RADIAN GROUP INC
Form 10-Q
May 10, 2013

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 March 31, 2013
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 o	Accelerated filer x	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: 172,866,785 shares of common stock, $0.001 par value per share, outstanding on May 1, 2013.

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, as amended, Section 21E of the Securities Exchange Act of 1934, as amended, 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," "estimat "potential," "continue," or the negative or other variations on these words and other similar expressions. These statements, which may include, without limitation, projections regarding our future performance and financial condition, are made on the basis of management's current views and assumptions with respect to future events. Any forward-looking statement is not a guarantee of future performance and actual results could differ materially from those contained in the forward-looking statement. These statements speak only as of the date they were made, and we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. We operate in a changing environment. New risks emerge from time to time and it is not possible for us to predict all risks that may affect us. The forward-looking statements, as well as our prospects as a whole, are subject to risks and uncertainties that could cause actual results to differ materially from those set forth in the forward-looking statements, including the following:

- changes in general economic and political conditions, including high unemployment rates and weakness in the U.S. housing and mortgage credit markets, a significant downturn in the U.S. or global economies, 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, legislative activity or inactivity or 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 certain geographic regions, including those affecting 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;
- a reduction in, or prolonged period of depressed levels of, home mortgage originations due to reduced liquidity in the lending market, tighter underwriting standards, and general reduced housing demand in the U.S., which may be exacerbated by regulations impacting home mortgage originations, including requirements established under the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act");
- the potential adverse impact on the mortgage origination market and on private mortgage insurers due to increased capital requirements for mortgage loans under proposed interagency rules to implement the third Basel Capital Accord, including in particular, the possibility that loans insured by the Federal Housing Administration ("FHA") will receive more favorable regulatory capital treatment than loans with private mortgage insurance;
- our ability to maintain an adequate risk-to-capital position, minimum policyholder position and other surplus requirements for Radian Guaranty Inc. ("Radian Guaranty"), our principal mortgage insurance subsidiary;
- our ability to continue to effectively mitigate our mortgage insurance and financial guaranty losses;
- a more rapid than expected decrease in the current elevated levels of mortgage insurance rescissions and claim denials, which have reduced our paid losses and resulted in a significant reduction in our loss reserves, including a decrease in net rescissions or denials resulting from an increase in the number of successful challenges to previously rescinded policies or claim denials, or caused by the government-sponsored entities intervening in mortgage insurers' loss mitigation practices, including settlements of disputes regarding loss mitigation activities;

- the negative impact that our loss mitigation activities may have on our relationships with 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, denials or claim curtailments, to increase our loss reserves for, and reassume risk on, rescinded loans or denied claims, and to pay additional claims, including amounts previously curtailed;
- any disruption in the servicing of mortgages covered by our insurance policies, as well as poor servicer performance;
- adverse changes in the severity or frequency of losses associated with certain products that we formerly offered (and which remain in our insured portfolio) that are riskier than traditional mortgage insurance or financial guaranty insurance policies;
- a decrease in the persistency rates of our mortgage insurance policies, which has the effect of reducing our premium income on our monthly premium policies and could decrease the profitability of our mortgage insurance business;
- heightened competition for our mortgage insurance business from others such as the FHA, the U.S. Department of Veterans Affairs and other private mortgage insurers, including in particular, those that have been assigned higher ratings than we have, 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, 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 effect or scope;
- the effect of the Dodd-Frank Act on the financial services industry in general, and on our mortgage insurance and financial guaranty businesses in particular, including whether and to what extent loans with private mortgage insurance may be considered “qualified residential mortgages” for purposes of the Dodd-Frank Act securitization provisions;
- the application of existing federal or state laws and regulations, or changes in these laws and regulations or the way they are interpreted, including, without limitation: (i) the resolution of existing, or the possibility of additional, lawsuits or investigations (including in particular investigations and litigation relating to captive reinsurance arrangements under the Real Estate Settlement Practices Act of 1974); and (ii) legislative and regulatory changes (a) impacting the demand for private mortgage insurance, (b) limiting or restricting the products we may offer or increasing the amount of capital we are required to hold, (c) affecting the form in which we execute credit protection, or (d) otherwise impacting our existing businesses;
- 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 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 the impact of variable accounting for certain of our performance-based long-term compensation awards;

- our ability to realize some or all of 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 generally accepted in the United States of America or statutory accounting principles, rules and guidance, or their interpretation; and
- legal and other limitations on amounts we may receive from our subsidiaries as dividends or through our tax- and expense-sharing arrangements with our subsidiaries.

