

RADIAN GROUP INC
Form 10-Q
August 10, 2009
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2009

OR

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

For the transition period from _____ to _____

Commission File Number 1-11356

Radian Group Inc.

(Exact name of registrant as specified in its charter)

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Delaware (State or other jurisdiction of incorporation or organization)	23-2691170 (I.R.S. Employer Identification No.)
1601 Market Street, Philadelphia, PA (Address of principal executive offices)	19103 (Zip Code)
(215) 231-1000 (Registrant's telephone number, including area code)	

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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. (Check One):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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: 82,612,170 shares of common stock, \$0.001 par value per share, outstanding on August 3, 2009.

Table of Contents

Radian Group Inc.

INDEX

	Page Number
<u>Forward-Looking Statements Safe Harbor Provisions</u>	1
<u>PART I FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements (Unaudited)</u>	
<u>Condensed Consolidated Balance Sheets</u>	3
<u>Condensed Consolidated Statements of Operations</u>	4
<u>Condensed Consolidated Statements of Changes in Common Stockholders' Equity</u>	5
<u>Condensed Consolidated Statements of Cash Flows</u>	6
<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	7
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	45
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	96
Item 4. <u>Controls and Procedures</u>	98
<u>PART II OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	100
Item 1A. <u>Risk Factors</u>	101
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	103
Item 4. <u>Submission of Matters to a Vote of Security Holders</u>	103
Item 5. <u>Other Information</u>	104
Item 6. <u>Exhibits</u>	105
<u>SIGNATURES</u>	106
<u>EXHIBIT INDEX</u>	107

Table of Contents

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 U.S. Private Securities Litigation Reform Act of 1995. In most cases, forward-looking statements may be identified by words such as anticipate, may, should, expect, intend, plan, goal, contemplate, believe, estimate, predict, project, potential, continue, or the negative or words and other similar expressions. These statements, which include, without limitation, projections regarding our future performance and financial condition are made on the basis of management's current views and assumptions with respect to future events. Any forward-looking statement is not a guarantee of future performance and actual results could differ materially from those contained in the forward-looking information. The forward-looking statements, as well as our prospects as a whole, are subject to risks and uncertainties, including the following:

changes in general financial and political conditions, such as a deepening of the existing national economic recession, further decreases in housing demand, mortgage originations or housing values (in particular, further deterioration in the housing, mortgage and related credit markets, which would harm our future consolidated results of operations and could cause losses for our businesses to be worse than expected), a further reduction in the liquidity in the capital markets and further contraction of credit markets, further increases in unemployment rates, changes or volatility in interest rates or consumer confidence, changes in credit spreads, changes in the way investors perceive the strength of private mortgage insurers or financial guaranty providers, investor concern over the credit quality and specific risks faced by the particular businesses, municipalities or pools of assets covered by our insurance;

catastrophic events or further economic changes in geographic regions where our mortgage insurance or financial guaranty insurance in force is more concentrated;

our ability to successfully execute upon our internally sourced capital plan for our mortgage insurance business (which depends, in part, on the performance of our financial guaranty portfolio), and if necessary, to obtain additional capital to support new business writings in our mortgage insurance business and the long-term liquidity needs of our holding company (including significant payment obligations in 2010 and 2011) and to protect our credit ratings and the financial strength ratings of Radian Guaranty Inc., our principal mortgage insurance subsidiary, from further downgrades;

a further decrease in the volume of home mortgage originations due to reduced liquidity in the lending market, tighter underwriting standards and the ongoing deterioration in housing markets throughout the U.S.;

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

our ability to continue to effectively mitigate our mortgage insurance losses, which mitigation efforts recently have resulted in increased levels of rescissions and denials that may not be sustainable and could lead to an increased risk of litigation;

the concentration of our mortgage insurance business among a relatively small number of large customers;

disruption in the servicing of mortgages covered by our insurance policies;

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the aging of our mortgage insurance portfolio and changes in severity or frequency of losses associated with certain of our products that are riskier than traditional mortgage insurance or financial guaranty insurance policies;

the performance of our insured portfolio of higher risk loans, such as Alternative-A (Alt-A) and subprime loans, and of adjustable rate products, such as adjustable rate mortgages and interest-only mortgages, which have resulted in increased losses and are expected to result in further losses;

