

RADIAN GROUP INC
Form 10-Q
August 06, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2018

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 23-2691170
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

1500 Market Street, Philadelphia, PA 19102
(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 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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging growth company

(Do not check if a smaller reporting company)

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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:

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Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 213,290,215 shares of common stock, \$0.001 par value per share, outstanding on August 2, 2018.

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GLOSSARY OF ABBREVIATIONS AND ACRONYMS

The following list defines 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
2014 Master Policy	Radian Guaranty's master insurance policy, setting forth the terms and conditions of our mortgage insurance coverage, which became effective October 1, 2014
2016 Single Premium QSR Agreement	Quota share reinsurance agreement entered into with a panel of third-party reinsurance providers in the first quarter of 2016 and subsequently amended in the fourth quarter of 2017
2017 Form 10-K Annual Report	Form 10-K for the year ended December 31, 2017
2018 Single Premium QSR Agreement	Quota share reinsurance agreement entered into with a panel of third-party reinsurance providers in October 2017 to cede a portion of Single Premium NIW beginning January 1, 2018
ABS	Asset-backed securities
Alt-A	Alternative-A loans, representing loans for which the underwriting documentation is generally limited as compared to fully documented loans (considered a non-prime loan grade)
Available Assets	As defined in the PMIERS, assets primarily including the liquid assets of a mortgage insurer, and reduced by premiums received but not yet earned
Back-end	With respect to credit risk transfer programs established by the GSEs, policies written on loans that are already part of an existing GSE portfolio, as contrasted with loans that are to be purchased by the GSEs in the future
Borrower	With respect to our securities lending agreements, the third-party institutions to which we loan certain securities in our investment portfolio for short periods of time
Claim	Our legal right, under certain conditions, to reduce the amount of a claim, including due to servicer negligence
Curtailment	
Claim Denial	Our legal right, under certain conditions, to deny a claim
Claim Severity	The total claim amount paid divided by the original coverage amount
Clayton	Clayton Holdings LLC, a Delaware domiciled indirect non-insurance subsidiary of Radian Group
CMBS	Commercial mortgage-backed securities
Convertible Senior Notes due 2017	Our 3.000% convertible unsecured senior notes due November 2017 (\$450 million original principal amount)
Convertible Senior Notes due 2019	Our 2.250% convertible unsecured senior notes due March 2019 (\$400 million original principal amount)
Cures	Loans that were in default as of the beginning of a period and are no longer in default because payments were received such that the loan is no longer 60 or more days past due
Default to Claim Rate	The percentage of defaulted loans that are assumed to result in a claim
Deficiency Amount	The assessed tax liabilities, penalties and interest associated with a formal Notice of Deficiency from the IRS
Discrete Item(s)	For tax calculation purposes, certain items that are required to be accounted for in the provision for income taxes as they occur and are not considered a component of the estimated annualized effective tax rate for purposes of reporting interim results. Generally, these are items that are: (i) clearly defined (such as changes in tax rate or tax law); (ii) infrequent or unusual in nature; or (iii) gains or losses that are not a component of continuing operating income, such as income from discontinued operations or losses reflected as a component of other comprehensive income. These items impact the difference between the statutory rate and Radian's effective tax rate.

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EnTitle Direct	EnTitle Direct Group, Inc., a wholly-owned subsidiary of Radian Group
EnTitle Insurance	EnTitle Insurance Company, a wholly-owned subsidiary of EnTitle Direct
Exchange Act	Securities Exchange Act of 1934, as amended
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

