RADIAN GROUP INC
Form 10-Q
August 09, 2011

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 June 30, 2011

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 x	Accelerated filer o	Non-accelerated filer o	Smaller reporting company o
		(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 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: 133,212,075 shares of common stock, $0.001 par value per share, outstanding on July 29, 2011.

Radian Group Inc.
INDEX

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," 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 information. The forward-looking statements, as well as our prospects as a whole, are subject to risks and uncertainties, including the following:

- changes in general financial and political conditions, including the recent downgrade of the U.S. credit rating, a failure of the U.S. economy to fully recover from the most recent recession or the U.S. economy reentering a recessionary period, a lack of meaningful liquidity in the capital markets or in the credit markets, a prolonged period of high unemployment rates and limited home price appreciation or further depreciation (which has resulted in some borrowers voluntarily defaulting on their mortgages when their mortgage balances exceed the value of their homes), changes or volatility in interest rates or consumer confidence, changes in credit spreads, each of which may be accelerated or intensified by the recent downgrade of the U.S. credit rating and any further actual or threatened downgrades of U.S. credit ratings or as a result of Congressional action following the recent decision to increase the U.S. debt ceiling;

- changes in the way customers, investors, regulators or legislators perceive the strength of private mortgage insurers or financial guaranty providers, or investor concern over the credit quality and specific risks faced by the particular businesses, municipalities or pools of assets covered by our insurance;

- catastrophic events or further economic changes in geographic regions, including governments and municipalities, where our mortgage insurance or financial guaranty insurance exposure is more concentrated;

- our ability to successfully execute upon our capital plan for our mortgage insurance business (which depends, in part, on the performance of our financial guaranty portfolio), and if necessary, to obtain additional capital to support our mortgage insurance business and the long-term liquidity needs of our holding company;

- a further reduction in, or prolonged period of depressed levels of, home mortgage originations due to reduced liquidity in the lending market, tighter underwriting standards, the risk retention requirements established under the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") and the decrease in housing demand throughout the U.S.;

- our ability to maintain adequate risk-to-capital ratios and surplus requirements in our mortgage insurance business in light of ongoing losses in this business and potential further deterioration in our financial guaranty portfolio which, in the absence of new capital, could depend on our ability to execute strategies for which regulatory and other approvals are required and may not be obtained;

- our ability to continue to effectively mitigate our mortgage insurance and financial guaranty losses;

- reduced opportunities for loss mitigation in markets where housing values do not appreciate or continue to decline;

- a more rapid than expected decrease in the level of insurance rescissions and claim denials from the current elevated levels (including as a result of successful challenges to previously rescinded policies or claim denials), which rescissions and denials have materially mitigated our paid losses and resulted in a significant reduction in our loss reserves;

- the negative impact our insurance rescissions and claim denials 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 or denials, to increase our loss reserves for, and reassume risk on, rescinded loans and pay additional claims;

- the concentration of our mortgage insurance business among a relatively small number of large customers;
- any disruption in the servicing of mortgages covered by our insurance policies and poor servicer performance;
- the aging of our mortgage insurance portfolio and changes in severity or frequency of losses associated with certain of our products that are riskier than traditional mortgage insurance or financial guaranty insurance policies;
- the performance of our insured portfolio of higher risk loans, such as Alternative-A and subprime loans, and of adjustable rate products, such as adjustable rate mortgages and interest-only mortgages;
- a decrease in persistency rates of our mortgage insurance policies;
- an increase in the risk profile of our existing mortgage insurance portfolio due to the availability of mortgage refinancing to only the most qualified borrowers in the current mortgage and housing market;
- further downgrades or threatened downgrades of, or other ratings actions with respect to, our credit ratings or the ratings assigned by the major rating agencies to any of our rated insurance subsidiaries at any time (in particular, the credit rating of Radian Group Inc. and the financial strength ratings assigned to Radian Guaranty Inc.);
- heightened competition for our mortgage insurance business from others such as the Federal Housing Administration (the "FHA"), the Veteran's Administration and private mortgage insurers (in particular, the FHA and those private mortgage insurers that have been assigned higher ratings from the major rating agencies or new entrants to the industry that are not burdened by legacy obligations);
- changes in the charters or business practices of, or rules or regulations applicable to, Federal National Mortgage Association ("Fannie Mae") and Freddie Mac, the largest purchasers of mortgage loans that we insure, and our ability to remain an eligible provider to both Freddie Mac and Fannie Mae;
- 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 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 mortgage insurance are considered "qualified residential mortgages" for purposes of the Dodd-Frank Act securitization provisions or "qualified mortgages" for purposes of the ability to repay provisions of the Dodd-Frank Act and potential obligations to post collateral on our existing insured derivatives portfolio;
- the application of existing federal or state consumer, lending, insurance, tax, securities and other applicable laws and regulations, or changes in these laws and regulations or the way they are interpreted; including, without limitation: (i) the outcome of existing, or the possibility of additional, lawsuits or investigations, and (ii) legislative and regulatory changes (a) affecting demand for private mortgage insurance, (b) limiting or restricting our use of (or increasing requirements for) additional capital and the products we may offer, or (c) affecting the form in which we execute credit protection or affecting our existing financial guaranty portfolio;
- 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 premium deficiencies for our mortgage insurance business, or to estimate accurately the fair value amounts of derivative instruments in our mortgage insurance and financial guaranty businesses in determining gains and losses on these contracts;
- the ability of our primary insurance customers in our financial guaranty reinsurance business to provide appropriate surveillance and to mitigate losses adequately with respect to our assumed insurance portfolio;