Table of Contents

changes in persistency rates of our mortgage insurance policies;

an increase in the risk profile of our existing mortgage insurance portfolio due to mortgage refinancing in the current housing market;

further downgrades or threatened downgrades of, or other ratings actions with respect to, our credit ratings or the ratings assigned by the major rating agencies to any of our rated insurance subsidiaries at any time (in particular, the credit rating of Radian Group Inc. and the financial strength ratings assigned to Radian Guaranty Inc.);

heightened competition for our mortgage insurance business from others such as the Federal Housing Administration and the Veterans Administration or other private mortgage insurers (in particular those that have been assigned higher ratings from the major rating agencies);

changes in the charters or business practices of Federal National Mortgage Association (Fannie Mae) and Freddie Mac, the largest purchasers of mortgage loans that we insure, and our ability to remain an eligible provider to both Freddie Mac and Fannie Mae;

the application of existing federal or state consumer, lending, insurance, securities and other applicable laws and regulations, or changes in these laws and regulations or the way they are interpreted; including, without limitation: (i) the outcome of existing investigations or the possibility of private lawsuits or other formal investigations by state insurance departments and state attorneys general alleging that services offered by the mortgage insurance industry, such as captive reinsurance, pool insurance and contract underwriting, are violative of the Real Estate Settlement Procedures Act and/or similar state regulations or (ii) legislative and regulatory changes affecting demand for private mortgage insurance, limiting or restricting our use of (or requirements for) additional capital, the products we may offer, the form in which we may execute the credit protection we provide or the aggregate notional amount of any product we may offer for any one transaction or in the aggregate;

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 businesses, or to estimate accurately the fair value amounts of derivative contracts in our mortgage insurance and financial guaranty businesses in determining gains and losses on these contracts;

the ability of our primary insurance customers in our financial guaranty reinsurance business to provide appropriate surveillance and to mitigate losses adequately with respect to our assumed insurance portfolio; and the significant concentration of our financial guaranty reinsurance business in customers under common control;

volatility in our earnings caused by changes in the fair value of our derivative instruments and our need to reevaluate the premium deficiency in our mortgage insurance business on a quarterly basis;

changes in accounting guidance from the SEC or the Financial Accounting Standards Board;

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; and

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our investment in Sherman Financial Group LLC, which could be negatively affected in the current credit environment if Sherman is unable to maintain sufficient sources of funding for its business activities or remain in compliance with its credit facilities.

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, 2008 and in Item 1A of Part II in 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.

Table of Contents**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 2009	December 31 2008
ASSETS		
Investments		
Fixed maturities held to maturity at amortized cost (fair value \$31,308 and \$37,486)	\$ 30,225	\$ 36,628
Fixed maturities available for sale at fair value (amortized cost \$2,371,366 and \$3,899,487)	2,158,523	3,647,269
Trading securities at fair value (amortized cost \$2,460,768 and \$670,835)	2,474,923	654,699
Equity securities available for sale at fair value (cost \$217,585 and \$212,620)	175,570	165,099
Hybrid securities at fair value (amortized cost \$469,239 and \$499,929)	450,016	426,640
Short-term investments	1,082,016	1,029,285
Other invested assets (cost \$23,256 and \$21,388)	23,406	21,933
Total investments	6,394,679	5,981,553
Cash	64,554	79,048
Investment in affiliates	108,767	99,712
Deferred policy acquisition costs	208,882	160,526
Prepaid federal income taxes		248,828
Accrued investment income	48,112	61,722
Accounts and notes receivable (less allowance of \$68,537 and \$61,168)	243,785	90,158
Property and equipment, at cost (less accumulated depreciation of \$87,835 and \$84,911)	15,760	18,178
Derivative assets	179,837	179,515
Deferred income taxes, net	368,281	446,102
Reinsurance recoverables	570,245	492,359
Other assets	252,600	258,418
Total assets	\$ 8,455,502	\$ 8,116,119
LIABILITIES AND STOCKHOLDERS EQUITY		
Unearned premiums	\$ 1,120,359	\$ 916,724
Reserve for losses and loss adjustment expenses (LAE)	3,304,236	3,224,542
Reserve for premium deficiency	40,861	86,861
Long-term debt and other borrowings	856,848	857,802
Variable interest entity debt at fair value	283,242	160,035
Derivative liabilities	379,270	519,260
Accounts payable and accrued expenses	404,432	320,185
Total liabilities	6,389,248	6,085,409
Commitments and Contingencies (Note 15)		
Stockholders equity		
Common stock: par value \$.001 per share; 325,000,000 shares authorized; 99,460,173 and 98,223,210 shares issued at June 30, 2009 and December 31, 2008, respectively; 82,252,266 and 81,034,883 shares outstanding at June 30, 2009 and December 31, 2008, respectively	99	98
Treasury stock, at cost: 17,207,907 and 17,188,327 shares at June 30, 2009 and December 31, 2008, respectively	(889,142)	(888,057)

