RADIAN GROUP INC
Form 10-Q
August 09, 2012

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, 2012
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: 133,645,317 shares of common stock, $0.001 par value per share, outstanding on August 1, 2012.

Radian Group Inc.
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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 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 significant downturn in the global economy, a lack of meaningful liquidity in the capital or 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 developments in the private mortgage insurance and financial guaranty industries in which certain of our former competitors have ceased writing new insurance business and have been placed under supervision or receivership by insurance regulators;
- catastrophic events or economic changes in geographic regions, including governments and municipalities, where our mortgage insurance exposure is more concentrated or where we have financial guaranty exposure;
- our ability to maintain sufficient holding company liquidity to meet our short- and long-term liquidity needs, including in particular, the repayment of our long-term debt and additional capital contributions that may be required to support our mortgage insurance business;
- 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 potential risk retention requirements established under the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”);
- the potential adverse impact on the mortgage origination market and private mortgage insurers due to increases in capital requirements for banks and bank holding companies for mortgage loans under proposed interagency rules to implement the third Basel Capital Accord (“Basel III”), including in particular the possibility that loans insured by the Federal Housing Administration (“FHA”) will receive a more advantageous capital treatment than loans with private mortgage insurance;
- our ability to maintain an adequate risk-to-capital position and surplus requirements in our mortgage insurance business, including if necessary, our ability to write new mortgage insurance while maintaining a capital position that is in excess of risk-based capital limitations imposed in certain states, either through waivers of these limitations or through use of another mortgage insurance subsidiary, and the possibility that state regulators could pursue regulatory actions or proceedings, including possible supervisory or receivership actions, against Radian Guaranty Inc. (“Radian Guaranty”), in the event Radian Guaranty’s risk-to-capital position exceeds levels that are acceptable to such regulators;
- 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;
- a more rapid than expected decrease in the level of insurance rescissions and claim denials from the current elevated levels, which have reduced our paid losses and resulted in a significant reduction in our loss reserves, including a decrease in rescissions or denials resulting from an increase in the number of successful challenges to previously rescinded policies or claim denials, or caused by the government-sponsored entities (“GSEs”) intervening in mortgage

insurers' loss mitigation practices, including settlements of disputes;

- the negative impact our insurance rescissions and claim denials or claim curtailments 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;
- any disruption in the servicing of mortgages covered by our insurance policies and poor servicer performance;
- adverse changes in the severity or frequency of losses associated with certain products that we formerly offered (and currently insure) that are riskier than traditional mortgage insurance or financial guaranty insurance policies;
- a decrease in persistency rates of our mortgage insurance policies, which has the effect of reducing our premium income without a corresponding decrease in incurred losses;
- an increase in the risk profile of our existing mortgage insurance portfolio due to the refinancing of existing mortgage loans for 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 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;
- heightened competition for our mortgage insurance business from others such as the FHA, the Department of Veterans Affairs ("VA") and other private mortgage insurers (in particular, the FHA and those private mortgage insurers that have been assigned higher ratings than we from the major rating agencies, that may have access to greater amounts of capital than we do, or that are new entrants to the industry and are therefore 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 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: (1) 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 the possibility that the ultimate definitions of "qualified residential mortgages" and "qualified mortgages" could reduce the size of the mortgage market and potentially reduce the number of insurable loans; and (2) the possibility that our financial guaranty business could be subject to additional registration, reporting, capital and margin requirements, including potentially, the posting of collateral for certain existing derivative contracts;
- 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 any such results from: (i) the resolution of existing, or the possibility of additional, lawsuits or investigations; and (ii) legislative and regulatory changes (a) impacting the demand for private mortgage insurance, (b) limiting or restricting our use of (or increasing requirements for) additional capital and the products we may offer, (c) affecting the form in which we execute credit protection, or (d) impacting our existing financial guaranty portfolio;
- the amount and timing of potential payments or adjustments associated with federal or other tax examinations;
- 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;

- 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;
- changes in accounting principles, rules and guidance, or their interpretation, 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, 2011, and in Item 1A of Part II of this Quarterly Report 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)

(In thousands, except share and per share amounts)	June 30, 2012	December 31, 2011
ASSETS		
Investments		
Fixed-maturities held to maturity—at amortized cost (fair value $2,524 and $2,748)	$2,470	$2,640
Fixed-maturities available for sale—at fair value (amortized cost $72,500 and $120,757)	75,516	118,733
Equity securities available for sale—at fair value (cost $88,768 and $114,425)	108,381	128,424
Trading securities—at fair value (including variable interest entity (“VIE”) securities of $0 and $94,521)	4,228,522	4,211,059
Short-term investments—at fair value (including VIE investments of $0 and $149,981)	705,744	1,261,703
Other invested assets (including VIE assets of $75,413 and $0)	134,548	61,000
Total investments	5,255,181	5,783,559
Cash	32,617	35,589
Restricted cash	26,185	27,020
Deferred policy acquisition costs	99,386	139,906
Accrued investment income	31,456	32,262
Accounts and notes receivable	91,154	102,647
Property and equipment, at cost (less accumulated depreciation of $98,542 and $96,403)	7,341	11,044
Derivative assets (including VIE derivative assets of $1,750 and $1,602)	14,229	17,212
Deferred income taxes, net	15,975	15,975
Reinsurance recoverables	103,143	157,985
Other assets (including VIE other assets of $100,724 and $105,903)	354,863	333,566
Total assets	$6,031,530	$6,656,765
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Unearned premiums	$588,431	$637,372
Reserve for losses and loss adjustment expenses (“LAE”)	3,250,280	3,310,902
Reserve for premium deficiency	4,183	3,644
Long-term debt	666,806	818,584
VIE debt—at fair value	107,833	228,240
Derivative liabilities (including VIE derivative liabilities of $75,413 and $19,501)	219,960	126,006
Payable for securities purchased	3,767	46,368
Accounts payable and accrued expenses (including VIE accounts payable of $390 and $530)	289,382	303,358
Total liabilities	5,130,642	5,474,474
Commitments and Contingencies (Note 16)		
Stockholders’ equity		
Common stock: par value $.001 per share; 325,000,000 shares authorized; 151,001,568 and 150,666,446 shares issued at June 30, 2012 and December 31, 2011, respectively; 133,520,514 and 133,199,159 shares outstanding at June 30, 2012 and December 31, 2011, respectively	151	151
Treasury stock, at cost: 17,481,054 and 17,467,287 shares at June 30, 2012, and December 31, 2011, respectively	(892,084)	(892,052)
Additional paid-in capital	1,966,767	1,966,565
Retained (deficit) earnings	(192,264)	96,227
Accumulated other comprehensive income	18,318	11,400

Total stockholders’ equity	900,888	1,182,291
Total liabilities and stockholders’ equity	$6,031,530	$6,656,765

See notes to unaudited condensed consolidated financial statements.

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Radian Group Inc.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands, except per share amounts)	2012	2011	2012	2011
Revenues:				
Premiums written—insurance:				
Direct	$214,349	$174,008	$418,102	$364,849
Assumed	(1,028)	(11,788)	(88,516)	(10,164)
Ceded	(31,389)	(9,442)	(69,976)	(19,158)
Net premiums written	181,932	152,778	259,610	335,527
Decrease in unearned premiums	4,847	36,156	94,534	56,430
Net premiums earned—insurance	186,779	188,934	354,144	391,957
Net investment income	30,877	43,823	65,590	86,063
Net gains on investments	26,419	44,236	93,878	81,671
Total other-than-temporary impairment (“OTTI”) losses	—	(11)	—	(11)
Losses recognized in other comprehensive income (loss)	—	—	—	—
Net impairment losses recognized in earnings	—	(11)	—	(11)
Change in fair value of derivative instruments	(33,124)	188,726	(105,881)	432,618
Net (losses) gains on other financial instruments	(61,862)	5,047	(79,714)	80,298
Gain on sale of affiliate	7,708	—	7,708	—
Other income	1,395	1,196	2,835	2,644
Total revenues	158,192	471,951	338,560	1,075,240
Expenses:				
Provision for losses	210,868	263,566	477,022	690,939
Change in reserve for premium deficiency	559	(3,102)	539	(4,485)
Policy acquisition costs	10,805	14,387	38,851	28,518
Other operating expenses	40,193	45,954	90,347	92,173
Interest expense	12,581	16,079	26,729	33,103
Total expenses	275,006	336,884	633,488	840,248
Equity in net (loss) income of affiliates	(2)	—	(13)	65
Pretax (loss) income	(116,816)	135,067	(294,941)	235,057
Income tax provision (benefit)	2,443	(2,048)	(6,450)	(5,064)
Net (loss) income	$(119,259)	$137,115	$(288,491)	$240,121
Basic net (loss) income per share	$(0.90)	$1.04	$(2.18)	$1.82
Diluted net (loss) income per share	$(0.90)	$1.03	$(2.18)	$1.80
Weighted-average number of common shares outstanding—basic	132,346	132,185	132,350	132,185
Weighted-average number of common and common equivalent shares outstanding—diluted	132,346	133,614	132,350	133,724
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 COMPREHENSIVE (LOSS) INCOME (UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	2012	2011	2012	2011
Net (loss) income	$(119,259)	$137,115	$(288,491)	$240,121
Other comprehensive (loss) income, net of tax (see Note 12):				
Foreign currency translation adjustments:				
Unrealized foreign currency translation adjustment	(8)	4,955	(8)	6,520
Less: Reclassification adjustment for net gains included in net (loss) income	—	28,246	—	27,954
Net foreign currency translation adjustments	(8)	(23,291)	(8)	(21,434)
Unrealized (losses) gains on investments:				
Unrealized holding (losses) gains arising during the period	(1,419)	5,549	15,795	13,615
Less: Reclassification adjustment for net (losses) gains included in net (loss) income	(741)	(35,016)	8,869	(34,938)
Net unrealized (losses) gains on investments	(678)	40,565	6,926	48,553
Other comprehensive (loss) income	(686)	17,274	6,918	27,119
Comprehensive (loss) income	$(119,945)	$154,389	$(281,573)	$267,240

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, 2011	$ 150	$ (892,012)	$ 1,963,092	$ (204,926)	$ 21,094	$ (27,857)	$ 239	$ 859,780
Net income	—	—	—	240,121	—	—	—	240,121
Net foreign currency translation adjustment, net of tax	—	—	—	—	(21,434)	—	—	(21,434)
Net unrealized gain on investments, net of tax	—	—	—	—	—	48,553	—	48,553
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
BALANCE, JANUARY 1, 2012	$ 151	$ (892,052)	$ 1,966,565	$ 96,227	$ 54	$ 11,471	$ (125)	$ 1,182,291
Net loss	—	—	—	(288,491)	—	—	—	(288,491)
Net foreign currency translation adjustment, net of tax	—	—	—	—	(8)	—	—	(8)
Net unrealized gain on investments, net of tax	—	—	—	—	—	6,926	—	6,926
Repurchases of common stock under incentive plans	—	(32)	—	—	—	—	—	(32)
Issuance of common stock under benefit plans	—	—	213	—	—	—	—	213
Amortization of restricted stock	—	—	1,101	—	—	—	—	1,101
Stock-based compensation expense	—	—	(446)	—	—	—	—	(446)
Dividends declared	—	—	(666)	—	—	—	—	(666)
BALANCE, JUNE 30, 2012	$ 151	$ (892,084)	$ 1,966,767	$ (192,264)	$ 46	$ 18,397	$ (125)	$ 900,888

See notes to unaudited condensed consolidated financial statements.

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

(In thousands)	Six Months Ended June 30, 2012	2011
Cash flows used in operating activities	$(361,899)	$(608,917)
Cash flows from investing activities:		
Proceeds from sales of fixed-maturity investments available for sale	44,935	101,648
Proceeds from sales of equity securities available for sale	30,727	555
Proceeds from sales of trading securities	2,066,088	2,444,549
Proceeds from redemptions of fixed-maturity investments available for sale	3,738	28,032
Proceeds from redemptions of fixed-maturity investments held to maturity	250	3,195
Purchases of trading securities	(2,137,677)	(2,206,653)
Sales and redemptions of short-term investments, net	556,048	407,494
Purchases of other invested assets, net	(74,999)	(2,717)
Proceeds from sale of investment in affiliate	14,700	—
Purchases of property and equipment, net	(452)	(5,729)
Net cash provided by investing activities	503,358	770,374
Cash flows used in financing activities:		
Dividends paid	(666)	(667)
Redemption of long-term debt	(143,770)	(160,000)
Net cash used in financing activities	(144,436)	(160,667)
Effect of exchange rate changes on cash	5	(2)
(Decrease) increase in cash	(2,972)	788
Cash, beginning of period	35,589	20,334
Cash, end of period	$32,617	$21,122
Supplemental disclosures of cash flow information:		
Income taxes paid (received)	$1,498	$(1,275)
Interest paid	$21,820	$27,244

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, exercise significant influence (generally ownership interests ranging from 20% to 50%), are accounted for in accordance with the equity method of accounting. VIEs for which we are the primary beneficiary are consolidated, as described in Note 5. 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 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, comprehensive income 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, 2011.

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.

Basic net (loss) income per share is based on the weighted-average number of common shares outstanding, while diluted net (loss) income per share is based on the weighted-average number of common shares outstanding and common stock equivalents that would be issuable upon the exercise of stock options and other stock-based compensation. As a result of our net loss for the three and six months ended June 30, 2012, 5,964,726 shares of our common stock equivalents issued under our stock-based compensation plans were not included in the calculation of diluted net loss per share as of such date because they were anti-dilutive. 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 date because they were anti-dilutive.

Effective January 1, 2012, we adopted the Financial Accounting Standards Board ("FASB") update to the accounting standard regarding fair value measurements and disclosure. This update changes the language used to describe the requirements in GAAP for measuring fair value and for disclosing information about fair value measurements. The amendments: (i) clarify the FASB's intent about the application of existing fair value measurement and disclosure requirements, and (ii) change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. The amendments in this update do not require additional fair value measurements and are not intended to establish valuation standards or affect valuation practices outside of financial reporting. The adoption of this update did not have a significant impact on our fair value measurements. Additional disclosures regarding unobservable market inputs related to our Level III instruments required under this update are presented in Note 4.

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

Effective January 1, 2012, we adopted the FASB update to the accounting standard regarding comprehensive income. This update provides an entity with the option to present the components of net income, other comprehensive income and total comprehensive income, either in a single continuous statement of comprehensive income or in two separate but consecutive statements. We elected to present this information in a separate statement of comprehensive income, and have modified our condensed consolidated statements of changes in common stockholders' equity for certain items that are presented in the condensed consolidated statements of comprehensive income. Regardless of which option an entity chooses, the entity is required to present, on the face of the consolidated financial statements, reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statements where the components of net income and the components of other comprehensive income are presented. In December 2011, the FASB deferred the effective date for the requirement to present reclassification adjustments on the face of the consolidated financial statements for the reclassification of items out of comprehensive income to net income.
Effective January 1, 2012, we adopted the FASB update to the accounting standard regarding accounting for costs associated with acquiring or renewing insurance contracts on a prospective basis. This update redefines acquisition costs as costs that are related directly to the successful acquisition of new, or the renewal of existing, insurance contracts. Previously, acquisition costs were defined as costs that vary with and are primarily related to the acquisition of insurance contracts. The effect of this revised definition of acquisition costs resulted in additional expenses in our mortgage insurance business being charged to earnings when incurred, rather than being deferred. There is no change to the amortization requirements due to this update. This adoption did not impact the financial guaranty business as we have adopted the update prospectively and are not deferring any new costs, as we have discontinued writing financial guaranty business. The implementation of this new guidance will materially reduce the amount of policy acquisition costs that we defer associated with acquiring new mortgage insurance contracts. The lower amount of acquisition costs deferred will result in decreased amortization expense over time, which should partially offset the impact to our net income from the additional expenses charged to income when incurred at the origination of an insurance contract. While the timing of when certain costs are reflected in our results of operations will change as a result of the adoption of this update, there will be no effect on the total acquisition costs recognized over time or on our cash flows. For the three and six months ended June 30, 2012, amounts deferred as acquisition costs were $2.3 million and $8.7 million, respectively, under this update. Under our previous method of accounting for acquisition costs, amounts deferred as acquisition costs for the three and six months ended June 30, 2012, would have been $4.6 million and $15.8 million, respectively. Amounts deferred as acquisition costs for the three months ended June 30, 2012, also reflect a reduction related to ceding commissions on risk ceded under a quota share reinsurance transaction for loans originated in the fourth quarter of 2011 and the first quarter of 2012.

Business Overview

Radian Group is a credit enhancement company with a primary strategic focus on domestic, first-lien residential mortgage insurance. Our business segments are mortgage insurance and financial guaranty.

Radian Group

Radian Group serves as the holding company for our insurance subsidiaries and does not have any significant operations of its own. At June 30, 2012, Radian Group had immediately available unrestricted cash and liquid investments of $352.6 million. Since June 30, 2012, we have used an additional $11.8 million of our available liquidity to purchase $12.0 million in principal amount of our 5.625% Senior Notes due February 2013 (the "2013 Notes"). Radian Group's principal liquidity demands for the next 12 months are expected to include: (i) the payment of corporate expenses; (ii) interest payments on our outstanding long-term debt; (iii) the repayment of $79.4 million of principal amount of our 2013 Notes that currently remains outstanding; (iv) capital support for our mortgage insurance subsidiaries; (v) potential payments to the Internal Revenue Service ("IRS") resulting from its examination of our 2000 through 2007 tax years; and (vi) the payment of dividends on our common stock. Radian Group also has $700 million principal amount of debt that matures between June 2015 and November 2017. See “Business Conditions—Holding Company Liquidity” below.

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

Mortgage Insurance

Our mortgage insurance segment provides credit-related insurance coverage, principally through private mortgage insurance, and risk management services to mortgage lending institutions. We provide these products and services mainly through our wholly-owned subsidiary, Radian Guaranty Inc. (“Radian Guaranty”). Private mortgage insurance protects mortgage lenders from all or a portion of default-related losses on residential mortgage loans made to home buyers who generally make downpayments of less than 20% of the home’s purchase price. Private mortgage insurance also facilitates the sale of these mortgage loans in the secondary mortgage market, most of which are sold to Freddie Mac and Federal National Mortgage Association (“Fannie Mae”). We refer to Freddie Mac and Fannie Mae together as “Government Sponsored Enterprises” or “GSEs.”

Our mortgage insurance segment offers primary mortgage insurance coverage on residential first-lien mortgages (“first-liens”). At June 30, 2012, primary insurance on first-liens comprised approximately 93.8% of our $33.9 billion of total risk in force (“RIF”). Prior to 2009, we also wrote pool insurance, which at June 30, 2012, comprised approximately 5.7% of our total RIF. In addition to first-lien mortgage insurance, in the past, we provided other forms of credit enhancement on residential mortgage assets. These products included mortgage insurance on second-lien mortgages (“second-liens”), credit enhancement on net interest margin securities (“NIMS”), and primary mortgage insurance on international mortgages (collectively, we refer to the risk associated with these transactions as “non-traditional”). We stopped writing non-traditional business in 2007, other than a small amount of international mortgage insurance, which we discontinued writing in 2008. Our non-traditional RIF was $179 million as of June 30, 2012, representing 0.5% of our total RIF.

Financial Guaranty

Our financial guaranty segment has provided direct insurance and reinsurance on credit-based risks through Radian Asset Assurance Inc. (“Radian Asset Assurance”), a wholly-owned subsidiary of Radian Guaranty. In 2008, in light of market conditions and the downgrade of the financial strength ratings of our financial guaranty insurance subsidiaries, we discontinued writing new financial guaranty business, including accepting new financial guaranty reinsurance, other than as necessary to commute, restructure, hedge or otherwise mitigate losses or reduce exposure in our existing portfolio. Since 2008, we have significantly reduced our financial guaranty operations and have reduced our financial guaranty exposures through commutations in order to mitigate uncertainty, maximize the ultimate capital available for our mortgage insurance business and accelerate our access to that capital.

Business Conditions

As a seller of credit protection, our results are subject to macroeconomic conditions and specific events that impact the origination environment and credit performance of our underlying insured assets. The ongoing weakness in the United States (“U.S.”) housing and related credit markets, characterized by a decrease in mortgage originations, further declines in home prices in certain markets, mortgage servicing and foreclosure delays, and ongoing deterioration in the credit performance of mortgage and other assets originated prior to 2009, together with current macroeconomic factors such as limited economic growth, the lack of meaningful liquidity in some sectors of the capital markets, and continued high unemployment, have had, and we believe will continue to have, a significant negative impact on the operating environment and results of operations for each of our businesses. Because of these factors, there is a great deal of uncertainty regarding our future performance.

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

Capital Preservation and Liquidity Management Initiatives

Since 2008, we have engaged in a number of strategic actions and initiatives designed to increase our financial flexibility, conserve our holding company liquidity and preserve the risk-based capital position of Radian Guaranty. Thus far in 2012, we have made significant progress towards these initiatives by taking the following actions:

- In January 2012, we made further progress in our strategic objective of reducing our financial guaranty risk by entering into a three-part transaction (the "Assured Transaction") with subsidiaries of Assured Guaranty Ltd. (collectively, "Assured") that included the commutation of $13.8 billion of financial guaranty net par outstanding that was reinsured by Radian Asset Assurance (the "Assured Commutation"), the cession of $1.8 billion of direct public finance business to Assured (the "Assured Cession") and the sale of Municipal and Infrastructure Assurance Corporation (the "FG Insurance Shell"), a New York domiciled financial guaranty insurance company licensed to conduct business in 37 states and the District of Columbia. We completed the sale of the FG Insurance Shell in the second quarter of 2012. The Assured Transaction reduced our financial guaranty net par outstanding by 22.5% and provided a statutory capital benefit to Radian Asset Assurance and Radian Guaranty of $100.7 million as of June 30, 2012. The following table shows the impact of the Assured Transaction on our unaudited condensed consolidated financial statements in the first six months of 2012.

Statement of Operations (In millions)	
Decrease in premiums written	$(119.8)
Decrease in net premiums earned	$(22.2)
Increase in change in fair value of derivative instruments—gain	1.4
Gain on sale of affiliate	7.7
Increase in amortization of policy acquisition costs	(15.7)
Decrease in pre-tax income	$(28.8)

Balance Sheet (In millions)	
Decrease in:	
Cash	$93.6
Deferred policy acquisition costs	26.2
Accounts and notes receivable	1.1
Derivative assets	0.6
Unearned premiums	71.6
Derivative liabilities	2.1
Increase in other assets	19.1

- During the first six months of 2012, four credit default swap ("CDS") counterparties in our financial guaranty business exercised their termination rights with respect to 22 corporate collateralized debt obligations ("CDOs") that we insured and an additional counterparty exercised its termination right with respect to one CDS of an investor-owned utility bond that we insured (collectively, the "2012 CDO Terminations"), which further reduced our financial guaranty net par outstanding by $9.4 billion in the aggregate.
- Since December 31, 2011, we have purchased $170.6 million ($158.7 million as of June 30, 2012) of principal amount of our 2013 Notes, as discussed in more detail in Note 11.
- On April 1, 2012, Radian Guaranty entered into a quota share reinsurance agreement with a third-party reinsurance provider (the "2012 Quota Share Reinsurance Transaction"). See Note 7 for further details.

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

- In the second quarter of 2012, Radian Asset Assurance entered into a commutation with one of its derivative counterparties (the "Counterparty") to commute Radian Asset Assurance's: (1) only CDO of asset-backed securities ("ABS") exposure related to a directly insured tranche of an extremely distressed CDO of ABS transaction (the "CDO of ABS Transaction"), for which we expected to pay claims on substantially all of the $450.2 million net par outstanding; and (2) credit protection through CDS on six directly insured trust preferred securities ("TruPs") CDO transactions, representing $699.0 million of net par outstanding at the time of the commutation (the "Terminated TruPs CDOs"). In consideration for these commutations, Radian Asset Assurance paid $210.0 million (the "Commutation Amount"), a significant portion of which (the "LPV Initial Capital") has been deposited with a limited purpose vehicle (an "LPV") to cover the Counterparty's potential future losses on the TruPs bonds underlying the Terminated TruPs CDOs (the "Terminated TruPs Bonds"). The commutations described in this paragraph are referred to herein as the "Commutation Transactions."

Also as part of the Commutation Transactions, the LPV entered into a credit default swap (the "Residual CDS") with the Counterparty to provide for payments to the Counterparty for future losses relating to the Terminated TruPs Bonds. The LPV Initial Capital, together with investment earnings (collectively, the "LPV Capital") represent the only funds available to pay the Counterparty for amounts due under the Residual CDS. The Residual CDS terminates concurrently with the Terminated TruPs Bonds for which we had provided credit protection and provides for payment to the Counterparty substantially in accordance with the terms of our original CDS protection for the Terminated TruPs Bonds. In addition, pursuant to an agreement with the Counterparty, if any LPV Capital amount is remaining following the maturity of the Residual CDS, Radian Asset Assurance is entitled to these remaining funds. Due to current expectations regarding future credit losses on the Terminated TruPs Bonds, we established an associated salvage recovery for statutory accounting purposes of approximately $75 million related to the LPV funds we expect to ultimately receive upon the expiration of the LPV's obligations. Although Radian Asset Assurance has no further obligation for claims related to the Terminated TruPs CDOs, the amount of salvage recovery remains at risk, and the actual amount of salvage that we ultimately recover will depend on the future performance of the Terminated TruPs Bonds. If the LPV is required to make payments to the Counterparty pursuant to the terms of the Residual CDS, Radian Asset Assurance's projected and actual recovery from the LPV may be materially reduced or eliminated. See "Insurance Regulation—Capital Requirements" below for discussion of the impact of the salvage recoverable on Radian Guaranty's statutory capital. For GAAP purposes, we have determined that the LPV is a VIE, and it is therefore accounted for as described further in Note 5.

Prior to the Commutation Transactions, the terminated transactions were required to be accounted for at fair value for GAAP purposes. The Commutation Amount exceeded the aggregate fair value liability that we had recorded for such transactions. As a result, we reported a loss for GAAP purposes of $108 million on the Commutation Transactions in the quarter ended June 30, 2012. This loss resulted primarily from a significant discount incorporated in the aggregate fair value liability for the commuted transactions related to the market's perception of our non-performance risk. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies—Fair Value of Financial Instruments—Corporate CDOs" for additional information regarding our fair value methodology.

All of the transactions commuted pursuant to the Commutation Transactions were rated below investment grade internally, with $1.0 billion net par outstanding of the commuted transactions rated B or below internally. In the aggregate, the transactions commuted pursuant to the Commutation Transactions represented approximately 51% of our financial guaranty segment's aggregate net par outstanding rated B or below internally.

- In the second quarter of 2012, Radian Asset Assurance released $54.5 million of contingency reserves, which benefited Radian Guaranty's statutory surplus by an equal amount.
- In July 2012, Radian Asset Assurance paid an ordinary dividend of $54.0 million to Radian Guaranty.