For more information regarding these risks and uncertainties as well as certain additional risks that we face, you should refer to the Risk Factors detailed in Item 1A of Part I of our Annual Report on Form 10-K for the year ended December 31, 2012, filed with the U.S. Securities and Exchange Commission. 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)	March 31, 2013	December 31, 2012
ASSETS		
Investments		
Fixed-maturities held to maturity—at amortized cost (fair value $421 and $676)	$427	$679
Fixed-maturities available for sale—at fair value (amortized cost $36,552 and $39,481)	38,305	40,696
Equity securities available for sale—at fair value (cost $88,260 and $88,260)	123,050	112,139
Trading securities—at fair value	3,963,465	4,094,622
Short-term investments—at fair value	1,367,393	777,532
Other invested assets (including variable interest entity (“VIE”) assets of $76,919 and $78,006)	127,093	126,750
Total investments	5,619,733	5,152,418
Cash	29,334	31,555
Restricted cash	23,821	24,226
Deferred policy acquisition costs	74,601	88,202
Accrued investment income	32,247	34,349
Accounts and notes receivable	84,554	87,519
Property and equipment, at cost (less accumulated depreciation of $99,675 and $98,909)	7,105	7,456
Derivative assets (including VIE derivative assets of $1,578 and $1,585)	6,429	13,609
Deferred income taxes, net	17,902	—
Reinsurance recoverables	78,770	89,204
Other assets (including VIE other assets of $96,693 and $99,337)	396,453	374,662
Total assets	$6,370,949	$5,903,200
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Unearned premiums	$673,849	$648,682
Reserve for losses and loss adjustment expenses (“LAE”)	2,919,073	3,149,936
Reserve for premium deficiency (“PDR”)	3,056	3,685
Long-term debt	906,105	663,571
VIE debt—at fair value	107,401	108,858
Derivative liabilities (including VIE derivative liabilities of $66,752 and $70,467)	430,898	266,873
Payable for securities purchased	37,491	697
Accounts payable and accrued expenses (including VIE accounts payable of $367 and $366)	362,030	324,573
Total liabilities	5,439,903	5,166,875
Commitments and Contingencies (Note 15)		
Stockholders’ equity		
Common stock: par value $.001 per share; 325,000,000 shares authorized; 190,348,457 and 151,131,173 shares issued at March 31, 2013 and December 31, 2012, respectively; 172,864,500 and 133,647,216 shares outstanding at March 31, 2013 and December 31, 2012, respectively	190	151
Treasury stock, at cost: 17,483,957 and 17,483,957 shares at March 31, 2013 and December 31, 2012, respectively	(892,094)	(892,094)
Additional paid-in capital	2,342,151	1,967,414
Retained deficit	(542,741)	(355,241)
Accumulated other comprehensive income	23,540	16,095

Total stockholders' equity	931,046	736,325
Total liabilities and stockholders' equity	$6,370,949	$5,903,200

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

	Three Months Ended March 31,	
(In thousands, except per share amounts)	2013	2012
Revenues:		
Premiums written—insurance:		
Direct	$245,467	$203,753
Assumed	(10,397)	(87,488)
Ceded	(27,885)	(38,587)
Net premiums written	207,185	77,678
(Increase) decrease in unearned premiums	(14,597)	89,687
Net premiums earned—insurance	192,588	167,365
Net investment income	26,873	34,713
Net (losses) gains on investments	(5,505)	67,459
Change in fair value of derivative instruments	(167,670)	(72,757)
Net losses on other financial instruments	(5,675)	(17,852)
Other income	1,771	1,440
Total revenues	42,382	180,368
Expenses:		
Provision for losses	132,059	266,154
Change in PDR	(629)	(20)
Policy acquisition costs	17,195	28,046
Other operating expenses	80,100	50,154
Interest expense	15,881	14,148
Total expenses	244,606	358,482
Equity in net income (loss) of affiliates	1	(11)
Pretax loss	(202,223)	(178,125)
Income tax benefit	(14,723)	(8,893)
Net loss	$(187,500)	$(169,232)
Basic net loss per share	$(1.30)	$(1.28)
Diluted net loss per share	$(1.30)	$(1.28)
Weighted-average number of common shares outstanding—basic	144,355	132,465
Weighted-average number of common and common equivalent shares outstanding—diluted	144,355	132,465
Dividends per share	$0.0025	$0.0025

See Notes to Unaudited Condensed Consolidated Financial Statements.