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Additional paid-in capital	1,358,440	1,350,704
Retained earnings	1,764,878	1,766,946
Accumulated other comprehensive loss, net	(168,021)	(198,981)
Total stockholders' equity	2,066,254	2,030,710
Total liabilities and stockholders' equity	\$ 8,455,502	\$ 8,116,119

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents**Radian Group Inc.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)**

(In thousands, except per share amounts)	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Revenues:				
Premiums written insurance:				
Direct	\$ 193,854	\$ 248,660	\$ 392,223	\$ 511,266
Assumed	8,127	13,043	3,198	37,314
Ceded	(40,080)	(39,058)	(76,764)	(81,629)
Net premiums written	161,901	222,645	318,657	466,951
Decrease in unearned premiums	31,728	26,492	86,187	24,107
Net premiums earned insurance	193,629	249,137	404,844	491,058
Net investment income	53,251	65,128	109,534	131,107
Change in fair value of derivative instruments	272,318	56,226	(12,098)	764,035
Net gains (losses) on other financial instruments	54,384	14,801	79,264	(26,040)
Total other-than-temporary impairment losses	(46)	(23,052)	(680)	(37,095)
Losses recognized in other comprehensive income (loss)				
Net impairment losses recognized in earnings	(46)	(23,052)	(680)	(37,095)
Other income	3,888	3,221	8,020	6,835
Total revenues	577,424	365,461	588,884	1,329,900
Expenses:				
Provision for losses	132,750	458,879	459,504	1,041,590
Provision for premium deficiency	2,184	369,807	(46,000)	387,897
Policy acquisition costs	25,967	75,952	39,921	99,858
Other operating expenses	55,635	63,849	107,237	118,990
Interest expense	12,295	13,832	24,594	26,325
Total expenses	228,831	982,319	585,256	1,674,660
Equity in net income of affiliates	5,110	15,704	15,662	28,230
Pretax income (loss)	353,703	(601,154)	19,290	(316,530)
Income tax provision (benefit)	121,828	(208,630)	4,852	(119,644)
Net income (loss)	\$ 231,875	\$ (392,524)	\$ 14,438	\$ (196,886)
Basic net income (loss) per share	\$ 2.85	\$ (4.91)	\$ 0.18	\$ (2.46)
Diluted net income (loss) per share	\$ 2.82	\$ (4.91)	\$ 0.18	\$ (2.46)
Weighted-average number of common shares outstanding basic	81,396	79,967	81,400	79,960
Weighted-average number of common and common equivalent shares outstanding diluted	82,240	79,967	82,236	79,960

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Dividends per share	\$ 0.0025	\$ 0.02	\$ 0.0050	\$ 0.04
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See accompanying notes to unaudited condensed consolidated financial statements