In addition to the actions taken thus far in 2012, consistent with management's plan, we may consider additional reinsurance or negotiated commutations of our mortgage insurance RIF and financial guaranty net par outstanding, and may pursue further opportunities to retire or restructure our long-term debt or issue securities in one or more private or public offerings. We cannot provide any assurance that we will be successful in pursuing any such alternatives, individually or in the aggregate, and can provide no assurance that if such alternatives are executed that they will be sufficient to maintain adequate capital levels for our insurance subsidiaries and sufficient holding company liquidity. See "Risks and Uncertainties" in this Note 1 below.

Insurance Regulatory—Capital Requirements

The GSEs and state insurance regulators impose various capital requirements on our insurance subsidiaries. These include risk-to-capital ratios, risk-based capital measures and surplus requirements that potentially limit the amount of insurance that each of our insurance subsidiaries may write. The GSEs and our state insurance regulators also possess significant discretion with respect to our insurance subsidiaries.

Under state insurance regulations, Radian Guaranty is required to maintain minimum surplus levels and, in certain states, a minimum amount of statutory capital relative to the level of RIF, or "risk-to-capital." Sixteen states (the risk-based capital or "RBC States") currently have a statutory or regulatory risk-based capital requirement (a "Statutory RBC Requirement"), the most common of which (imposed by 11 of the RBC States) is a requirement that a mortgage insurer's risk-to-capital ratio may not exceed 25 to 1. If a mortgage insurer is not in compliance with the Statutory RBC Requirement of an RBC State, it may be prohibited from writing new mortgage insurance business in that state, unless a waiver or other form of relief is granted by the RBC State. Radian Guaranty's domiciliary state, Pennsylvania, is not one of the RBC States. During the six months ended June 30, 2012, the RBC States accounted for approximately 54.8% of Radian Guaranty's total primary NIW.

Radian Guaranty's risk-to-capital ratio has improved to 21.0 to 1 as of June 30, 2012, from 21.5 to 1 as of December 31, 2011. However, based on our current projections, including continued expected operating losses in our mortgage insurance segment, we expect Radian Guaranty's risk-to-capital ratio to increase. Absent any further risk-to-capital support, we expect Radian Guaranty to exceed the 25 to 1 risk-to-capital ratio requirement and other Statutory RBC Requirements during the second half of 2012. The ultimate amount of losses and the timing of these losses will depend, in part, on general economic conditions and other factors, including the health of credit markets, home prices and unemployment rates, all of which are difficult to predict and beyond our control. Our mortgage insurance incurred losses are driven primarily by new mortgage insurance defaults and development in the assumptions used to determine our loss reserves. Establishing loss reserves in our businesses requires significant judgment by management with respect to the likelihood, magnitude and timing of anticipated losses. This judgment has been made more difficult in the current period of prolonged economic uncertainty. Our estimate of the percentage of defaults that ultimately will result in a paid claim (the "default to claim rate") is a significant assumption in our reserving methodology. Our assumed aggregate weighted average default to claim rate (which incorporates the expected impact of rescissions and denials) was approximately 46% and 43% as of June 30, 2012 and December 31, 2011, respectively. Assuming all other factors remain constant, each one percentage point increase in our aggregate weighted average default to claim rate as of June 30, 2012, would have resulted in an approximately $58 million increase in incurred losses, adversely affecting Radian Guaranty's statutory capital. The level of incurred losses in our mortgage insurance business also is dependent on our estimate of anticipated rescissions and denials, among other assumptions. See Note 8 below for further information.

Radian Group Inc.
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Radian Guaranty's risk-to-capital position also is dependent on the performance of our financial guaranty portfolio. During the third quarter of 2008, we contributed our ownership interest in Radian Asset Assurance to Radian Guaranty. While this reorganization provided Radian Guaranty with substantial regulatory capital and dividends, it also makes the capital adequacy of our mortgage insurance business dependent, to a significant degree, on the performance of our financial guaranty business. If our financial guaranty portfolio performs worse than anticipated, including if we are required to establish (or increase) one or more statutory reserves (which are established at the time of default) on defaulted obligations that we insure, or if we make net commutation payments to terminate insured financial guaranty obligations in excess of the then established statutory reserves for such obligations, the statutory capital of Radian Guaranty also would be negatively impacted. We expect to settle obligations related to our insured sovereign indebtedness to Greece in the second half of 2012. Upon settlement, we expect to incur a statutory loss of $23.1 million. Any decrease in the capital support from our financial guaranty business would have a negative impact on Radian Guaranty's risk-to-capital position and its ability to remain in compliance with the Statutory RBC Requirements.

We actively manage Radian Guaranty's risk-to-capital position in various ways, including: (1) through internal and external reinsurance arrangements; (2) by seeking opportunities to reduce our risk exposure through commutations or other negotiated transactions; (3) by contributing additional capital from Radian Group to our mortgage insurance subsidiaries; and (4) by realizing gains in our investment portfolio through open market sales of securities. Radian Group had unrestricted cash and liquid investments of $352.6 million as of June 30, 2012. Since June 30, 2012, we have used an additional $11.8 million of our available liquidity to purchase $12.0 million in principal amount of our 2013 Notes. Our remaining available liquidity may be used to further support Radian Guaranty's risk-to-capital position. Depending on the extent of our future statutory incurred losses in our regulated mortgage insurance subsidiaries and in Radian Asset Assurance, as well as the level of new insurance written ("NIW") and other factors, the amount of capital contributions required for Radian Guaranty to remain in compliance with the Statutory RBC Requirements could be substantial and could exceed amounts maintained at Radian Group. See "Holding Company Liquidity" and "Risks and Uncertainties" below in this Note 1.

In order to maximize our financial flexibility, we have applied for waivers or similar relief for Radian Guaranty in each of the RBC States. Of the 16 RBC states, New York does not possess the regulatory authority to grant waivers and Iowa, Kansas and Ohio have declined to grant waivers to Radian Guaranty. In addition, Oregon has indicated that it will not consider our waiver application until such time that Radian Guaranty has exceeded its Statutory RBC Requirement. Of the remaining 11 RBC States, Radian Guaranty has received waivers or similar relief from the following ten states: Illinois, Kentucky, Wisconsin, Arizona, Missouri, New Jersey, North Carolina, California, Florida and Texas. Radian Guaranty has one remaining application that is pending in Idaho. There can be no assurance: (1) that Radian Guaranty will be granted a waiver in the remaining RBC State; (2) that for any waiver granted, such regulator will not revoke or terminate the waiver, which the regulator generally has the authority to do at any time; (3) that for any waiver granted, it will be renewed or extended after its original expiration date, which in the case of certain waivers is December 31, 2012; or (4) regarding what, if any, requirements may be imposed as a condition to the continued effectiveness of such waivers or their renewal or extension, and whether we will be able to comply with any such conditions.

In addition to filing for waivers in the RBC States, we intend to write new first-lien mortgage insurance business in Radian Mortgage Assurance Inc. ("RMAI"), in any RBC State that does not permit Radian Guaranty to continue writing insurance while it is out of compliance with applicable Statutory RBC Requirements. RMAI is a wholly-owned subsidiary of Radian Guaranty and is licensed to write mortgage insurance in each of the fifty states.

In February 2012, RMAI received approvals from the GSEs to write new mortgage insurance business in any RBC State where Radian Guaranty would be prohibited from writing new business if it were not in compliance with the state's Statutory RBC Requirement without a waiver or other similar relief. As noted below, these approvals are temporary (the Fannie Mae approval expires on December 31, 2013, and the Freddie Mac approval expires on December 31, 2012) and may be revoked at any time. The GSE approvals are conditioned upon our compliance with a broad range of conditions and restrictions, including without limitation: minimum capital and liquidity requirements; a maximum risk-to-capital ratio of 20 to 1 for RMAI; restrictions on the payment of dividends; and requirements governing the manner in which Radian Guaranty and RMAI conduct affiliate transactions. See "Risks and Uncertainties" below in this Note 1.

It is also possible that if Radian Guaranty were not able to comply with the Statutory RBC Requirements of one or more states, the insurance regulatory authorities in states other than the RBC States could prevent Radian Guaranty from continuing to write new business in such non-RBC states. If this were to occur, we would need to seek approval from the GSEs to expand the scope of their approvals to allow RMAI to write business in states other than the RBC States.

Pursuant to the GSE approvals, Radian Group must contribute $50 million in cash or cash equivalents to RMAI upon Radian Guaranty's breach of a Statutory RBC Requirement such that the use of RMAI is required to continue to write new business in one or more RBC States.

The conditions and restrictions contained in the Freddie Mac approval include, among others, a requirement that Radian Group make contributions to Radian Guaranty so that Radian Guaranty maintains minimum "Liquid Assets" (as defined in the Freddie Mac approval and discussed in further detail below) of $700 million. There can be no assurance that: (1) we will be able to comply with the conditions imposed by the GSEs' approval for RMAI; (2) the GSEs will not revoke or terminate their approvals, which they generally have the authority to do at any time; (3) the approvals will be renewed or extended after their original expiration date; or (4) additional requirements will not be imposed as a condition to such on-going approvals, including their renewal or extension.

Our existing capital resources may not be sufficient to successfully manage Radian Guaranty's risk-to-capital ratio. Our ability to utilize waivers and RMAI to allow Radian Guaranty to continue to write business with a risk-to-capital position that is not in compliance with the Statutory RBC Requirements, is subject to conditions that we may be unable to satisfy. As a result, even if we are successful in implementing this strategy, additional capital contributions could be necessary, which we may not have the ability to provide.

Regardless of the waivers and the GSEs' approval of RMAI, we may choose to use our existing capital at Radian Group to maintain compliance with the Statutory RBC Requirements. Depending on the extent of our future incurred losses along with other factors, the amount of capital contributions that may be required to maintain compliance with the Statutory RBC Requirements could be significant and could exceed all of our remaining available capital. In the event we contribute a significant amount of Radian Group's available capital to Radian Guaranty and RMAI, our financial flexibility would be significantly reduced, making it more difficult for Radian Group to meet its obligations in the future, including future principal payments on our outstanding debt. See "Holding Company Liquidity" and "Risks and Uncertainties" below in this Note 1.

Holding Company Liquidity

Radian Group serves as the holding company for our insurance subsidiaries and does not have any significant operations of its own. At June 30, 2012, Radian Group had immediately available, unrestricted cash and liquid investments of $352.6 million. Since June 30, 2012, we have used an additional $11.8 million of our available liquidity to purchase $12.0 million in principal amount of our 2013 Notes. Radian Group's principal liquidity demands for the next 12 months are expected to include: (i) the payment of corporate expenses; (ii) interest payments on our outstanding long-term debt; (iii) the repayment of the principal amount remaining of our 2013 Notes; (iv) capital support for our mortgage insurance subsidiaries; (v) potential payments to the IRS resulting from its examination of our 2000 through 2007 tax years; and (vi) the payment of dividends on our common stock.

In addition to existing available cash and marketable securities, Radian Group's principal sources of cash include dividends from Radian Guaranty (to the extent permitted under applicable laws and regulations) and payments to Radian Group under tax- and expense-sharing arrangements with our subsidiaries. Radian Guaranty's ability to pay dividends to Radian Group is subject to various conditions imposed by the GSEs and rating agencies, and by insurance regulations requiring insurance department approval. In general, dividends in excess of prescribed limits are deemed "extraordinary" and require insurance department approval. In light of ongoing losses in Radian Guaranty, we do not anticipate that it will be permitted under applicable insurance laws to issue dividends to Radian Group for the foreseeable future. To the extent Radian Asset Assurance is permitted to pay dividends, these dividends will be paid to its direct parent, Radian Guaranty, and not to Radian Group.

Radian Group Inc.
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We expect to fund Radian Group's short-term liquidity needs with: (i) existing cash and marketable securities; and (ii) cash received under the expense-sharing arrangements with our subsidiaries. If Radian Group's current sources of liquidity are insufficient for Radian Group to fund its obligations, Radian Group may be required to seek additional capital by incurring additional debt, by issuing additional equity, or by selling assets, which we may not be able to do on favorable terms, if at all.

Corporate Expenses and Interest Expense. Radian Group has expense-sharing arrangements in place with its principal operating subsidiaries that require those subsidiaries to pay their share of holding-company-level expenses, including interest payments on our outstanding long-term debt. Payments of such corporate expenses for the next 12 months, excluding interest payments, are expected to be approximately $57.3 million. For the same period, payments of interest on our long-term debt are expected to be approximately $31.4 million. These amounts are expected to be reimbursed by our subsidiaries under our existing expense-sharing arrangements. These expense-sharing arrangements, as amended, have been approved by applicable state insurance departments, but such approval may be modified or revoked at any time. In addition, pursuant to the GSEs' approval of RMAI as an eligible mortgage insurer, GSE consent is required to modify or amend the expense-sharing agreements. Approximately $26.1 million of future expected corporate expenses and interest payments (approximately $14.4 million for the next 12 months) have been accrued for and paid by certain subsidiaries to Radian Group as of June 30, 2012, and therefore, the total unrestricted cash and liquid investments held by Radian Group as of June 30, 2012, includes these amounts. A portion of these expenses (approximately $15.1 million) relates to performance-based compensation expenses that could be reversed in whole or in part, depending on changes in our stock price and other factors. To the extent these expenses are reversed, Radian Group would be required to reimburse the subsidiaries that paid these expenses to Radian Group. In addition, under the Fannie Mae approval for RMAI, Radian Group is required to contribute to Radian Guaranty the amount of any future interest expense payments made by Radian Guaranty or RMAI to Radian Group pursuant to the terms of the expense-sharing arrangements among these entities. Pursuant to the terms of our expense-sharing arrangements, any interest expense payments from Radian Guaranty or RMAI to Radian Group for the next twelve months are expected to be immaterial.

Repayment of 2013 Notes. Since December 31, 2011, we have purchased $170.6 million of principal amount of our outstanding 2013 Notes ($158.7 million as of June 30, 2012) and $79.4 million of principal amount of our 2013 Notes currently remains outstanding. We may from time to time, seek to redeem or purchase, prior to maturity, some or all of the remaining 2013 Notes in the open market, through private transactions, pursuant to one or more tender offers, or through any combination of the foregoing, as circumstances may allow.

Capital Support for Subsidiaries. In light of on-going losses in our mortgage insurance business, Radian Group may be required to make additional capital contributions to Radian Guaranty in order to support Radian Guaranty's ability to continue writing insurance in those states that impose certain risk-based capital requirements and to maintain approvals by the GSEs for RMAI as an eligible insurer in certain states. Radian Guaranty's risk-to-capital ratio was 21.0 to 1 as of June 30, 2012. Based on our current projections, we expect Radian Guaranty's risk-to-capital ratio to increase. Absent any further risk-to-capital support, we expect Radian Guaranty to exceed the 25 to 1 risk-to-capital ratio requirement and other Statutory RBC Requirements during the second half of 2012. Depending on the extent of our future mortgage insurance losses along with other factors, the amount of capital contributions that may be required to maintain compliance with applicable risk-based capital requirements could be significant and could exceed all of Radian Group's remaining available liquidity. See "Insurance Regulatory—Capital Requirements" above in this Note 1. Radian Group also could be required to provide capital support for our other mortgage insurance subsidiaries if additional capital is required pursuant to insurance laws and regulations or by the GSEs. Certain of our mortgage insurance subsidiaries that provide reinsurance to Radian Guaranty currently are operating at or near minimum capital levels and have required, and in the future may continue to require, additional capital contributions from Radian

Group.

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Radian Group and Commonwealth Mortgage Assurance Company of Texas ("CMAC of Texas") are parties to an Assumption and Indemnification Agreement with regard to certain proposed adjustments resulting from the examination by the IRS for the 2000 through 2007 tax years. Through this agreement, Radian Group agreed to indemnify CMAC of Texas for the amount of any tax payments ultimately due to the IRS for the proposed adjustments, which relate to the recognition of certain tax losses and deductions that were generated through our investment in a portfolio of residual interests in Real Estate Mortgage Investment Conduits ("REMICs") currently held by CMAC of Texas. This indemnification was made in lieu of an immediate capital contribution to CMAC of Texas that otherwise may have been required as a result of our remeasurement of uncertain tax positions related to the portfolio of REMIC residual interests. There remains significant uncertainty with regard to the amount and timing of any resolution with the IRS, and we are currently contesting the proposed adjustments related to the REMICs.
Dividends. Our quarterly common stock dividend is $0.0025 per share, and based on our current outstanding common stock, we would require approximately $1.3 million in the aggregate to pay our quarterly dividends for the next 12 months.
Tax Payments. Under our current tax-sharing agreement between Radian Group and its subsidiaries, our subsidiaries are required to pay to Radian Group, on a quarterly basis, amounts representing their estimated separate company tax liability for the current tax year. Radian Group is required to refund to each subsidiary, any amount that such subsidiary overpaid to Radian Group for a taxable year, as well as any amount that the subsidiary could utilize through existing carryback provisions of the Internal Revenue Code had such subsidiary filed its federal tax return on a separate company basis. Any payments that we expect to make during the next twelve months under the tax-sharing agreement are not expected to have a material impact on Radian Group's available liquidity. Our tax-sharing agreement may not be changed without the pre-approval of the applicable state insurance departments for certain of the insurance subsidiaries that are parties to the agreement. In addition, pursuant to the GSEs' approval of RMAI as an eligible mortgage insurer, GSE consent is required to modify or amend the tax-sharing agreement.
Long-Term Liquidity Needs
Our most significant needs for liquidity beyond the next 12 months are: (i) the repayment of the principal amount of our outstanding long-term debt, including approximately $250 million in principal amount due in 2015 and $450 million in principal amount due in 2017; (ii) potential additional capital contributions to our mortgage insurance subsidiaries; and (iii) potential payments to the IRS resulting from its examination of our 2000 through 2007 tax years, which may not be resolved in the next 12 months. We may, from time to time, seek to redeem or purchase, prior to maturity, some or all of our outstanding debt in the open market, through private transactions, pursuant to one or more tender offers, or through any combination of the foregoing, as circumstances may allow. At this time, we cannot determine the timing or amount of any potential purchases, which will depend on a number of factors, including our capital and liquidity needs. If necessary, we may seek to refinance all or a portion of our long-term debt, which we may not be able to do on favorable terms, if at all.
As of the balance sheet date, certain of our insurance subsidiaries, including Radian Guaranty, have incurred net operating losses ("NOLs") that could not be carried back and utilized on a separate company tax return basis. As a result, we are not currently obligated to reimburse these subsidiaries for their separate company NOL carryforward. However, if in a future period our consolidated NOL is fully utilized before a subsidiary has utilized its share of NOL on a separate entity basis, then Radian Group may be obligated to fund such subsidiary's share of our consolidated tax liability to the IRS. Currently, we do not expect to fund material obligations under the provisions described in this paragraph with regard to subsidiary NOLs incurred to date.
We expect to fund the long-term liquidity needs of Radian Group with a combination of: (i) available cash and marketable securities; (ii) potential private or public issuances of debt or equity securities, which we may not be able to do on favorable terms, if at all; (iii) cash received under expense-sharing arrangements with our subsidiaries;

(iv) the potential sale of assets; and (v) dividends from our subsidiaries, to the extent available. See “Risks and Uncertainties” below in this Note 1.

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Freddie Mac Approval

Pursuant to the Freddie Mac approval of RMAI as a special purpose mortgage insurer, Radian Group is required to make contributions to Radian Guaranty as may be necessary so that the "Liquid Assets" of Radian Guaranty, as defined in the Freddie Mac approval, are at least $700 million throughout the term of the approval. As defined in the Freddie Mac approval, "Liquid Assets" are equal to the sum of (i) aggregate cash and cash equivalents, and (ii) the fair market value of the following investments: (a) residential mortgage-backed securities guaranteed by Fannie Mae, Freddie Mac or Government National Mortgage Association ("Ginnie Mae"); (b) securities rated single A or higher by either Moody's Investor Service, Standard & Poor's Rating System or Fitch Ratings with a remaining maturity of five years or less; and (c) U.S. Treasury securities with maturities not to exceed ten years, provided that U.S. Treasury securities with remaining maturities in excess of five years may not exceed ten percent of the Liquid Assets. As of June 30, 2012, Radian Guaranty's Liquid Assets under the Freddie Mac approval were approximately $1.3 billion. Although we do not expect that Radian Guaranty's Liquid Assets will fall below $700 million before December 31, 2012, we do expect the amount of Radian Guaranty's Liquid Assets to continue to decline materially throughout 2012 (and potentially thereafter) as Radian Guaranty's claim payments and other uses of cash continue to exceed cash generated from operations. In the event Radian Guaranty's Liquid Assets are projected to fall below $700 million, Radian Guaranty maintains significant additional investments that may be converted into Liquid Assets to ensure ongoing compliance with the Freddie Mac approval.

Risks and Uncertainties

Radian Group and its subsidiaries are subject to risks and uncertainties that could affect amounts reported in our financial statements in future periods. Adverse business and economic conditions have resulted in incurred losses that have reduced our insurance subsidiaries' statutory capital, requiring contributions that have reduced holding company liquidity. Further, statutory capital requirements are subject to regulatory discretion and approval. Our future performance and financial condition are subject to significant risks and uncertainties that could cause actual results to be materially different from our estimates and forward-looking statements, including but not limited to, the following:

- Potential adverse effects of the failure or significant delay of the U.S. economy to fully recover from the most recent recession and prolonged economic downturn, including ongoing high unemployment, uncertainty in the housing, municipal, foreign sovereign and related credit markets, which could increase our mortgage insurance or financial guaranty losses beyond existing expectations. (See Notes 8, 9 and 10).
- Potential adverse effects if there are adverse developments with respect to our estimates related to the likelihood, magnitude and timing of losses in connection with establishing loss reserves or premium deficiency reserves for our mortgage insurance or financial guaranty businesses. (See Notes 8, 9 and 10).
- Potential adverse effects on us 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.
- Potential adverse effects if Radian Guaranty's regulatory risk-based capital position fails to comply with applicable state statutory or regulatory risk-based capital requirements, including if waivers or similar relief from the states that impose such statutory or regulatory risk-based capital requirements are not obtained or renewed, or are revoked. These risks include the possibility that: (i) insurance regulators or the GSEs may limit or cause Radian Guaranty to cease writing new mortgage insurance; (ii) the GSEs may terminate or otherwise restrict Radian Guaranty's or RMAI's eligibility to insure loans purchased by the GSEs; (iii) 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; and (iv) state or federal regulators could pursue regulatory actions or proceedings, including possible supervision or receivership actions, against us in the future. (See Note 14 for additional information regarding our statutory capital).
- Potential adverse effects if we fail to comply with applicable debt covenants, which could result in a default under our long-term debt and accelerate our obligation to repay our outstanding debt. Regulatory action that results in the

appointment of a receiver for one or more of our significant insurance subsidiaries could constitute an event of default under our long-term debt.

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- Factors adversely affecting Radian Group's capital and liquidity that could cause Radian Group to have insufficient sources of capital and liquidity to meet all of its expected obligations in the near-term, including $79.4 million of principal amount currently outstanding on our 2013 Notes that mature in February 2013, our failure to estimate accurately the likelihood and potential effects of the various risks and uncertainties described in this report and our other filings with the SEC, as well as potential regulatory, legal or other changes to our tax- or expense-allocation agreements among Radian Group and its subsidiaries.
- Potential adverse effects resulting from the final determination or settlement of tax audits and examinations and any potential related litigation, as well as changes in tax laws, rates, regulations and policies, or interpretations of any of the foregoing that could have a material impact on our tax liabilities, tax assets and our results of operations or financial condition.
- 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 adverse effects 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"), 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 register as a "Major Security-Based Swap Participant" or to post collateral with respect to our existing insured derivatives portfolio.
- Our businesses have been significantly affected by, and our future success may depend upon, legislative and regulatory developments impacting the housing finance industry. The GSEs are the primary beneficiaries of the majority of our mortgage insurance policies, and the Federal Housing Authority remains our primary competitor outside of the private mortgage insurance industry. The GSEs' federal charters generally prohibit them from purchasing any mortgage with a loan amount that exceeds 80% of a home's value, unless that mortgage is insured by a qualified insurer or the mortgage seller retains at least a 10% participation in the loan or agrees to repurchase the loan in the event of a default. As a result, high-loan-to-value ("LTV") mortgages purchased by the GSEs generally are insured with private mortgage insurance. Changes in the charters or business practices of the GSEs, including pursuing new products for purchasing high-LTV loans that are not insured by private mortgage insurance, could reduce the number of mortgages they purchase that are insured by us and consequently diminish our franchise value. In September 2008, the Federal Housing Finance Agency was appointed as the conservator of the GSEs to control and direct the operations of the GSEs. The continued role of the conservator may increase the likelihood that the business practices of the GSEs will be changed in ways that may have a material adverse effect on us. In particular, if the private mortgage insurance industry does not have the ability, due to capital constraints, to continue to write sufficient business to meet the needs of the GSEs, the GSEs may seek alternatives other than private mortgage insurance to conduct their business.

Management believes that it will be able to maintain adequate liquidity to meet Radian Group's short-term liquidity needs, and accordingly, management has prepared these financial statements on the basis that Radian Group will continue to operate as a going concern. However, in light of the risks and uncertainties mentioned above, we may be unable to continue to execute on our plan as discussed above under "Capital Preservation and Liquidity Management Initiatives," which could have a material adverse effect on our financial position (including holding company liquidity), statutory capital, results of operations and cash flows. Our failure to maintain adequate levels of capital, among other things, could lead to intervention by the various insurance regulatory authorities, which could materially and adversely affect our business, business prospects, financial condition and our ability to continue as a going concern.