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Term	Definition
Fannie Mae	Federal National Mortgage Association
FASB	Financial Accounting Standards Board
FEMA	Federal Emergency Management Agency, an agency of the U.S. Department of Homeland Security
FEMA Designated Area	Generally, an area that has been subject to a disaster, designated by FEMA as an individual assistance disaster area for the purpose of determining eligibility for various forms of federal assistance
FHA	Federal Housing Administration
FHFA	Federal Housing Finance Agency
FHLB	Federal Home Loan Bank of Pittsburgh
FICO	Fair Isaac Corporation (“FICO”) credit scores, for Radian’s portfolio statistics, represent the borrower’s credit score at origination and, in circumstances where there is more than one borrower, the FICO score for the primary borrower is utilized With respect to mortgage insurance, includes mortgage insurance policies that are written on an individual loan basis as each loan is originated or on an aggregated basis (in which each individual loan in a group of loans is insured in a single transaction, typically shortly after the loans have been originated). Among other items, Flow Basis business excludes Pool Insurance, which we originated prior to 2009.
Flow Basis	
Foreclosure Stage Default	The Stage of Default indicating that the foreclosure sale has been scheduled or held
Freddie Mac	Federal Home Loan Mortgage Corporation With respect to credit risk transfer programs established by the GSEs, policies written on loans that are to be purchased by the GSEs in the future, as contrasted with loans that are already part of an existing GSE portfolio
Front-end	
GAAP	Accounting principles generally accepted in the U.S.
Green River Capital	Green River Capital LLC, a wholly-owned subsidiary of Clayton
GSEs	Government-Sponsored Enterprises (Fannie Mae and Freddie Mac)
HARP	Home Affordable Refinance Program. See “Item 1. Business—Regulation—Federal Regulation—Homeowner Assistance Programs” in our 2017 Form 10-K for more information.
IBNR	Losses incurred but not reported
IIF	Insurance in force, equal to the aggregate unpaid principal balances of the underlying loans
IRC	Internal Revenue Code of 1986, as amended
IRS	Internal Revenue Service Our dispute with the IRS related to the Deficiency Amount from the IRS’s examination of our 2000 through 2007 consolidated federal income tax returns. See Note 9 of Notes to Unaudited Condensed Consolidated Financial Statements for more information.
IRS Matter	
JCT	Congressional Joint Committee on Taxation
LAE	Loss adjustment expenses, which include the cost of investigating and adjusting losses and paying claims
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, Claim Denials, Claim Curtailments and cancellations
LTV	Loan-to-value ratio, calculated as the percentage of the original loan amount to the original value of the property
Master Policies	The Prior Master Policy and the 2014 Master Policy, collectively
Minimum Required Assets	A risk-based minimum required asset amount, as defined in the PMIERS, calculated based on net RIF (RIF, net of credits permitted for reinsurance) and a variety of measures related to

Model Act expected credit performance and other factors
Mortgage Guaranty Insurers Model Act, as issued by the NAIC to establish minimum capital
and surplus requirements for mortgage insurers

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Term	Definition
Monthly and Other Premiums	Insurance policies where premiums are paid on a monthly or other installment basis, in contrast to Single Premium Policies
Monthly Premium Policies	Insurance policies where premiums are paid on a monthly installment basis
Moody's	Moody's Investors Service
Mortgage Insurance	Radian's Mortgage Insurance business segment, which provides credit-related insurance coverage, principally through private mortgage insurance, as well as other credit risk management solutions to mortgage lending institutions and mortgage investors
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
NIW	New insurance written
NOL	Net operating loss; for tax purposes, accumulated during years a company reported more tax deductions than taxable income. NOLs may be carried back or carried forward a certain number of years, depending on each jurisdiction, when the NOL occurs and the type of legal entity, thus reducing a company's tax liability
Notices of Deficiency	Formal letters from the IRS informing the taxpayer of an IRS determination of tax deficiency and appeal rights
OCI	Other comprehensive income (loss)
Persistence Rate	The percentage of insurance in force that remains in force over a period of time
PMIERS	Private Mortgage Insurer Eligibility Requirements effective on December 31, 2015, issued by the GSEs under oversight of the FHFA to set forth requirements an approved insurer must meet and maintain to provide mortgage guaranty insurance on loans acquired by the GSEs
Pool Insurance	Pool Insurance differs from primary insurance in that our maximum liability is not limited to a specific coverage percentage on an individual mortgage loan. Instead, an aggregate exposure limit, or "stop loss," is applied to the initial aggregate loan balance on a group or "pool" of mortgages
Post-legacy Post-legacy Portfolio	The time period subsequent to 2008
Prior Master Policy	Mortgage insurance on loans written subsequent to 2008
QSR Program	Radian Guaranty's master insurance policy, setting forth the terms and conditions of our mortgage insurance coverage, which was in effect prior to the effective date of its 2014 Master Policy
Radian Radian Group Radian Guaranty Radian Reinsurance	The quota share reinsurance agreements entered into with a third-party reinsurance provider in the second and fourth quarters of 2012, collectively
RBC States	Radian Group Inc. together with its consolidated subsidiaries
Red Bell Reinstatements	Radian Group Inc.
REMIC	Radian Guaranty Inc., a Pennsylvania domiciled insurance subsidiary of Radian Group
REO	Radian Reinsurance Inc., a Pennsylvania domiciled insurance subsidiary of Radian Group
Rescission	Risk-based capital states, which are those states that currently impose a statutory or regulatory risk-based capital requirement
RIF	Red Bell Real Estate, LLC, a wholly-owned subsidiary of Clayton
	Reversals of previous Rescissions, Claim Denials and Claim Curtailments
	Real Estate Mortgage Investment Conduit
	Real estate owned
	Our legal right, under certain conditions, to unilaterally rescind coverage on our mortgage insurance policies if we determine that a loan did not qualify for insurance

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Risk in force; for primary insurance, RIF is equal to the underlying loan unpaid principal balance multiplied by the insurance coverage percentage, whereas for Pool Insurance, it represents the remaining exposure under the agreements