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Radian Group Inc.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS (UNAUDITED)

(In thousands)	Three Months Ended March 31, 2013	2012
Net loss	$(187,500)	$(169,232)
Other comprehensive income, net of tax:		
Foreign currency translation adjustments:		
Unrealized foreign currency translation adjustment, net of tax	(19)	—
Less: Reclassification adjustment for net gains (losses) included in net income (loss), net of tax	—	—
Net foreign currency translation adjustment, net of tax	(19)	—
Unrealized gains on investments:		
Unrealized holding gains arising during the period, net of tax	7,485	17,214
Less: Reclassification adjustment for net gains included in net loss, net of tax	21	9,610
Net unrealized gains on investments, net of tax	7,464	7,604
Other comprehensive income	7,445	7,604
Comprehensive loss	$(180,055)	$(161,628)

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)	Accumulated Other Comprehensive Income	Total
BALANCE, JANUARY 1, 2012	$151	$(892,052)	$1,966,565	$ 96,227	$ 11,400	$1,182,291
Net loss	—	—	—	(169,232)	—	(169,232)
Net unrealized gain on investments, net of tax	—	—	—	—	7,604	7,604
Issuance of common stock under benefit plans	—	—	190	—	—	190
Amortization of restricted stock	—	—	123	—	—	123
Stock-based compensation expense	—	—	(1,215)	—	—	(1,215)
Dividends declared	—	—	(333)	—	—	(333)
BALANCE, MARCH 31, 2012	$151	$(892,052)	$1,965,330	$ (73,005)	$ 19,004	$1,019,428
BALANCE, JANUARY 1, 2013	$151	$(892,094)	$1,967,414	$ (355,241)	$ 16,095	$736,325
Net loss	—	—	—	(187,500)	—	(187,500)
Net foreign currency translation adjustment, net of tax	—	—	—	—	(19)	(19)
Net unrealized gain on investments, net of tax	—	—	—	—	7,464	7,464
Issuance of common stock - stock offering	39	—	299,503	—	—	299,542
Issuance of common stock under benefit plans	—	—	271	—	—	271
Issuance of common stock under incentive plans	—	—	62	—	—	62
Amortization of restricted stock	—	—	208	—	—	208
Issuance of convertible debt (See Note 10)	—	—	77,026	—	—	77,026
Stock-based compensation expense	—	—	(1,999)	—	—	(1,999)
Dividends declared	—	—	(334)	—	—	(334)
BALANCE, MARCH 31, 2013	$190	$(892,094)	$2,342,151	$ (542,741)	$ 23,540	$931,046

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

(In thousands)	Three Months Ended March 31, 2013	2012
Cash flows used in operating activities	$(165,971)	$(154,447)
Cash flows from investing activities:		
Proceeds from sales of fixed-maturity investments available for sale	1,102	15,973
Proceeds from sales of equity securities available for sale	—	3,154
Proceeds from sales of trading securities	380,030	450,214
Proceeds from redemptions of fixed-maturity investments available for sale	2,035	1,917
Proceeds from redemptions of fixed-maturity investments held to maturity	255	—
Purchases of trading securities	(232,538)	(304,512)
(Purchases)/sales and redemptions of short-term investments, net	(589,799)	116,130
Sales of other invested assets, net	2,005	682
Purchases of property and equipment, net	(362)	(381)
Net cash (used in) provided by investing activities	(437,272)	283,177
Cash flows from financing activities:		
Dividends paid	(334)	(333)
Proceeds/payments related to issuance or exchange of debt, net	381,165	—
Redemption of long-term debt	(79,372)	(132,215)
Issuance of common stock	299,542	—
Excess tax benefits from stock-based awards	50	—
Net cash provided by (used in) financing activities	601,051	(132,548)
Effect of exchange rate changes on cash	(29)	13
Decrease in cash	(2,221)	(3,805)
Cash, beginning of period	31,555	35,589
Cash, end of period	$29,334	$31,784
Supplemental disclosures of cash flow information:		
Income taxes (received) paid	$(1,983)	$732
Interest paid	$3,630	$8,061

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 and Business Overview

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 United States ("U.S.") Securities and Exchange Commission.

The financial information presented for interim periods is unaudited; however, such information reflects all adjustments that are, in the opinion of management, necessary for the fair statement of the financial position, results of operations, comprehensive income and cash flows for the interim periods presented. Such adjustments are of a normal recurring nature. 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, 2012. 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. The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP.

The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. While the amounts included in our condensed consolidated financial statements include our best estimates and assumptions, actual results may vary materially.

Basic net loss per share is based on the weighted-average number of common shares outstanding, while diluted net loss 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 months ended March 31, 2013 and 2012, 5,198,389 and 4,538,400 shares, respectively, 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.

In February 2013, the Financial Accounting Standards Board issued an update to the accounting standard regarding comprehensive income. This update requires an entity to present, either on the face of the financial statements or as a separate disclosure, the changes in the accumulated balances for each component of other comprehensive income included in that separate component of equity. In addition to the presentation of changes in accumulated balances, an entity is required to present separately for each component of other comprehensive income, current period reclassifications out of accumulated other comprehensive income and other amounts of current period other comprehensive income. We adopted this update effective January 1, 2013, and in Note 11, we present the changes in the accumulated balances for each component of other comprehensive income as well as current period reclassifications out of accumulated other comprehensive income and other amounts of current period other comprehensive income.

Business Overview

We are a credit enhancement company with a primary strategic focus on domestic, residential mortgage insurance on first-lien loans (“first-liens”). We have two business segments—mortgage insurance and financial guaranty.