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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 on an operating basis. 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.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	2012	2011	2012	2011
Mortgage Insurance				
Net premiums written—insurance	$182,518	$164,194	$379,371	$345,040
Net premiums earned—insurance	$170,763	$164,325	$344,214	$350,459
Net investment income	17,608	24,853	35,619	51,686
Net gains on investments	26,662	27,425	58,840	45,187
Net impairment losses recognized in earnings	—	(11)	—	(11)
Change in fair value of derivative instruments	(52)	258	(31)	(136)
Net gains (losses) on other financial instruments	42	(631)	(667)	1,835
Gain on sale of affiliate	—	—	—	—
Other income	1,304	1,124	2,648	2,524
Total revenues	216,327	217,343	440,623	451,544
Provision for losses	208,078	269,992	442,807	683,965
Change in reserve for premium deficiency	559	(3,102)	539	(4,485)
Policy acquisition costs	7,890	8,601	16,536	18,817
Other operating expenses	31,272	33,913	67,537	68,050
Interest expense	1,723	146	3,445	9,935
Total expenses	249,522	309,550	530,864	776,282
Equity in net (loss) income of affiliates	—	—	—	—
Pretax loss	(33,195)	(92,207)	(90,241)	(324,738)
Income tax (benefit) provision	(10,209)	5,374	(22,008)	8,875
Net loss	$(22,986)	$(97,581)	$(68,233)	$(333,613)
Cash and investments	$3,176,027	$3,334,789		
Deferred policy acquisition costs	44,240	44,509		
Total assets	3,388,524	3,688,720		
Unearned premiums	290,880	191,737		
Reserve for losses and LAE	3,155,343	3,268,582		
VIE debt	7,500	56,239		
Derivative liabilities	—	—		
NIW (in millions)	$8,335	$2,280	$14,800	$4,866

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Notes to Unaudited Condensed Consolidated Financial Statements — (Continued)

(In thousands)	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Financial Guaranty				
Net premiums written—insurance	$(586)	$(11,416)	$(119,761)	$(9,513)
Net premiums earned—insurance	$16,016	$24,609	$9,930	$41,498
Net investment income	13,269	18,970	29,971	34,377
Net (losses) gains on investments	(243)	16,811	35,038	36,484
Net impairment losses recognized in earnings	—	—	—	—
Change in fair value of derivative instruments	(33,072)	188,468	(105,850)	432,754
Net (losses) gains on other financial instruments	(61,904)	5,678	(79,047)	78,463
Gain on sale of affiliate	7,708	—	7,708	—
Other income	91	72	187	120
Total revenues	(58,135)	254,608	(102,063)	623,696
Provision for losses	2,790	(6,426)	34,215	6,974
Change in reserve for premium deficiency	—	—	—	—
Policy acquisition costs	2,915	5,786	22,315	9,701
Other operating expenses	8,921	12,041	22,810	24,123
Interest expense	10,858	15,933	23,284	23,168
Total expenses	25,484	27,334	102,624	63,966
Equity in net (loss) income of affiliates	(2)	—	(13)	65
Pretax (loss) income	(83,621)	227,274	(204,700)	559,795
Income tax provision (benefit)	12,652	(7,422)	15,558	(13,939)
Net (loss) income	$(96,273)	$234,696	$(220,258)	$573,734
Cash and investments	$2,137,956	$2,703,740		
Deferred policy acquisition costs	55,146	94,417		
Total assets	2,643,006	3,240,076		
Unearned premiums	297,551	438,076		
Reserve for losses and LAE	94,937	75,042		
VIE debt	100,333	337,501		
Derivative liabilities	219,960	313,708		

A reconciliation of segment net (loss) income to consolidated net (loss) income is as follows:

(In thousands)	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Consolidated				
Net (loss) income:				
Mortgage Insurance	$(22,986)	$(97,581)	$(68,233)	$(333,613)
Financial Guaranty	(96,273)	234,696	(220,258)	573,734
Total	$(119,259)	$137,115	$(288,491)	$240,121

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

3. Derivative Instruments

The following table sets forth our gross unrealized gains and gross unrealized losses on derivative assets and liabilities as of the dates indicated. Certain contracts are in an asset position because the net present value of the contractual premium we receive exceeds the net present value of our estimate of the expected future premiums that a financial guarantor of similar credit quality to us would charge to provide the same credit protection, assuming a transfer of our obligation to such financial guarantor as of the measurement date.

(In millions)	June 30, 2012		December 31, 2011
Balance Sheets			
Derivative assets:			
Financial Guaranty credit derivative assets	$12.5		$15.4
NIMS related and other	1.7		1.8
Total derivative assets	14.2		17.2
Derivative liabilities:			
Financial Guaranty credit derivative liabilities	144.6		106.5
Financial Guaranty VIE derivative liabilities	75.4	(1)	19.5
Total derivative liabilities	220.0		126.0
Total derivative liabilities, net	$205.8		$108.8

(1) As a result of the Commutation Transactions described in Note 1, we established a VIE during the quarter ended June 30, 2012. See Note 5 for further details.

The notional value of our derivative contracts at June 30, 2012 and December 31, 2011, was $25.8 billion and $36.5 billion, respectively.

The components of the (losses) gains included in change in fair value of derivative instruments are as follows:

(In millions)	Three Months Ended June 30, 2012		Three Months Ended June 30, 2011		Six Months Ended June 30, 2012		Six Months Ended June 30, 2011	
Statements of Operations								
Net premiums earned—derivatives	$7.3		$10.5		$15.9		$21.4	
Financial Guaranty credit derivatives	(39.2	)	181.9		(119.4	)	416.5	
Financial Guaranty VIE derivatives	(1.2	)	(4.0	)	(2.4	)	(4.9	)
NIMS related and other	—		0.3		—		(0.4	)
Change in fair value of derivative instruments	$(33.1	)	$188.7		$(105.9	)	$432.6	

The valuation of derivative instruments may result in significant volatility from period to period in gains and losses as reported on our consolidated statements of operations. Generally, these gains and losses result, in part, from changes in corporate credit or asset-backed spreads and changes in the creditworthiness of underlying corporate entities or the credit performance of the assets underlying ABS. Additionally, when determining the fair value of our liabilities, we are required to incorporate into the fair value of those liabilities an adjustment that reflects our own non-performance risk and consequently, changes in the market’s perception of our non-performance risk also result in gains and losses on our derivative instruments. Any incurred gains or losses (which include any claim payments) on our financial guaranty contracts that are accounted for as derivatives are recognized as a change in fair value of derivative instruments. Because our fair value determinations for derivative and other financial instruments in our mortgage insurance and financial guaranty businesses are based on assumptions and estimates that are inherently subject to risk and uncertainty, our fair value amounts could vary significantly from period to period. See Note 4 for information on our fair value of financial instruments.

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Notes to Unaudited Condensed Consolidated Financial Statements — (Continued)

The following table shows selected information about our derivative contracts:

	June 30, 2012		
($ in millions)	Number of Contracts	Par/ Notional Exposure	Total Net Asset/ (Liability)
Product			
NIMS related and other (1)	—	$—	$ 1.7
Corporate CDOs	52	20,241.4	0.8
Non-Corporate CDOs and other derivative transactions:			
TruPs	13	1,147.1	(9.9)
CDOs of commercial mortgage-backed securities (“CMBS”)	4	1,831.0	(58.0)
Other:			
Structured finance	8	719.1	(26.7)
Public finance	23	1,438.5	(22.6)
Total Non-Corporate CDOs and other derivative transactions	48	5,135.7	(117.2)
Assumed financial guaranty credit derivatives:			
Structured finance	36	239.2	(14.6)
Public finance	8	129.5	(1.1)
Total Assumed	44	368.7	(15.7)
Financial Guaranty VIE derivative liabilities (2)	1	75.4	(75.4)
Grand Total	145	$25,821.2	$ (205.8)

(1) Represents NIMS derivative assets related to consolidated NIMS VIEs. Also includes common stock warrants. Because none of these investments represent financial guaranty contracts that we issued, they cannot become liabilities, and therefore, do not represent additional par exposure.

(2) Represents the fair value of a CDS included in a VIE which we consolidate relating to the Terminated TruPs CDOs. The assets in the VIE represent the only funds available to pay the CDS Counterparty for amounts due under the contract; therefore, the notional exposure presented for the CDS is limited to the current trust assets. See Notes 1 and 5 for information on the underlying reference securities and on our maximum exposure to loss from this consolidated financial guaranty transaction.

4. Fair Value of Financial Instruments

Our estimated fair value measurements are intended to reflect the assumptions market participants would use in pricing an asset or liability based on the best information reasonably available. Assumptions include the risks inherent in a particular valuation technique (such as a pricing model) and the risks inherent in the inputs to the model. Changes in economic conditions and capital market conditions, including but not limited to, changes in credit spreads and benchmark interest rates, market volatility and declines in the value of underlying collateral, could cause actual results to differ materially from our estimated fair value measurements. Fair value is defined as the current amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In the event that our investments or derivative contracts were sold, commuted, terminated or settled with a counterparty, or transferred in a forced liquidation, the amounts received or paid may be materially different from those determined in accordance with the accounting standard regarding fair value measurements. Differences may arise between our recorded fair value and the settlement or termination value with a counterparty based upon consideration of information that may not be available to another market participant. Those differences, which may be material, are recorded as transaction realized gains/(losses) in our condensed consolidated statements of operations in the period in which the transaction occurs. There were no significant changes to our fair value methodologies during the six months ended June 30, 2012.

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When determining the fair value of our liabilities, we are required to incorporate into the fair value of those liabilities an adjustment that reflects our own non-performance risk. Our CDS spread is an observable quantitative measure of our non-performance risk and is used by typical market participants to determine the likelihood of our default. As our CDS spread tightens or widens, it has the effect of increasing or decreasing, respectively, the fair value of our liabilities.

The following table quantifies the impact of our non-performance risk on our derivative assets and liabilities (in aggregate by type, excluding assumed financial guaranty derivatives) and VIE liabilities presented in our condensed consolidated balance sheets. Radian Group's five-year CDS spread is presented as an illustration of the market's view of our non-performance risk; the CDS spread actually used in the valuation of specific fair value liabilities is typically based on the remaining term of the instrument.

(In basis points)	June 30, 2012	December 31, 2011	June 30, 2011	December 31, 2010
Radian Group's five-year CDS spread	1,780	2,732	968	465

(In millions)	Fair Value Liability before Consideration of Radian Non-Performance Risk June 30, 2012	Impact of Radian Non-Performance Risk June 30, 2012	Fair Value (Asset) Liability Recorded June 30, 2012
Product			
Corporate CDOs	$ 258.4	$ 259.2	$ (0.8)
Non-Corporate CDO-related (1)	915.0	797.8	117.2
NIMS-related (2)	13.0	7.2	5.8
Total	$ 1,186.4	$ 1,064.2	$ 122.2

(In millions)	Fair Value Liability before Consideration of Radian Non-Performance Risk December 31, 2011	Impact of Radian Non-Performance Risk December 31, 2011	Fair Value Liability Recorded December 31, 2011
Product			
Corporate CDOs	$ 463.1	$ 458.0	$ 5.1
Non-Corporate CDO-related (1)	1,520.2	1,405.3	114.9
NIMS-related (2)	17.4	9.6	7.8
Total	$ 2,000.7	$ 1,872.9	$ 127.8

(1) Includes the net fair value liability recorded within derivative assets and derivative liabilities, and the net fair value liabilities included in our consolidated VIEs.
(2) Includes NIMS VIE debt and NIMS derivative assets.

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Notes to Unaudited Condensed Consolidated Financial Statements — (Continued)

Radian Group's five-year CDS spread at June 30, 2012, implies a market view that there is a 70.0% probability that Radian Group will default in the next five years, as compared to an 83.5% implied probability of default at December 31, 2011. The cumulative impact attributable to the market's perception of our non-performance risk decreased by $808.7 million during the first six months of 2012, as presented in the table above. This decrease was primarily the result of the tightening of Radian Group's CDS spreads during this period.

We established a fair value hierarchy by prioritizing the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level I measurements) and the lowest priority to unobservable inputs (Level III measurements). The three levels of the fair value hierarchy under this standard are described below:

Level I	—	Unadjusted quoted prices for identical assets or liabilities in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
Level II	—	Prices or valuations based on observable inputs other than quoted prices in active markets for identical assets and liabilities; and
Level III	—	Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

The level of market activity used to determine the fair value hierarchy is based on the availability of observable inputs market participants would use to price an asset or a liability, including market value price observations. We provide a qualitative description of the valuation technique(s) and inputs used for Level II recurring and non-recurring fair value measurements in our audited annual financial statements as of December 31, 2011. For a complete understanding of those valuation techniques and inputs used as of June 30, 2012, these unaudited condensed consolidated 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, 2011.

For markets in which inputs are not observable or limited, we use significant judgment and assumptions that a typical market participant would use to evaluate the market price of an asset or liability. Given the level of judgment necessary, another market participant may derive a materially different estimate of fair value. These assets and liabilities are classified in Level III of our fair value hierarchy. For fair value measurements categorized within Level III of the fair value hierarchy, we use certain significant unobservable inputs in estimating fair value. Those inputs primarily relate to the probability of default, the expected loss upon default, and our own non-performance risk as it relates to our liabilities. The following table summarizes the significant unobservable inputs used in our recurring Level III fair value measurements as of June 30, 2012:

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Notes to Unaudited Condensed Consolidated Financial Statements — (Continued)

(In millions)	Fair Value June 30, 2012 (1)	Valuation Technique	Unobservable Input	Range/ Weighted Average			
Level III Investments:							
State and municipal obligations	$19.6	Discounted cash flow	Discount rate			8.9	%
			Expected loss			19.0	%
Other investments	75.4	Discounted cash flow	Discount rate			2.3	%
			Expected loss			—	%
Level III Derivative Assets:							
Corporate CDOs	9.4	Base correlation model	Radian correlation to corporate index			85.0	%
			Average credit spread	0.2	% -	4.2	%
			Own credit spread (2)	12.7	% -	22.6	%
CDOs of CMBS	1.4	Discounted cash flow	Radian correlation to CMBS transaction index	72.0	% -	85.0	%
			Own credit spread (2)	12.7	% -	22.6	%
TruPs CDOs	1.5	Discounted cash flow	Principal recovery			55.0	%
			Principal recovery (stressed)			50.0	%
			Probability of conditional liquidity payment	0.4	% -	32.0	%
			Own credit spread (2)	12.7	% -	22.6	%
NIMS derivative assets	1.7	Discounted cash flow	NIMS credit spread			43.0	%
			Own credit spread			22.9	%
Level III Derivative Liabilities:							
Corporate CDOs	8.6	Base correlation model	Radian correlation to corporate index			85.0	%
			Average credit spread	0.2	% -	4.2	%
			Own credit spread (2)	12.7	% -	22.6	%
CDOs of CMBS	59.4	Discounted cash flow	Radian correlation to CMBS transaction index	72.0	% -	85.0	%
			Own credit spread (2)	12.7	% -	22.6	%
TruPs CDOs and TruPs-related VIE liabilities	86.8	Discounted cash flow	Principal recovery			55.0	%
			Principal recovery (stressed)			50.0	%
			Probability of conditional liquidity payment	0.4	% -	32.0	%
			Own credit spread (2)	—	% -	22.6	%
	65.0	Risk-based model	Average life (in years)	<1	-	20	

Other non-corporate CDOs and derivative transactions			Own credit spread (2)	12.7 % -	22.6 %
Level III VIE Liabilities:					
NIMS VIE	7.5	Discounted cash flow	NIMS credit spread		43.0 %
			Own credit spread (2)	15.1 % -	23.4 %

(1) Excludes certain assets and liabilities for which we do not develop quantitative unobservable inputs. The fair value estimates for these assets and liabilities are developed using third-party pricing information, generally without adjustment.

(2) Represents the range of our CDS spread that a typical market participant might use in the valuation analysis based on the remaining term of the investment.

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The significant unobservable inputs in the fair value measurement of our investment securities noted above include an interest rate used to discount the projected cash flows and an expected loss assumption. This expected loss assumption generally represents the principal shortfall we expect on our security as a result of the obligor's failure to pay. In addition, our other invested assets include a guaranteed investment contract for which the Counterparty's non-performance risk is considered in the discount rate. Significant increases (decreases) in either the discount rates or loss estimates in isolation would result in a lower (higher) fair value measurement. Changes in these assumptions are independent and may move in either similar or opposite directions.

The significant unobservable inputs used in the fair value measurement of our derivative assets, derivative liabilities and VIE debt relate primarily to projected losses. In addition, when determining the fair value of our liabilities, we are required to incorporate into the fair value of those liabilities an adjustment that reflects our own non-performance risk, if applicable, as discussed below.

For our corporate CDOs, we estimate the correlation of the default probability between the corporate entities and Radian—the higher the correlation percentage, the higher the probability that both the corporate entities and Radian will default together. In addition, a widening of the average credit spread increases the expected loss for our transactions, and therefore, increases the related liability.

For our CDOs of CMBS transactions, we use the CMBX index that most directly correlates to our transaction with respect to vintage and credit rating, and then we estimate losses by applying a correlation factor. Because we own the senior tranche, an increase in this factor generally increases the expected loss for our transactions, and therefore increases our related liability.

For our TruPs CDOs, the performance of each underlying reference obligation is measured by a standard and distressed pricing, which indicates the expected principal recovery. An increase in the standard and stressed principal recovery decreases the loss severity of the transaction, and therefore, in isolation, decreases the related liability. We also assign these transactions a probability that we will be required to pay a conditional liquidity claim, which generally would increase our related liability. For our TruPs-related VIE liabilities, the fair value is estimated using similar inputs as in the estimated fair value of our TruPs CDOs, except there is no non-performance risk adjustment as the derivative liability is limited to the segregated assets already held by the VIE.

For our other non-corporate CDOs, we utilize the internal credit rating, average remaining life, and current par outstanding for each transaction to project both expected losses and an internally developed risk-based capital amount. An increase in the average remaining life typically increases the expected loss of the transactions, and therefore, increases our related liability. An upgrade (downgrade) in the internal credit rating typically decreases (increases) the expected loss of the transactions, and therefore, decreases (increases) our related liability.

For all fair value measurements where we project our non-performance risk, including VIE debt, we utilize our own credit spread as the best available indicator of the market's perception of our non-performance risk. In isolation, a widening (tightening) of this credit spread typically decreases (increases) our related liability. The assumption used to project our own non-performance risk is independent from the other unobservable inputs used in our fair value measurements. The net impact on our reported assets and liabilities from increases or decreases in our own credit spread and from increases or decreases in other unobservable inputs depends upon the magnitude and direction of the changes in each input; such changes may result in offsetting effects to our recorded fair value measurements, or they may result in directionally similar impacts, which may be material.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. At June 30, 2012, our total Level III assets were approximately 4.1% of total assets measured at fair value and total Level III liabilities accounted for 100% of total liabilities measured at fair value.

Available for sale securities, trading securities, VIE debt, derivative instruments, and certain other assets are recorded at fair value. All derivative instruments and contracts are recognized in our condensed consolidated balance sheets as either derivative assets or derivative liabilities. All changes in fair value of trading securities, VIE debt, derivative instruments, and certain other assets are included in our condensed consolidated statements of operations. All changes in the fair value of available for sale securities are recorded in accumulated other comprehensive income (loss).

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

The following is a list of those assets and liabilities that are measured at fair value by hierarchy level as of June 30, 2012:

	Level I	Level II	Level III	Total
Assets and Liabilities at Fair Value				
Investment Portfolio:				
U.S. government and agency securities	$235.2	$717.5	$—	$952.7
State and municipal obligations	—	834.4	19.6	854.0
Money market instruments	468.9	—	—	468.9
Corporate bonds and notes	—	836.0	—	836.0
Residential mortgage-backed securities (“RMBS”)	—	968.7	—	968.7
CMBS	—	185.2	—	185.2
CDO	—	—	—	—
Other ABS	—	128.9	4.8	133.7
Foreign government securities	—	109.1	—	109.1
Hybrid securities	—	353.9	—	353.9
Equity securities (1)	94.5	156.0	2.0	252.5
Other investments (2)	—	2.4	76.5	78.9
Total Investments at Fair Value (3)	798.6	4,292.1	102.9	5,193.6
Derivative Assets	—	—	14.2	14.2
Other Assets (4)	—	—	100.7	100.7
Total Assets at Fair Value	$798.6	$4,292.1	$217.8	$5,308.5
Derivative Liabilities	$—	$—	$220.0	$220.0
VIE debt (5)	—	—	107.8	107.8
Total Liabilities at Fair Value	$—	$—	$327.8	$327.8

(1) Comprising broadly diversified domestic equity mutual funds included within Level I and various preferred and common stocks invested across numerous companies and industries included within Levels II and III.
(2) Comprising TruPs ($0.7 million) and short-term CDs ($1.7 million) included within Level II, and lottery annuities ($1.1 million) and a guaranteed investment contract held by a consolidated VIE ($75.4 million) within Level III.
(3) Does not include fixed-maturities held to maturity ($2.5 million) and certain other invested assets ($59.1 million), primarily invested in limited partnerships, accounted for as cost-method investments and not measured at fair value.
(4) Primarily comprising manufactured housing loan collateral related to two consolidated financial guaranty VIEs.
(5) Comprising consolidated debt related to NIMS VIEs ($7.5 million) and amounts related to financial guaranty VIEs ($100.3 million).

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

The following is a list of those assets and liabilities that are measured at fair value by hierarchy level as of December 31, 2011:

(In millions)	Level I	Level II	Level III	Total
Assets and Liabilities at Fair Value				
Investment Portfolio:				
U.S. government and agency securities	$386.9	$723.6	$—	$1,110.5
State and municipal obligations	—	985.0	62.5	1,047.5
Money market instruments	723.2	—	—	723.2
Corporate bonds and notes	—	700.5	—	700.5
RMBS	—	884.7	45.5	930.2
CMBS	—	190.4	35.4	225.8
CDO	—	—	5.5	5.5
Other ABS	—	97.0	2.9	99.9
Foreign government securities	—	102.9	—	102.9
Hybrid securities	—	341.5	4.8	346.3
Equity securities (1)	116.0	152.4	0.8	269.2
Other investments (2)	—	151.6	6.8	158.4
Total Investments at Fair Value (3)	1,226.1	4,329.6	164.2	5,719.9
Derivative Assets	—	0.2	17.0	17.2
Other Assets (4)	—	—	104.0	104.0
Total Assets at Fair Value	$1,226.1	$4,329.8	$285.2	$5,841.1
Derivative Liabilities	$—	$—	$126.0	$126.0
VIE debt (5)	—	—	228.2	228.2
Total Liabilities at Fair Value	$—	$—	$354.2	$354.2

(1) Comprising broadly diversified domestic equity mutual funds included within Level I and various preferred and common stocks invested across numerous companies and industries included within Levels II and III.

(2) Comprising short-term commercial paper within Committed Preferred Custodial Trust Securities (“CPS”) trusts ($150.0 million) and short-term CDs ($1.6 million) included within Level II, and lottery annuities ($1.6 million) and TruPs held by consolidated VIEs ($5.2 million) included within Level III.

(3) Does not include fixed-maturities held to maturity ($2.6 million) and other invested assets ($61.0 million), primarily invested in limited partnerships, accounted for as cost-method investments and not measured at fair value.

(4) Comprising manufactured housing loan collateral related to two consolidated financial guaranty VIEs.

(5) Comprising consolidated debt related to NIMS VIEs ($9.4 million) and amounts related to financial guaranty VIEs ($218.8 million).

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

The following is a rollforward of Level III assets and liabilities measured at fair value for the quarter ended June 30, 2012:

(In millions)	Beginning Balance at April 1, 2012	Realized and Unrealized Gains (Losses) Recorded in Earnings (1)	Purchases	Sales	Issuances	Settlements	Transfers Into (Out of) Level III (2)	Ending Balance at June 30, 2012
Investments:								
State and municipal obligations	$58.1	$ (10.7)	$—	$—	$—	$—	$ (27.8)	$19.6
RMBS	51.2	(0.1)	—	—	—	51.1	—	—
CMBS	24.0	—	—	—	—	24.0	—	—
CDO	6.4	—	—	—	—	6.4	—	—
Other ABS	3.7	—	5.2	—	—	4.1	—	4.8
Hybrid securities	0.2	—	0.1	—	—	—	(0.3)	—
Equity securities	2.1	(0.1)	—	—	—	—	—	2.0
Other investments	7.1	0.4	75.0	—	—	6.0	—	76.5
Total Level III Investments	152.8	(10.5)	80.3	—	—	91.6	(28.1)	102.9
NIMS derivative assets	1.7	—	—	—	—	—	—	1.7
Other assets	101.3	5.9	—	—	—	6.5	—	100.7
Total Level III Assets	$255.8	$ (4.6)	$80.3	$—	$—	$98.1	$ (28.1)	$205.3
Derivative liabilities, net	$187.7	$ (33.1)	$—	$—	$—	$ 13.3	$ —	$207.5
VIE debt	255.2	(68.4)	—	—	—	215.8 (3)	—	107.8
Total Level III Liabilities, net	$442.9	$ (101.5)	$—	$—	$—	$ 229.1	$ —	$315.3

(1) Includes unrealized gains (losses) for the quarter ended June 30, 2012, relating to assets and liabilities still held at June 30, 2012, as follows: $0.4 million for investments, $3.2 million for other assets, $(56.8) million for derivative liabilities, and $(3.8) million for VIE debt.
(2) Transfers are recognized at the end of the period as the availability of market observed inputs change from period to period. During the period pricing from a third-party pricing source became available for one bond, accounting for a majority of the transfer out of Level III and into Level II.
(3) Primarily represents the settlement of our CDO of ABS.

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

The following is a rollforward of Level III assets and liabilities measured at fair value for the six months ended June 30, 2012:

(In millions)	Beginning Balance at January 1, 2012	Realized and Unrealized Gains (Losses) Recorded in Earnings (1)	Purchases	Sales	Issuances	Settlements	Transfers Into (Out of) Level III (2)	Ending Balance at June 30, 2012
Investments:								
State and municipal obligations	$62.5	$ (4.0)	$—	$—	$—	$ 11.1	$ (27.8)	$19.6
RMBS	45.5	6.1	—	—	—	51.6	—	—
CMBS	35.4	(11.4)	—	—	—	24.0	—	—
CDO	5.5	0.8	—	—	—	6.3	—	—
Other ABS	2.9	0.8	5.2	—	—	4.1	—	4.8
Hybrid securities	4.8	0.1	0.1	4.9	—	—	(0.1)	—
Equity securities	0.8	0.5	—	—	—	—	0.7	2.0
Other investments	6.8	1.2	75.0	0.5	—	6.0	—	76.5
Total Level III Investments	164.2	(5.9)	80.3	5.4	—	103.1	(27.2)	102.9
NIMS derivative assets	1.6	—	0.1	—	—	—	—	1.7
Other assets	104.0	9.3	—	—	—	12.6	—	100.7
Total Level III Assets	$269.8	$ 3.4	$80.4	$5.4	$—	$ 115.7	$ (27.2)	$205.3
Derivative liabilities, net	$110.6	$ (105.9)	$—	$—	$—	$ 9.0	$ —	$207.5
VIE debt	228.2	(104.4)	—	—	—	224.8 (3)	—	107.8
Total Level III Liabilities, net	$338.8	$ (210.3)	$—	$—	$—	$ 233.8	$ —	$315.3

(1) Includes unrealized gains (losses) for the six months ended June 30, 2012, relating to assets and liabilities still held at June 30, 2012, as follows: $1.0 million for investments, $3.8 million for other assets, $(140.2) million for derivative liabilities, and $(4.9) million for VIE debt.

(2) Transfers are recognized at the end of the period as the availability of market observed inputs change from period to period. During the period pricing from a third-party pricing source became available for one bond, accounting for a majority of the transfer out of Level III and into Level II.

(3) Primarily represents the settlement of our CDO of ABS.