- 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 our need to reevaluate the possibility of a premium deficiency in our mortgage insurance business on a quarterly basis;

- our ability to realize 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;

- our ability to successfully develop and implement a strategy to utilize the recently acquired Municipal and Infrastructure Assurance Corporation (the "FG Insurance Shell") in the public finance financial guaranty market, which strategy may depend on, among other items, our ability to obtain further necessary regulatory or other approvals, to attract third-party capital and to obtain ratings sufficient to support such a strategy;

- changes in accounting guidance from the Securities and Exchange Commission or the Financial Accounting Standards Board; 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, 2010, and in Item 1A of Part II of our Quarterly Reports on Form 10-Q. 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)

	June 30, 2011	December 31, 2010
(In thousands, except share and per share amounts)		
ASSETS		
Investments		
Fixed-maturities held to maturity—at amortized cost (fair value $8,282 and $11,416)	$7,781	$10,773
Fixed-maturities available for sale—at fair value (amortized cost $160,085 and $340,795)	149,146	273,799
Equity securities available for sale—at fair value (cost $160,038 and $160,242)	193,965	184,365
Trading securities—at fair value (including variable interest entity (“VIE”) securities of $100,691 and $83,184)	4,445,335	4,562,821
Short-term investments—at fair value (including VIE investments of $149,984 and $149,981)	1,130,268	1,537,498
Other invested assets—at cost	62,344	59,627
Total investments	5,988,839	6,628,883
Cash	21,122	20,334
Restricted cash	28,568	31,413
Deferred policy acquisition costs	138,926	148,326
Accrued investment income	39,620	40,498
Accounts and notes receivable (less allowance of $0 and $50,000)	109,017	116,452
Property and equipment, at cost (less accumulated depreciation of $95,204 and $92,451)	15,999	13,024
Derivative assets (including VIE derivative assets of $4,653 and $10,855)	27,266	26,212
Deferred income taxes, net	27,531	27,531
Reinsurance recoverables	179,573	244,894
Other assets (including VIE other assets of $115,716 and $112,426)	352,335	323,320
Total assets	$6,928,796	$7,620,887
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Unearned premiums	$629,813	$686,364
Reserve for losses and loss adjustment expenses (“LAE”)	3,343,624	3,596,735
Reserve for premium deficiency	6,251	10,736
Long-term debt	811,319	964,788
VIE debt—at fair value (including $3,195 and $9,514 of non-recourse debt)	393,740	520,114
Derivative liabilities (including VIE derivative liabilities of $18,831 and $19,226)	313,708	723,579
Accounts payable and accrued expenses (including VIE accounts payable of $686 and $837)	301,031	258,791
Total liabilities	5,799,486	6,761,107
Commitments and Contingencies (Note 15)		
Stockholders’ equity		
Common stock: par value $.001 per share; 325,000,000 shares authorized; 150,574,956 and 150,507,853 shares issued at June 30, 2011 and December 31, 2010, respectively; 133,113,518 and 133,049,213 shares outstanding at June 30, 2011 and December 31, 2010, respectively	151	150
Treasury stock, at cost: 17,461,438 and 17,458,640 shares at June 30, 2011 and December 31, 2010, respectively	(892,036)	(892,012)