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 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-liens. At March 31, 2013, primary insurance on first-liens comprised approximately 94.8% of our $37.4 billion total direct risk in force (“RIF”). We also have written pool insurance, which at March 31, 2013, comprised approximately 4.8% of our total direct RIF. In the past, we also offered 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 $134 million as of March 31, 2013, representing less than 1% of our total direct 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”). Radian Asset Assurance is a wholly-owned subsidiary of Radian Guaranty, which allows our financial guaranty business to serve as a critical source of capital for Radian Guaranty. We have provided financial guaranty credit protection in several forms, including through the issuance of financial guaranty policies, by insuring the obligations under one or more credit default swaps (“CDS”) and through the reinsurance of both types of obligations. In 2008, we ceased writing or assuming new financial guaranty business and since then, we have significantly reduced our financial guaranty operations. In addition, we have been proactive in reducing our financial guaranty exposures through commutations and other transaction settlements in order to mitigate uncertainty, maximize the ultimate capital available for our mortgage insurance business and accelerate 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 the credit performance of our underlying insured assets. The downturn in the housing and related credit markets that began in 2007 had a significant negative impact on the operating environment and results of operations for each of our businesses. This negative economic environment was characterized by a decrease in mortgage originations, a broad decline in home prices, mortgage servicing and foreclosure delays, and ongoing deterioration in the credit performance of mortgage and other assets originated prior to 2009, together with macroeconomic factors such as high unemployment, limited economic growth and a lack of meaningful liquidity in some sectors of the capital markets. Our results of operations continue to be negatively impacted by the mortgage insurance we wrote during the poor underwriting years of 2005 through 2008 (we refer to this portion of our mortgage insurance portfolio as our “legacy portfolio”).

In recent years, the operating environment for our businesses has shown signs of improvement. Although the U.S. economy and housing market remain weak compared to historical standards, home prices appear to be appreciating on a broad basis throughout the U.S., foreclosure activity has decreased and the credit quality of overall mortgage market originations continues to be significantly better than the credit quality of our legacy portfolio. In addition, there are signs of a broader recovery in the U.S. economy, including importantly, a reduction in unemployment. As a consequence of these and other factors, in 2012 we experienced improvement in our results of operations, with a 22% decline in new primary mortgage insurance defaults. Our new primary mortgage insurance defaults have continued to decline in 2013, including a 20% decline in the first three months of 2013 compared to the number of new primary defaults in the first quarter of 2012. Although uncertainty remains with respect to the ultimate losses we will experience in our legacy portfolio, as we continue to write new insurance on high-quality mortgages, our legacy portfolio will progressively become a smaller percentage of our total portfolio. We anticipate that sometime in the second quarter of 2013, our legacy portfolio will represent less than 50% of our total mortgage insurance portfolio.

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

Currently, our business strategy primarily is focused on: (1) growing our mortgage insurance business by writing insurance on high-quality mortgages in the U.S.; (2) continuing to manage losses in our legacy mortgage insurance and financial guaranty portfolios; (3) continuing to reduce our financial guaranty exposure; and (4) continuing to effectively manage our capital and liquidity positions.

Our businesses also are significantly impacted by, and our future success may be affected by, 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 Administration ("FHA") 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 the pursuit of alternatives to private mortgage insurance as a condition to purchasing high-LTV loans, could reduce the number of mortgages they purchase that are insured by us and consequently diminish our franchise value.

Since 2011, there have been numerous legislative proposals and recommendations focused on reforming the U.S. housing finance industry, including proposals that are intended to wind down the GSEs or to otherwise limit or restrict the activities and businesses of the GSEs. The future structure of the residential housing finance system remains uncertain, including the impact of any such changes on our business. Although we believe that traditional private mortgage insurance will continue to play an important role in any future housing finance structure, it is reasonably possible that new federal legislation could reduce the level of private mortgage insurance coverage used by the GSEs as credit enhancement, or even eliminate the requirement altogether, which would reduce our available market and could adversely affect our mortgage insurance business. In addition, the mortgage origination market and private mortgage insurers could be adversely impacted by regulatory matters being developed under the third Basel Capital Accord and under the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act").

Capital Preservation and Liquidity Management Initiatives

Since 2008, we have engaged in a number of strategic actions and initiatives in response to the negative economic and market conditions impacting our businesses. As a result of our strategic actions and an improving operating environment, we believe we are positioning the company for a return to profitability.