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

The following is a rollforward of Level III assets and liabilities measured at fair value for the quarter ended June 30, 2011:

(In millions)	Balance at April 1, 2011	Realized and Unrealized Gains (Losses) Recorded in Earnings (1)	Purchases	Sales	Issuances	Settlements	Transfers Into (Out of) Level III (2)	Ending Balance at June 30, 2011
Investments:								
State and municipal obligations	$23.2	$ 0.4	$—	$—	$—	$—	$ —	$23.6
RMBS	55.3	7.6	—	1.6	—	(0.1)	—	61.4
CMBS	24.0	5.4	—	—	—	—	—	29.4
CDO	4.1	(0.3)	—	(0.1)	—	—	—	3.9
Other ABS	4.7	(2.7)	—	—	—	—	—	2.0
Hybrid securities	—	0.6	—	—	—	—	(0.6)	—
Equity securities	4.3	(0.7)	2.1	0.1	—	—	—	5.6
Other investments	3.9	1.9	—	—	—	—	—	5.8
Total Level III Investments	119.5	12.2	2.1	1.6	—	(0.1)	(0.6)	131.7
NIMS derivative assets	9.0	0.4	—	—	—	4.7	—	4.7
Other assets	106.3	14.4	—	—	—	7.0	—	113.7
Total Level III Assets	$234.8	$ 27.0	$2.1	$1.6	$—	$ 11.6	$ (0.6)	$250.1
Derivative liabilities, net	$472.2	$ 188.3	$—	$—	$—	$ (7.6)	$ —	$291.5
VIE debt	373.0	(44.0)	—	—	—	23.3	—	393.7
Total Level III Liabilities, net	$845.2	$ 144.3	$—	$—	$—	$ 15.7	$ —	$685.2

(1) Includes unrealized gains (losses) for the quarter ended June 30, 2011, relating to assets and liabilities still held at June 30, 2011, as follows: $10.6 million for investments, $(1.5) million for NIMS derivative assets, $11.2 million for other assets, $173.4 million for derivative liabilities, and $(9.8) million for VIE debt.

(2) Transfers are recognized at the end of the period as the availability of market observed inputs change from period to period.

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

The following is a rollforward of Level III assets and liabilities measured at fair value for the six months ended June 30, 2011:

(In millions)	Beginning Balance at January 1, 2011	Realized and Unrealized Gains (Losses) Recorded in Earnings (1)	Purchases	Sales	Issuances	Settlements	Transfers Into (Out of) Level III (2)	Ending Balance at June 30, 2011
Investments:								
State and municipal obligations	$23.2	$ 0.4	$—	$—	$—	$—	$ —	$23.6
RMBS	52.5	11.6	—	1.6	—	1.1	—	61.4
CMBS	23.0	6.4	—	—	—	—	—	29.4
CDO	2.4	1.3	—	(0.1)	—	(0.1)	—	3.9
Other ABS	3.3	(1.3)	—	—	—	—	—	2.0
Hybrid securities	—	(0.1)	0.7	—	—	—	(0.6)	—
Equity securities	2.9	(0.3)	3.2	0.2	—	—	—	5.6
Other investments	4.6	2.0	—	0.5	—	0.3	—	5.8
Total Level III Investments	111.9	20.0	3.9	2.2	—	1.3	(0.6)	131.7
NIMS derivative assets	11.7	(2.0)	0.1	—	—	4.7	(0.4)	4.7
Other assets	109.7	18.3	—	—	—	14.3	—	113.7
Total Level III Assets	$233.3	$ 36.3	$4.0	$2.2	$—	$ 20.3	$ (1.0)	$250.1
Derivative liabilities, net	$709.1	$ 433.0	$—	$—	$—	$ (15.4)	$ —	$291.5
VIE debt	520.1	28.9	—	—	—	97.5	—	393.7
Total Level III Liabilities, net	$1,229.2	$ 461.9	$—	$—	$—	$ 82.1	$ —	$685.2

(1) Includes unrealized gains (losses) for the six months ended June 30, 2011, relating to assets and liabilities still held at June 30, 2011, as follows: $18.1 million for investments, $(2.1) million for NIMS derivative assets, $12.0 million for other assets, $399.1 million for derivative liabilities, and $(17.1) million for VIE debt.

(2) Transfers are recognized at the end of the period as the availability of market observed inputs change from period to period.

There were no investment transfers between Level I and Level II during the first six months of 2012 or 2011.

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

Other Fair Value Disclosure

The carrying value and estimated fair value of other selected assets and liabilities not carried at fair value on our condensed consolidated balance sheets were as follows as of the dates indicated:

(In millions)	June 30, 2012 Carrying Amount	June 30, 2012 Estimated Fair Value	December 31, 2011 Carrying Amount	December 31, 2011 Estimated Fair Value
Assets:				
Fixed-maturities held to maturity (1)	$2.5	$2.5	$2.6	$2.7
Other invested assets (1)	59.1	64.8	61.0	62.8
Liabilities:				
Long-term debt (1)	666.8	523.2	818.6	471.3
Non-derivative financial guaranty liabilities (2)	280.4	314.0	342.3	425.7

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(1) These estimated fair values would be classified in Level II of the fair value hierarchy.
(2) These estimated fair values would be classified in Level III of the fair value hierarchy.

5. VIEs

The following additional information relates to our consolidated and unconsolidated VIEs.

Financial Guaranty Insurance Contracts

Our interests in VIEs for which we are not the primary beneficiary may be accounted for as insurance, reinsurance or credit derivatives. For insurance and reinsurance contracts, we record reserves for losses and LAE, and for derivative interests, we record cumulative changes in fair value as a derivative asset or liability. The underlying collateral in the VIEs includes manufactured housing loans and other financial assets held by a VIE and repackaged into securities or similar beneficial interests.

In continually assessing our involvement with VIEs, we consider certain events such as the VIE’s failure to meet certain contractual conditions, such as performance tests and triggers, servicer termination events and events of default, that, should they occur, may provide us with additional control rights over the VIE. The occurrence of these events would cause us to reassess our initial determination of whether we are the primary beneficiary of a VIE. In addition, changes to its governance structure that would allow us to direct the activities of a VIE or our acquisition of additional financial interests in the VIE would also cause us to reassess our determination of whether we are the primary beneficiary of a VIE. Since many of our financial guaranty contracts provide us with substantial control rights over the activities of VIEs upon the occurrence of default or other performance triggers described above, additional VIEs may be consolidated by us if these events occur.

As a result of the Commutation Transactions described in Note 1, we have de-consolidated the CDO of ABS VIE, and we have consolidated the LPV VIE that was formed upon execution of the Commutation Transactions.

For GAAP accounting purposes, we evaluated the LPV (a VIE) to determine if we would be considered the primary beneficiary of the VIE. We have the obligation to absorb the majority of the VIE’s losses and the right to receive the majority of any remaining funds through our residual interest agreement. In addition, we have the ability to impact the activities of the VIE in certain limited ways that could impact the economic performance of this VIE. As a result of these obligations and rights, we have concluded that we are the primary beneficiary of the VIE. The consolidated assets of the LPV primarily consist of a guaranteed investment contract that is presented within other invested assets, which would be used to settle any obligations of this VIE under the Residual CDS. The Residual CDS represents the liability of the VIE, for which the counterparty does not have recourse to our general credit for this consolidated liability. The residual CDS held by the LPV is carried at fair value and we have also elected to carry the investments at fair value.

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

We also consolidate the assets and liabilities associated with two other financial guaranty transactions. In these transactions, we provide guarantees for VIEs that own manufactured housing loans. Prior to their consolidation, these transactions had been accounted for as insurance contracts. Due to the contractual provisions that allow us to replace and appoint the servicer who manages the collateral underlying the assets of the transactions, we concluded that we have the power to direct the activities of these VIEs. In addition, as the guarantor of certain classes of debt issued by these VIEs, we have the obligation to absorb losses that could be significant to these VIEs. The assets of these VIEs may only be used to settle the obligations of the VIEs, while due to the nature of our guarantees, creditors have recourse to our general credit as it relates to the VIE debt. However, due to the seniority of the bonds we insure in these transactions, we do not expect to incur a loss from our involvement with these two VIEs; as such, we did not have a net liability recorded for these transactions as of June 30, 2012.

The following tables provide a summary of our maximum exposure to losses, and the financial impact on our condensed consolidated balance sheets, our condensed consolidated statements of operations and our condensed consolidated statements of cash flows as of and for the periods indicated, as it relates to our consolidated and unconsolidated financial guaranty insurance contracts and credit derivative VIEs:

	Consolidated		Unconsolidated	
(In millions)	June 30, 2012	December 31, 2011	June 30, 2012	December 31, 2011
Balance Sheet:				
Trading securities	$—	$ 94.5	$—	$ —
Other invested assets	75.4	—	—	—
Derivative assets	—	—	2.9	4.1
Premiums receivable	—	—	3.2	3.6
Other assets	100.7	105.9	—	—
Unearned premiums	—	—	3.3	3.8
Reserve for losses and LAE	—	—	14.5	7.9
Derivative liabilities	75.4	19.5	119.3	79.5
VIE debt—at fair value	100.3	218.8	—	—
Accounts payable and accrued expenses	0.4	0.5	—	—
Maximum exposure (1)	125.8	580.0	5,224.5	6,126.3

(1) The difference between the carrying amounts of the net asset/liability position and maximum exposure related to VIEs is primarily due to the difference between the face amount of the obligation and the recorded fair values, which include an adjustment for our non-performance risk, as applicable. For those VIEs that have recourse to our general credit, the maximum exposure is based on the net par amount of our insured obligation. For any VIEs that do not have recourse to our general credit, the maximum exposure is generally based on the recorded net assets of the VIE, as of the reporting date.

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

	Consolidated Six Months Ended June 30,		Unconsolidated Six Months Ended June 30,	
(In millions)	2012	2011	2012	2011
Statement of Operations:				
Premiums earned	$—	$—	$0.9	$1.6
Net investment income	2.4	4.1	—	—
Net (loss) gain on investments	(2.9)	20.0	—	—
Change in fair value of derivative instruments—(loss) gain	(2.4)	(4.9)	(114.4)	330.0
Net (loss) gain on other financial instruments	(92.5)	45.3	—	—
Provision for losses—increase	—	—	5.7	(0.1)
Other operating expenses	1.3	1.5	—	—
Net Cash (Outflow) Inflow	(134.8)	0.4	(71.8)	3.8

NIMS VIEs

We consolidate all of the assets and liabilities associated with NIMS VIEs, due to provisions in our contracts that allow us to purchase assets of these VIEs and thus direct the activities that most significantly impact the economic performance of each VIE. As the guarantor of either all or a significant portion of the debt issued by each NIMS VIE, we have the obligation to absorb losses that are significant to the VIEs. As a result, we have also concluded that we are the primary beneficiary of these VIEs. The consolidated NIMS assets are accounted for as derivatives and represent assets to be used to settle the obligation of the VIEs. We elected the fair value option as it relates to the NIMS VIE debt, and therefore, the consolidated NIMS VIE debt is recorded at fair value. Our VIE debt includes amounts for which third parties do not have recourse to us.

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

In total, our net cash outflow related to NIMS during 2012 has been primarily as a result of claim payments. We have two remaining NIMS transactions, which mature in December 2013 and May 2035, respectively. The following tables provide a summary of our maximum exposure to losses, and the financial impact on our condensed consolidated balance sheets, our condensed consolidated statements of operations and our condensed consolidated statements of cash flows as of and for the periods indicated, as it relates to our consolidated NIMS VIEs:

(In millions)	June 30, 2012	December 31, 2011
Balance Sheet:		
Derivative assets	$1.7	$1.6
VIE debt—at fair value	7.5	9.4
Maximum exposure (1)	14.1	18.5

(1) The difference between the carrying amounts of the net asset/liability position and maximum exposure related to VIEs is primarily due to the difference between the face amount of the obligation and the recorded fair values, which include an adjustment for our non-performance risk. The maximum exposure is based on the net par amount of our insured obligation as of the reporting date.

(In millions)	Six Months Ended June 30, 2012	2011
Statement of Operations:		
Net investment income	$0.3	$0.3
Change in fair value of derivative instruments—loss	—	(1.5)
Net (loss) gain on other financial instruments	(2.5)	1.8
Net Cash Outflow	4.4	78.1

Put Options on CPS

In September 2003, Radian Asset Assurance entered into a contingent capital transaction pursuant to which three custodial trusts issued an aggregate of $150 million in CPS ($50 million by each custodial trust) to various holders. Radian Group and its subsidiaries have purchased by tender offer and privately negotiated transactions all of the face amount of the CPS issued by the custodial trusts. During the first quarter of 2012, the trusts were converted to corporations that are now wholly-owned consolidated subsidiaries of Radian Group. Prior to the conversion of the trusts to corporations, these trusts had been accounted for as VIEs and our involvement with these VIEs had included the payment of a put premium representing the spread between the investment income of the custodial trusts and amounts payable to CPS holders and other fees and expenses payable by the custodial trusts, which had typically not been material. Radian Asset Assurance ceased payment of the put premiums thereby eliminating the premium associated with the purchased CPS, the put options, and consequently the variability in the VIE. In addition, as a result of eliminating the put options, the assets of the trusts were liquidated and reinvested by the newly formed corporations.

As of December 31, 2011, the amount of short-term investments and our maximum exposure for this VIE were $150 million, respectively. The maximum exposure was based on our carrying amounts of the investments. The amount of income and expense associated with these trusts was immaterial during the first six months of 2012 and 2011.

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

6. Investments
Our held to maturity and available for sale securities within our investment portfolio consisted of the following as of the dates indicated:

	June 30, 2012			
(In thousands)	Amortized Cost	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
Fixed-maturities held to maturity:				
Bonds and notes:				
State and municipal obligations	$2,470	$2,524	$59	$5
	$2,470	$2,524	$59	$5
Fixed-maturities available for sale:				
U.S. government and agency securities	$10,957	$13,683	$2,726	$—
State and municipal obligations	42,971	42,930	696	737
Corporate bonds and notes	16,232	16,329	637	540
RMBS	56	58	3	1
CMBS	244	244	2	2
Other ABS	1,019	1,173	154	—
Other investments	1,021	1,099	78	—
	$72,500	$75,516	$4,296	$1,280
Equity securities available for sale (1)	$88,768	$108,381	$19,613	$—
Total debt and equity securities	$163,738	$186,421	$23,968	$1,285

(1) Comprising broadly diversified domestic equity mutual funds ($94.5 million fair value) and various preferred and common stocks invested across numerous companies and industries ($13.9 million fair value).

	December 31, 2011			
(In thousands)	Amortized Cost	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
Fixed-maturities held to maturity:				
Bonds and notes:				
State and municipal obligations	$2,640	$2,748	$115	$7
	$2,640	$2,748	$115	$7
Fixed-maturities available for sale:				
U.S. government and agency securities	$10,931	$13,630	$2,699	$—
State and municipal obligations	87,083	82,692	485	4,876
Corporate bonds and notes	17,267	16,610	390	1,047
RMBS	1,308	1,360	53	1
CMBS	1,660	1,669	25	16
Other ABS	1,019	1,177	158	—
Other investments	1,489	1,595	106	—
	$120,757	$118,733	$3,916	$5,940
Equity securities available for sale (1)	$114,425	$128,424	$14,868	$869
Total debt and equity securities	$237,822	$249,905	$18,899	$6,816

(1) Comprising broadly diversified domestic equity mutual funds ($116.0 million fair value) and various preferred and common stocks invested across numerous companies and industries ($12.4 million fair value).

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

The trading securities within our investment portfolio, which are recorded at fair value, consisted of the following as of the dates indicated:

(In thousands)	June 30, 2012	December 31, 2011
Trading securities:		
U.S. government and agency securities	$703,786	$710,006
State and municipal obligations	811,041	964,748
Corporate bonds and notes	819,654	683,864
RMBS	968,695	928,887
CMBS	184,917	224,180
CDO	—	5,467
Other ABS	132,563	98,729
Foreign government securities (1)	109,128	102,851
Hybrid securities	353,863	346,338
Equity securities	144,112	140,764
Other investments	763	5,225
Total	$4,228,522	$4,211,059

(1) Our largest concentrations of foreign government securities as of June 30, 2012 and December 31, 2011, were Germany ($27.0 million and $42.6 million fair value, respectively) and Japan ($58.9 million and $28.0 million fair value, respectively). As of June 30, 2012 and December 31, 2011, nearly all of our foreign government securities were rated A or higher by a nationally recognized statistical rating organization. As of June 30, 2012 and December 31, 2011, our trading portfolio included no securities of the six European countries (Portugal, Ireland, Italy, Greece, Spain, and Hungary) whose sovereign and sub-sovereign obligations have been under particular stress due to economic uncertainty, potential restructuring and ratings downgrades, or securities of any other countries under similar stress.

The following tables show the gross unrealized losses and fair value of our available for sale and held to maturity investments, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of the dates indicated:

June 30, 2012:	Less Than 12 Months			12 Months or Greater			Total		
($ in thousands) Description of Securities	# of securities	Fair Value	Unrealized Losses	# of securities	Fair Value	Unrealized Losses	# of securities	Fair Value	Unrealized Losses
State and municipal obligations	—	$—	$—	6	$16,495	$742	6	$16,495	$742
Corporate bonds and notes	2	930	28	12	6,266	512	14	7,196	540
RMBS	1	38	1	—	—	—	1	38	1
CMBS	1	90	—	1	77	2	2	167	2
Total	4	$1,058	$29	19	$22,838	$1,256	23	$23,896	$1,285

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Notes to Unaudited Condensed Consolidated Financial Statements — (Continued)

December 31, 2011:	Less Than 12 Months			12 Months or Greater			Total		
($ in thousands) Description of Securities	# of securities	Fair Value	Unrealized Losses	# of securities	Fair Value	Unrealized Losses	# of securities	Fair Value	Unrealized Losses
State and municipal obligations	1	$525	$17	9	$72,653	$4,866	10	$73,178	$4,883
Corporate bonds and notes	6	2,457	97	18	8,902	950	24	11,359	1,047
RMBS	2	354	1	—	—	—	2	354	1
CMBS	—	—	—	1	527	16	1	527	16
Equity securities	1	9,284	869	—	—	—	1	9,284	869
Total	10	$12,620	$984	28	$82,082	$5,832	38	$94,702	$6,816

During the first six months of 2012 and 2011, there were no credit losses recognized in earnings.

At June 30, 2012, we did not have the intent to sell any debt securities in an unrealized loss position, and we determined that it is more likely than not, that we will not be required to sell the securities before recovery of their cost basis.

Impairments due to credit deterioration that result in a conclusion that the present value of cash flows expected to be collected will not be sufficient to recover the amortized cost basis of the security are considered other-than-temporary. Other declines in fair value (for example, due to interest rate changes, sector credit rating changes or company-specific rating changes) that result in a conclusion that the present value of cash flows expected to be collected will not be sufficient to recover the amortized cost basis of the security, also may serve as a basis to conclude that an OTTI has occurred. To the extent we determine that a security is deemed to be other-than-temporarily impaired, an impairment loss is recognized.

We have securities in an unrealized loss position that we did not consider to be other-than-temporarily impaired as of June 30, 2012. For all investment categories, the unrealized losses of 12 months or greater duration as of June 30, 2012, were generally caused by interest rate or credit spread movements since purchase date. As of June 30, 2012, we expected the present value of cash flows to be collected from these securities to be sufficient to recover the amortized cost basis of these securities. As of June 30, 2012, we did not intend to sell these investments, nor did we believe that it was more likely than not that we will be required to sell these investments before recovery of our amortized cost basis, which may be at maturity; therefore, we did not consider these investments to be other-than-temporarily impaired at June 30, 2012.

The contractual maturities of fixed-maturity investments are as follows:

	June 30, 2012			
	Held to Maturity		Available for Sale	
(In thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less (1)	$1,734	$1,784	$3,547	$3,547
Due after one year through five years (1)	431	440	16,975	17,294
Due after five years through ten years (1)	—	—	2,377	2,421
Due after ten years (1)	305	300	48,282	50,779
RMBS (2)	—	—	56	58

CMBS (2)	—	—	244	244
Other ABS (2)	—	—	1,019	1,173
Total	$2,470	$2,524	$72,500	$75,516

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(1) Actual maturities may differ as a result of calls before scheduled maturity.
(2) RMBS, CMBS and Other ABS are shown separately, as they are not due at a single maturity date.

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7. Reinsurance
In our mortgage insurance business, we use reinsurance as a risk management tool to reduce our net risk and strengthen our regulatory risk-to-capital ratio. We have primarily used reinsurance in our financial guaranty business to the extent necessary in specific transactions to comply with applicable single risk limits. Although the use of reinsurance does not discharge an insurer from its primary liability to the insured, the reinsuring company assumes the related liability under these arrangements. Included in other assets are unearned premiums on risk that we have ceded of $22.7 million and $0.8 million at June 30, 2012 and December 31, 2011, respectively.
The effect of reinsurance on net premiums written and earned is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	2012	2011	2012	2011
Net premiums written-insurance:				
Direct	$214,349	$174,008	$418,102	$364,849
Assumed	(1,028)	(11,788)	(88,516)	(10,164)
Ceded	(31,389)	(9,442)	(69,976)	(19,158)
Net premiums written-insurance	$181,932	$152,778	$259,610	$335,527
Net premiums earned-insurance:				
Direct	$196,012	$186,640	$388,028	$391,098
Assumed	1,704	12,064	(8,981)	20,694
Ceded	(10,937)	(9,770)	(24,903)	(19,835)
Net premiums earned-insurance	$186,779	$188,934	$354,144	$391,957

In the second quarter of 2012, Radian Guaranty entered into the 2012 Quota Share Reinsurance Transaction. Through the 2012 Quota Share Reinsurance Transaction, Radian Guaranty agreed to cede 20% of its new insurance written beginning with the business written in the fourth quarter of 2011. As of June 30, 2012, the amount ceded pursuant to this transaction was $922.5 million of Radian Guaranty's RIF. The amount of risk that ultimately may be ceded is expected to be between $1.25 billion and $1.6 billion. At a 25 to 1 risk-to-capital ratio, the equivalent initial capital benefit associated with ceding this amount of risk will be between $50 million and $62.5 million. Radian Guaranty has the ability, at its option, to commute two-thirds of the reinsurance ceded as part of this transaction on December 31, 2014, which would result in Radian Guaranty reassuming the related RIF in exchange for a predefined commutation amount.
Under the 2012 Quota Share Reinsurance Transaction, for the three and six months ended June 30, 2012, ceded premiums written were $25.5 million and ceded premiums earned were $3.1 million. Ceding commissions under this transaction for the three and six months ended June 30, 2012 were $6.4 million.
In the second quarter of 2012, we terminated one of our remaining Smart Home transactions that was scheduled to mature in November 2012. The early termination did not have a material impact on our financial or risk-to-capital position, statutory capital, results of operations or cash flows. The final remaining Smart Home transaction is scheduled to mature in June 2013.
See also Note 1 for the impact of the Assured Transaction, executed in the quarter ended March 31, 2012, on net premiums written and earned.

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8. Losses and LAE

Our reserve for losses and LAE, as of the dates indicated, consisted of:

(In thousands)	June 30, 2012	December 31, 2011
Mortgage insurance reserves	$3,155,343	$3,247,900
Financial guaranty reserves	94,937	63,002
Total reserve for losses and LAE	$3,250,280	$3,310,902

The following table presents information relating to our mortgage insurance reserves for losses and LAE as of the dates indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	2012	2011	2012	2011
Balance at beginning of period	$3,230,938	$3,542,797	$3,247,900	$3,524,971
Less reinsurance recoverables (1)	118,071	192,258	151,569	223,254
Balance at beginning of period, net of reinsurance recoverables	3,112,867	3,350,539	3,096,331	3,301,717
Add losses and LAE incurred in respect of default notices reported and unreported in:				
Current year (2)	218,929	246,433	437,274	437,119
Prior years	(10,851)	23,559	5,533	246,846
Total incurred	208,078	269,992	442,807	683,965
Deduct paid claims and LAE related to:				
Current year (2)	273	1,364	273	2,201
Prior years	263,174	511,249	481,367	875,563
Total paid	263,447	512,613	481,640	877,764
Balance at end of period, net of reinsurance recoverables	3,057,498	3,107,918	3,057,498	3,107,918
Add reinsurance recoverables (1)	97,845	160,664	97,845	160,664
Balance at end of period	$3,155,343	$3,268,582	$3,155,343	$3,268,582

(1) Related to ceded losses on captive reinsurance transactions, Smart Home and quota share reinsurance transactions.

(2) Related to underlying defaulted loans with a most recent date of default notice in the year indicated. For example, if a loan had defaulted in a prior year, but then subsequently cured and later re-defaulted in the current year, that default would be considered a current year default.

Our mortgage insurance loss reserves declined in the second quarter of 2012, primarily as a result of a decrease in our total inventory of defaults, as the volume of paid claims, cures, and insurance rescissions and claim denials outpaced new default notices received during the quarter, as well as the impact from the aging of our remaining defaults, as described below. Total paid claims declined for the three and six months ended June 30, 2012, from the comparable periods in 2011, driven by an increase in the number of claims received that we are still reviewing for violations of our insurance policies, which has lengthened the claim resolution period and resulted in an increase in rescissions and denials, as well as by delays created by foreclosure moratoriums, servicer issues, and loan modification programs. We cannot be certain of the ultimate impact of these programs on our business or results of operations, or the timing of this impact. Reserves established for new default notices received in the current quarter were the primary driver of our total incurred loss for the three months ended June 30, 2012. In addition, our results for the six months ended June 30, 2012, were impacted by a $39.6 million decrease in our estimated reinsurance recoverable from our Smart Home transactions. This decrease resulted from recent trends of lower claims paid and higher insurance rescissions and claim denials than were previously estimated to occur, which has in turn reduced the estimated recovery by the scheduled termination dates of our remaining Smart Home transactions. In the second quarter of 2012, we terminated one of our remaining Smart Home transactions that was scheduled to mature in November 2012. The remaining Smart Home transaction is scheduled to mature in 2013.

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For the three and six months ended June 30, 2012, the incurred loss development related primarily to default notices reported in the current year. For the three and six months ended June 30, 2011, the more significant adverse loss development from prior year defaults was driven primarily by an increase in both our actual and estimated reinstatements of policies and claims previously rescinded or denied in prior years, as well as a greater than anticipated impact from the aging of underlying defaulted loans on our default to claim rate.

The aging of defaulted loans and other changes in the composition of our delinquent loan inventory, including the rate of claims being submitted, continued to impact our reserves and incurred losses during the three and six months ended June 30, 2012. Adjustments are made to loss reserves as defaulted loans age, and therefore, are considered to be closer to foreclosure and more likely to result in a claim payment. With continuing declines in home values in certain markets, persistently high unemployment and delays by servicers in either modifying loans or foreclosing on properties, the time it has taken to cure or otherwise resolve a delinquent loan has been prolonged. Consequently, in recent years, our default inventory has experienced an increase in its weighted average age, and because we apply higher estimated default to claim rates on our more aged delinquent loans, this has resulted in a higher reserve per default. As a consequence, our aggregate weighted average default to claim rate assumption (net of rescissions and denials) used in estimating our reserve for losses was 46% at June 30, 2012, compared to 43% at December 31, 2011. Our default to claim rate estimate varies depending on the age of the underlying defaulted loans, as measured by the number of monthly payments missed. As of June 30, 2012, our default to claim rate estimate excluding pending claims, net of our estimate for insurance rescissions and claim denials, ranged from 20% for insured loans that had missed two to three monthly payments, to 45% for such loans that had missed 12 or more monthly payments.