Additional paid-in capital	1,965,739	1,963,092
Retained earnings (deficit)	34,861	(204,926)
Accumulated other comprehensive income (loss)	20,595	(6,524)
Total stockholders’ equity	1,129,310	859,780
Total liabilities and stockholders’ equity	$6,928,796	$7,620,887

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 June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Revenues:				
Premiums written—insurance:				
Direct	$174,008	$194,757	$364,849	$379,035
Assumed	(11,788)	(7,923)	(10,164)	(9,171)
Ceded	(9,442)	(26,933)	(19,158)	(54,462)
Net premiums written	152,778	159,901	335,527	315,402
Decrease in unearned premiums	36,156	43,545	56,430	86,312
Net premiums earned—insurance	188,934	203,446	391,957	401,714
Net investment income	43,823	48,619	86,063	93,977
Net gains on investments	44,236	57,262	81,671	115,210
Total other-than-temporary impairment ("OTTI") losses	(11)	(38)	(11)	(56)
Losses recognized in other comprehensive income (loss)	—	—	—	—
Net impairment losses recognized in earnings	(11)	(38)	(11)	(56)
Change in fair value of derivative instruments	188,726	(524,606)	432,618	(602,560)
Net gains (losses) on other financial instruments	5,047	(63,200)	80,298	(164,764)
Gain on sale of affiliate	—	34,815	—	34,815
Other income	1,196	(2,072)	2,644	3,703
Total revenues	471,951	(245,774)	1,075,240	(117,961)
Expenses:				
Provision for losses	263,566	435,166	690,939	979,046
Change in reserve for premium deficiency	(3,102)	(7,354)	(4,485)	(8,585)
Policy acquisition costs	14,387	16,797	28,518	31,665
Other operating expenses	45,954	35,165	92,173	100,221
Interest expense	16,079	8,245	33,103	19,049
Total expenses	336,884	488,019	840,248	1,121,396
Equity in net income of affiliates	—	6,570	65	14,668
Pretax income (loss)	135,067	(727,223)	235,057	(1,224,689)
Income tax benefit	(2,048)	(252,143)	(5,064)	(439,254)
Net income (loss)	$137,115	$(475,080)	$240,121	$(785,435)
Basic net income (loss) per share	$1.04	$(4.31)	$1.82	$(8.15)
Diluted net income (loss) per share	$1.03	$(4.31)	$1.80	$(8.15)
Weighted-average number of common shares outstanding—basic	132,185	110,282	132,185	96,420
Weighted-average number of common and common equivalent shares outstanding—diluted	133,614	110,282	133,724	96,420
Dividends per share	$0.0025	$0.0025	$0.0050	$0.0050

See notes to unaudited condensed consolidated financial statements.

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)	Foreign Currency Translation Adjustment	Unrealized Holding Gains/Losses	Other	Total
BALANCE, JANUARY 1, 2010	$ 100	$ (889,496)	$ 1,363,255	$ 1,602,143	$ 18,285	$ (72,802)	$ (16,491)	$ 2,004,994
Comprehensive loss:								
Net loss	—	—	—	(785,435)	—	—	—	(785,435)
Unrealized foreign currency translation adjustment, net of tax of $2,684	—	—	—	—	(3,986)	—	—	
Less: Reclassification adjustment for liquidation of foreign subsidiary and net gains on sales, net of tax of $240	—	—	—	—	(447)	—	—	
Net foreign currency translation adjustment, net of tax of $2,444	—	—	—	—	(4,433)	—	—	(4,433)
Unrealized holding gains arising during the period, net of tax of $11,165	—	—	—	—	—	20,736	—	
Less: Reclassification adjustment for net gains included in net loss, net of tax of $673	—	—	—	—	—	(1,250)	—	
Net unrealized gain on investments, net of tax of $10,492	—	—	—	—	—	19,486	—	19,486
Comprehensive loss	—	—	—	—	—	—	—	(770,382)
Sherman unrealized loss included in net loss	—	—	—	—	—	—	16,761	16,761
Repurchases of common stock under incentive plans	—	(2,484)	108	—	—	—	—	(2,376)
Issuance of common stock - stock offering	50	—	526,135	—	—	—	—	526,185
Issuance of common stock under benefit plans	—	—	1,938	—	—	—	—	1,938
Amortization of restricted stock	—	—	2,854	—	—	—	—	2,854
Stock-based compensation expense	—	—	191	—	—	—	—	191
Dividends declared	—	—	—	(536)	—	—	—	(536)