Thus far in 2013, we have made further progress toward our objectives and in support of our business strategy including by taking the following actions:

- Radian Asset Assurance continued to proactively reduce its financial guaranty portfolio through a series of risk commutations, transaction settlements and terminations.
  - In January 2013, $6.7 million of contingency reserves were released due to the commutation of the remaining $822.2 million net par reinsured by Radian Asset Assurance from Financial Guaranty Insurance Company (the "FGIC Commutation").
  - In February 2013, the New York State Department of Financial Services approved the release of an additional $61.1 million of contingency reserves resulting from the reduction in net par outstanding.
  - During the first quarter of 2013, four CDS counterparties in our financial guaranty business exercised their termination rights with respect to nine collateralized debt obligations ("CDOs") that we insured, which reduced our net par outstanding by $3.3 billion in the aggregate.
- In January 2013, Radian Group exchanged $195.2 million of its outstanding 5.375% Senior Notes due June 2015 for a new series of 9.000% Senior Notes due June 2017 and additional cash consideration in certain circumstances for purposes of improving its debt maturity profile. See Note 10 for further information.
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- In March 2013, Radian Group issued $400 million principal amount of 2.250% convertible unsecured senior notes due March 2019 (the “2019 Convertible Senior Notes”) and received net proceeds of approximately $389.8 million after deducting underwriters’ discounts and offering expenses. See Note 10 for further information.
- In March 2013, Radian Group sold 39.1 million shares of common stock at a public offering price of $8.00 per share and received net proceeds of approximately $299.5 million after deducting underwriters’ discounts and offering expenses.

At March 31, 2013, Radian Group had immediately available unrestricted cash and liquid investments of $886.4 million. Approximately $71.0 million of future expected corporate expenses and interest payments have been accrued for and paid by certain subsidiaries to Radian Group as of March 31, 2013, and therefore, the total unrestricted cash and liquid investments held by Radian Group as of March 31, 2013 include these amounts. We expect to use a portion of our available liquidity to support Radian Guaranty's capital position, and we expect Radian Guaranty to maintain a risk-to-capital ratio at 20 to 1 or below for the foreseeable future.

2. Segment Reporting

Our mortgage insurance and financial guaranty segments are strategic business units that are managed separately. We allocate corporate income and expenses to our mortgage insurance and financial guaranty segments based on either an allocated percentage of time spent on each segment or internally allocated capital, which is based on the relative GAAP equity of each segment. We allocate corporate cash and investments to our segments based on internally allocated capital, which also is based on relative GAAP equity. The results for each segment for each reporting period can cause significant volatility in internally allocated capital based on relative GAAP equity, which can impact the allocations of income and expenses to our segments.

Management has determined that the allocation of our consolidated provision for taxes to the segments is no longer material to the evaluation of our business results. Therefore, beginning with the first quarter of 2013, financial information for our business segments will be disclosed on a pretax basis as pretax results are used by senior management in the allocation of resources and in assessing the performance of the segments.

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

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

	Three Months Ended March 31,	
(In thousands)	2013	2012
Mortgage Insurance		
Net premiums written—insurance	$217,286	$196,853
Net premiums earned—insurance	$182,992	$173,451
Net investment income	15,102	18,011
Net (losses) gains on investments	(3,237)	32,178
Change in fair value of derivative instruments	—	21
Net losses on other financial instruments	(1,877)	(709)
Other income	1,712	1,344
Total revenues	194,692	224,296
Provision for losses	131,956	234,729
Change in PDR	(629)	(20)
Policy acquisition costs	11,732	8,646
Other operating expenses	65,780	36,265
Interest expense	2,669	1,722
Total expenses	211,508	281,342
Equity in net income (loss) of affiliates	—	—
Pretax loss	$(16,816)	$(57,046)
Cash and investments	$3,186,871	$3,259,204
Deferred policy acquisition costs	29,920	49,786
Total assets	3,663,552	3,476,732
Unearned premiums	428,574	256,809
Reserve for losses and LAE	2,894,500	3,230,938
VIE debt	11,062	8,625
Derivative liabilities	—	—
New Insurance Written (“NIW”) (in millions)	$10,906	$6,465

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

	Three Months Ended March 31,	
(In thousands)	2013	2012
Financial Guaranty		
Net premiums written—insurance	$(10,101)	$(119,175)
Net premiums earned—insurance	$9,596	$(6,086)
Net investment income	11,771	16,702
Net (losses) gains on investments	(2,268)	35,281
Change in fair value of derivative instruments	(167,670)	(72,778)
Net losses on other financial instruments	(3,798)	(17,143)
Other income	59	96
Total revenues	(152,310)	(43,928)
Provision for losses	103	31,425
Change in PDR	—	—
Policy acquisition costs	5,463	19,400
Other operating expenses	14,320	13,889
Interest expense	13,212	12,426
Total expenses	33,098	77,140
Equity in net income (loss) of affiliates	1	(11)
Pretax loss	$(185,407)	$(121,079)
Cash and investments	$2,486,017	$2,392,620
Deferred policy acquisition costs	44,681	58,155
Total assets	2,707,397	2,971,789
Unearned premiums	245,275	315,756
Reserve for losses and LAE	24,573	85,426
VIE debt	96,339	246,609
Derivative liabilities	430,898	202,100