With respect to loans that are in default, considerable judgment is exercised as to the adequacy of reserve levels. In the past, as the default proceeded towards foreclosure, there was generally more certainty around these estimates. However, in light of existing foreclosure moratoriums and efforts to increase loan modifications among defaulted borrowers, significant uncertainty remains with respect to the ultimate resolution of later stage defaults. This uncertainty requires management to use considerable judgment in estimating the rate at which these loans will result in claims.

Our reserve for losses includes the impact of our estimate of future rescissions and denials, which remain elevated compared to levels experienced prior to 2009. The current elevated levels of insurance rescissions and claim denials have reduced our paid losses and have resulted in a significant reduction in our loss reserves. The impact of our estimate of future rescissions and denials reduced our loss reserves as of June 30, 2012 and December 31, 2011, by approximately $532 million and $631 million, respectively. Conversely, the impact of our estimate of future reinstatements of previously rescinded policies and denied claims increased our loss reserves as of June 30, 2012 and December 31, 2011, by approximately $224 million and $129 million, respectively, as further described below. The amount of estimated rescissions and denials incorporated into our reserve analysis at any point in time is affected by a number of factors, including not only our estimated rate of rescissions and denials on future claims, but also the volume and attributes of our defaulted insured loans, our estimated default to claim rate, and our estimated claim severity, among other assumptions. We expect the amount of estimated rescissions and denials embedded within our reserve analysis to decrease over time, as the defaults related to the poor underwriting periods of 2005 through 2008 decline as a proportion of our total default portfolio and as we realize the results through actual rescissions and denials, or the commutations of insured loans. In the event that we experience a more rapid than expected decrease in the level of future insurance rescissions and claim denials from the current levels, it could have a material adverse effect on our paid losses and loss reserves.

Our reported rescission and denial activity in any given period is subject to future challenges by our lender customers. Recent insurance rescission and claim denial activity reflects a significant relative shift toward more claim denials, which has resulted primarily from the failure of our lender customers to provide the documentation required to perfect a claim. Subsequent to our initial claim denials, lenders have demonstrated an ability to produce the additional information needed to perfect a claim for a significant portion of previously denied claims. As a result of these trends and recent increases in claim denial activity, we expect that a large portion of previously rescinded policies will be reinstated and previously denied claims will be resubmitted with the required documentation and ultimately paid, and we have considered this expectation in developing our incurred but not reported ("IBNR") reserve estimate. This IBNR estimate, which consists primarily of our estimate of the future reinstatements of previously rescinded policies and denied claims, was $249.5 million and $170.6 million at June 30, 2012 and December 31, 2011, respectively.

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Notes to Unaudited Condensed Consolidated Financial Statements — (Continued)

The following table illustrates the amount of first-lien claims submitted to us for payment that were rescinded or denied, during the periods indicated, net of reinstatements within each period:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	2012	2011	2012	2011
Rescissions—first loss position	$51.8	$126.6	$91.9	$220.4
Denials—first loss position	174.3	14.2	350.7	38.8
Total first loss position (1)	226.1	140.8	442.6	259.2
Rescissions—second loss position	12.9	41.2	25.5	72.2
Denials—second loss position	18.4	11.0	54.4	13.7
Total second loss position (2)	31.3	52.2	79.9	85.9
Total first-lien claims submitted for payment that were rescinded or denied (3)	$257.4	$193.0	$522.5	$345.1

(1) Related to claims from policies in which we were in a first loss position and would have paid the claim absent the rescission or denial.

(2) Related to claims from policies in which we were in a second loss position. These claims may not have resulted in a claim payment obligation absent the rescission or denial, due to deductibles and other exposure limitations included in our policies.

(3) Includes an amount related to a small number of submitted claims that were subsequently withdrawn by the insured.

The following table illustrates the total amount of first-lien claims submitted to us for payment that have been rescinded since January 1, 2009, and then subsequently were challenged ("rebutted") by the lenders and policyholders, but have not been reinstated, for the period from January 1, 2009 through June 30, 2012. Prior to January 1, 2009, rebutted claims were not material.

(In millions)	As of June 30, 2012
First loss position	$531.9
Second loss position	192.7
Total non-overturned rebuttals on rescinded first-lien claims	$724.6

While the total potential claim amount of non-overturned rebuttals outstanding represents all challenged rescissions for which coverage has not been reinstated, our ongoing, active discussions with our lender customers typically involve only a small number of these non-overturned rebuttals. Accordingly, we expect that only some portion of these rescinded claims may be reinstated in future periods. Absent litigation or other legal proceedings in which we are not successful, we do not expect that these discussions are likely to result in settlements that would materially impact our liquidity or results of operations.

We also accrue for the premiums that we expect to refund to our lender customers in connection with our estimated insurance rescission activity. Our accrued liability for such refunds, which is included within accounts payable and accrued expenses on our condensed consolidated balance sheets, was $55.3 million and $57.2 million as of June 30, 2012 and December 31, 2011, respectively.

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Rescission and denial rates in 2011 and 2012 have been affected by an increase in the number of claims received that we are reviewing for potential violations of our insurance policies. The following table shows the projected net cumulative denial and rescission rates, net of both actual and expected reinstatements, as of June 30, 2012, on our total first-lien portfolio for each quarter in which the claims were received for the periods indicated:

Claim Received Quarter	Projected Net Cumulative Rescission/Denial Rates for Each Quarter (1)	Percentage of Claims Resolved (2)
Q4 2009	20.1%	100%
Q1 2010	18.1%	100%
Q2 2010	17.2%	99%
Q3 2010	15.5%	99%
Q4 2010	16.9%	99%
Q1 2011	20.4%	98%
Q2 2011	22.6%	94%
Q3 2011	25.5%	88%
Q4 2011	22.3%	79%

(1) Projected net cumulative rescission/denial rates represent the ratio of claims rescinded or denied to claims received (by claim count). Rescissions and denials are net of actual reinstatements, plus our current estimate for expected reinstatements of previously rescinded or denied claims. These amounts represent the cumulative rates for each quarter as of June 30, 2012. Until all of the claims received during the periods shown have been internally resolved, the rescission/denial rates for each quarter will be subject to change. As discussed in footnote (2) below, these rates also will remain subject to change based on differences between estimated and actual reinstatements of previously rescinded policies or denied claims.

(2) The percentage of claims resolved for each quarter presented in the table above, represents the number of claims that have been internally resolved as a percentage of the total number of claims received for that specific quarter. A claim is considered internally resolved when it is either paid or it is concluded that the claim should be denied or rescinded, though such denials or rescissions could be challenged and, potentially reinstated or overturned, respectively. For the first and second quarters of 2012, a significant portion of claims received for those quarters have not been internally resolved; therefore, we do not believe the cumulative rescission/denial rates for those periods are presently meaningful and therefore they are not presented.

We considered the sensitivity of first-lien loss reserve estimates at June 30, 2012, by assessing the potential changes resulting from a parallel shift in severity and default to claim rate. For example, assuming all other factors remain constant, for every one percentage point change in primary claim severity (which we estimate to be 27% of unpaid principal balance at June 30, 2012), we estimated that our loss reserves would change by approximately $91 million at June 30, 2012. For every one percentage point change in pool claim severity (which we estimate to be 45% of unpaid principal balance at June 30, 2012), we estimated that our loss reserves would change by approximately $5 million at June 30, 2012. For every one percentage point change in our overall default to claim rate (which we estimate to be 46% at June 30, 2012, including our assumptions related to rescissions and denials), we estimated a $58 million change in our loss reserves at June 30, 2012.

Estimating our loss reserves involves significant reliance upon assumptions and estimates with regard to the likelihood, magnitude and timing of each potential loss. The models, assumptions and estimates that we use to establish loss reserves may not prove to be accurate, especially during an extended economic downturn or a period of extreme market volatility and uncertainty such as currently exists. As such, we cannot be certain that our reserve estimate will be adequate to cover ultimate losses on incurred defaults.

See Note 10 for information regarding our financial guaranty net claim liabilities.

9. Reserve for Premium Deficiency

Insurance enterprises are required to establish a premium deficiency reserve ("PDR") if the net present value of the expected future losses and expenses for a particular product exceeds the net present value of expected future premiums and existing reserves for that product. We reassess our expectations for premiums, losses and expenses for our financial guaranty and mortgage insurance businesses at least quarterly and update our premium deficiency analysis accordingly. Expected future expenses include consideration of maintenance costs associated with maintaining records relating to insurance contracts and with the processing of premium collections. We also consider investment income in the premium deficiency calculation through the use of our pre-tax investment yield to discount certain cash flows for this analysis.

For our financial guaranty business, in order to determine whether a premium deficiency charge is necessary, we compare projected earned premiums and investment income to projected future losses, LAE, unamortized deferred acquisition costs and maintenance costs. If the sum of the costs exceeds the amount of the revenues, the excess is first charged against deferred acquisition costs and is referred to as a premium deficiency charge. For our financial guaranty business, no PDR was necessary as of June 30, 2012 or December 31, 2011.

For our mortgage insurance business, we group our mortgage insurance products into two categories, first-lien and second-lien.

Numerous factors affect our ultimate default to claim rates, including home price changes, unemployment and the impact of our loss mitigation efforts and interest rates, as well as potential benefits associated with lender and governmental initiatives to modify loans and ultimately reduce foreclosures. To assess the need for a PDR on our first-lien insurance portfolio, we develop loss projections based on modeled loan defaults related to our current RIF. This projection is based on recent trends in default experience, severity, and rates of defaulted loans moving to claim (such default to claim rates are net of our estimates of rescissions and denials), as well as recent trends in the rate at which loans are prepaid.

For our first-lien insurance business, because the combination of the net present value of expected premiums and already established reserves (net of reinsurance recoverables) exceeds the net present value of expected losses and expenses, a first-lien PDR was not required as of June 30, 2012 or December 31, 2011. Our pre-tax investment yield used as the discount rate in these present value calculations was 2.34% and 2.62% as of June 30, 2012 and December 31, 2011, respectively. Expected losses are based on an assumed paid claim rate of approximately 13.3% on our total first-lien insurance portfolio (8% on performing loans and 46% on defaulted loans). Assuming all other factors remained constant, if our assumed paid claim rate increased to 15.1%, we would be required to establish a PDR. New business originated since the beginning of 2009 is expected to be profitable, which has contributed to the overall expected net profitability of our first-lien portfolio. In addition, estimated rescissions and denials on insured loans are expected to partially offset the impact of expected defaults and claims.

For our second-lien mortgage insurance business, we project future premiums and losses for this business using historical results to help determine future performance for both repayments and claims. An estimated expense factor is then applied, and the result is discounted using a rate of return that approximates our pre-tax investment yield. This net present value, less any existing reserves, is recorded as a premium deficiency and the reserve is updated at least quarterly based on actual results for that quarter, along with updated transaction level projections.

In the third quarter of 2007, we established a reserve for premium deficiency on our second-lien business. We were required to establish a PDR because the net present value of the expected future losses and expenses exceeded our expected future premiums and existing reserves for that business. Since that time, our PDR has been reduced as the risk has been reduced (through either attrition or terminations of transactions), claims have been paid, or changes have occurred to our initial assumptions.

Evaluating the expected profitability of our existing mortgage insurance business and the need for a premium deficiency reserve for our first-lien business involves significant reliance upon assumptions and estimates with regard to the likelihood, magnitude and timing of potential losses and premium revenues. The models, assumptions and estimates we use to evaluate the need for a PDR may not prove to be accurate, especially during an extended economic downturn or a period of extreme market volatility and uncertainty as currently exists. We cannot be certain that we have correctly estimated the expected profitability of our existing first-lien mortgage portfolio or that the second-lien PDR established will be adequate to cover ultimate losses on our second-lien business.

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10. Financial Guaranty Insurance Contracts
The following table includes information as of June 30, 2012, regarding our financial guaranty claim liabilities, segregated by the surveillance categories that we use in monitoring the risks related to these contracts:

	Surveillance Categories				
($ in millions)	Performing	Special Mention	Intensified Surveillance	Case Reserve	Total
Number of policies	8	130	76	106	320
Remaining weighted-average contract period (in years)	9	19	20	25	20
Insured contractual payments outstanding:					
Principal	$18.9	$1,156.6	$529.3	$336.8	$2,041.6
Interest	3.5	723.2	292.4	169.6	1,188.7
Total	$22.4	$1,879.8	$821.7	$506.4	$3,230.3
Gross claim liability	$0.1	$23.4	$255.4	$101.7	$380.6
Less:					
Gross potential recoveries	0.1	7.8	238.8	75.4	322.1
Discount, net	—	—	(54.4)	4.7	(49.7)
Net claim liability (prior to reduction for unearned premium)	$—	$15.6	$71.0	$21.6	$108.2
Unearned premium revenue	$0.1	$26.1	$10.8	$—	$37.0
Net claim liability reported in the balance sheet	$—	$8.1	$62.9	$21.6	$92.6
Reinsurance recoverables	$—	$—	$—	$—	$—

A net claim liability is established for a performing credit if there is evidence that credit deterioration has occurred and the expected loss on the credit exceeds the unearned premium revenue for the contract based on the present value of the expected net cash outflows. Included in accounts and notes receivable and unearned premiums on our condensed consolidated balance sheets are the present value of premiums receivable and unearned premiums that are received on an installment basis. The premiums receivable is net of commissions on assumed reinsurance business. The present values of premiums receivable and unearned premiums that are received on an installment basis were $30.9 million and $35.8 million, respectively, as of June 30, 2012, and $34.3 million and $39.8 million, respectively, as of December 31, 2011.

The accretion of these balances is included in either premiums written and premiums earned (for premiums receivable) or policy acquisition costs (for commissions) on our condensed consolidated statements of operations. The accretion included in premiums earned for the three months ended June 30, 2012 and 2011, was $0.3 million, and for the six months ended June 30, 2012 and 2011, was $0.6 million. There was an immaterial amount of accretion recorded in policy acquisition costs for the three and six months ended June 30, 2012 and 2011.

The nominal (non-discounted) premiums, net of commissions that are expected to be collected on financial guaranty contracts with installment premiums, included in premiums receivable as of June 30, 2012, was $38.8 million and is expected to be collected on a declining basis due to no new business being written. The activity related to the net present value of premiums receivable during the three and six months ended June 30, 2012 and 2011, was not material. The weighted-average risk-free rate used to discount the premiums receivable and premiums to be collected was 2.5% at June 30, 2012.

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Premiums earned were affected by the following for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	2012	2011	2012	2011
Refundings	$10.5	$9.3	$18.7	$14.1
Recaptures/commutations	—	2.8	(16.3)	2.8
Unearned premium acceleration upon establishment of case reserves	—	1.3	—	1.3
Reinsurance agreements	—	—	(6.0)	—
Foreign exchange revaluation, gross of commissions	(1.0)	0.7	(0.8)	2.0
Adjustments to installment premiums, gross of commissions	—	0.1	0.1	0.3
Total adjustment to premiums earned	$9.5	$14.2	$(4.3)	$20.5

The following table shows the expected contractual premium revenue from our existing financial guaranty portfolio, assuming no prepayments ("refundings") of any financial guaranty obligations, as of June 30, 2012:

(In millions)	Ending Net Unearned Premiums	Unearned Premium Amortization	Accretion	Total Premium Revenue
Third Quarter 2012	$265.2	$8.6	$0.2	$8.8
Fourth Quarter 2012	259.2	6.0	0.2	6.2
2012	259.2	14.6	0.4	15.0
2013	233.9	25.3	0.9	26.2
2014	209.5	24.4	0.8	25.2
2015	189.6	19.9	0.8	20.7
2016	172.0	17.6	0.7	18.3
2012 – 2016	172.0	101.8	3.6	105.4
2017 – 2021	99.6	72.4	2.7	75.1
2022 – 2026	50.8	48.8	1.8	50.6
2027 – 2031	22.5	28.3	1.1	29.4
After 2031	—	22.5	1.3	23.8
Total	$—	$273.8	$10.5	$284.3

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

The following table shows the significant components of the change in our financial guaranty net claim liability for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	2012	2011	2012	2011
Net claim liability at beginning of period	$83.0	$80.6	$60.5	$67.4
Incurred losses and LAE:				
(Decrease)/increase in gross claim liability	(25.4)	22.4	161.7	41.7
Decrease/(increase) in gross potential recoveries	109.9	(30.0)	(191.7)	(33.2)
(Decrease)/increase in discount	(80.5)	(2.5)	66.1	(5.8)
(Decrease)/increase in unearned premiums	(1.2)	3.4	(1.9)	4.0
Incurred losses and LAE	2.8	(6.7)	34.2	6.7
Paid losses and LAE:				
Current years	(0.3)	(0.2)	(0.3)	(0.2)
Prior years	7.1	(2.9)	(1.8)	(3.1)
Paid losses and LAE:	6.8	(3.1)	(2.1)	(3.3)
Net claim liability at end of period	$92.6	$70.8	$92.6	$70.8
Components of incurred losses and LAE:				
Net claim liability established in current period	$0.1	$—	$0.1	$—
Changes in existing claim liabilities	2.7	(6.7)	34.1	6.7
Total incurred losses and LAE	$2.8	$(6.7)	$34.2	$6.7
Components of (decrease)/increase in discount:				
(Decrease)/increase in discount related to net claim liabilities established in current period	$(84.9)	$—	$65.7	$(0.1)
Increase/(decrease) in discount related to existing net claim liabilities	4.4	(2.5)	0.4	(5.7)
Total (decrease)/increase in discount	$(80.5)	$(2.5)	$66.1	$(5.8)

In the first six months of 2012 we significantly increased our estimated gross claim liability associated with a project finance credit within our public finance insured portfolio, with net par outstanding of $69 million at June 30, 2012, based primarily on refinancing risk upon the maturity or scheduled principal amortization of the insured obligations beginning in 2017. Revenues for the project, however, serve as collateral for our insured risk, and we have also projected a full recovery of the gross claim over time, which has resulted in an increase in both our potential recovery and discount amount for the six months ended June 30, 2012. Our net claim liability to our insured sovereign indebtedness to Greece as of June 30, 2012 is $23.1 million, compared to $4.4 million as of December 31, 2011. The increase in this net claim liability reflects our expectation that this exposure to Greece will be settled in full in the second half of 2012, resulting in aggregate net losses approximately equal to this net claim liability (subject to exchange rate fluctuation).

Our financial guaranty loss reserve estimate involves significant judgment surrounding the estimated probability of the likelihood, magnitude and timing of each potential loss based upon different loss scenarios. The probabilities, assumptions and estimates we use to establish our financial guaranty loss reserves are subject to uncertainties, particularly given the current economic and credit environments, including uncertainties regarding our public finance municipal exposures and international sovereign risk exposures. We continue to monitor the uncertainties surrounding our portfolio, and it is possible that the actual losses paid could differ materially from our present estimates.

The weighted-average risk-free rates used to discount the gross claim liability and gross potential recoveries were as follows as of the dates indicated:

June 30, 2012	1.95	%
December 31, 2011	2.80	%
June 30, 2011	3.97	%
December 31, 2010	3.69	%

11. Long-Term Debt

The composition of our long-term debt at June 30, 2012 and December 31, 2011, was as follows:

(In thousands)		June 30, 2012	December 31, 2011
5.625	% Senior Notes due 2013	$91,800	$252,267
5.375	% Senior Notes due 2015	249,843	249,819
3.000	% Convertible Senior Notes due 2017 (1)	325,163	316,498
	Total Long-Term Debt	$666,806	$818,584

(1) The principal amount of these notes is $450 million.

On February 23, 2012, Radian Group commenced a “Modified Dutch Auction” tender offer (the “Tender Offer”) to purchase a portion of its outstanding 2013 Notes. We acquired $146.5 million in aggregate principal amount of the 2013 Notes as a result of the Tender Offer for a price of $900 per $1,000 principal amount of Notes, which represented 59% of the principal amount of the 2013 Notes outstanding. The transaction resulted in a realized gain of $15.2 million, representing the excess of carrying value over the purchase price. During the second quarter of 2012, Radian Group purchased an additional $12.2 million in aggregate principal amount of the outstanding 2013 Notes resulting in an additional gain of $0.7 million. Since June 30, 2012, we have purchased an additional $12.0 million in principal amount of the 2013 Notes.

As of June 30, 2012 and December 31, 2011, we were in compliance with all provisions of each of our indentures for our outstanding notes.

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12. Other Comprehensive (Loss) Income

The following table shows our total other comprehensive (loss) income as of the periods indicated:

(In thousands)	Three Months Ended June 30, 2012 Before tax	Tax effect	Net of tax	Six Months Ended June 30, 2012 Before tax	Tax effect	Net of tax
Other comprehensive (loss) income:						
Foreign currency translation adjustments:						
Unrealized foreign currency translation adjustment	$(12)	$(4)	$(8)	$(12)	$(4)	$(8)
Less: Reclassification adjustment	—	—	—	—	—	—
Net foreign currency translation adjustments	(12)	(4)	(8)	(12)	(4)	(8)
Unrealized gains on investments:						
Unrealized holding (losses) gains arising during the period	(2,183)	(764)	(1,419)	24,300	8,505	15,795
Less: Reclassification adjustment for net (losses) gains included in net (loss) income	(1,140)	(399)	(741)	13,645	4,776	8,869
Net unrealized (losses) gains on investments	(1,043)	(365)	(678)	10,655	3,729	6,926
Other comprehensive (loss) income	$(1,055)	$(369)	$(686)	$10,643	$3,725	$6,918

(In thousands)	Three Months Ended June 30, 2011 Before tax	Tax effect	Net of tax	Six Months Ended June 30, 2011 Before tax	Tax effect	Net of tax
Other comprehensive income:						
Foreign currency translation adjustments:						
Unrealized foreign currency translation adjustment	$4,955	$—	$4,955	$6,520	$—	$6,520
Less: Reclassification adjustment for net gains	39,863	11,617	28,246	39,571	11,617	27,954
Net foreign currency translation adjustments	(34,908)	(11,617)	(23,291)	(33,051)	(11,617)	(21,434)
Unrealized gains on investments:						
Unrealized holding gains arising during the period	5,549	—	5,549	13,615	—	13,615
Less: Reclassification adjustment for net losses included in net income	(52,323)	(17,307)	(35,016)	(52,245)	(17,307)	(34,938)
Net unrealized gains on investments	57,872	17,307	40,565	65,860	17,307	48,553
Other comprehensive income	$22,964	$5,690	$17,274	$32,809	$5,690	$27,119

13. Income Taxes

We provide for income taxes in accordance with the provisions of the accounting standard regarding accounting for income taxes. As required under this standard, our deferred tax assets and liabilities are recognized under the balance sheet method, which recognizes the future tax effect of temporary differences between the amounts recorded in our condensed consolidated financial statements and the tax bases of these amounts. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the periods in which the deferred tax asset or liability is expected to be realized or settled.

Given the impact on our pre-tax results of net gains or losses resulting from our derivative transactions and our investment portfolio, and the continued uncertainty around our ability to rely on short-term financial projections, which directly affects our ability to estimate an effective tax rate for the full year, we record our interim-period income tax expense (benefit) based on actual results of operations.

For federal income tax purposes, we have approximately $1.9 billion of NOL carryforwards as of June 30, 2012. To the extent not utilized, the NOL carryforwards will expire during tax years 2028 through 2032. To protect our ability to utilize our NOLs and other tax assets from an "ownership change" under U.S. federal income tax rules, we adopted certain tax benefit preservation measures, including amendments to our certificate of incorporation and by-laws and the adoption of a tax benefit preservation plan.

As of June 30, 2012, before consideration of our valuation allowance, we had deferred tax assets ("DTA"), net of deferred tax liabilities, of approximately $939.7 million.

We are required to establish a valuation allowance against our DTA when it is more likely than not that all or some portion of our DTA will not be realized. At each balance sheet date, we assess our need for a valuation allowance and this assessment is based on all available evidence, both positive and negative, and requires management to exercise judgment and make assumptions regarding whether such DTA will be realized in future periods. Future realization of our DTA will ultimately depend on the existence of sufficient taxable income of the appropriate character (ordinary income or capital gains) within the applicable carryback and carryforward periods provided under the tax law. The primary sources of negative evidence that we considered are our cumulative losses in recent years, and the continued uncertainty around our future operating results. We also considered several sources of positive evidence when assessing the need for a valuation allowance such as future reversals of existing taxable temporary differences, future projections of taxable income, taxable income within the applicable carryback periods, and potential tax planning strategies. In making our assessment of the more likely than not standard, the weight assigned to the effect of both negative and positive evidence is commensurate with the extent to which such evidence can be objectively verified.

A valuation allowance of approximately $923.7 million and $797.7 million was recorded against our net DTA of approximately $939.7 million and $813.7 million at June 30, 2012 and December 31, 2011, respectively. The remaining DTA of approximately $16.0 million represents our NOL carryback, which we expect to utilize in our anticipated settlement with the IRS relating to tax years 2000 through 2007, as discussed below.

We are currently contesting proposed adjustments resulting from the examination by the IRS for the 2000 through 2007 tax years. The IRS opposes the recognition of certain tax losses and deductions that were generated through our investment in a portfolio of residual interests in REMICs and has proposed adjustments denying the associated tax benefits of these items. The proposed adjustments relating to the 2000 through 2007 tax years, if sustained, will increase our tax liability for those years by approximately $128 million, in addition to any associated penalties and interest. We appealed these proposed adjustments to the IRS Office of Appeals ("Appeals") and made "qualified deposits" with the U.S. Department of the Treasury in the amount of approximately $85 million in June 2008 relating to the 2000 through 2004 tax years, and approximately $4 million in May 2010 relating to the 2005 through 2007 tax years, to avoid the accrual of above-market-rate interest with respect to the proposed adjustments. In late December 2010, we reached a tentative settlement agreement with Appeals. However, because we had claimed a refund of approximately $105 million with respect to our 2006 and 2007 taxable years based on a carryback of a net operating loss generated from our 2008 taxable year, review of the tentative settlement agreement by the Joint Committee on Taxation ("JCT") was required. Based on its review, the JCT has indicated that it is opposed to the currently structured settlement agreement and has recommended that Appeals reconsider the settlement agreement. Following the JCT review, Appeals has now indicated that it is reconsidering the terms of our settlement.

We are currently attempting to address the concerns regarding the proposed settlement that have been raised by Appeals and the JCT, but there is a substantial risk that we may not be able to settle the proposed adjustments with the IRS or, alternatively, that the terms of any final settlement will be significantly less favorable to us than the currently proposed settlement. Additionally, we would be required to litigate the proposed adjustments to our taxable income, if we are unable to reach any settlement, in order to avoid a full concession of the proposed tax liabilities, penalties, and interest to the IRS. If we determine that we cannot reach a settlement with the IRS and determine that our interests may be better served through litigation of the proposed adjustments, then we may incur substantial legal expenses and the litigation process may be lengthy. Based on the indication that Appeals will reconsider the proposed settlement agreement, we remeasured our tax provision and liabilities associated with these proposed IRS adjustments during the fourth quarter of 2011. After discussions with outside counsel about the issues raised in the examination and the issues surrounding the reconsideration of our settlement agreement, we believe that an adequate provision for income taxes has been made for potential liabilities that may result. However, if the final settlement agreement differs materially from our current expectations or we are unable to enter into a final settlement agreement and decide to pursue litigation of the proposed adjustments, there could be a material impact on our effective tax rate, results of operations and cash flows.