Risk-to-capital

Under certain state regulations, a minimum ratio of statutory capital calculated relative to the level of net RIF

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Term	Definition
RMBS	Residential mortgage-backed securities
S&P	Standard & Poor's Financial Services LLC
SAB 118	Staff Accounting Bulletin No. 118, "Income Tax Accounting Implications of the Tax Cuts and Jobs Act," issued by the SEC staff in December 2017
SAPP	Statutory accounting principles and 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
Senior Notes due 2017	Our 9.000% unsecured senior notes due June 2017 (\$195.5 million original principal amount, of which the remaining outstanding principal was redeemed in August 2016)
Senior Notes due 2019	Our 5.500% unsecured senior notes due June 2019 (\$300 million original principal amount)
Senior Notes due 2020	Our 5.250% unsecured senior notes due June 2020 (\$350 million original principal amount)
Senior Notes due 2021	Our 7.000% unsecured senior notes due March 2021 (\$350 million original principal amount)
Senior Notes due 2024	Our 4.500% unsecured senior notes due October 2024 (\$450 million original principal amount)
Services	Radian's Services business segment, which is primarily a fee-for-service business that offers a broad array of both mortgage and real estate services to market participants across the mortgage and real estate value chain
Single Premium NIW (or IIF)	New insurance written or insurance in force, respectively, on Single Premium Policies
Single Premium Policy/Policies	Insurance policies where premiums are paid in a single payment and includes policies written on an individual basis (as each loan is originated) and on an aggregated basis (in which each individual loan in a group of loans is insured in a single transaction, typically shortly after the loans have been originated)
Single Premium QSR Program	The 2016 Single Premium QSR Agreement and the 2018 Single Premium QSR Agreement, collectively
Stage of Default	The stage a loan is in relative to the foreclosure process, based on whether a foreclosure sale has been scheduled or held
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
Surplus Note TCJA	An intercompany 0.000% surplus note issued by Radian Guaranty to Radian Group H.R. 1, known as the Tax Cuts and Jobs Act, signed into law on December 22, 2017
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
U.S.	The United States of America
U.S. Treasury	United States Department of the Treasury
VA	U.S. Department of Veterans Affairs
ValuAmerica	ValuAmerica, Inc., a wholly-owned subsidiary of Clayton

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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 Exchange Act and the 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,” “contemplate,” “believe,” “estimate,” “predict,” “project,” “potential,” “continue,” “seek,” “strategy,” “future,” “likely” or the 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 where 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. These risks and uncertainties include, without limitation:

- changes in economic and political conditions that impact the size of the insurable market, the credit performance of our insured portfolio, and our business prospects;
- changes in the way customers, investors, ratings agencies, regulators or legislators perceive our performance, financial strength and future prospects;
- Radian Guaranty’s ability to remain eligible under the PMIERS and other applicable requirements imposed by the FHFA and by the GSEs to insure loans purchased by the GSEs;
- our ability to successfully execute and implement our capital plans and to maintain sufficient holding company liquidity to meet our short- and long-term liquidity needs;
- our ability to successfully execute and implement our business plans and strategies, including plans and strategies to reposition our Services segment as well as plans and strategies that require GSE and/or regulatory approvals and licenses;
- our ability to maintain an adequate level of capital in our insurance subsidiaries to satisfy existing and future state regulatory requirements;
- changes in the charters or business practices of, or rules or regulations imposed by or applicable to, the GSEs, which may include changes in the requirements to remain an approved insurer to the GSEs, the GSEs’ interpretation and application of the PMIERS, as well as potential future changes to the PMIERS requirements which, among other things, may be impacted by the general economic environment and housing market, as well as the proposed Conservator Capital Framework (“CCF”) that would establish capital requirements for the GSEs, if the CCF is finalized;
- changes in the current housing finance system in the U.S., including the role of the FHA, the GSEs and private mortgage insurers in this system;
- any disruption in the servicing of mortgages covered by our insurance policies, as well as poor servicer performance;
- a significant decrease in the Persistency Rates of our mortgage insurance on monthly premium products;
- competition in our mortgage insurance business, including price competition and competition from the FHA and VA as well as from other forms of credit enhancement;
- the effect of the Dodd-Frank Wall Street Reform and Consumer Protection Act on the financial services industry in general, and on our businesses in particular;
- legislative and regulatory activity (or inactivity), including the adoption of (or failure to adopt) new laws and regulations, or changes in existing laws and regulations, or the way they are interpreted or applied, including interpretations and guidance pertaining to recently enacted tax reform legislation;
- legal and regulatory claims, assertions, actions, reviews, audits, inquiries and investigations that could result in adverse judgments, settlements, fines, injunctions, restitutions or other relief that could require significant expenditures or have other effects on our business;

the amount and timing of potential settlements, payments or adjustments associated with federal or other tax examinations;

