$47.3 billion of primary mortgage insurance. Substantially all of our portfolio of insurance written after 2008 is of high credit quality and is expected to generate strong returns.

Through the expanded eligibility criteria under the most recent Home Affordable Refinance Program (“HARP”) (see “—Regulation—Federal Regulation—Homeowner Assistance Programs”), many borrowers have been able to participate in and benefit from the program. As of December 31, 2013, approximately 11% of our total primary RIF had successfully completed a HARP refinance, which we believe further improves the overall credit profile of our mortgage insurance portfolio.

We continued to diversify and expand our customer base, adding more than 200 new customers during 2013. Customers added since 2009 accounted for 46% of our new insurance written (“NIW”) during 2013.

During 2013, Radian Group executed the following transactions in order to improve its liquidity:

Exchanged \$195.5 million of its outstanding 5.375% Senior Notes due June 2015 for a new series of 9.000% Senior Notes due June 2017. See Note 11 of Notes to Consolidated Financial Statements for further information.

Issued \$400 million principal amount of 2.250% convertible unsecured senior notes due March 2019 (the “Convertible Senior Notes due 2019”), resulting in net proceeds of approximately \$389.8 million. See Note 11 of Notes to Consolidated Financial Statements for further information.

Sold 39.1 million shares of common stock in a public offering for \$8.00 per share, resulting in net proceeds of approximately \$299.4 million.

In August 2013, Radian Guaranty entered into a Master Transaction Agreement with Freddie Mac (the “Freddie Mac Agreement”) related to a group of 25,760 first-liens guaranteed by Freddie Mac that were insured by Radian Guaranty and were in default as of December 31, 2011. The Freddie Mac Agreement caps Radian Guaranty’s total exposure on the entire population of loans subject to the agreement to \$840 million. The maximum exposure of \$840 million is comprised of \$625 million of claim payments (consisting of \$370 million of claims previously paid on this population of loans prior to July 12, 2013, which is the measurement date for purposes of the transaction, and an additional \$255 million paid at closing) and \$215 million related to rescissions, denials, claim curtailments and cancellations (“Loss Mitigation Activity”) on these loans. See Notes 7 and 9 of Notes to Consolidated Financial Statements for additional information regarding this agreement.

Radian Asset Assurance continued to reduce its financial guaranty portfolio and provide capital support to Radian Guaranty. Since we stopped writing new financial guaranty business in June 2008, Radian Asset Assurance’s total net par exposure has been reduced by 79.3% to \$23.9 billion. From 2008 through the end of 2013, Radian Asset Assurance has released financial guaranty contingency reserves of \$424.8 million (which has increased Radian Guaranty’s statutory surplus by an equal amount) and has paid \$419.8 million in dividends to Radian Guaranty. See “—Financial Guaranty—Business.”

Regulatory Environment. Our insurance subsidiaries are subject to comprehensive regulations and other requirements. State insurance regulators impose various capital requirements on our insurance subsidiaries. For our mortgage insurance subsidiaries, these include risk-to-capital ratios, other risk-based capital measures and surplus requirements that potentially limit the amount of insurance that each of our mortgage insurance subsidiaries may write. Freddie Mac and Fannie Mae are the primary beneficiaries of the majority of our mortgage insurance policies and the Federal Housing Administration (“FHA”) is currently our primary competitor outside of the private mortgage insurance industry. Changes in the charters or business practices of the Government-Sponsored Enterprises (“GSEs”), including the introduction of alternatives to private mortgage insurance or the implementation of new GSE eligibility requirements (which are currently under consideration) with increased capital adequacy requirements for private mortgage insurers, could significantly impact our business. 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. In addition, the mortgage origination market and private mortgage insurers may be adversely impacted by regulatory requirements being developed and implemented under the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”). Our businesses have been and may continue to be significantly impacted by these and other legislative or regulatory developments and proposals. Although we believe that traditional private mortgage insurance will continue to play an important role in any future housing finance structure, it is possible that new federal legislation could reduce the level of private mortgage insurance coverage required to be used by the GSEs as credit enhancement, or even eliminate the requirement altogether, which could reduce our available market and adversely affect our franchise value. See “—Regulation.”

Corporate Background. Radian Group has been incorporated as a business corporation under the laws of the State of Delaware since 1991. Our principal executive offices are located at 1601 Market Street, Philadelphia, Pennsylvania 19103, and our telephone number is (215) 231-1000.

Additional Information. Our website address is www.radian.biz. Copies of our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, as well as any amendments to those reports, are available free of charge through our website as soon as reasonably practicable after they are electronically filed with, or furnished to, the Securities and Exchange Commission (the “SEC”). In addition, our guidelines of corporate governance, code of business conduct and ethics (which includes the code of ethics applicable to our chief executive officer, principal financial officer and principal accounting officer) and the governing charters for each committee of our board of directors are available free of charge on our website, as well as in print, to any stockholder upon request. The public may read and copy any materials we file with the SEC at the SEC’s Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC and the address of that site is www.sec.gov.

The above references to our website and the SEC’s website do not constitute incorporation by reference of the information contained on the websites and such information should not be considered part of this document.

II. Mortgage Insurance

A. Business

Our mortgage insurance segment provides insurance coverage, principally through private mortgage insurance, and risk management services, to mortgage lending institutions. 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 down payments 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.

1. Traditional Risk

Traditional types of private mortgage insurance include “primary mortgage insurance” and “pool insurance.” All of our new insurance written after 2008 has been primary mortgage insurance.

Primary Mortgage Insurance. Primary mortgage insurance provides protection against mortgage defaults at a specified coverage percentage. When there is a valid claim under primary mortgage insurance, the maximum liability is determined by multiplying the claim amount, which consists of the unpaid loan principal, plus past due interest (which is capped at a maximum of two years) and certain expenses associated with the default, by the coverage percentage. Claims may be settled for the maximum liability or for other amounts. See “—Claims Management” below.

We provide primary mortgage insurance on a flow basis and we have also provided primary mortgage insurance on a “structured” basis (in which we insure a group of individual loans). In flow transactions, mortgages typically are insured as they are originated, while in structured transactions, we typically provide insurance on a group of mortgages after they have been originated. A portion of our structured business was written in a “second loss” position, meaning that we are not required to make a payment until a certain aggregate amount of losses have already been recognized on a given set of loans. Most of the mortgage insurance we wrote on structured transactions involved non-prime mortgages (non-prime mortgages include Alternative-A (“Alt-A”), A minus and B/C mortgages, each of which are discussed below under “—Direct Risk in Force—Mortgage Loan Characteristics”) and mortgages with higher than average loan balances. A s