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14. Statutory Information

Radian Guaranty's statutory net loss and statutory surplus as of or for the periods indicated were as follows:

(In millions)	As of or for the Six Months Ended June 30, 2012	As of or for the Year Ended December 31, 2011
Statutory net loss	$(120.2)	$(545.1)
Statutory surplus	923.5	843.2

Radian Guaranty's risk-to-capital calculation appears in the table below.

($ in millions)	June 30, 2012	December 31, 2011
Risk in force, net (1)	$19,412.0	$18,095.7
Statutory surplus	923.5	843.2
Risk-to-capital	21.0:1	21.5:1

(1) Risk in force is net of risk ceded through reinsurance contracts and also excludes risk in force on defaulted loans.

The improvement in Radian Guaranty's risk-to-capital ratio in the first six months of 2012 was primarily due to: (1) the release of contingency reserves at Radian Asset Assurance as a result of the Assured Transaction, which benefited Radian Guaranty's surplus; (2) investment gains; and (3) the impact of the 2012 Quota Share Reinsurance Transaction entered into in April 2012. This benefit was partially offset by a statutory net loss incurred by Radian Guaranty.

As described in Note 7, Radian Guaranty entered into the 2012 Quota Share Reinsurance Transaction effective April 1, 2012, that is expected to ultimately provide Radian Guaranty with an initial capital benefit of between $50 million and $62.5 million.

As of June 30, 2012, Radian Asset Assurance maintained claims paying resources of $1.8 billion, including statutory surplus of approximately $1.2 billion. In July 2012, Radian Asset Assurance paid an ordinary dividend of $54 million to Radian Guaranty. We expect that Radian Asset Assurance will continue to have the capacity to pay ordinary dividends of approximately $40 million to Radian Guaranty in 2013.

As a result of the termination of our CDO of ABS Transaction described in Note 1, we recorded a gain of approximately $7 million (on a pre-tax basis) for statutory accounting purposes, which had a direct, positive impact on the statutory capital position of Radian Asset Assurance for the quarter ended June 30, 2012. Due to current expectations regarding future credit losses on the Terminated TruPs Bonds, we established an associated salvage recovery for statutory accounting purposes of approximately $75 million related to the LPV Capital, which is included in Radian Asset Assurance's and Radian Guaranty's statutory surplus as of June 30, 2012. Although Radian Asset Assurance has no further obligation for claims related to the Terminated TruPs CDOs, the amount of salvage recovery remains at risk, and the actual amount of salvage that we ultimately recover will depend on the future performance of the Terminated TruPs Bonds, including, in the case of four of the Terminated TruPs CDOs, the risk that an event of default occurs and is continuing after 2016 or 2017, as applicable. If such event of default were to occur, it would result in a loss for such Terminated TruPs CDO that would be determined based on the difference between the par value and the market value thereof. If the LPV is required to make payments to the Counterparty pursuant to the terms of the Residual CDS, Radian Asset Assurance's projected and actual salvage recovery from the LPV may be materially reduced or eliminated.

Under Texas insurance regulations, to be an authorized insurer, CMAC of Texas, an affiliated reinsurer of Radian Guaranty, is required to maintain a minimum statutory surplus of $20 million. CMAC of Texas had a statutory net income of $18.1 million for the six months ended June 30, 2012 and statutory surplus of $44.4 million as of June 30, 2012.

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We and our insurance subsidiaries are subject to comprehensive, detailed regulation, principally designed for the protection of our insured policyholders rather than for the benefit of investors, by the insurance departments in the various states where our insurance subsidiaries are licensed to transact business. Insurance laws vary from state to state, but generally grant broad supervisory powers to state agencies or officials to examine insurance companies and enforce rules or exercise discretion affecting almost every significant aspect of the insurance business, including the power to revoke or restrict an insurance company's ability to write new business.

The GSEs and state insurance regulators impose various capital requirements on our insurance subsidiaries. These include risk-to-capital ratios, risk-based capital measures and surplus requirements that limit the amount of insurance that each of our insurance subsidiaries may write. The GSEs and state insurance regulators also possess significant discretion with respect to our insurance subsidiaries. Our failure to maintain adequate levels of capital could lead to intervention by the various insurance regulatory authorities, which could materially and adversely affect our business, business prospects and financial condition. See Note 1 above for additional information.

15. Selected Financial Information of Registrant—Radian Group

(In thousands)	June 30, 2012	December 31, 2011
Investment in subsidiaries, at equity in net assets	$1,416,290	$1,591,914
Total assets	1,691,317	2,231,138
Long-term debt	666,806	818,584
Total liabilities	790,429	1,048,847
Total stockholders' equity	900,888	1,182,291
Total liabilities and stockholders' equity	1,691,317	2,231,138

16. Commitments and Contingencies

On August 13, 2010, American Home Mortgage Servicing, Inc. ("AHMSI") filed a complaint against Radian Guaranty in the United States District Court for the Central District of California, on its own behalf and as servicer for certain RMBS insured by Radian Guaranty under 27 separate bulk primary mortgage insurance policies. AHMSI contends that in 2008, it mistakenly sent cancellation notices to Radian Guaranty for certain loans covered under these policies, and that Radian Guaranty wrongfully refused to reinstate coverage for these loans after AHMSI discovered the error. We believe that approximately 271 loans were affected by this error. According to AHMSI, Radian Guaranty's refusal to reinstate coverage was in breach of its contractual duties under the policies and in bad faith. AHMSI is seeking money damages and injunctive relief requiring Radian Guaranty to reinstate full coverage on all loans insured under the policies. On October 18, 2010, Radian Guaranty filed a motion to dismiss this case, which the court granted on December 16, 2010, stating that AHMSI failed to establish that it is the real party in interest. On January 5, 2011, AHMSI filed an amended complaint that included the trustees of the securities as additional plaintiffs to the complaint. On May 31, 2011, Radian answered the amended complaint and, subsequently, filed a counterclaim seeking a declaratory judgment that, among other things, it is not in breach of its contractual duties. Radian also filed, and the court subsequently dismissed, a third party complaint against Sand Canyon Corporation, the servicer who allegedly made the error that led to the cancellation of the certificates of insurance, seeking indemnity and/or contribution.

On August 1, 2011, Radian Guaranty filed a lawsuit against Quicken Loans Inc. ("Quicken") in the United States District Court for the Eastern District of Pennsylvania. Radian Guaranty's complaint seeks a declaratory judgment that it properly rescinded mortgage insurance coverage under Radian Guaranty's master policy and delegated underwriting endorsement for approximately 140 home mortgage loans originated by Quicken based upon deficiencies and improprieties in the underwriting process. On August 24, 2011, Quicken filed a motion to dismiss the complaint. On September 12, 2011, Radian Guaranty filed a response to Quicken's motion to dismiss, and on September 29, 2011, Quicken filed its reply.

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Recently, we have been named as a defendant in a number of putative class action lawsuits alleging, among other things, that our captive reinsurance agreements violate the Real Estate Practices Act of 1974 (“RESPA”). On December 9, 2011, an action titled Samp v. JPMorgan Chase Bank, N.A. (the “Samp case”), was filed in the United States District Court for the Central District of California. The defendants are JPMorgan Chase Bank, N.A., its affiliates (collectively, “JPMorgan”), and several mortgage insurers, including Radian Guaranty. The plaintiffs purport to represent a class of borrowers whose loans supposedly were referred to mortgage insurers by JPMorgan in exchange for reinsurance agreements between the mortgage insurers and JPMorgan’s captive reinsurer. Plaintiffs assert violations of RESPA. Radian Guaranty and some of the other mortgage insurer defendants moved to dismiss this lawsuit for lack of standing because they did not insure any of the plaintiffs’ loans. The court denied that motion on May 7, 2012. Radian Guaranty is evaluating other grounds for potential dismissal of the lawsuit.

Each of the cases described below are putative class actions (with alleged facts substantially similar to the facts of the Samp case discussed above) in which Radian Guaranty has been named as a defendant:

- On December 30, 2011, a putative class action under RESPA titled White v. PNC Financial Services Group was filed in the United States District Court for the Eastern District of Pennsylvania. In this case, Radian Guaranty has insured the loan of one of the plaintiffs. Radian Guaranty intends to move to dismiss the complaint on a number of grounds.
- On March 12, 2012, a putative class action under RESPA titled McCarn v. HSBC USA, Inc., et al. was filed in the United States District Court for the Eastern District of California. Radian Guaranty moved to dismiss this lawsuit for lack of standing because it did not insure the plaintiff’s loan. The court granted that motion on May 29, 2012, but gave the plaintiff permission to file an amended complaint to attempt to address his lack of standing. On July 30, 2012, the plaintiff filed this amended complaint. Radian Guaranty intends to file a new motion to dismiss this lawsuit on a number of grounds.
- On April 5, 2012, a putative class action under RESPA titled Riddle v. Bank of America Corporation, et al. was filed in the United States District Court for the Eastern District of Pennsylvania. Radian Guaranty intends to move to dismiss this lawsuit for lack of standing because it did not insure the plaintiff’s loan.
- On April 5, 2012, a putative class action under RESPA titled Manners, et al. v. Fifth Third Bank, et al. was filed in the United States District Court for the Western District of Pennsylvania. Radian Guaranty intends to move to dismiss this lawsuit for lack of standing because it did not insure any of the plaintiffs’ loans.
- On April 19, 2012, a putative class action under RESPA titled Rulison v. ABN AMRO Mortgage Group, Inc., et al. was filed in the United States District Court for the Southern District of New York. The plaintiff voluntarily dismissed this lawsuit on July 3, 2012.
- On May 18, 2012, a putative class action under RESPA titled Hill, et al. v. Flagstar Bank FSB, et al. was filed in the United States District Court for the Eastern District of Pennsylvania. In this case, Radian Guaranty has insured the loan of one of the plaintiffs. Radian Guaranty intends to move to dismiss the complaint on a number of grounds.
- On May 31, 2012, a putative class action under RESPA titled Barlee, et al. v. First Horizon National Corporation, et al. was filed in the United States District Court for the Eastern District of Pennsylvania. Radian Guaranty intends to move to dismiss this lawsuit for lack of standing because it did not insure any of the plaintiffs’ loans.
- On June 28, 2012, a putative class action under RESPA titled Cunningham, et al v. M&T Bank Corporation, et al. was filed in the United States District Court for the Middle District of Pennsylvania. Radian Guaranty intends to move to dismiss this lawsuit for lack of standing because it did not insure any of the plaintiffs’ loans.

We are also involved in additional litigation that has arisen in the normal course of our business. We are contesting the allegations in each such pending action and believe, based on current knowledge and after consultation with counsel, that the outcome of such litigation will not have a material adverse effect on our consolidated financial position and results of operations.

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In addition to the private lawsuits discussed above, we and other mortgage insurers have been subject to inquiries from the Minnesota Department of Commerce and the Office of the Inspector General of the Department of Housing and Urban Development ("HUD"), requesting information relating to captive reinsurance. The Dodd-Frank Act amended RESPA and transferred the authority to implement and enforce RESPA from HUD to the Consumer Financial Protection Bureau ("CFPB"). In January 2012, we and other mortgage insurers received a request for information and documents from the CFPB relating to captive reinsurance arrangements, and in June 2012, we and other mortgage insurers received a Civil Investigative Demand ("CID") from the CFPB as part of its investigation to determine whether mortgage lenders and private mortgage insurance providers engaged in acts or practices in violation of the Dodd-Frank Act, RESPA and the Consumer Financial Protection Act. We are cooperating with the CFPB in its investigation and are in active discussions with the CFPB with respect to our response to the CID. Various regulators, including the CFPB, state insurance commissioners or state attorneys general may bring actions or proceedings regarding our compliance with RESPA or other laws applicable to our mortgage insurance business. We cannot predict whether additional actions or proceedings will be brought against us or the outcome of any such actions or proceedings.

The elevated levels of our rate of rescissions and denials have led to an increased risk of litigation by lenders and policyholders challenging our right to rescind coverage or deny claims. Under our master insurance policy, any suit or action arising from any right of the insured under the policy must be commenced within two years after such right first arose for primary insurance and within three years for certain other policies, including certain pool insurance policies. We continue to face a number of challenges from certain lender customers regarding our insurance rescissions and claim denials, which have resulted in some reversals of our decisions regarding rescissions or denials. We are currently in discussions with these customers regarding rescissions or denials, which if not resolved, could result in arbitration or additional judicial proceedings. Although we believe that our rescissions and denials are justified under our policies, if we are not successful in defending the rescissions or denials in any potential legal actions, we may need to reassume the risk on, and increase loss reserves for, those policies or pay additional claims. See Note 8 for further information.

Securities regulations became effective in 2005 that impose enhanced disclosure requirements on issuers of ABS (including mortgage-backed securities). To allow our customers to comply with these regulations, we typically were required, depending on the amount of credit enhancement we were providing, to provide (1) audited financial statements for the insurance subsidiary participating in the transaction, or (2) a full and unconditional holding company-level guarantee for our insurance subsidiaries' obligations in such transactions. Radian Group has guaranteed two structured transactions for Radian Guaranty involving approximately $158.9 million of remaining credit exposure as of June 30, 2012.

On March 1, 2011, our subsidiary, Enhance Financial Services Group Inc. ("EFSG") sold its 45% interest in the holding company of a Brazilian insurance company, which specializes in surety and agricultural insurance, to another owner for a nominal purchase price. This holding company and its subsidiaries are subject to regulation by The Superintendence of Private Insurance, the regulatory agency responsible for the supervision and control of the insurance market in Brazil. Although EFSG wrote off its entire interest in this company in 2005 and has sold its ownership interest, under Brazilian law, it is possible that EFSG could become liable for its proportionate share of the liabilities of the company related to the period in which EFSG was a significant shareholder, if the company was to become insolvent and had insufficient capital to satisfy its outstanding liabilities. EFSG's share of the liabilities of the company attributable to this period was approximately $103.4 million as of December 31, 2010, the date of the most recent financial information available to us.

As part of the non-investment-grade allocation component of our investment program, we had unfunded commitments of $9.4 million at June 30, 2012, related to alternative investments that are primarily private equity structures. These commitments have capital calls expected through 2015, with the possibility of additional calls through 2017, and certain fixed expiration dates or other termination clauses.

Our mortgage insurance business provides an outsourced underwriting service to its customers known as contract underwriting. Typically, we agree that if we make a material error in underwriting a loan, we will provide a remedy to the customer, by purchasing the loan or placing additional mortgage insurance coverage on the loan, or by indemnifying the customer against loss up to a maximum specified amount. By providing these remedies, we assume some credit risk and interest-rate risk if an error is found during the limited remedy period in the agreements governing our provision of contract underwriting services. Recently, we limited the recourse available to our contract underwriting customers to apply only to those loans that are simultaneously underwritten for compliance with secondary market compliance and for potential mortgage insurance. In the first half of 2012, we paid losses related to contract underwriting remedies of approximately $4.3 million. Rising mortgage interest rates or further economic uncertainty may expose our mortgage insurance business to an increase in such costs. In the first half of 2012, our provision for contract underwriting expenses was approximately $3.0 million and our reserve for contract underwriting obligations at June 30, 2012, was $3.2 million. We monitor this risk and negotiate our underwriting fee structure and recourse agreements on a client-by-client basis. We also routinely audit the performance of our contract underwriters.

We have incentive, retention and severance agreements with certain employees in our financial guaranty business. The total cost expected to be incurred under these agreements is $9.2 million, of which $2.0 million of unearned retention expense has not been recorded as of June 30, 2012. The remaining cost for these agreements is expected to be recorded by the end of 2013.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following analysis should be read in conjunction with our unaudited condensed consolidated financial statements and the notes thereto included in this report and our audited financial statements, notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in our Form 10-K for the fiscal year ended December 31, 2011, for a more complete understanding of our financial position and results of operations. In addition, investors should review the "Forward Looking Statements—Safe Harbor Provisions" above and the "Risk Factors" detailed in Item 1A of Part I of our Annual Report on Form 10-K for the year ended December 31, 2011, and in Item 1A of Part II of this Quarterly Report on Form 10-Q for a discussion of those risks and uncertainties that have the potential to affect our business, financial condition, results of operations, cash flows or prospects in a material and adverse manner. 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.

Business Summary

We are a credit enhancement company with a primary strategic focus on domestic, first-lien residential mortgage insurance. Our business segments are mortgage insurance and financial guaranty.

Mortgage Insurance

Our mortgage insurance segment provides credit-related insurance coverage, principally through private mortgage insurance, and risk management services to mortgage lending institutions. We provide these products and services mainly through our wholly-owned subsidiary, Radian Guaranty Inc. ("Radian Guaranty"). Private mortgage insurance protects the holders of our insurance from all or a portion of default-related losses on residential mortgage loans made generally to home buyers who make downpayments of less than 20% of the home's purchase price. Private mortgage insurance also facilitates the sale of these mortgage loans in the secondary mortgage market, most of which are sold to Freddie Mac and Federal National Mortgage Association ("Fannie Mae"). We refer to Freddie Mac and Fannie Mae together as "Government Sponsored Enterprises" or "GSEs."

Traditional Mortgage Insurance. Our mortgage insurance segment offers primary mortgage insurance coverage on residential first-lien mortgages ("first-liens"). At June 30, 2012, primary insurance on first-liens made up approximately 93.8% of our total risk in force ("RIF"). Prior to 2009, we also wrote pool insurance, which comprised approximately 5.7% of our total RIF at June 30, 2012.

Non-Traditional Mortgage Credit Enhancement. In addition to traditional mortgage insurance, in the past, we provided other forms of credit enhancement on residential mortgage assets. These products included mortgage insurance on second-lien mortgages ("second-liens"), credit enhancement on net interest margin securities ("NIMS"), and primary mortgage insurance on international mortgages (collectively, we refer to the risk associated with these transactions as "non-traditional"). We stopped writing non-traditional business in 2007, other than a small amount of international mortgage insurance, which we discontinued writing in 2008. Our non-traditional RIF was $179 million as of June 30, 2012, representing 0.5% of our total RIF.

In the second quarter of 2012, Radian Guaranty entered into a quota share reinsurance agreement with a third-party reinsurance provider (the "2012 Quota Share Reinsurance Transaction"). Through the 2012 Quota Share Reinsurance Transaction, Radian Guaranty agreed to cede 20% of its new insurance written ("NIW") beginning with the business written in the fourth quarter of 2011. As of June 30, 2012, the amount ceded pursuant to this transaction was $922.5 million of Radian Guaranty's RIF. The amount of risk that ultimately may be ceded is expected to be between $1.25 billion and $1.6 billion. At a 25 to 1 risk-to-capital ratio, the equivalent initial capital benefit associated with ceding this amount of risk will be between $50 million and $62.5 million. Radian Guaranty has the ability, at its option, to commute two-thirds of the reinsurance ceded as part of this transaction on December 31, 2014.

Financial Guaranty

Our financial guaranty segment has provided direct insurance and reinsurance on credit-based risks through Radian Asset Assurance Inc. ("Radian Asset Assurance"), a wholly-owned subsidiary of Radian Guaranty. Financial guaranty insurance typically provides an unconditional and irrevocable guaranty to the holder of a financial obligation of full and timely payment of principal and interest when due. Financial guaranty insurance may be issued at the inception of an insured obligation or may be issued for the benefit of a holder of an obligation in the secondary market.

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We have provided financial guaranty credit protection through the issuance of a financial guaranty insurance policy, by insuring the obligations under a credit default swap ("CDS"), or through the reinsurance of such obligations. Both a financial guaranty insurance policy and a CDS provide the purchaser of such credit protection with a guaranty of the timely payment of interest and scheduled principal when due on a covered financial obligation, and in the case of most of our financial guaranty CDSs, credit protection for amounts in excess of specified levels of losses. These forms of credit enhancement each require similar underwriting and surveillance.

We historically have offered the following financial guaranty products:

- Public Finance—Insurance of public finance obligations, including tax-exempt and taxable indebtedness of states, counties, cities, special service districts, other political subdivisions, enterprises such as public and private higher education institutions and healthcare facilities and infrastructure, project finance and private finance initiative assets in sectors such as airports, education, healthcare and other infrastructure projects;
- Structured Finance—Insurance of structured finance obligations, including collateralized debt obligations ("CDOs") and asset-backed securities ("ABS"), consisting of funded and non-funded (referred to herein as "synthetic") executions that are payable from or tied to the performance of a specific pool of assets or covered reference entities. Examples of the pools of assets that collateralize or underlie structured finance obligations include corporate loans, bonds or other borrowed money, residential and commercial mortgage loans, trust preferred securities ("TruPs"), diversified payment rights ("DPRs"), a variety of consumer loans, equipment receivables, real and personal property leases, or a combination of asset classes or securities backed by one or more of these pools of assets;
- Reinsurance—Reinsurance of domestic and international public finance obligations, including those issued by sovereign and sub-sovereign entities, and structured finance obligations.

In 2008, in light of difficult market conditions and the downgrade of the financial strength ratings of our financial guaranty insurance subsidiaries, we discontinued writing new financial guaranty business, other than as necessary to commute, restructure, hedge or otherwise mitigate losses or reduce exposure in our existing portfolio. Since 2008, we have significantly reduced our financial guaranty operations and have reduced our financial guaranty exposures through commutations in order to mitigate uncertainty, maximize the ultimate capital available for our mortgage insurance business and accelerate our access to that capital.

In January 2012, Radian Asset Assurance entered into a three-part transaction (the "Assured Transaction") with subsidiaries of Assured Guaranty Ltd. (collectively "Assured") that included the following:

- the commutation of $13.8 billion of financial guaranty net par outstanding that was reinsured by Radian Asset Assurance (the "Assured Commutation");
- the cession of $1.8 billion of public finance business to Assured (the "Assured Cession"); and
- the sale of Municipal and Infrastructure Assurance Corporation (the "FG Insurance Shell"), a New York domiciled financial guaranty insurance company with licenses to conduct business in 37 states and the District of Columbia. The sale of the FG Insurance Shell was completed in the second quarter of 2012.

This three-part transaction with Assured reduced our financial guaranty net par outstanding by 22.5% and provided a statutory capital benefit to Radian Asset Assurance and Radian Guaranty of $100.7 million as of June 30, 2012. This transaction is consistent with our strategic objective of accelerating the reduction of our financial guaranty net par outstanding and strengthening the statutory capital positions of Radian Asset Assurance and Radian Guaranty.

The following table shows the impact of the Assured Transaction on our condensed consolidated financial statements in the first six months of 2012. While Radian Asset Assurance and Radian Guaranty received a statutory capital benefit as a result of this transaction as discussed above, under accounting principles generally accepted in the United States of America ("GAAP") this transaction resulted in a realized loss, and therefore, a reduction in our retained earnings.

Statement of Operations	
(In millions)	
Decrease in premiums written	$(119.8)
Decrease in net premiums earned	$(22.2)
Increase in change in fair value of derivative instruments—gain	1.4
Gain on sale of affiliate	7.7
Increase in amortization of policy acquisition costs	(15.7)
Decrease in pre-tax income	$(28.8)

Balance Sheet	
(In millions)	
Decrease in:	
Cash	$93.6
Deferred policy acquisition costs	26.2
Accounts and notes receivable	1.1
Derivative assets	0.6
Unearned premiums	71.6
Derivative liabilities	2.1
Increase in other assets	19.1

In the second quarter of 2012, Radian Asset Assurance entered into a commutation with one of its derivative counterparties (the "Counterparty") to commute Radian Asset Assurance's: (1) only CDO of ABS exposure related to a directly insured tranche of an extremely distressed CDO of ABS transaction (the "CDO of ABS Transaction"), for which we expected to pay claims on substantially all of the $450.2 million in net par outstanding; and (2) credit protection through CDS on six directly insured TruPs CDO transactions, representing $699.0 million of net par outstanding at the time of the commutation (the "Terminated TruPs CDOs"). In consideration for these commutations, Radian Asset Assurance paid $210.0 million (the "Commutation Amount"), a significant portion of which (the "LPV Initial Capital") has been deposited with a limited purpose vehicle (an "LPV") to cover the Counterparty's potential future losses on the TruPs bonds underlying the Terminated TruPs CDOs (the "Terminated TruPs Bonds"). The commutations described in this paragraph are referred to herein as the "Commutation Transactions."

Also as part of the Commutation Transactions, the LPV entered into a credit default swap (the "Residual CDS") with the Counterparty to provide for payments to the Counterparty for future losses relating to the Terminated TruPs Bonds.

The LPV Initial Capital, together with investment earnings (collectively, the "LPV Capital") represent the only funds available to pay the Counterparty for amounts due under the Residual CDS. The Residual CDS terminates concurrently with the Terminated TruPs Bonds for which we had provided credit protection and provides for payment to the Counterparty substantially in accordance with the terms of our original CDS protection for the Terminated TruPs Bonds. In addition, pursuant to an agreement with the Counterparty, if any LPV Capital amount is remaining following the maturity of the Residual CDS, Radian Asset Assurance is entitled to these remaining funds.

Due to current expectations regarding future credit losses on the Terminated TruPs Bonds, we established an associated salvage recovery for statutory accounting purposes of approximately $75 million related to the LPV funds we expect to ultimately receive. Although Radian Asset Assurance has no further obligation for claims related to the Terminated TruPs CDOs, the amount of salvage recovery remains at risk, and the actual amount of salvage that we ultimately recover will depend on the future performance of the Terminated TruPs Bonds. If the LPV is required to make payments to the Counterparty pursuant to the terms of the Residual CDS, Radian Asset Assurance's projected and actual recovery from the LPV may be materially reduced or eliminated. Because we had already established a statutory reserve for the CDO of ABS Transaction and we do not expect ultimate losses on the Terminated TruPs CDOs, the Commutation Transactions did not have a significant impact on the statutory capital of Radian Asset Assurance or Radian Guaranty in the second quarter of 2012.

Prior to the Commutation Transactions, the terminated transactions were required to be accounted for at fair value for GAAP purposes. The Commutation Amount exceeded the aggregate fair value liability that we had recorded for such transactions. As a result, we recorded a loss for GAAP purposes of $108 million on the Commutation Transactions in the quarter ended June 30, 2012. This loss resulted primarily from the fact that the aggregate fair value liability for the commuted transactions incorporated a significant discount to the derivative liability for these transactions related to the market's perception of our non-performance risk. See "Critical Accounting Policies—Fair Value of Financial Instruments—Corporate CDOs" for additional information regarding our fair value methodology.

All of the transactions commuted pursuant to the Commutation Transactions were rated below investment grade ("BIG") internally with $1.0 billion net par outstanding of the commuted transactions rated B or below internally. In the aggregate, the transactions commuted pursuant to the Commutation Transactions represented approximately 51% of our financial guaranty segment's aggregate net par outstanding rated B or below internally.