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the possibility that we may fail to estimate accurately the likelihood, magnitude and timing of losses in establishing loss reserves for our mortgage insurance business or in assessing our ability to comply with the proposed PMIERS when implemented, including the accuracy of our estimates of our Available Assets and Minimum Required Assets under the proposed PMIERS, which will be impacted by, among other things, the size and mix of our IIF, the level of defaults in our portfolio, and the level of cash flow generated by our insurance operations;

volatility in our results of operations caused by changes in the fair value of our assets and liabilities, including a significant portion of our investment portfolio;

potential future impairment charges related to our goodwill and other intangible assets, and uncertainties regarding our ability to execute our restructuring plans within expected costs;

changes in GAAP or SAPP rules and guidance, or their interpretation;

our ability to attract and retain key employees; and

legal and other limitations on dividends and other amounts we may receive from 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 our 2017 Form 10-K, and to subsequent reports filed from time to time with the SEC. 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.

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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

Radian Group Inc.

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(\$ in thousands, except per-share amounts)	June 30, 2018	December 31, 2017
Assets		
Investments (Note 5)		
Fixed-maturities available for sale—at fair value (amortized cost \$3,659,311 and \$3,426,217)	\$3,586,055	\$3,458,719
Trading securities—at fair value	535,634	606,401
Equity securities—at fair value (at December 31, 2017, classified as available for sale with related cost of \$163,106)	122,977	162,830
Short-term investments—at fair value (includes \$39,224 and \$19,357 of reinvested cash collateral held under securities lending agreements)	626,060	415,658
Other invested assets—at fair value (amortized cost at December 31, 2017)	3,193	334
Total investments	4,873,919	4,643,942
Cash	95,573	80,569
Restricted cash	9,152	15,675
Accounts and notes receivable	94,848	72,558
Deferred income taxes, net (Note 9)	171,293	229,567
Goodwill and other intangible assets, net (Note 6)	59,179	64,212
Prepaid reinsurance premium	405,447	386,509
Other assets (Note 8)	430,077	407,849
Total assets	\$6,139,488	\$5,900,881
Liabilities and Stockholders' Equity		
Unearned premiums	\$741,296	\$723,938
Reserve for losses and loss adjustment expense (“LAE”) (Note 10)	451,542	507,588
Senior notes (Note 11)	1,028,687	1,027,074
Reinsurance funds withheld	331,776	288,398
Other liabilities (Note 12)	385,051	353,845
Total liabilities	2,938,352	2,900,843
Commitments and contingencies (Note 13)		
Stockholders' equity		
Common stock: par value \$0.001 per share; 485,000,000 shares authorized at June 30, 2018 and December 31, 2017; 230,875,884 and 233,416,989 shares issued at June 30, 2018 and December 31, 2017, respectively; 213,232,370 and 215,814,188 shares outstanding at June 30, 2018 and December 31, 2017, respectively	231	233
Treasury stock, at cost: 17,643,514 and 17,602,801 shares at June 30, 2018 and December 31, 2017, respectively	(894,610)	(893,888)
Additional paid-in capital	2,715,426	2,754,275
Retained earnings	1,438,032	1,116,333
Accumulated other comprehensive income (loss) (Note 15)	(57,943)	23,085
Total stockholders' equity	3,201,136	3,000,038
Total liabilities and stockholders' equity	\$6,139,488	\$5,900,881

See Notes to Unaudited Condensed Consolidated Financial Statements.

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Radian Group Inc.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(In thousands, except per-share amounts)	Three Months Ended		Six Months Ended	
	June 30, 2018	2017	June 30, 2018	2017
Revenues:				
Net premiums earned—insurance	\$251,344	\$229,096	\$493,894	\$450,896
Services revenue	36,828	37,802	69,992	75,829
Net investment income	37,473	30,071	71,429	61,103
Net gains (losses) on investments and other financial instruments	(7,404)	5,331	(26,291)	2,480
Other income	1,016	612	1,823	1,358
Total revenues	319,257	302,912	610,847	591,666
Expenses:				
Provision for losses	19,337	17,222	56,620	64,135
Policy acquisition costs	5,996	6,123	13,113	12,852
Cost of services	24,205	25,635	47,331	54,010
Other operating expenses	70,184	68,750	133,427	137,127
Restructuring and other exit costs (Note 1)	925	—	1,476	—
Interest expense	15,291	16,179	30,371	32,117
Loss on induced conversion and debt extinguishment	—	1,247	—	5,703
Impairment of goodwill (Note 6)	—	184,374	—	184,374
Amortization and impairment of other intangible assets	2,748	18,856	5,496	22,152
Total expenses	138,686	338,386	287,834	512,470
Pretax income (loss)	180,571	(35,474)	323,013	79,196
Income tax provision (benefit)	(28,378)	(8,132)	(422)	30,066
Net income (loss)	\$208,949	\$(27,342)	\$323,435	\$49,130
Net income (loss) per share:				
Basic	\$0.98	\$(0.13)	\$1.50	\$0.23
Diluted	\$0.96	\$(0.13)	\$1.48	\$0.22
Weighted-average number of common shares outstanding—basic	213,976	215,152	215,049	215,054
Weighted-average number of common and common equivalent shares outstanding—diluted	217,830	215,152	218,741	220,474
Dividends per share	\$0.0025	\$0.0025	\$0.0050	\$0.0050

See Notes to Unaudited Condensed Consolidated Financial Statements.