BALANCE, June 30, 2010	$ 150	$ (891,980)	$ 1,894,481	$ 816,172	$ 13,852	$ (53,316)	$ 270	$ 1,779,629
BALANCE, JANUARY 1, 2011	$ 150	$ (892,012)	$ 1,963,092	$ (204,926)	$ 21,094	$ (27,857)	$ 239	$ 859,780
Comprehensive income:								
Net income	—	—	—	240,121	—	—	—	240,121
Unrealized foreign currency translation adjustment, net of tax of $0	—	—	—	—	6,520	—	—	
Less: Reclassification adjustment for liquidation of foreign subsidiary included in net income, net of tax of $11,617	—	—	—	—	27,954	—	—	
Net foreign currency translation adjustment, net of tax of $11,617	—	—	—	—	(21,434)	—	—	(21,434)
Unrealized holding gains arising during the period, net of tax of $0	—	—	—	—	—	13,615	—	
Less: Reclassification adjustment for net losses included in net income, net of tax benefit of $17,307 (See Note 6)	—	—	—	—	—	(34,938)	—	
Net unrealized gain on investments, net of tax benefit of $17,307	—	—	—	—	—	48,553	—	48,553
Comprehensive income	—	—	—	—	—	—	—	267,240
Repurchases of common stock under incentive plans	—	(24)		—	—	—	—	(24)
Issuance of common stock under benefit plans	1	—	404	—	—	—	—	405
Amortization of restricted stock	—	—	1,603	—	—	—	—	1,603
Additional convertible debt issuance costs, net	—	—	(22)	—	—	—	—	(22)
Stock-based compensation expense	—	—	995	—	—	—	—	995
Dividends declared	—	—	(333)	(334)	—	—	—	(667)
BALANCE, June 30, 2011	$ 151	$ (892,036)	$ 1,965,739	$ 34,861	$ (340)	$ 20,696	$ 239	$ 1,129,310

See notes to unaudited condensed consolidated financial statements.

8

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

(In thousands)	Six Months Ended June 30, 2011	2010
Cash flows used in operating activities	$(608,917)	$(460,719)
Cash flows from investing activities:		
Proceeds from sales of fixed-maturity investments available for sale	101,648	69,946
Proceeds from sales of equity securities available for sale	555	5,962
Proceeds from sales of trading securities	2,444,549	918,017
Proceeds from redemptions of fixed-maturity investments available for sale	28,032	30,492
Proceeds from redemptions of fixed-maturity investments held to maturity	3,195	2,635
Purchases of trading securities	(2,206,653)	(1,338,204)
Sales and redemptions of short-term investments, net	407,494	91,768
Purchases of other invested assets, net	(2,717)	(955)
Proceeds from the sale of investment in affiliate	—	172,017
Purchases of property and equipment, net	(5,729)	(1,279)
Net cash provided by (used in) investing activities	770,374	(49,601)
Cash flows from financing activities:		
Dividends paid	(667)	(536)
Redemption of long-term debt	(160,000)	(29,348)
Issuance of common stock	—	526,185
Net cash (used in) provided by financing activities	(160,667)	496,301
Effect of exchange rate changes on cash	(2)	(388)
Increase (decrease) in cash	788	(14,407)
Cash, beginning of period	20,334	41,574
Cash, end of period	$21,122	$27,167
Supplemental disclosures of cash flow information:		
Income taxes (received) paid	$(1,275)	$1,725
Interest paid	$27,244	$20,529

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

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, own interests ranging from 20% to 50%, are accounted for in accordance with the equity method of accounting. VIEs where we are the primary beneficiary are consolidated. See Note 5 for further information. 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 of Article 10 of Regulation S-X of the Securities and Exchange Commission ("SEC").