Financial Guaranty Exposure Subject to Recapture or Termination. Approximately $28.3 billion of our total net par outstanding as of June 30, 2012 (representing 65.8% of our financial guaranty segment's total net par outstanding), was subject to recapture or termination at the option of our primary reinsurance customers and financial guaranty credit derivative counterparties. Of such amount, $21.9 billion was subject to termination at the option of our financial guaranty credit derivative counterparties, while the remaining $6.4 billion was subject to recapture at the option of our primary reinsurance customers. In the first half of 2012, four CDS counterparties in our financial guaranty business exercised their termination rights with respect to 22 corporate CDOs and one CDS of an investor-owned utility bond that we insured (the "2012 CDO Terminations"), which reduced our net par outstanding by an aggregate of $9.4 billion, 94.2% of which was rated AAA internally.

On June 28, 2012, one of our primary reinsurance customers, Financial Guaranty Insurance Company ("FGIC") was placed into rehabilitation by the New York Department of Financial Services ("NYDFS"). As of June 30, 2012, we had reinsured an aggregate of $863.3 million in net par outstanding from FGIC. In addition, as of June 30, 2012, we had $88.1 million of second-to-pay exposure to FGIC (or 3.9% of our aggregate second-to-pay exposure), pursuant to which we are obligated to pay claims to the extent that both the underlying obligation defaults and FGIC (or its rehabilitator) fails to pay all or a portion of such claims. While we continue to monitor the situation, we currently do not anticipate that the placement of FGIC into rehabilitation will have a material adverse effect on us.

Overview of Business Results

As a seller of credit protection, our results are subject to macroeconomic conditions and specific events that impact the origination environment and credit performance of our underlying insured assets. The ongoing weakness in the United States ("U.S.") housing and related credit markets, characterized by a decrease in mortgage originations, further declines in home prices in certain markets, mortgage servicing and foreclosure delays, and ongoing deterioration in the credit performance of mortgage and other assets originated prior to 2009, together with current macroeconomic factors such as limited economic growth, the lack of meaningful liquidity in some sectors of the capital markets, and continued high unemployment, have had, and we believe will continue to have, a significant negative impact on the operating environment and results of operations for each of our businesses. Because of these factors, there is uncertainty regarding our ultimate loss performance. See Note 1 of Notes to Condensed Consolidated Financial Statements.

Mortgage Insurance

- Defaults. Our first-lien primary default rate at June 30, 2012 was 13.3%, compared to 15.2% at December 31, 2011. Our primary default inventory comprised 98,450 loans at June 30, 2012, compared to 103,027 loans and 110,861 loans at March 31, 2012 and December 31, 2011, respectively. Our primary default inventory declined slightly in July 2012. The reduction in our default inventory is the result of the total number of defaulted loans that have cured ("cures"), defaulted loans for which claim payments have been made, and defaulted loans that have resulted in insurance rescissions and claim denials collectively exceeding the total number of new defaults on insured loans. Despite this positive trend, our overall primary default rates continue to remain elevated compared to historical levels due to continued high unemployment and weakness in the U.S. housing and mortgage credit markets. We believe that a return to sustained profitability in our mortgage insurance business is dependent upon both a further reduction in the number of new defaults and an increase in the number of cures, particularly with respect to our older delinquent loans. Based on our projections, which are subject to significant risks and uncertainties, we expect improved operating results in our mortgage insurance business in 2012 compared to 2011, and while we expect an operating loss for our mortgage insurance business in 2012, we continue to expect to achieve marginal operating profitability in our mortgage insurance business in 2013. We are projecting a 15%-20% decrease in new defaults in 2012 compared to 2011, which compares to an 18% decrease in new defaults in 2011 compared to 2010. During the second quarter and first half of 2012, new defaults decreased 20% compared to the same periods of 2011.

Notwithstanding these decreases, defaults have remained at elevated levels across all of our mortgage insurance product lines, including our insured portfolio of prime, first-lien mortgages. Overall, the underlying trend of high defaults continues to be driven primarily by the poor performance of our 2005 through 2008 books of business. In addition, a slowdown in mortgage foreclosures, driven by foreclosure moratoriums, servicing delays and the effect of prolonged modification programs for delinquent loans, has contributed to the sustained high level of our default inventory. This slowdown has resulted in more defaults remaining unresolved for a longer period of time than has historically been the case.

- Provision for Losses. Our mortgage insurance provision for losses for the second quarter and first half of 2012 was $208.1 million and $442.8 million, respectively, and consisted primarily of reserves established on new defaults. In addition, our provision for losses has been impacted by an increase in the weighted average rate at which defaulted loans are expected to move to claim (the "default to claim rate"), due to a greater than anticipated impact from the aging of underlying defaulted loans. With continuing declines in home values in certain markets, persistently high unemployment and delays by servicers in either modifying loans or foreclosing on properties, the time it has taken to cure or otherwise resolve a delinquent loan has been prolonged. Consequently, in recent years, our default inventory has experienced an increase in its weighted average age, and because we apply higher estimated default to claim rates on our older delinquent loans, this has resulted in higher reserves. Our assumed aggregate weighted average default to claim rate (which incorporates the expected impact of rescissions and denials) was approximately 46% and 43% as of June 30, 2012 and December 31, 2011, respectively.

Our mortgage insurance reserve for losses continues to be favorably affected by our loss management efforts. Our loss reserve estimate incorporates our recent experience with respect to the elevated number of claims that we are denying due to the policyholder's failure to submit sufficient documentation to perfect a claim submission and to the number of insurance certificates that we are rescinding due to fraud, underwriter negligence or other factors, including the impact of our recent experience regarding reinstatements of previously rescinded policies and denied claims. Our current level of rescissions and denials remains elevated compared to historical levels, which we believe reflects the larger concentration of poorly underwritten loans (primarily originated during 2005 through 2008) that are in our default inventory, as well as our extensive efforts to examine all claims for potential rescissions or denials. We expect the level of rescissions and denials to continue to remain elevated compared to historical levels as long as our 2005 through 2008 insurance policies comprise a significant percentage of our default inventory.

In addition, as part of our claims review process, we assess whether defaulted loans were serviced appropriately in accordance with our insurance policies and servicing guidelines. To the extent a servicer has failed to satisfy its servicing obligations, our policies provide that we may curtail the claim payment for such default, and in some circumstances deny the claim. In 2012, claim curtailments due to servicer noncompliance with our insurance policies and servicing guidelines have increased both in frequency and amount, which has contributed to a reduction in the severity of our claim payments during this period. While we cannot give assurance regarding the extent or level at which such claim curtailments will continue, we expect this trend to continue throughout 2012 in light of well publicized issues in the servicing industry and our existing portfolio of aged defaults.

- Claims Paid. Total mortgage insurance claims paid in the second quarter and first half of 2012 were $263.4 million and $481.6 million, respectively. Foreclosure backlogs, servicer delays and loan modification programs have reduced the number of defaults going to claim. Our extensive review of all claims has slowed our internal claims payment process and has resulted in a significant increase in the number of denials in recent periods as a result of servicers failing to produce the documents necessary to perfect a claim submission. While this increasing trend has the effect of reducing claims paid in current periods, we expect a significant portion of denials to be resubmitted and ultimately paid, and our incurred loss and claims paid estimates reflect this expectation. We currently expect total claims paid in 2012 to increase throughout the year, and to total approximately $1.1 billion for 2012.

- New Insurance Written. We wrote $8.3 billion and $14.8 billion of new mortgage insurance in the second quarter and first half of 2012, respectively, compared to $2.3 billion and $4.9 billion of insurance written in the corresponding periods of 2011, respectively. The significant increase in NIW in the three and six months ended June 30, 2012, compared to the corresponding periods of 2011, is mainly attributable to an increase in the penetration rate of private mortgage insurance in the overall insured mortgage market, as well as an increase in our share of the insured private mortgage market. While the private mortgage insurance industry has made progress in recapturing business from the Federal Housing Administration ("FHA"), the FHA's market share remains at historically high levels. We have been more aggressively marketing our product offerings that favorably compete with the FHA in order to regain market share from the FHA. In the second quarter of 2011, we implemented a series of changes to our underwriting guidelines and premium rates, including a more efficient underwriting process for loans conforming to the GSEs' guidelines and lower premium rates for monthly mortgage insurance paid directly by borrowers, which also has had a positive impact on our 2012 NIW.

Starting in 2008, we implemented a series of changes to our underwriting guidelines aimed at improving the long-term risk profile and profitability of our business. As a result of these changes, the credit profile of our mortgage insurance portfolio has improved. Since 2009, almost all of our new business production has been prime business. In addition, Fair Isaac and Company ("FICO") scores for the borrowers of these insured mortgages have generally increased, while the loan-to-value ("LTV") on these mortgages has decreased, meaning that borrowers generally are making larger downpayments in connection with the more recent mortgages that we are insuring.

- Statutory Capital. Under state insurance regulations, Radian Guaranty is required to maintain minimum surplus levels and, in certain states, a minimum amount of statutory capital relative to the level of RIF, or "risk-to-capital." Sixteen states (the risk-based capital or "RBC States") currently have a statutory or regulatory risk-based capital requirement (a "Statutory RBC Requirement"), the most common of which (imposed by 11 of the RBC States) is a requirement that a mortgage insurer's risk-to-capital ratio may not exceed 25 to 1. Radian Guaranty's risk-to-capital ratio improved to 21.0 to 1 as of June 30, 2012, compared to 21.5 to 1 at December 31, 2011, primarily as a result of: (1) an increase in Radian Guaranty's statutory surplus resulting from the release of contingency reserves at Radian Asset Assurance due to the Assured Transaction; (2) gains from the sale of securities in our investment portfolio; and (3) the reduction in net risk in force due to the 2012 Quota Share Reinsurance Transaction discussed above.

We currently project, based on various assumptions that are subject to inherent uncertainty and require significant judgment by management, that Radian Guaranty's risk-to-capital ratio will increase. Absent any further risk-to-capital support, we expect Radian Guaranty to exceed the 25 to 1 risk-to-capital ratio requirement and other Statutory RBC Requirements during the second half of 2012. Risk-to-capital support includes: (1) internal and external reinsurance arrangements; (2) reduction of our risk exposure through commutations or other negotiated transactions; (3) contributions of additional capital from Radian Group Inc. ("Radian Group") to our mortgage insurance subsidiaries; and (4) the realization of gains in our investment portfolio through open market sales of securities. See "Risk Factors—Losses in our mortgage insurance and financial guaranty businesses have reduced Radian Guaranty's statutory surplus and increased Radian Guaranty's risk-to-capital ratio; additional losses in these businesses, without a corresponding increase in new capital or capital relief, would further negatively impact this ratio, which could limit Radian Guaranty's ability to write new insurance and increase restrictions and requirements placed on Radian Guaranty" in Part II, Item 1A of this Quarterly Report.

In the event that Radian Guaranty exceeds the risk-based capital requirements imposed by the RBC States, we have the ability to continue writing new mortgage insurance business in those states through a combination of state-specific waivers or similar relief and by writing business in Radian Mortgage Assurance Inc. ("RMAI"), which has been approved by Fannie Mae and Freddie Mac as an eligible mortgage insurer subject to certain requirements.

Financial Guaranty

- Net Par Outstanding. Our financial guaranty segment's net par outstanding was $41.5 billion as of June 30, 2012, compared to $69.2 billion at December 31, 2011. This reduction in net par outstanding was primarily due to the Assured Transaction, the 2012 CDO Terminations and the Commutation Transactions, as well as the amortization or scheduled maturity of our insured portfolio and prepayments of public finance transactions. We expect our net par outstanding will continue to decrease over time as our financial guaranty portfolio matures and as we proactively seek to reduce our financial guaranty net par outstanding.
- Credit Performance. The percentage of internally rated AAA credits in our insured portfolio increased to 50.6% of our net par outstanding at June 30, 2012, from 44.9% at December 31, 2011. In addition, the percentage of internally rated BBB credits increased to 27.5% of our net par outstanding at June 30, 2012, from 22.0% at December 31, 2011. The BIG exposure increased to 7.0% of our total portfolio as of June 30, 2012, from 5.9% as of December 31, 2011. These changes in the ratings mix of our financial guaranty segment's insured portfolio were primarily due to the Assured Transaction, the Commutation Transactions and the 2012 CDO Terminations.
- Public Finance. Our public finance insured portfolio continues to experience some stress from the general economic downturn and slow economic recovery. As of June 30, 2012, approximately 10.1% of our total financial guaranty segment's public finance net par outstanding consisted of credits rated BIG, compared to 4.5% as of December 31, 2011. The percentage of AA or A rated public finance credits declined from 47.5% to 21.1% between December 31, 2011 and June 30, 2012. The ratings mix shift in our public finance portfolio was primarily caused by the Assured Transaction, which reduced the public finance portfolio by $15.0 billion and removed 45% of public finance net par outstanding from our insured portfolio. The percentage of our total net par outstanding from public finance obligations decreased from 47.6% to 39.5% of our total net par outstanding between December 31, 2011 and June 30, 2012.

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As of June 30, 2012, we had an aggregate of $3.7 billion net par exposure to healthcare and long-term care credits and our net claim liability for our healthcare and long-term care exposure was $15.3 million. More hospitals have been experiencing a decrease in patient revenues as a result of a significant decline in patient volumes, increased charity care and limited increases in commercial and government reimbursements. Many healthcare institutions are reporting that further expense reduction efforts are unrealistic and that operating losses are expected as healthcare inflation out-paces weak revenue growth. Further, long-term care facilities generally have been experiencing gradually declining occupancies, reduced debt service coverage margins and slowly eroding cash positions. If these trends continue, it could result in further credit deterioration and require increases in our net claim liability and loss reserves related to our healthcare and long-term care credits.

As of June 30, 2012, we had an aggregate of $6.6 billion net par exposure to general obligations and other tax supported credits. Our net claim liability for our general obligations and other tax supported exposure was $28.9 million as of June 30, 2012. Although states and municipalities generally have been able to withstand stresses caused by the difficult economic environment and challenges facing the municipal sector to date, the lagging impact on municipal governments from the most recent economic downturn is becoming more evident. We expect the negative trend in this sector to continue through at least the end of 2013, due to the tepid economic recovery, federal funding reductions (including the end of federal stimulus revenues), expected Medicare cuts, and continued stress on tax-based revenue receipts (in particular where tax revenues are derived from the value of real estate, as discussed below). We expect this negative trend to continue to strain the ability of government entities to maintain balanced budgets and adequate liquidity to meet near-term financial obligations. We may continue to experience further credit deterioration and municipal defaults in our government-related insured credits, which could require increases in our net claim liability with respect to these credits.

We have seen some credit deterioration in our insured portfolio of other-tax-supported bond transactions, in particular those that are payable from real estate tax revenues derived from the value of real estate in narrowly defined special districts or from special assessments for improvements on certain properties. Declining property values have reduced the assessed value of the tax base in these jurisdictions, resulting in reduced tax revenues being available to pay interest and principal on these insured bonds. We may experience further credit deterioration in these transactions, which would increase the likelihood that ultimately we would be required to make claim payments with respect to these bonds, especially those from special districts. Our net par exposure to this portfolio was approximately $2.4 billion as of June 30, 2012, a reduction from $4.1 billion as of December 31, 2011, primarily due to the Assured Transaction.

Our international sovereign and sub-sovereign (collectively, “Sovereign”) net par exposure declined 60% from $495.4 million at December 31, 2011, to $196.4 million at June 30, 2012, primarily due to the Assured Transaction, partially offset by a reclassification of certain international indebtedness as Sovereign. As of June 30, 2012, 51.0% of our Sovereign net par exposure is rated at least investment grade, while 49.0% is rated BIG. All of our BIG exposure relates to Portugal, Ireland, Greece, Spain and Hungary (collectively with Italy, the “Stressed European Countries”) whose Sovereign obligations have been under particular stress due to economic uncertainty, potential restructuring and ratings downgrades. Our Sovereign net par exposure to the Stressed European Countries was $116.3 million as of June 30, 2012, of which $45.5 million is related to Spain, $27.8 million is related to Greece, $22.1 million is related to Hungary, $20.0 million is related to Italy, and $0.9 million is related to Portugal, with no such exposure to Ireland. Our net claim liability to Sovereign exposures as of June 30, 2012 is $23.1 million, all of which is related to Greece. Substantially all of our Sovereign exposure to Spain is to an infrastructure project backed by the province of Valencia, which has requested financial assistance from the Spanish government under a recently created program from the Spanish government to assist cash-strapped regions. In addition, we anticipate that our Sovereign exposure to Greece will be settled in full in the second half of 2012. Due to volatile economic conditions and uncertainty, particularly in the Stressed European Countries, we believe that there is significant risk of negative ratings and net claim liability developments in our Sovereign insured credits in the Stressed European Countries over the next few quarters. In addition to our Sovereign net par exposure, Sovereign obligations represent approximately 0.6% of the collateral in our insured portfolio of corporate CDOs, including less than 0.1% to each of Spain and Hungary, the only Stressed European Countries included within the collateral in our insured portfolio of corporate CDOs.

- Structured Finance. The percentage of internally rated AAA credits in our structured finance portfolio declined to 77.3% at June 30, 2012, from 79.5% at December 31, 2011, mainly due to the Commutation Transactions and the 2012 CDO Terminations. The Commutation Transactions, which removed $1.1 billion of BIG structured finance credits from our portfolio, improved the ratings mix of our structured finance portfolio by reducing the percentage of our BIG structured finance net par outstanding from 9.3% as of December 31, 2011, to 5.0% as of June 30, 2012. The 2012 CDO Terminations also reduced the net par outstanding of the corporate CDOs scheduled to mature in 2012, 2013 and 2014 by 63%, 29% and 31%, respectively.

We have seen stabilization and improved performance across many of the transactions in our directly insured TruPs CDO portfolio. Banks within these insured transactions continue to show improved performance, while insurance companies in these transactions remain generally stable. As of June 30, 2012, our weighted average internal rating for our directly insured TruPs bonds improved from BB at December 31, 2011, to BBB- as of June 30, 2012, primarily due to the Commutation Transactions. See "Results of Operations—Financial Guaranty—Financial Guaranty Exposure Information" below for additional information regarding changes in the credit performance of our insured TruPs CDO portfolio.

Our insured CDO of commercial mortgage-backed securities ("CMBS") transactions experienced mixed performance during the first six months of 2012. While the average total delinquencies in the collateral supporting our CDOs of CMBS declined with respect to one CDO of CMBS, and increased with respect to one CDO of CMBS during the first half of 2012, the aggregate average total delinquencies in the collateral supporting all of our CDOs of CMBS did not change materially during this period. Moreover, loss severities have improved within many of the CMBS backing these CDOs during the first six months of 2012. Our maximum total exposure to interest shortfalls on all of our CDO of CMBS transactions is limited to the aggregate of $6.1 million of contractual premium payable over the remaining life of the contracts. We have again seen interest shortfalls across some of the CMBS tranches that back our CDOs as a result of reductions in the appraised value of properties that allowed servicers to stop making advances for interest, as well as due to expenses related to the liquidation of certain properties. During the second quarter of 2012, two of the CMBS tranches that back one of our CDOs experienced interest shortfalls that exhausted the interest subordination available to us. We project that these shortfalls will be eventually repaid to us. Despite the occurrence of an interest shortfall, the overall credit quality of the affected CDO of CMBS transaction did not change materially during the first six months of 2012 and, as a result, its internal rating of AA was unchanged. Due to deterioration in the performance of one of our CMBS transactions, it was downgraded from BBB to BBB- during the first quarter of 2012. Our internal ratings for our other three CMBS transactions remained unchanged (two are internally rated AAA and one AA) as of June 30, 2012. We do not expect to pay net claims on our CDO of CMBS transactions.

Results of Operations

Our results for the first half of 2012 were negatively impacted by the change in fair value of derivative and other financial instruments, including the impact of the Commutation Transactions. Radian Group's CDS spread tightened during this time period, which resulted in a corresponding increase in the fair value liability of our insured obligations. See "Item 3.—Quantitative and Qualitative Disclosures About Market Risk" for additional information about the impact of changes in Radian Group's five-year CDS spread on the fair value of certain of our financial instruments.

Because we have the ability to hold our financial guaranty contracts to maturity, changes in market spreads are not necessarily indicative of our ultimate net credit loss payments with respect to these obligations. Our estimated credit loss payments presented in the table below represent our current estimate of the present value (net of estimated recoveries) of claims that we expect to pay or recoveries that we expect to receive on our insured credit derivatives and net variable interest entity ("VIE") liabilities. As illustrated in the table below, expected recoveries for our insured credit derivatives and VIEs exceeded estimated credit loss payments for these transactions as of June 30, 2012. This change from prior periods is primarily the result of the Commutation Transactions, including our expected salvage recovery on the Terminated TruPs CDOs. The estimated fair value of our insured credit derivatives and VIEs is measured as of a specific point in time and may be influenced by changes in interest rates, credit spreads, credit ratings and other market, asset-class and transaction-specific conditions, as well as factors that may be unrelated to our obligation to pay future claims. Other factors that may cause a difference between the fair value of these obligations and our estimated credit loss payments include the effects of our non-performance risk and differing assumptions regarding discount rate and future performance, as well as the expected impact of our loss mitigation activities, including commutations. In the absence of credit losses, unrealized losses related to changes in fair value will reverse before or at the maturity of these obligations. In addition, we may agree to settle some or all of these obligations prior to maturity at amounts that are greater or less than their fair values at the time of settlement, which could result in the realization of additional gains or losses.

The following table summarizes the fair value amounts related to these instruments reflected on our condensed consolidated balance sheet at June 30, 2012, and the present value of our estimated credit loss payments (recoveries) on these instruments. Because the present value of our estimated credit loss payments currently is less than the net fair value liability, we expect the fair value liability ultimately to reverse before or at the maturity of these transactions.

(In millions)	NIMS	Financial Guaranty Derivatives and VIEs	Total
Balance Sheet			
Other invested assets	$—	$75.4	$75.4
Derivative assets	1.7	12.5	14.2
Other assets	—	100.7	100.7
Total assets	1.7	188.6	190.3
Derivative liabilities	—	220.0	220.0
VIE debt-at fair value	7.5	100.3	107.8
Accounts payable and accrued expenses	—	0.4	0.4
Total liabilities	7.5	320.7	328.2
Total fair value net liabilities	$5.8	$132.1	$137.9
Present value of estimated credit loss payments (recoveries) (1)	$14.5	$(72.2)	$(57.7)

(1) Represents the present value of our estimated credit loss payments (net of estimated recoveries) for those transactions for which we currently anticipate paying net losses or receiving recoveries of losses already paid. In April 2012, as part of the Commutation Transactions, we made a payment with respect to the Terminated TruPs CDOs for which we currently expect a significant recovery. There are no significant credit loss payments expected on the remaining fair value derivatives or VIEs, and when combined with the recovery expected on the Terminated TruPs CDOs, this results in an aggregate net recovery as of June 30, 2012. The present value is calculated using a discount rate of 2.4%, which represents our current investment yield.

Results of Operations—Consolidated

Quarter and Six Months Ended June 30, 2012 Compared to Quarter and Six Months Ended June 30, 2011

The following table summarizes our consolidated results of operations for the periods indicated:

	Three Months Ended June 30,		% Change	Six Months Ended June 30,		% Change
($ in millions)	2012	2011	2012 vs. 2011	2012	2011	2012 vs. 2011
Net (loss) income	$(119.3)	$137.1	n/m	$(288.5)	$240.1	n/m
Net premiums written—insurance	181.9	152.8	19.0 %	259.6	335.5	(22.6)%
Net premiums earned—insurance	186.8	188.9	(1.1)	354.1	392.0	(9.7)
Net investment income	30.9	43.8	(29.5)	65.6	86.1	(23.8)
Net gains on investments	26.4	44.3	(40.4)	93.9	81.7	14.9
Change in fair value of derivative instruments	(33.1)	188.7	n/m	(105.9)	432.6	n/m
Net (losses) gains on other financial instruments	(61.9)	5.0	n/m	(79.7)	80.3	n/m
Gain on sale of affiliate	7.7	—	n/m	7.7	—	n/m
Other income	1.4	1.2	16.7	2.8	2.6	7.7
Provision for losses	210.9	263.6	(20.0)	477.0	690.9	(31.0)
Change in reserve for premium deficiency	0.6	(3.1)	n/m	0.5	(4.5)	n/m
Policy acquisition costs	10.8	14.4	(25.0)	38.9	28.5	36.5
Other operating expenses	40.2	46.0	(12.6)	90.3	92.2	(2.1)
Interest expense	12.6	16.1	(21.7)	26.7	33.1	(19.3)
Equity in net income of affiliates	—	—	—	—	0.1	(100.0)
Income tax provision (benefit)	2.4	(2.0)	n/m	(6.5)	(5.1)	27.5

n/m – not meaningful

Net (Loss) Income. Our results for the three and six months ended June 30, 2012, reflect realized and unrealized losses in the change in fair value of derivative instruments and net losses on other financial instruments, compared to significant gains for such items for the same periods in 2011. The provision for losses for both the three and six months ended June 30, 2012, also declined significantly from the comparable periods in 2011. See "Results of Operations—Mortgage Insurance—Quarter and Six Months Ended June 30, 2012 Compared to Quarter and Six Months Ended June 30, 2011—Provision for Losses" and "Results of Operations—Financial Guaranty—Quarter and Six Months Ended June 30, 2012 Compared to Quarter and Six Months Ended June 30, 2011—Provision for Losses" below for further information.

Net Premiums Written and Earned. Net premiums written increased and net premiums earned decreased for the three months ended June 30, 2012, compared to the same period of 2011. Net premiums written and earned for the six months ended June 30, 2012, decreased compared to the same period of 2011, primarily due to the impact of the Assured Transaction in our financial guaranty segment. See "Results of Operations—Mortgage Insurance—Quarter and Six Months Ended June 30, 2012 Compared to Quarter and Six Months Ended June 30, 2011—Net Premiums Written and Earned" and "Results of Operations—Financial Guaranty—Quarter and Six Months Ended June 30, 2012 Compared to Quarter and Six Months Ended June 30, 2011—Net Premiums Written and Earned" below for further information.

Net Investment Income. The decrease in net investment income during the three and six months ended June 30, 2012, as compared to the same periods of 2011, was primarily due to a decline in our total investment balance as a result of negative operating cash flows, as well as a shift from higher yielding securities in our investment portfolio to lower yielding investments. Our allocation to short-term and short duration investments remains high in anticipation of near-term claim payments in our mortgage insurance segment, and this allocation, combined with certain sales and subsequent reinvestment of longer duration securities in a low interest rate environment, has resulted in a lower yield profile for the portfolio.