Table of Contents**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	Accumulated Other Comprehensive Income (Loss)			Total
					Foreign Currency Translation Adjustment	Unrealized Holding Gains (Losses)	Other	
BALANCE, JANUARY 1, 2008	\$ 98	\$ (889,478)	\$ 1,331,790	\$ 2,181,191	\$ 12,142	\$ 86,619	\$ (1,626)	\$ 2,720,736
Comprehensive loss:								
Net loss				(196,886)				(196,886)
Unrealized foreign currency translation adjustment, net of tax of \$2,225					4,133			4,133
Unrealized holding losses arising during period, net of tax benefit of \$51,383							(95,425)	
Less: Reclassification adjustment for net losses included in net loss, net of tax benefit of \$11,260							20,190	
Net unrealized loss on investments, net of tax benefit of \$40,123							(74,515)	(74,515)
Comprehensive loss								(267,268)
Repurchases of common stock under incentive plans		(574)	856					282
Issuance of restricted stock			78					78
Amortization of restricted stock			3,788					3,788
Stock-based compensation expense			1,550					1,550
Dividends declared				(3,259)				(3,259)
BALANCE, JUNE 30, 2008	\$ 98	\$ (890,052)	\$ 1,338,062	\$ 1,981,046	\$ 16,275	\$ 12,104	\$ (1,626)	\$ 2,455,907
BALANCE prior to implementation effects JANUARY 1, 2009	\$ 98	\$ (888,057)	\$ 1,350,704	\$ 1,766,946	\$ 13,966	\$ (196,480)	\$ (16,467)	\$ 2,030,710
Cumulative effect of adoption of SFAS No. 163 (see Note 1)				(37,587)				(37,587)
BALANCE, JANUARY 1, 2009, as adjusted	\$ 98	\$ (888,057)	\$ 1,350,704	\$ 1,729,359	\$ 13,966	\$ (196,480)	\$ (16,467)	\$ 1,993,123
Cumulative effect of adoption of FSP FAS 115-2/124-2 (see Note 1)				21,490			(21,490)	
Comprehensive income:								
Net income				14,438				14,438
Unrealized foreign currency translation adjustment, net of tax of \$1,193					2,215			2,215
Unrealized holding gains arising during the period, net of tax of \$41,338							76,772	
Less: Reclassification adjustment for net gains included in net income, net of tax of \$14,300							(26,558)	
Net unrealized gain on investments, net of tax of \$27,038							50,214	50,214
Comprehensive income								66,867
Repurchases of common stock under incentive plans		(1,085)	1,085					
Issuance of stock under benefit plans	1		1,848					1,849
Amortization of restricted stock			2,234					2,234
Stock-based compensation expense			2,569					2,569
Dividends declared				(409)				(409)

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Net actuarial loss							21	21
BALANCE, JUNE 30, 2009	\$ 99	\$ (889,142)	\$ 1,358,440	\$ 1,764,878	\$ 16,181	\$ (167,756)	\$ (16,446)	\$ 2,066,254

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents**Radian Group Inc.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

(In thousands)	Six Months Ended June 30	
	2009	2008
Cash flows used in operating activities	\$ (1,581,401)	\$ (185,245)
Cash flows from investing activities:		
Proceeds from sales of fixed-maturity investments available for sale	1,683,501	193,536
Proceeds from sales of equity securities available for sale	3,256	5,792
Proceeds from sales of hybrid securities	105,857	205,206
Proceeds from redemptions of fixed-maturity investments available for sale	240,733	93,094
Proceeds from redemptions of fixed-maturity investments held to maturity	6,890	7,481
Proceeds from redemptions of hybrid securities	9,304	29,347
Purchases of fixed-maturity investments available for sale	(308,994)	(340,218)
Purchases of equity securities available for sale	(8,701)	(85,289)
Purchases of hybrid securities	(117,733)	(242,954)
(Purchases) sales of short-term investments, net	(45,889)	263,492
Purchases of other invested assets, net	(1,473)	(1,249)
Purchases of property and equipment, net	(910)	(3,283)
Net cash provided by investing activities	1,565,841	124,955
Cash flows from financing activities:		
Dividends paid	(409)	(3,259)
Proceeds from termination of interest rate swap		12,800
Net cash (used in) provided by financing activities	(409)	9,541
Effect of exchange rate changes on cash	1,475	(1,710)
Decrease in cash	(14,494)	(52,459)
Cash, beginning of period	79,048	200,787
Cash, end of period	\$ 64,554	\$ 148,328
Supplemental disclosures of cash flow information:		
Income taxes received	\$ (339,719)	\$ (227,753)
Interest paid	\$ 25,999	\$ 28,428
Supplemental disclosures of non-cash items:		
Stock-based compensation, net of tax	\$ 4,224	\$ 5,173

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

Radian Group Inc

Notes to Condensed Consolidated Financial Statements

(Unaudited)

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. We have condensed or omitted certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with GAAP pursuant to the instructions of Article 10 of Regulation S-X of the Securities and Exchange Commission s (SEC) rules and regulations.

The financial information presented for interim periods is unaudited; however, such information reflects all adjustments that are, in the opinion of management, necessary for a fair statement of the financial position, results of operations, and cash flows for the interim periods. These interim financial statements should be read in conjunction with the audited financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2008. 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 accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date 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 assumpt