The financial information presented for interim periods is unaudited; however, such information reflects all adjustments that are, in the opinion of management, necessary for a fair statement of the financial position, results of operations, and cash flows for the interim periods. 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, 2010. The total assets for our mortgage insurance segment as of June 30, 2010, reflected in Note 2 have been revised to conform to the presentation in the audited financial statements for the year ended December 31, 2010. The supplemental disclosure of income taxes paid for June 30, 2010, on our condensed consolidated statements of cash flows has been corrected from the amount reported in our 10Q for the quarter ended June 30, 2010. This error had no impact on any of our financial statements or any per-share amounts. The year-end condensed balance sheet data was derived from our 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.

Our future performance and financial condition is subject to significant risks and uncertainties, including but not limited to, the following:

- Potential adverse effects on us of the failure or significant delay of the United States ("U.S.") economy to fully recover, including ongoing uncertainty in the housing and related credit markets and high unemployment, which could increase our mortgage insurance or financial guaranty losses beyond existing expectations (See Notes 7, 8 and 9).
- Potential adverse effects if the capital and liquidity levels of Radian Group or our regulated subsidiaries' statutory capital levels are deemed inadequate to support current business operations and strategies. Radian Group had immediately available, directly or through an unregulated direct subsidiary, unrestricted cash and liquid investments of $680.2 million and $797.5 million at June 30, 2011 and December 31, 2010, respectively, which includes $150 million of investments contained in our committed preferred custodial trust securities ("CPS") as discussed in Note 5. Radian Guaranty Inc.'s ("Radian Guaranty") statutory policyholders' surplus declined from $1.3 billion at December 31, 2010, to $1.0 billion at June 30, 2011, driven primarily by a statutory net loss for the six months ended June 30, 2011, of approximately $273 million.

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

- Potential adverse effects if Radian Guaranty's regulatory risk-to-capital ratio were to increase above 25 to 1, including the possibility that insurance regulators or the Government Sponsored Enterprises ("GSEs") may limit or cause Radian Guaranty to cease underwriting new mortgage insurance risk, and 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. We have been preparing Radian Mortgage Assurance, Inc. ("Radian Mortgage Assurance", formerly Amerin Guaranty Corporation) to write new first-lien mortgage ("first-lien") insurance, if needed, and have been pursuing waivers from those states that impose a 25 to 1 limitation. If Radian Guaranty's risk-to-capital were to increase above 25 to 1, and we are unable to continue writing new first-lien insurance business through Radian Mortgage Assurance or obtain the necessary waivers from the risk-to-capital limitations, it will significantly impair our franchise value and reduce our cash flow associated with new business while we continue to honor and settle valid claims and related expenses. At June 30, 2011, Radian Guaranty's risk-to-capital ratio was 19.8 to 1, compared to 16.8 to 1 at December 31, 2010. This increase was primarily due to the statutory net loss discussed above, partially offset by an excess-of-loss reinsurance agreement with Radian Insurance Inc., under which Radian Guaranty transferred approximately $2 billion of risk in force to Radian Insurance Inc. in the second quarter of 2011.
- Potential adverse effects if Radian Guaranty were to lose its eligibility status with the GSEs, which could occur at any time at the discretion of the GSEs. Loss of GSE eligibility would likely result in a significant curtailment of our ability to write new mortgage insurance business, which would significantly impair our franchise value and limit our cash flow arising from new business while we continue to honor and settle valid claims and related expenses.
- Potential adverse effects from legislative efforts to reform the housing finance market, including the possibility that new federal legislation could reduce or eliminate the requirement for private mortgage insurance or place additional significant obligations or restrictions on mortgage insurers.
- Potential impact on our businesses as a result of the implementation of regulations under the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), 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 mortgage insurance are considered "qualified residential mortgages" for purposes of the Dodd-Frank Act securitization provisions or "qualified mortgages" for purposes of the ability to repay provisions of the Dodd-Frank Act and potential obligations to post collateral on our existing insured derivatives portfolio.
- Potential adverse effects on Radian Group liquidity if regulators disallow or terminate our expense allocation agreements among Radian Group and its subsidiaries. In the first six months of 2011, Radian Group received $59.3 million in reimbursements from its subsidiaries under these agreements.

