RADIAN GROUP INC
Form 10-Q
November 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 September 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 (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: 133,199,159 shares of common stock, $0.001 par value per share, outstanding on November 4, 2011.

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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, 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 statement. 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 continued weakness in the U.S. housing and mortgage credit markets, the U.S. economy reentering a recessionary period, a lack of meaningful liquidity in the capital markets or in the 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, further 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 recent developments in the private mortgage insurance industry in which certain of our former competitors have ceased writing new mortgage insurance business and, in one case, has been placed under supervision or receivership by its insurance regulator;

- 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, general reduced housing demand in the U.S., and the risk retention 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 and surplus requirements in our mortgage insurance business in light of ongoing losses in this business and potential further deterioration and losses 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 (see Item 1A of Part II of this Quarterly Report on Form 10-Q);

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

- 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;

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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 reduced 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 or denied loans, and to pay additional claims;

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- 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;
- adverse changes in severity or frequency of losses associated with certain products that we formerly offered 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, which would reduce our premium income;
- an increase in the risk profile of our existing mortgage insurance portfolio as refinancing of existing mortgage loans generally is available to only the most qualified borrowers in the current mortgage and housing market;
- changes in the criteria for assigning credit or similar ratings, 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, including in particular, the credit ratings of Radian Group Inc. ("Radian Group") and the financial strength ratings assigned to Radian Guaranty Inc. ("Radian Guaranty");
- heightened competition for our mortgage insurance business from others such as the Federal Housing Administration (the "FHA"), the Veteran's Administration and other private mortgage insurers (in particular, the FHA and those private mortgage insurers that have been assigned higher ratings from the major rating agencies that may have access to greater amounts of capital than we do, 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 Fannie Mae and Freddie Mac;
- changes to the current system or regulatory structure 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 (see Item 1A of Part II of this Quarterly Report on Form 10-Q);
- 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, including the possibility that the current federal tax deduction for mortgage insurance will not be extended beyond the expiration of the program on December 31, 2011, (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 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 our need to reevaluate the possibility of a premium deficiency in our mortgage insurance business on a quarterly basis;

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- 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 filed in 2011. 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)	September 30, 2011	December 31, 2010
ASSETS		
Investments		
Fixed-maturities held to maturity—at amortized cost (fair value $4,248 and $11,416)	$4,083	$10,773
Fixed-maturities available for sale—at fair value (amortized cost $123,249 and $340,795)	118,895	273,799
Equity securities available for sale—at fair value (cost $159,959 and $160,242)	163,673	184,365
Trading securities—at fair value (including variable interest entity (“VIE”) securities of $99,435 and $83,184)	4,482,161	4,562,821
Short-term investments—at fair value (including VIE investments of $149,979 and $149,981)	1,055,818	1,537,498
Other invested assets—at cost	62,444	59,627
Total investments	5,887,074	6,628,883
Cash	21,863	20,334
Restricted cash	27,649	31,413
Deferred policy acquisition costs	138,962	148,326
Accrued investment income	38,193	40,498
Accounts and notes receivable (less allowance of $0 and $50,000)	105,382	116,452
Property and equipment, at cost (less accumulated depreciation of $96,314 and $92,451)	11,936	13,024
Derivative assets (including VIE derivative assets of $4,931 and $10,855)	20,315	26,212
Deferred income taxes, net	19,244	27,531
Reinsurance recoverables	166,483	244,894
Receivable for securities sold	504,584	160
Other assets (including VIE other assets of $98,328 and $112,426)	304,600	323,160
Total assets	$7,246,285	$7,620,887
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Unearned premiums	$628,400	$686,364
Reserve for losses and loss adjustment expenses (“LAE”)	3,260,556	3,596,735
Reserve for premium deficiency	4,309	10,736
Long-term debt	814,901	964,788
VIE debt—at fair value (including $3,401 and $9,514 of non-recourse debt)	273,379	520,114
Derivative liabilities (including VIE derivative liabilities of $20,781 and $19,226)	188,921	723,579
Payable for securities purchased	532,451	9,112
Accounts payable and accrued expenses (including VIE accounts payable of $573 and $837)	254,932	249,679
Total liabilities	5,957,849	6,761,107
Commitments and Contingencies (Note 15)		
Stockholders’ equity		
Common stock: par value $.001 per share; 325,000,000 shares authorized; 150,661,461 and 150,507,853 shares issued at September 30, 2011 and December 31, 2010, respectively; 133,194,174 and 133,049,213 shares outstanding at September 30, 2011 and December 31, 2010, respectively	151	150

Treasury stock, at cost: 17,467,287 and 17,458,640 shares at September 30, 2011 and December 31, 2010, respectively	(892,052)	(892,012)
Additional paid-in capital	1,966,253	1,963,092
Retained earnings (deficit)	218,095	(204,926)
Accumulated other comprehensive loss	(4,011)	(6,524)
Total stockholders’ equity	1,288,436	859,780
Total liabilities and stockholders’ equity	$7,246,285	