A reconciliation of segment pretax loss to consolidated net loss is as follows:

	Three Months Ended March 31,	
(In thousands)	2013	2012
Mortgage Insurance pretax loss	$(16,816)	$(57,046)
Financial Guaranty pretax loss	(185,407)	(121,079)
Income tax benefit	(14,723)	(8,893)
Consolidated net loss	$(187,500)	$(169,232)

3. Derivative Instruments

We provide a significant portion of our credit protection within our financial guaranty segment in the form of CDS. In many of our CDS transactions, primarily our corporate CDOs, we generally are required to make payments to our counterparty above a specified level of subordination, upon the occurrence of credit events related to the borrowings or bankruptcy of obligors contained within pools of corporate obligations or, in the case of pools of mortgage or other asset-backed obligations, upon the occurrence of credit events related to the specific obligations in the pool. When we provide a CDS providing protection on a specific obligation, we generally guarantee the full and timely payment of principal and interest when due on such obligation. These derivatives have various maturity dates, but the majority of the net par outstanding of our remaining insured CDS transactions, including all of our corporate CDOs, mature within five years.

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 thousands)	March 31, 2013	December 31, 2012
Balance Sheets		
Derivative assets:		
Financial Guaranty credit derivative assets	$4,851	$12,024
NIMS assets	1,578	1,585
Total derivative assets	6,429	13,609
Derivative liabilities:		
Financial Guaranty credit derivative liabilities	364,146	196,406
Financial Guaranty VIE derivative liabilities	66,752	70,467
Total derivative liabilities	430,898	266,873
Total derivative liabilities, net	$424,469	$253,264

The notional value of our derivative contracts at March 31, 2013 and December 31, 2012 was $15.0 billion and $19.2 billion, respectively.

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

	Three Months Ended March 31,	
(In thousands)	2013	2012
Statements of Operations		
Net premiums earned—derivatives	$4,992	$8,648
Financial Guaranty credit derivatives	(175,724)	(80,219)
Financial Guaranty VIE derivatives	3,062	(1,227)
NIMS related	—	41
Change in fair value of derivative instruments	$(167,670)	$(72,757)

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

The valuation of derivative instruments may result in significant volatility from period to period in gains and losses as reported on our condensed 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 market's perception of the creditworthiness of any: (i) primary obligor of obligations for which we provide secondary credit protection, (ii) underlying corporate entities, or (iii) the credit performance of the assets underlying asset-backed securities ("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 can 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 more information on our fair value of financial instruments.

The following table shows selected information about our derivative contracts:

	March 31, 2013		
($ in thousands)	Number of Contracts	Par/ Notional Exposure	Total Net Asset/ (Liability)
Product			
NIMS assets (1)	—	$—	$ 1,578
Corporate CDOs	25	9,670,390	(9,960)
Non-Corporate CDOs and other derivative transactions:			
Trust Preferred Securities ("TruPs")	13	1,071,305	(42,899)
CDOs of commercial mortgage-backed securities ("CMBS")	4	1,831,000	(95,936)
Other:			
Structured finance	5	566,116	(133,603)
Public finance	23	1,444,177	(63,122)
Total Non-Corporate CDOs and other derivative transactions	45	4,912,598	(335,560)
Assumed financial guaranty credit derivatives:			
Structured finance	32	187,454	(13,157)
Public finance	7	110,488	(618)
Total Assumed	39	297,942	(13,775)
Financial Guaranty VIE derivative liabilities (2)	1	76,792	(66,752)
Grand Total	110	$14,957,722	$ (424,469)

(1) Represents NIMS derivative assets related to consolidated NIMS VIEs. Because 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 that we have consolidated. See Note 5 for more information on this transaction, the underlying reference securities and our maximum exposure to loss from this consolidated financial guaranty transaction. 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.

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

4. Fair Value of Financial Instruments

Certain assets and liabilities are recorded at fair value. These include: available for sale securities, trading securities, VIE debt, derivative instruments, and certain other assets. 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).

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 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, credit spread changes, benchmark interest rate changes, market volatility and changes in the value of underlying collateral or of any third-party guaranty or insurance, could cause actual results to differ materially from our estimated fair value measurements. We define fair value 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 also 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 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 three months ended March 31, 2013.

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 techniques and inputs used for Level II recurring and non-recurring fair value measurements in our audited annual financial statements as of December 31, 2012. For a complete understanding of those valuation techniques and inputs used as of March 31, 2013, these unaudited condensed consolidated financial statements should be read in conjunction with the audited annual financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2012.