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Radian Group Inc.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

(In thousands)	Three Months Ended		Six Months Ended	
	June 30, 2018	2017	June 30, 2018	2017
Net income	\$208,949	\$(27,342)	\$323,435	\$49,130
Other comprehensive income, net of tax (Note 15):				
Unrealized gains (losses) on investments:				
Unrealized holding gains (losses) arising during the period	(27,804)	20,239	(88,447)	27,606
Less: Reclassification adjustment for net gains (losses) included in net income	(1,336)	(1,167)	(4,468)	(2,798)
Net unrealized gains (losses) on investments	(26,468)	21,406	(83,979)	30,404
Unrealized foreign currency translation adjustments	—	74	3	108
Other comprehensive income (loss), net of tax	(26,468)	21,480	(83,976)	30,512
Comprehensive income	\$182,481	\$(5,862)	\$239,459	\$79,642

See Notes to Unaudited Condensed Consolidated Financial Statements.

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Radian Group Inc.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN COMMON STOCKHOLDERS' EQUITY
(UNAUDITED)

	Six Months Ended June 30,	
(In thousands)	2018	2017
Common Stock		
Balance, beginning of period	\$233	\$232
Issuance of common stock under incentive and benefit plans	1	1
Shares repurchased under share repurchase program (Note 14)	(3) —
Balance, end of period	231	233
Treasury Stock		
Balance, beginning of period	(893,888) (893,332)
Repurchases of common stock under incentive plans	(722) (199)
Balance, end of period	(894,610) (893,531)
Additional Paid-in Capital		
Balance, beginning of period	2,754,275	2,779,891
Issuance of common stock under incentive and benefit plans	1,579	3,840
Share-based compensation	9,622	7,676
Impact of extinguishment of convertible senior notes	—	(52,352)
Cumulative effect of adopting the accounting standard update for share-based payment transactions	—	756
Termination of capped calls (Note 11)	—	4,083
Change in equity component of currently redeemable convertible senior notes	—	(16)
Shares repurchased under share repurchase program (Note 14)	(50,050) (6)
Balance, end of period	2,715,426	2,743,872
Retained Earnings		
Balance, beginning of period	1,116,333	997,890
Net income	323,435	49,130
Dividends declared	(1,073) (1,076)
Cumulative effect of adopting the accounting standard update for financial instruments	2,061	—
Cumulative effect of adopting the accounting standard update for the reclassification of certain tax effects from accumulated other comprehensive income	(2,724) —
Cumulative effect of adopting the accounting standard update for share-based payment transactions, net of tax	—	(491)
Balance, end of period	1,438,032	1,045,453
Accumulated Other Comprehensive Income (Loss)		
Balance, beginning of period	23,085	(12,395)
Cumulative effect of adopting the accounting standard update for financial instruments	224	—
Cumulative effect of adopting the accounting standard update for the reclassification of certain tax effects from accumulated other comprehensive income	2,724	—
Net unrealized gains (losses) on investments, net of tax	(83,979) 30,404
Net foreign currency translation adjustment, net of tax	3	108
Balance, end of period	(57,943) 18,117

Total Stockholders' Equity	\$3,201,136	\$2,914,144
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See Notes to Unaudited Condensed Consolidated Financial Statements.

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Radian Group Inc.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(In thousands)	Six Months Ended	
	June 30, 2018	2017
Cash flows from operating activities:		
Net cash provided by (used in) operating activities	\$300,822	\$206,412
Cash flows from investing activities:		
Proceeds from sales of:		
Fixed-maturity investments available for sale	348,082	649,687
Trading securities	16,639	130,022
Equity securities	82,701	18,103
Proceeds from redemptions of:		
Fixed-maturity investments available for sale	219,825	260,848
Trading securities	33,849	43,603
Purchases of:		
Fixed-maturity investments available for sale	(807,204)	(1,147,875)
Equity securities	(52,357)	(193,409)
Sales, redemptions and (purchases) of:		
Short-term investments, net	(205,566)	201,942
Other assets and other invested assets, net	293	412
Purchases of property and equipment, net	(12,328)	(13,444)
Acquisitions, net of cash acquired	(634)	(86)
Net cash provided by (used in) investing activities	(376,700)	(50,197)
Cash flows from financing activities:		
Dividends paid	(1,073)	(1,076)
Purchases and redemptions of senior notes	—	(141,686)
Proceeds from termination of capped calls	—	4,083
Issuance of common stock	810	3,123
Purchase of common shares	(50,053)	(6)
Credit facility commitment fees paid	(405)	—
Change in secured borrowings (Note 12)	119,631	—
Proceeds from secured borrowings (with terms greater than 3 months)	15,544	—
Repayment of other borrowings	(94)	(140)
Net cash provided by (used in) financing activities	84,360	(135,702)
Effect of exchange rate changes on cash and restricted cash	(1)	77
Increase (decrease) in cash and restricted cash	8,481	20,590
Cash and restricted cash, beginning of period	96,244	61,814
Cash and restricted cash, end of period	\$104,725	\$82,404