It is possible that the actual outcome of one or more of our plans or forecasts could be materially different, or that one or more of our estimates about the potential effects of the risks and uncertainties above or described elsewhere in this report, could prove to be materially different than our actual results. If one or more possible adverse outcomes were realized, there could be material adverse effects on our financial position, results of operations and cash flows.

Basic net income (loss) per share is based on the weighted-average number of common shares outstanding, while diluted net income (loss) per share is based on the weighted-average number of common shares outstanding and common share equivalents that would be issuable upon the exercise of stock options and other stock-based compensation. For the three and six months ended June 30, 2011, 3,268,525 shares of our common stock equivalents issued under our stock-based compensation plans were not included in the calculation of diluted net income per share as of such dates because they were anti-dilutive. As a result of our net loss for the three and six months ended June 30, 2010, 4,427,985 shares of our common stock equivalents issued under our stock-based compensations plans were not included in the calculation of diluted net loss per share as of such dates because they were anti-dilutive.

We have reflected in Note 4 the additional disclosures required by the update to the accounting standard regarding fair value measurements and disclosures effective January 1, 2011. The 2010 information has been revised to be consistent with the 2011 disclosure.

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

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 or internally allocated capital. We allocate corporate cash and investments to our segments based on internally allocated capital. The results for each segment for each reporting period can cause significant volatility in allocated capital.

Prior to January 1, 2011, we also had a third reportable segment—financial services. Our financial services segment had consisted mainly of our ownership interest in Credit-Based Asset Servicing and Securitization LLC ("C-BASS"), which was a credit-based consumer asset business. We wrote off our entire investment in C-BASS in 2007. C-BASS filed for Chapter 11 bankruptcy protection on November 12, 2010, and was subsequently liquidated. Our equity interest in C-BASS, and a related note receivable from C-BASS that had also been previously written off, were extinguished pursuant to the Plan of Liquidation that was confirmed on April 25, 2011. In addition, until May 3, 2010, when we sold our remaining interest therein, our financial services segment included our interest in Sherman Financial Group LLC, a consumer asset and servicing firm specializing in credit card and bankruptcy-plan consumer assets. Consequently, as of January 1, 2011, we no longer had any on-going activity in this reporting segment.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	2011	2010	2011	2010
Mortgage Insurance				
Net premiums written—insurance	$164,194	$167,909	$345,040	$324,941
Net premiums earned—insurance	$164,325	$179,992	$350,459	$357,331
Net investment income	24,853	28,544	51,686	54,903
Net gains on investments	27,425	34,441	45,187	63,222
Net impairment losses recognized in earnings	(11)	(38)	(11)	(56)
Change in fair value of derivative instruments	258	(1,310)	(136)	(1,033)
Net gains (losses) on other financial instruments	(631)	(7,973)	1,835	(38,173)
Other income	1,124	1,623	2,524	3,422
Total revenues	217,343	235,279	451,544	439,616
Provision for losses	269,992	427,622	683,965	956,713
Change in reserve for premium deficiency	(3,102)	(7,354)	(4,485)	(8,585)
Policy acquisition costs	8,601	12,113	18,817	22,617
Other operating expenses	33,913	25,639	68,050	71,872
Interest expense	146	1,549	9,935	3,669
Total expenses	309,550	459,569	776,282	1,046,286
Equity in net income of affiliates	—	—	—	—
Pretax loss	(92,207)	(224,290)	(324,738)	(606,670)
Income tax provision (benefit)	5,374	(71,763)	8,875	(217,610)
Net loss	$(97,581)	$(152,527)	$(333,613)	$(389,060)
Cash and investments	$3,334,789	$3,886,819		
Deferred policy acquisition costs	44,509	35,220		
Total assets	3,688,720	5,367,065		

Unearned premiums	191,737	207,354
Reserve for losses and LAE	3,268,582	3,656,746
VIE debt	56,239	253,178
Derivative liabilities	—	358

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	2011	2010	2011	2010
Financial Guaranty				
Net premiums written—insurance	$(11,416)	$(8,008)	$(9,513)	$(9,539)
Net premiums earned—insurance	$24,609	$23,454	$41,498	$44,383
Net investment income	18,970	20,075		