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 March 31, 2013:

(In millions)	Level I	Level II	Level III	Total
Assets and Liabilities at Fair Value				
Investment Portfolio:				
U.S. government and agency securities	$734.1	$465.5	$—	$1,199.6
State and municipal obligations	—	669.9	19.2	689.1
Money market instruments	631.7	—	—	631.7
Corporate bonds and notes	—	1,450.5	2.7	1,453.2
Residential mortgage-backed securities (“RMBS”)	—	599.5	—	599.5
CMBS	—	296.1	3.1	299.2
Other ABS	—	220.1	1.5	221.6
Hybrid securities	—	144.0	—	144.0
Equity securities (1)	113.9	137.0	0.4	251.3
Other investments (2)	—	2.6	77.3	79.9
Total Investments at Fair Value (3)	1,479.7	3,985.2	104.2	5,569.1
Derivative Assets	—	—	6.4	6.4
Other Assets (4)	—	—	96.5	96.5
Total Assets at Fair Value	$1,479.7	$3,985.2	$207.1	$5,672.0
Derivative Liabilities	$—	$—	$430.9	$430.9
VIE debt (5)	—	—	107.4	107.4
Total Liabilities at Fair Value	$—	$—	$538.3	$538.3

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(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 ($0.9 million) and short-term certificates of deposit (“CDs”) ($1.7 million) included within Level II, and lottery annuities ($0.4 million) and a guaranteed investment contract held by a consolidated VIE ($76.9 million) within Level III.

(3) Does not include fixed-maturities held to maturity ($0.4 million) and certain other invested assets ($50.2 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 ($11.1 million) and amounts related to financial guaranty VIEs ($96.3 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, 2012:

(In millions)	Level I	Level II	Level III	Total
Assets and Liabilities at Fair Value				
Investment Portfolio:				
U.S. government and agency securities	$137.8	$433.8	$—	$571.6
State and municipal obligations	—	669.0	19.0	688.0
Money market instruments	638.0	—	—	638.0
Corporate bonds and notes	—	1,373.6	—	1,373.6
RMBS	—	663.4	—	663.4
CMBS	—	237.3	—	237.3
Other ABS	—	252.4	1.7	254.1
Foreign government securities	—	117.7	—	117.7
Hybrid securities	—	211.9	—	211.9
Equity securities (1)	98.9	166.0	1.0	265.9
Other investments (2)	—	2.5	79.0	81.5
Total Investments at Fair Value (3)	874.7	4,127.6	100.7	5,103.0
Derivative Assets	—	—	13.6	13.6
Other Assets (4)	—	—	99.2	99.2
Total Assets at Fair Value	$874.7	$4,127.6	$213.5	$5,215.8
Derivative Liabilities	$—	$—	$266.9	$266.9
VIE debt (5)	—	—	108.9	108.9
Total Liabilities at Fair Value	$—	$—	$375.8	$375.8

(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 ($0.9 million) and short-term CDs ($1.6 million) included within Level II, and lottery annuities ($1.0 million) and a guaranteed investment contract held by a consolidated VIE ($78.0 million) within Level III.
(3) Does not include fixed-maturities held to maturity ($0.7 million) and certain other invested assets ($48.7 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 ($9.9 million) and amounts related to financial guaranty VIEs ($99.0 million).

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

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 five-year 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; the CDS spread actually used in the valuation of specific fair value liabilities is typically based on the remaining term of the insured obligation. As our CDS spread tightens or widens, it has the effect of increasing or decreasing, respectively, the fair value of our liabilities with a corresponding impact on our results of operations. The following tables quantify the estimated 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 as of the dates indicated:

(In basis points)	March 31, 2013	December 31, 2012	March 31, 2012	December 31, 2011
Radian Group's five-year CDS spread	513	913	1,521	2,732

(In millions)	Fair Value Liability before Consideration of Radian Non-Performance Risk March 31, 2013	Impact of Radian Non-Performance Risk March 31, 2013	Fair Value Liability Recorded March 31, 2013
Product			
Corporate CDOs	$ 85.3	$ 75.4	$ 9.9
Non-Corporate CDO-related (1)	724.2	374.8	349.4
NIMS-related (2)	12.8	3.3	9.5
Total	$ 822.3	$ 453.5	$ 368.8

(In millions)	Fair Value Liability before Consideration of Radian Non-Performance Risk December 31, 2012	Impact of Radian Non-Performance Risk December 31, 2012	Fair Value (Asset) Liability Recorded December 31, 2012
Product			
Corporate CDOs	$ 98.8	$ 101.6	$ (2.8)
Non-Corporate CDO-related (1)	696.6	509.3	187.3
NIMS-related (2)	13.0	4.7	8.3
Total	$ 808.4	$ 615.6	$ 192.8

(1) Includes the net fair value liability recorded within derivative assets and derivative liabilities, but does not include the net fair value liability of derivative assets or derivative liabilities within our consolidated VIEs, as Radian Group's credit spread has no impact on the financial instruments in these VIEs.
(2) Includes NIMS VIE debt and NIMS derivative assets.