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Net Gains on Investments. The components of the net gains on investments for the periods indicated are as follows:

(In millions)	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Net unrealized (losses) gains related to change in fair value of trading securities	$(15.1)	$51.0	$15.0	$76.7
Net realized gains (losses) on sales	41.5	(6.7)	78.9	5.0
Net gains on investments	$26.4	$44.3	$93.9	$81.7

During 2012, as market prices of our investments strengthened, we made the decision to opportunistically realize gains in the investment portfolio. During the second quarter of 2011, we sold all of our interests in certain bonds held in our available for sale portfolio that were issued as part of securitizations collateralized by the Master Settlement Agreement among certain domestic tobacco manufacturers and 46 states and certain territories (the "Tobacco Bonds"), realizing a loss on the sale of $53.7 million. These losses were substantially offset by gains on sales of other securities in our trading portfolio.

Change in Fair Value of Derivative Instruments. The components of the (losses) gains included in change in fair value of derivative instruments for the periods indicated are as follows:

(In millions)	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Net premiums earned—derivatives	$7.3	$10.5	$15.9	$21.4
Financial Guaranty credit derivatives	(39.2)	181.9	(119.4)	416.5
Financial Guaranty VIE derivatives	(1.2)	(4.0)	(2.4)	(4.9)
NIMS related and other	—	0.3	—	(0.4)
Change in fair value of derivative instruments	$(33.1)	$188.7	$(105.9)	$432.6

The losses experienced during the three and six months ended June 30, 2012, include losses from the Commutation Transactions that occurred during the second quarter of 2012. As a result of our payment related to the Terminated TruPs CDOs, we recorded a loss representing the difference between the amount paid and the fair value liability we had recorded previously. Also impacting the six months ended June 30, 2012, was the tightening of Radian Group's five-year CDS spread which resulted in unrealized losses, compared to a widening of the spread during the three and six months ended June 30, 2011, which resulted in large unrealized gains. See "Results of Operations—Financial Guaranty—Quarter and Six Months Ended June 30, 2012 Compared to Quarter and Six Months Ended June 30, 2011—Change in Fair Value of Derivative Instruments" below for further information.

The following table quantifies the impact of our non-performance risk on our derivative assets, derivative liabilities and net VIE liabilities (in aggregate by type) presented in our condensed consolidated balance sheets. Radian Group's five-year CDS spread is presented as an illustration of the market's view of our non-performance risk; the CDS spread used in the valuation of specific liabilities is typically based on the remaining term of the instrument. Although the CDS spreads reflect the market's view of our non-performance risk, this magnitude of tightening should not be interpreted as a proportional decrease in our non-performance risk. The non-performance risk is commonly measured by default probability, which lowers as the spread tightens. Radian Group's five-year CDS spread at June 30, 2012, implies a market view that there is a 70% probability that Radian Group will default in the next five years, as compared to an 83.5% implied probability of default at December 31, 2011.

(In basis points)	June 30, 2012	December 31, 2011	June 30, 2011	December 31, 2010
Radian Group's five-year CDS spread	1,780	2,732	968	465

(In millions)	Fair Value Liability before Consideration of Radian Non-Performance Risk June 30, 2012	Impact of Radian Non-Performance Risk June 30, 2012	Fair Value (Asset) Liability Recorded June 30, 2012
Product			
Corporate CDOs	$ 258.4	$ 259.2	$ (0.8)
Non-Corporate CDO-related	915.0	797.8	117.2
NIMS-related	13.0	7.2	5.8
Total	$ 1,186.4	$ 1,064.2	$ 122.2

(In millions)	Fair Value Liability before Consideration of Radian Non-Performance Risk December 31, 2011	Impact of Radian Non-Performance Risk December 31, 2011	Fair Value Liability Recorded December 31, 2011
Product			
Corporate CDOs	$ 463.1	$ 458.0	$ 5.1
Non-Corporate CDO-related	1,520.2	1,405.3	114.9
NIMS-related	17.4	9.6	7.8
Total	$ 2,000.7	$ 1,872.9	$ 127.8

Net (Losses) Gains on Other Financial Instruments. The components of the net (losses) gains on other financial instruments for the periods indicated are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	2012	2011	2012	2011
Net (losses) gains related to NIMS VIE debt	$ —	$ (0.6)	$ (2.5)	$ 1.8
(Losses) gains related to change in fair value of Financial Guaranty VIE debt	(68.3)	(43.5)	(101.8)	27.0
Gains related to other Financial Guaranty VIE assets	5.9	14.4	9.3	18.3
Gain on the purchase of long-term debt	0.7	—	15.9	—
Foreign currency gain related to the liquidation of a foreign subsidiary	—	39.6	—	39.6
Other	(0.2)	(4.9)	(0.6)	(6.4)
Net (losses) gains on other financial instruments	$ (61.9)	$ 5.0	$ (79.7)	$ 80.3

The results for the three and six months ended June 30, 2012, were mainly impacted by the loss on the termination of our CDO of ABS. Additionally, in the first half of 2012, we purchased $158.7 million aggregate principal amount of our 5.625% Senior Notes Due 2013 (the "2013 Notes"), which resulted in a gain. The results for the three and six months ended June 30, 2011, were mainly impacted by the liquidation of one of our foreign subsidiaries, and also by the movement of Radian Group's five-year CDS spread. See "Results of Operations—Financial Guaranty—Quarter and Six Months Ended June 30, 2012 Compared to Quarter and Six Months Ended June 30, 2011—Net (Losses) Gains on Other Financial Instruments" below for further information.

Gain on Sale of Affiliate. The results for both the three and six months ended June 30, 2012, reflect the gain on the sale of the FG Insurance Shell, which was completed in the second quarter of 2012 as part of the Assured Transaction.

Provision for Losses. The provision for losses for the three and six months ended June 30, 2012, decreased from the comparable periods of 2011, due to the significant decrease in our mortgage insurance provision for losses as a result of a decline in new default notices and less negative development with regard to the composition of our default inventory. The provision for losses for 2012 and 2011 reflected an increase in our incurred but not reported ("IBNR") reserve estimate related to an increase in our estimate of future reinstatements of previously rescinded policies and denied claims, which partially offset the impact of an increase in the level of claim denials. The increase in the provision for losses in our financial guaranty segment during the first half of 2012, was primarily due to increased loss developments in our public finance reinsurance business associated with our exposure to Greece. See "Results of Operations—Mortgage Insurance—Quarter and Six Months Ended June 30, 2012 Compared to Quarter and Six Months Ended June 30, 2011—Provision for Losses" and "Results of Operations—Financial Guaranty—Quarter and Six Months Ended June 30, 2012 Compared to Quarter and Six Months Ended June 30, 2011—Provision for Losses" below for further information.

Policy Acquisition Costs. Policy acquisition costs for the three and six months ended June 30, 2012, reflect the impact of the update to the accounting standard regarding acquisition costs on insurance contracts, under which we are deferring fewer costs, which in turn lowers the amortization. Policy acquisition costs for the six months ended June 30, 2012, also reflects the write-off of deferred acquisition costs in our financial guaranty segment as a result of the Assured Transaction.

Other Operating Expenses. The decrease in other operating expenses for the three months ended June 30, 2012, compared to the same period of 2011, reflects: (i) a $6.6 million decrease in stock-based compensation; and (ii) a $2.2 million reduction in the provision for contract underwriting, partially offset by an increase in consulting fees. The decrease in other operating expenses for the six months ended June 30, 2012, compared to the same period of 2011, reflects an $8.6 million decrease in compensation costs, including stock-based compensation, partially offset by: (i) a $2.2 million increase in legal fees; (ii) a $2.5 million increase in consulting fees; and (iii) a $2.8 million increase in stock-based director fees.

Interest Expense. These amounts reflect interest on our long-term debt. The decrease in 2012 compared to 2011, is due to the maturity in June 2011, of our 7.75% Debentures. Also in the first half of 2012, we purchased $158.7 million aggregate principal amount of our 2013 Notes, which reduced our interest expense in 2012.

Income Tax Provision (Benefit). The income tax provision for the three months and the income tax benefit for the six months ended June 30, 2012, were impacted by a change in the valuation allowance against our deferred tax asset ("DTA") due to results from continuing operations. The income tax benefit for the three and six months ended June 30, 2011, was impacted by state and foreign taxes, the tax effect relating to uncertain income tax positions, the liquidation of one of our foreign subsidiaries and a change in the valuation allowance against our DTA due to results of continuing operations.

Results of Operations—Mortgage Insurance

Quarter and Six Months Ended June 30, 2012 Compared to Quarter and Six Months Ended June 30, 2011

The following table summarizes our mortgage insurance segment's results of operations for the periods indicated:

	Three Months Ended June 30,		% Change	Six Months Ended June 30,		% Change
($ in millions)	2012	2011	2012 vs. 2011	2012	2011	2012 vs. 2011
Net loss	$(23.0)	$(97.6)	(76.4)%	$(68.2)	$(333.6)	(79.6)%
Net premiums written—insurance	182.5	164.2	11.1	379.4	345.0	10.0
Net premiums earned—insurance	170.8	164.3	4.0	344.2	350.5	(1.8)
Net investment income	17.6	24.9	(29.3)	35.6	51.7	(31.1)
Net gains on investments	26.7	27.5	(2.9)	58.9	45.2	30.3
Change in fair value of derivative instruments	(0.1)	0.3	n/m	—	(0.1)	(100.0)
Net (losses) gains on other financial instruments	—	(0.7)	(100.0)	(0.7)	1.8	n/m
Other income	1.3	1.1	18.2	2.6	2.5	4.0
Provision for losses	208.1	270.0	(22.9)	442.8	684.0	(35.3)
Change in reserve for premium deficiency	0.6	(3.1)	n/m	0.5	(4.5)	n/m
Policy acquisition costs	7.9	8.6	(8.1)	16.5	18.8	(12.2)
Other operating expenses	31.3	33.9	(7.7)	67.5	68.1	(0.9)
Interest expense	1.7	0.1	n/m	3.4	9.9	(65.7)
Income tax (benefit) provision	(10.2)	5.4	n/m	(22.0)	8.9	n/m

n/m – not meaningful

Net Loss. The improvement in the results for the three and six months ended June 30, 2012, compared to the same periods of 2011, primarily reflects a significant decrease in the provision for losses. See "Results of Operations—Mortgage Insurance—Quarter and Six Months Ended June 30, 2012 Compared to Quarter and Six Months Ended June 30, 2011—Provision for Losses" below for further information.

Net Premiums Written and Earned. Net premiums written increased for the three and six months ended June 30, 2012, compared to the same periods of 2011, primarily resulting from an increase in direct premiums written due to an increase in single premium policies originated in 2012. These increases in 2012 were partially offset by an increase in ceded premiums written as a result of the 2012 Quota Share Reinsurance Transaction, offset by a decrease in Smart Home and captive premiums as these transactions were terminated or run off. Net premiums earned increased in the three months ended June 30, 2012, compared to the same period of 2011, primarily due to increases in direct premiums earned as a result of an increase in new insurance written and a decrease in premiums refunded in connection with rescissions. Net premiums earned decreased in the six months ended June 30, 2012, compared to the same period of 2011, primarily due to an increase in ceded premiums as a result of the 2012 Quota Share Reinsurance Transaction, as well as lower premiums from second-lien and international business as this business runs off.

The following table provides additional information related to premiums written and earned for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	2012	2011	2012	2011
Premiums written				
Primary and Pool Insurance	$181,996	$163,556	$378,317	$343,813
Second-lien	482	592	993	1,212
International	40	46	61	15
Total premiums written—insurance	$182,518	$164,194	$379,371	$345,040
Premiums earned				
Primary and Pool Insurance	$169,898	$162,388	$342,379	$345,857
Second-lien	482	592	993	1,212
International	383	1,345	842	3,390
Total premiums earned—insurance	$170,763	$164,325	$344,214	$350,459

Net Investment Income. Our mortgage insurance net investment income decreased for the three and six months ended June 30, 2012, compared to the same periods of 2011, primarily due to a decline in our total investment balance as a result of negative operating cash flows, as well as a shift from higher yielding securities in our investment portfolio to lower yielding investments. Our allocation to short-term and short duration investments remains high in anticipation of near-term claim payments in our mortgage insurance segment, and this allocation, combined with certain sales of securities and subsequent reinvestment of longer duration securities in a low interest rate environment, has resulted in a lower yield profile for the portfolio. All periods include an allocation to the mortgage insurance segment of net investment income from Radian Group based on allocated capital, which was lower in 2012 compared to 2011.

Net Gains on Investments. The components of the net gains on investments for the periods indicated are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	2012	2011	2012	2011
Net unrealized (losses) gains related to change in fair value of trading securities	$(5.3)	$19.4	$12.0	$31.8
Net realized gains on sales	32.0	8.1	46.9	13.4
Net gains on investments	$26.7	$27.5	$58.9	$45.2

During 2012, as market prices of our investments strengthened, we made the decision to opportunistically realize gains in the investment portfolio. During the second quarter of 2011, we sold our investment in a portfolio of Tobacco Bonds as discussed above, and recognized $21.7 million in realized losses in our mortgage insurance segment. These losses were more than offset by gains on sales of other securities in our trading portfolio.

Provision for Losses. Our mortgage insurance provision for losses decreased for the three and six months ended June 30, 2012, compared to the same periods of 2011. The following table details the financial impact of the significant components of our provision for losses for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	2012	2011	2012	2011
New defaults	$153.3	$182.3	$300.0	$363.3
Existing defaults (1)	32.5	90.5	87.5	317.4
Second-liens, Loss adjustment expense (“LAE”) and Other (2)	22.3	(2.8)	55.3	3.3
Provision for losses	$208.1	$270.0	$442.8	$684.0

(1) Represents the provision for losses attributable to loans that were in default as of the beginning of each period indicated, including: (a) the change in reserves for loans that were in default status (including pending claims) as of both the beginning and end of each period indicated; (b) the net impact to provision for losses from loans that were in default as of the beginning of each period indicated but were either a cure, a prepayment, a paid claim or a rescission or denial during the period indicated; and (c) the impact to our IBNR reserve during the period related to changes in actual and estimated reinstatements of previously rescinded policies and denied claims.

(2) Includes the effect of reinsurance recoveries from captive and Smart Home transactions (including a $40 million write-down of Smart Home recoverables for the first half of 2012), second-lien activity, LAE and other miscellaneous loss-related activity.

Our mortgage insurance provision for losses for the three and six months ended June 30, 2012, decreased by $61.9 million and $241.2 million, respectively, as compared to the corresponding periods of 2011. This decrease was driven primarily by a decline in new default notices and less negative developments related to aging of the delinquent loan inventory (including changes associated with the aging of delinquent loans and loans moving into pending claim status), which more than offset the decrease in cures as compared to the corresponding periods of 2011. In addition, the negative impact from unanticipated reinstatements of policies and claims previously rescinded or denied in prior periods declined in 2012 as compared to 2011. Partially offsetting these positive developments was an increase in other losses, related primarily to a decrease in our estimated reinsurance recoverable from our remaining Smart Home transactions. This decrease was as a result of recent trends of lower claims paid and higher insurance rescissions and claim denials than were previously estimated to occur by the scheduled termination dates of our Smart Home transactions. In the second quarter of 2012, we terminated one of the remaining Smart Home transactions (which otherwise would have matured in November 2012). The final remaining Smart Home transaction is scheduled to mature in June 2013.

Our aggregate weighted average estimated default to claim rate (net of estimated insurance rescissions and claim denials) was approximately 46% at June 30, 2012, compared to 43% at both December 31, 2011 and June 30, 2011. Our reported rescission and denial activity in any given period is subject to future challenges by our lender customers. Recent trends in insurance rescission and claim denial activity reflect a significant relative shift toward more claim denials, which result primarily from the failure of our lender customers to provide the documentation required to perfect a claim submission. Subsequent to our initial claim denials, lenders have demonstrated an ability to produce the additional information needed for a significant portion of previously denied claims. We expect that a portion of previously rescinded policies will be reinstated and a large portion of previously denied claims will be resubmitted with the required documentation and ultimately paid, and we have considered this expectation in developing our IBNR reserve estimate. This IBNR estimate, which consists primarily of our estimate of the future reinstatements of previously rescinded policies and denied claims, was $249.5 million and $170.6 million at June 30, 2012 and December 31, 2011, respectively.

The following table illustrates the impact of estimated insurance rescissions and claim denials on our loss reserve estimates as of the dates indicated:

(In millions)

	June 30, 2012	December 31, 2011	June 30, 2011
Decrease to our loss reserve due to estimated future rescissions and denials	$532	$ 631	$655

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The following table illustrates the amount of first-lien claims submitted to us for payment that were rescinded or denied during the periods indicated:

(In millions)	Three Months Ended June 30, 2012	2011	Six Months Ended June 30, 2012	2011
Rescissions—first loss position	$51.8	$126.6	$91.9	$220.4
Denials—first loss position	174.3	14.2	350.7	38.8
Total first loss position (1)	226.1	140.8	442.6	259.2
Rescissions—second loss position	12.9	41.2	25.5	72.2
Denials—second loss position	18.4	11.0	54.4	13.7
Total second loss position (2)	31.3	52.2	79.9	85.9
Total first-lien claims submitted for payment that were rescinded or denied (3)	$257.4	$193.0	$522.5	$345.1

(1) Related to claims from policies in which we were in a first loss position and would have paid the claim absent the rescission or denial.

(2) Related to claims from policies in which we were in a second loss position. These claims may not have resulted in a claim payment obligation absent the rescission or denial, due to deductibles and other exposure limitations included in our policies.

(3) Includes an amount related to a small number of submitted claims that were subsequently withdrawn by the insured.

The following table shows the projected net cumulative denial and rescission rates, net of both actual and expected reinstatements, as of June 30, 2012, on our total first-lien portfolio for each quarter in which the claims were received:

Claim Received Quarter	Projected Net Cumulative Rescission/Denial Rates for Each Quarter (1)	Percentage of Claims Resolved (2)
Q4 2009	20.1%	100%
Q1 2010	18.1%	100%
Q2 2010	17.2%	99%
Q3 2010	15.5%	99%
Q4 2010	16.9%	99%
Q1 2011	20.4%	98%
Q2 2011	22.6%	94%
Q3 2011	25.5%	88%
Q4 2011	22.3%	79%

(1) Projected net cumulative rescission/denial rates represent the ratio of claims rescinded or denied to claims received (by claim count). Rescissions and denials are net of actual reinstatements, plus our current estimate for expected reinstatements of previously rescinded or denied claims. These amounts represent the cumulative rates for each quarter as of June 30, 2012. Until all of the claims received during the periods shown have been internally resolved, the rescission/denial rates for each quarter will be subject to change. As discussed in footnote (2) below, these rates also will remain subject to change based on differences between estimated and actual reinstatements of previously rescinded policies or denied claims.

(2) The percentage of claims resolved for each quarter presented in the table above, represents the number of claims that have been internally resolved as a percentage of the total number of claims received for that specific quarter. A claim is considered internally resolved when it is either paid or it is concluded that the claim should be denied or rescinded, though such denials or rescissions could be challenged and, potentially reinstated or overturned, respectively. For the first and second quarters of 2012, a significant portion of claims received for those quarters have not been internally resolved; therefore, we do not believe the cumulative rescission/denial rates for those

periods are presently meaningful and therefore they are not presented.

Other Operating Expenses. The decrease in other operating expenses for the three months ended June 30, 2012 was primarily due to a $6.5 million decrease in stock-based compensation and a $2.2 million decrease in the provision for contract underwriting expenses due to lower estimated remedy expenses. Partially offsetting these decreases was a $3.6 million increase in consulting fees. The decrease in other operating expenses for the six months ended June 30, 2012 was due to a decrease in compensation costs, including stock-based compensation, and a decrease in the provision for contract underwriting expenses, partially offset by increases in premiums taxes, consulting fees and legal fees. All periods of 2012 reflect an increase in other operating expenses as a result of a reduction in the amount of acquisition costs that were deferred as a result of an update to the accounting standard regarding accounting for costs associated with acquiring or renewing insurance contracts. Contract underwriting expenses for the three and six months ended June 30, 2012 were $5.1 million and $7.1 million, respectively, compared to $6.0 million and $9.7 million, respectively, for the corresponding periods of 2011. These decreases were primarily due to decreases in estimated remedy expenses for loans previously written via contract underwriting. During the first half of 2012, loans underwritten via contract underwriting accounted for 6.1% of applications, 5.9% of commitments for insurance and 5.7% of insurance certificates issued, compared to 12.5%, 11.8% and 12.5%, respectively, for the first half of 2011.

Interest Expense. The results for the three and six months ended June 30, 2012 were impacted by a reduction in the allocation of interest expense to our mortgage insurance segment as compared to the comparable periods of 2011, which is based on relative equity for the mortgage insurance segment calculated in accordance with GAAP.

Income Tax (Benefit) Provision. The income tax benefit for the three and six months ended June 30, 2012, was impacted by a change in the valuation allowance against our DTA due to results from continuing operations. The income tax provision for the comparable periods of 2011 was impacted by state and foreign taxes, the tax effect relating to uncertain income tax positions, and a change in the valuation allowance against our DTA due to results of continuing operations.

The following tables provide selected information as of and for the periods indicated for our mortgage insurance segment. All information is reported for our gross insured portfolio, unless specified otherwise. Certain statistical information included in the following tables is recorded based on information received from lenders and other third parties.

	Three Months Ended June 30,						Six Months Ended June 30,					
($ in millions)	2012			2011			2012			2011		
Primary NIW												
Prime	$8,330	99.9	%	$2,280	100.0	%	$14,790	99.9	%	$4,863	99.9	%
Alternative-A (“Alt-A”)	1	—		—	—		1	—		—	—	
A minus and below	4	0.1		—	—		9	0.1		3	0.1	
Total Primary	$8,335	100.0	%	$2,280	100.0	%	$14,800	100.0	%	$4,866	100.0	%

	Three Months Ended June 30,						Six Months Ended June 30,					
($ in millions)	2012			2011			2012			2011		
Total primary NIW by FICO (1) Score												
>=740	$6,326	75.9	%	$1,846	81.0	%	$11,246	76.0	%	$3,927	80.7	%
680-739	1,816	21.8		434	19.0		3,216	21.7		936	19.2	
620-679	193	2.3		—	—		338	2.3		3	0.1	
Total Primary	$8,335	100.0	%	$2,280	100.0	%	$14,800	100.0	%	$4,866	100.0	%

(1) FICO credit scoring model.

	Three Months Ended June 30, 2012		Three Months Ended June 30, 2011		Six Months Ended June 30, 2012		Six Months Ended June 30, 2011	
Percentage of primary NIW								
Refinances	34	%	23	%	39	%	38	%
LTV (2)								
95.01% and above	1.3	%	1.4	%	1.5	%	1.3	%
90.01% to 95.00%	42.6	%	35.5	%	40.9	%	33.1	%
Adjustable Rate Mortgages ("ARMs")								
Less than five years	0.1	%	0.1	%	0.1	%	0.1	%
Five years and longer	2.5	%	6.9	%	2.5	%	5.8	%

(2) LTV ratios: The ratio of the original loan amount to the original value of the property.

($ in millions)	June 30, 2012			December 31, 2011			June 30, 2011		
Primary insurance in force									
Flow	$118,420	90.8	%	$113,438	89.9	%	$111,510	89.1	%
Structured	11,991	9.2		12,747	10.1		13,600	10.9	
Total Primary	$130,411	100.0	%	$126,185	100.0	%	$125,110	100.0	%
Prime	$112,112	86.0	%	$106,407	84.3	%	$103,860	83.0	%
Alt-A	11,383	8.7		12,344	9.8		13,318	10.7	
A minus and below	6,916	5.3		7,434	5.9		7,932	6.3	
Total Primary	$130,411	100.0	%	$126,185	100.0	%	$125,110	100.0	%
Primary risk in force									
Flow									
Prime	$25,951	88.9	%	$24,401	87.3	%	$23,637	86.1	%
Alt-A	2,022	6.9		2,200	7.9		2,374	8.7	
A minus and below	1,227	4.2		1,336	4.8		1,437	5.2	
Total Flow	$29,200	100.0	%	$27,937	100.0	%	$27,448	100.0	%
Structured									
Prime	$1,520	58.2	%	$1,610	58.4	%	$1,702	58.4	%
Alt-A	589	22.6		625	22.7		665	22.8	
A minus and below	500	19.2		520	18.9		546	18.8	
Total Structured	$2,609	100.0	%	$2,755	100.0	%	$2,913	100.0	%
Total									
Prime	$27,471	86.4	%	$26,011	84.8	%	$25,339	83.5	%
Alt-A	2,611	8.2		2,825	9.2		3,039	10.0	
A minus and below	1,727	5.4		1,856	6.0		1,983	6.5	
Total Primary	$31,809	100.0	%	$30,692	100.0	%	$30,361	100.0	%

($ in millions)	June 30, 2012			December 31, 2011			June 30, 2011		
Total primary risk in force by FICO Score									
Flow									
>=740	$13,868	47.5	%	$12,242	43.8	%	$11,196	40.8	%
680-739	9,265	31.7		9,205	33.0		9,327	34.0	
620-679	5,162	17.7		5,503	19.7		5,865	21.4	
<=619	905	3.1		987	3.5		1,060	3.8	
Total Flow	$29,200	100.0	%	$27,937	100.0	%	$27,448	100.0	%
Structured									
>=740	$690	26.4	%	$732	26.6	%	$776	26.6	%
680-739	757	29.0		802	29.1		848	29.1	
620-679	698	26.8		738	26.8		781	26.8	
<=619	464	17.8		483	17.5		508	17.5	
Total Structured	$2,609	100.0	%	$2,755	100.0	%	$2,913	100.0	%
Total									
>=740	$14,558	45.8	%	$12,974	42.3	%	$11,972	39.4	%
680-739	10,022	31.5		10,007	32.6		10,175	33.5	
620-679	5,860	18.4		6,241	20.3		6,646	21.9	
<=619	1,369	4.3		1,470	4.8		1,568	5.2	
Total Primary	$31,809	100.0	%	$30,692	100.0	%	$30,361	100.0	%
Percentage of primary risk in force									
Refinances	32	%		32	%		31	%	
ARMs									
Less than five years	4	%		5	%		5	%	
Five years and longer	6	%		7	%		7	%	

($ in millions)	June 30, 2012			December 31, 2011			June 30, 2011		
Total primary risk in force by LTV									
85.00% and below	$2,936	9.2	%	$2,772	9.0	%	$2,753	9.1	%
85.01% to 90.00%	12,265	38.6		11,861	38.6		11,722	38.6	
90.01% to 95.00%	11,648	36.6		10,735	35.0		10,268	33.8	
95.01% and above	4,960	15.6		5,324	17.4		5,618	18.5	
Total Primary	$31,809	100.0	%	$30,692	100.0	%	$30,361	100.0	%

($ in millions)	June 30, 2012			December 31, 2011			June 30, 2011		
Pool risk in force									
Prime	$1,471	76.8	%	$1,601	77.4	%	$1,676	75.6	%
Alt-A	113	5.9		122	5.9		132	6.0	
A minus and below	331	17.3		345	16.7		408	18.4	
Total pool risk in force	$1,915	100.0	%	$2,068	100.0	%	$2,216	100.0	%