See Notes to Unaudited Condensed Consolidated Financial Statements.

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Radian Group Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

1. Condensed Consolidated Financial Statements—Business Overview, Recent Developments and Significant Accounting Policies

Business Overview

We are a diversified mortgage and real estate services business, providing both credit-related insurance coverage and other credit risk management solutions, as well as a broad array of mortgage and real estate services. We have two reportable business segments—Mortgage Insurance and Services.

Mortgage Insurance

Our Mortgage Insurance segment provides credit-related insurance coverage, principally through private mortgage insurance, as well as other credit risk management solutions, to mortgage lending institutions and mortgage investors. We provide our mortgage insurance products and services mainly through our wholly-owned subsidiary, Radian Guaranty. Private mortgage insurance plays an important role in the U.S. housing finance system because it promotes affordable home ownership and helps protect mortgage lenders, investors and other beneficiaries by mitigating default-related losses on residential mortgage loans. Generally, these loans are made to home buyers who make down payments of less than 20% of the purchase price for their home or, in the case of refinancings, have less than 20% equity in their homes. Private mortgage insurance also facilitates the sale of these low down payment loans in the secondary mortgage market, most of which are currently sold to the GSEs. Our total direct primary mortgage insurance RIF was \$53.9 billion as of June 30, 2018.

The GSEs and state insurance regulators impose various capital and financial requirements on our insurance subsidiaries. These include Risk-to-capital, other risk-based capital measures and surplus requirements, as well as the PMIERS financial requirements discussed below. Failure to comply with these capital and financial requirements may limit the amount of insurance that our insurance subsidiaries may write or prohibit our insurance subsidiaries from writing insurance altogether. The GSEs and state insurance regulators also possess significant discretion with respect to our insurance subsidiaries and all aspects of their businesses. See Note 16 for additional regulatory information. PMIERS. In order to be eligible to insure loans purchased by the GSEs, mortgage insurers such as Radian Guaranty must meet the GSEs' eligibility requirements, or PMIERS. At June 30, 2018, Radian Guaranty is an approved mortgage insurer under the PMIERS and is in compliance with the PMIERS financial requirements.

The PMIERS are comprehensive, covering virtually all aspects of the business and operations of a private mortgage insurer, including internal risk management and quality controls, the relationship between the GSEs and the approved insurer as well as the approved insurer's financial condition. In addition, the GSEs have a broad range of consent rights under the PMIERS, and require private mortgage insurers to obtain the prior consent of the GSEs before taking certain actions, which may include paying dividends, entering into various intercompany agreements, and commuting or reinsuring risk, among others. If Radian Guaranty is unable to satisfy the requirements set forth in the PMIERS, the GSEs could restrict it from conducting certain types of business with them or take actions that may include not purchasing loans insured by Radian Guaranty.

The PMIERS financial requirements require that a mortgage insurer's Available Assets meet or exceed its Minimum Required Assets. The GSEs may amend the PMIERS at any time, and they have broad discretion to interpret the requirements, which could impact the calculation of Radian Guaranty's Available Assets and/or Minimum Required Assets. During the second quarter of 2018, Radian Guaranty received, on a confidential basis, a revised draft of the GSEs' proposed changes to the PMIERS that takes into consideration, among other things, comments previously provided by private mortgage insurers to the GSEs and the FHFA. Based on this information, when the proposed PMIERS become effective, which we expect to be at the end of the first quarter of 2019, Radian expects to be able to fully comply with the proposed PMIERS and to maintain an excess of Available Assets over Minimum Required Assets under the PMIERS.

From time to time, we enter into reinsurance transactions as part of our strategy to manage our capital position and risk profile, which includes managing Radian Guaranty's position under the PMIERS financial requirements. The credit that we receive under the PMIERS financial requirements for these transactions is subject to periodic review by the GSEs.

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Radian Group Inc.