Non-performance risk is commonly measured by default probability, with a credit spread tightening indicating a lesser probability of default. Radian Group's five-year CDS spread at March 31, 2013, implied a market view that there is a 31.8% probability that Radian Group will default in the next five years, as compared to a 47.7% implied probability of default at December 31, 2012. The cumulative impact of our non-performance risk on our derivative assets, derivative liabilities and net VIE liabilities decreased by $162.1 million during the first three months of 2013, as presented in the table above.

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 March 31, 2013:

(In millions)	Beginning Balance at January 1, 2013	Realized and Unrealized Gains (Losses) Recorded in Earnings (1)	Purchases	Sales	Issuances	Settlements	Transfers Into (Out of) Level III (2)	Ending Balance at March 31, 2013
Investments:								
State and municipal obligations	$19.0	$ 0.2	$—	$—	$—	$—	$ —	$19.2
Corporate bonds and notes	—	—	2.7	—	—	—	—	2.7
CMBS	—	—	3.1	—	—	—	—	3.1
Other ABS	1.7	—	—	—	—	0.2	—	1.5
Equity securities	1.0	—	—	0.6	—	—	—	0.4
Other investments	79.0	(1.6)	0.4	0.1	—	0.4	—	77.3
Total Level III Investments	100.7	(1.4)	6.2	0.7	—	0.6	—	104.2
NIMS derivative assets	1.6	—	—	—	—	—	—	1.6
Other assets	99.2	3.3	—	—	—	6.0	—	96.5
Total Level III Assets	$201.5	$ 1.9	$6.2	$0.7	$—	$ 6.6	$ —	$202.3
Derivative liabilities, net	$254.9	$ (167.7)	$—	$—	$—	$ (3.5)	$ —	$426.1
VIE debt	108.9	(3.3)	—	—	—	4.8	—	107.4
Total Level III Liabilities, net	$363.8	$ (171.0)	$—	$—	$—	$ 1.3	$ —	$533.5

(1) Includes unrealized gains (losses) for the quarter ended March 31, 2013, relating to assets and liabilities still held at March 31, 2013 as follows: $(1.5) million for investments, $0.8 million for other assets, $(172.6) million for derivative liabilities and $(2.5) 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 quarter ended March 31, 2012:

(In millions)	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 March 31, 2012
Investments:								
State and municipal obligations	$62.5	$ 6.7	$—	$—	$—	$ 11.1	$ —	$58.1
RMBS	45.5	6.2	—	—	—	0.5	—	51.2
CMBS	35.4	(11.4)	—	—	—	—	—	24.0
CDOs	5.5	0.8	—	—	—	(0.1)	—	6.4
Other ABS	2.9	0.8	—	—	—	—	—	3.7
Hybrid securities	4.8	0.1	—	4.9	—	—	0.2	0.2
Equity securities	0.8	0.6	—	—	—	—	0.7	2.1
Other investments	6.8	0.8	—	0.5	—	—	—	7.1
Total Level III Investments	164.2	4.6	—	5.4	—	11.5	0.9	152.8
NIMS derivative assets	1.6	—	0.1	—	—	—	—	1.7
Other assets	104.0	3.4	—	—	—	6.1	—	101.3
Total Level III Assets	$269.8	$ 8.0	$0.1	$5.4	$—	$ 17.6	$ 0.9	$255.8
Derivative liabilities, net	$110.6	$ (72.8)	$—	$—	$—	$ (4.3)	$ —	$187.7
VIE debt	228.2	(36.0)	—	—	—	9.0	—	255.2
Total Level III Liabilities, net	$338.8	$ (108.8)	$—	$—	$—	$ 4.7	$ —	$442.9

(1) Includes unrealized gains (losses) for the quarter ended March 31, 2012, relating to assets and liabilities still held at March 31, 2012, as follows: $(2.9) million for investments, $0.6 million for other assets, $(82.2) million for derivative liabilities, and $(36.3) 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.

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.

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

The following table summarizes the significant unobservable inputs used in our recurring Level III fair value measurements as of March 31, 2013:

(In millions)	Fair Value March 31, 2013 (1)	Valuation Technique	Unobservable Input	Range/ Weighted Average
Level III Investments:				
State and municipal obligations	$19.2	Discounted cash flow	Discount rate	8.8 %
			Expected loss	19.0 %
Other investments	76.9	Discounted cash flow	Discount rate	2.4 %
Level III Derivative Assets:				
Corporate CDOs	3.1	Base correlation model	Radian correlation to corporate index	85.0 %
			Average credit spread	<0.1% - 2.6 %
			Own credit spread (2)	1.3 % - 6.2 %
CDOs of CMBS	1.7	Discounted cash flow	Radian correlation to CMBS transaction index	72.0 % - 85.0