Notes to Unaudited Condensed Consolidated Financial Statements — (Continued)

Services

Our Services segment is primarily a fee-for-service business that offers a broad array of services to market participants across the mortgage and real estate value chain. These services comprise mortgage services, real estate services and title services, including technology-based and turn-key solutions, that provide information and other resources and services used to originate, evaluate, acquire, securitize, service and monitor residential real estate and loans secured by residential real estate. We provide these services to, among others, mortgage lenders, financial institutions, mortgage and real estate investors and government entities.

Our mortgage services include transaction management services such as loan review, RMBS securitization and distressed asset reviews, servicer and loan surveillance and underwriting. We offer a comprehensive suite of real estate services that includes software solutions and platforms, as well as digitally delivered services, including: REO asset management; review and valuation services related to single family rental properties; real estate valuation services and real estate brokerage services. Our title services include title search, title insurance, settlement and closing services.

2018 Developments

Capital and Liquidity Actions. On August 9, 2017, Radian Group's board of directors renewed the Company's share repurchase program, authorizing the Company to repurchase up to \$50 million of its common stock. During the three and six months ended June 30, 2018, the Company purchased 2,491,843 and 3,022,856 shares, respectively, at an average price of \$16.07 and \$16.56 per share, respectively, including commissions. At June 30, 2018, there was no remaining purchase authority under this program. See Note 14 for additional information.

Restructuring and Other Exit Costs. As a result of the Company's continued implementation of its 2017 plan to restructure the Services business, in the three months ended June 30, 2018, pretax restructuring charges of \$0.9 million were recognized, which include: (i) \$1.0 million in cash expenses and (ii) an adjustment to the previously recognized loss related to the sale of our EuroRisk business. For the six months ended June 30, 2018, pretax restructuring charges of \$1.5 million were recognized, all of which represented cash expenses. We expect to incur additional pretax charges of approximately \$1.4 million under this restructuring plan, including approximately \$1.1 million in cash payments. These remaining charges are expected to be recognized by December 31, 2018. The total estimated restructuring charges of approximately \$2.9 million during 2018 are expected to consist of: (i) asset impairment charges of approximately \$0.2 million; (ii) employee severance and benefit costs of approximately \$1.0 million; (iii) facility and lease termination costs of approximately \$1.5 million; and (iv) contract termination and other restructuring costs of approximately \$0.2 million. See Notes 1 and 7 of Notes to Consolidated Financial Statements in our 2017 Form 10-K for additional information, including the events that led to the restructuring plan.

IRS Matter. Radian has reached a settlement with the IRS which resolves the issues and concludes all disputes relating to the IRS Matter. In the three-month period ended June 30, 2018, we recorded tax benefits of \$73.6 million, which includes both the impact of the settlement with the IRS as well as the reversal of certain previously accrued state and local tax liabilities. Under the terms of the settlement, Radian will submit to the IRS approximately \$31 million of its \$89 million "qualified deposits" with the U.S. Treasury, and the remaining balance will be returned to Radian.

Therefore, the liquidity impact of the settlement is a decrease in available holding company liquidity of \$31 million. See Note 9 for additional information.

Significant Accounting Policies

Basis of Presentation

Our condensed consolidated financial statements are prepared in accordance with GAAP and include the accounts of Radian Group Inc. and its subsidiaries. All intercompany accounts and transactions, and intercompany profits and losses, have been eliminated. We have condensed or omitted certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with GAAP pursuant to the instructions set forth in Article 10 of Regulation S-X of the SEC.

We refer to Radian Group Inc. together with its consolidated subsidiaries as “Radian,” the “Company,” “we,” “us” or “our,” unless the context requires otherwise. We generally refer to Radian Group Inc. alone, without its consolidated subsidiaries, as “Radian Group.” Unless otherwise defined in this report, certain terms and acronyms used throughout this report are defined in the Glossary of Abbreviations and Acronyms included as part of this report.

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Radian Group Inc.

Notes to Unaudited Condensed Consolidated Financial Statements — (Continued)

The financial information presented for interim periods is unaudited; however, such information reflects all adjustments that are, in the opinion of management, necessary for the fair statement of the financial position, results of operations, comprehensive income and cash flows for the interim periods presented. Such adjustments are of a normal recurring nature. The year-end condensed balance sheet data was derived from our audited financial statements, but does not include all disclosures required by GAAP. These interim financial statements should be read in conjunction with the audited financial statements and notes thereto included in our 2017 Form 10-K. The results of operations for interim periods are not necessarily indicative of results to be expected for the full year or for any other period. Certain prior period amounts have been reclassified to conform to current period presentation.

Use of Estimates

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 our contingent assets and liabilities at the dates of the financial statements, as well as 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.

Other Significant Accounting Policies

See Note 2 of Notes to Consolidated Financial Statements in our 2017 Form 10-K for information regarding other significant accounting policies. There have been no significant changes in our significant accounting policies from those discussed in our 2017 Form 10-K, other than described below, including in “—Revenue Recognition—Services” and “—Recent Accounting Pronouncements—Accounting Standards Adopted During 2018.”

Revenue Recognition—Services

The FASB issued an update to the accounting standard regarding revenue recognition, Revenue from Contracts with Customers, which establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from our contracts with customers to provide services. We adopted this update effective January 1, 2018, using the modified retrospective approach. The principle of this update requires an entity to recognize revenue representing the transfer of services to customers in an amount that reflects the consideration that it expects to be entitled to receive in exchange for those services, recognized as the performance obligations are satisfied.

The majority of our revenue-generating transactions are not subject to the new standard as this update did not change revenue recognition principles related to our investments and insurance products, which together represented the majority of our total revenue for the six months ending June 30, 2018 and are subject to other GAAP guidance discussed elsewhere within our disclosures. This update is primarily applicable to revenues from our Services segment. See “—Business Overview—Services” for information about the services we offer.

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Radian Group Inc.

Notes to Unaudited Condensed Consolidated Financial Statements — (Continued)

The table below represents the disaggregation of Services revenues by revenue type:

(In thousands)	Three Months		Six Months	
	Ended		Ended	
	June 30,	June 30,	June 30,	June 30,
	2018	2017	2018	2017
Services segment revenue				
Mortgage Services	\$16,346	\$17,782	\$30,335	\$36,153
Real Estate Services	19,301	15,463	37,204	32,477
Title Services	2,461	6,730	4,735	11,434
Total (1)	\$38,108	\$39,975	\$72,274	\$80,064

Includes inter-segment revenues of \$0.9 million and \$1.9 million for the three and six months ended June 30, 2018 and \$2.2 million and \$4.2 million for the three and six months ended June 30, 2017, respectively. For both the (1) three- and six-month periods ended June 30, 2018, amounts exclude \$2.4 million of Services segment net premiums earned—insurance and net investment income, as both are excluded from the scope of the revenue recognition standard. See Note 3 for segment information.

Our Services segment revenues are recognized over time and measured each period based on the progress to date as services are performed and made available to customers. Our contracts with customers, including payment terms, are generally short-term in nature; therefore, any impact related to timing is immaterial. Revenue recognized related to services made available to customers and billed is reflected in accounts receivables. Revenue recognized related to services performed and not yet billed is recorded in unbilled receivables and reflected in other assets. We have no material bad-debt expense. The following represents balances related to Services contracts as of the dates indicated:

(In thousands)	June 30, December	
	2018	31, 2017
Accounts Receivable - Services Contracts	\$11,705	\$17,391
Unbilled Receivables - Services Contracts	16,478	22,257
Deferred Revenues - Services Contracts	3,814	3,235

Revenue expected to be recognized in any future period related to remaining performance obligations, such as contracts where revenue is recognized as invoiced and contracts with variable consideration related to undelivered performance obligations, is not material.

Fee-for-Service Contracts

Generally, our contracts with our clients do not include minimum volume commitments and can be terminated at any time by our clients. Although some of our contracts and assignments are recurring in nature, and include repetitive monthly assignments, a significant portion of our engagements are transactional in nature and may be performed in connection with securitizations, loan sales, loan purchases or other transactions. Due to the transactional nature of our business, our Services segment revenues may fluctuate from period to period as transactions are commenced or completed. We do not recognize revenue or expense related to amounts advanced by us and subsequently reimbursed by clients for maintenance or repairs because we do not take control of the service prior to the client taking control. We record an expense if an advance is made that is not in accordance with a client contract and the client is not obligated to reimburse us.

Due to the nature of the services provided, our Services arrangements with customers may include any of the following three basic types of contracts:

Fixed-Price Contracts. We use fixed-price contracts in our real estate valuation and component services, our loan review, underwriting and due diligence services as well as our title and closing services. We also use fixed-price contracts in our surveillance business for our servicer oversight services and RMBS surveillance services, and in our

asset management business activities. Under fixed-price contracts we agree to perform the specified services and deliverables for a pre-determined per-unit or per-file price or day rate. Each service qualifies as a separate performance obligation and revenue is recognized as the service performed is made available to the client.

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Radian Group Inc.

Notes to Unaudited Condensed Consolidated Financial Statements — (Continued)

Time-and-Expense Contracts. The Services segment also derives a portion of its revenue from professional service activities under time-and-expense contracts. In these types of contracts, we are paid a fixed hourly rate, and we are reimbursed for billable out-of-pocket expenses as work is performed. These contracts are used in our loan review, underwriting and due diligence services. Services revenue consisting of billed time fees and pass-through expenses is recorded over time and based on the progress to date as services are performed and made available to customers. Services revenue may also include expenses billed to clients, which includes travel and other out-of-pocket expenses, and other reimbursable expenses.

Percentage-of-Sale Contracts.