RADIAN GROUP INC
Form 10-Q
August 07, 2015

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, 2015

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: 208,660,500 shares of common stock, $0.001 par value per share, outstanding on August 4, 2015.

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GLOSSARY OF ABBREVIATIONS AND ACRONYMS

The list which follows includes the definitions of various abbreviations and acronyms used throughout this report, including the Condensed Consolidated Financial Statements, the Notes to Unaudited Condensed Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations.

Term	Definition
2014 Form 10-K	Annual Report on Form 10-K for the year ended December 31, 2014
2014 Master Policy	Radian Guaranty's Master Policy that became effective October 1, 2014
ABS	Asset-backed securities
Alt-A	Alternative-A loan where the documentation is generally limited as compared to fully documented loans (considered a non-prime loan grade)
AOCI	Accumulated other comprehensive income (loss)
Appeals	Internal Revenue Service Office of Appeals
ASR	Accelerated share repurchase
Assured	Assured Guaranty Corp., a subsidiary of Assured Guaranty Ltd.
Available Assets	As defined in the PMIERs, these assets primarily include the liquid assets of a mortgage insurer and its affiliated reinsurers, and exclude unearned premium reserves
BofA Settlement Agreement	The Confidential Settlement Agreement and Release dated September 16, 2014, by and among Radian Guaranty and Countrywide Home Loans, Inc. and Bank of America, N.A., as a successor to BofA Home Loan Servicing f/k/a Countrywide Home Loan Servicing LP, in order to resolve various actual and potential claims or disputes as to mortgage insurance coverage on certain Subject Loans
Claim Curtailment	Our legal right, under certain conditions, to reduce the amount of a claim, including due to servicer negligence
Claim Denial	Our legal right, under certain conditions, to deny a claim
Claim Severity	The total claim amount paid divided by the original coverage amount
Clayton	Clayton Holdings LLC, a Delaware domiciled indirect non-insurance subsidiary of Radian Group
CMBS	Commercial mortgage-backed securities
Convertible Senior Notes due 2017	Our 3.000% convertible unsecured senior notes due November 2017 ($450 million original principal amount)
Convertible Senior Notes due 2019	Our 2.250% convertible unsecured senior notes due March 2019 ($400 million principal amount)
Cures	Loans that were in default as of the beginning of a period and are no longer in default because payments were received and the loan is no longer past due
Default to Claim Rate	Rate at which defaulted loans result in a claim
Deficiency Amount	The assessed tax liabilities, penalties and interest associated with a formal notice of deficiency letter from the IRS
DTAs	Deferred tax assets
DTLs	Deferred tax liabilities
Exchange Act	Securities and Exchange Act of 1934, as amended
Fannie Mae	Federal National Mortgage Association
FHA	Federal Housing Administration
FHFA	Federal Housing Finance Agency
FICO	Fair Isaac Corporation
First-liens	First-lien mortgage loans
Flow Business	With respect to mortgage insurance, transactions in which mortgage insurance is provided on mortgages on an individual loan basis as they are originated. Flow Business contrasts with Structured Transactions, in which mortgage insurance is provided on a group of mortgages after they have been originated

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Term	Definition
Foreclosure Stage Default	The Stage of Default indicating that the foreclosure sale has been scheduled or held
Freddie Mac	Federal Home Loan Mortgage Corporation
Freddie Mac Agreement	The Master Transaction Agreement between Radian Guaranty and Freddie Mac entered into in August 2013
GAAP	Accounting principles generally accepted in the United States of America
Green River Capital	Green River Capital LLC, a wholly-owned subsidiary of Clayton
GSEs	Government-Sponsored Enterprises (Fannie Mae and Freddie Mac)
HPA	Homeowners Protection Act
IBNR	Losses incurred but not reported
IIF	Insurance in force
Implementation Date	The February 1, 2015 commencement date for activities pursuant to the BofA Settlement Agreement
Initial QSR Transaction	Initial quota share reinsurance agreement entered into with a third-party reinsurance provider in the second quarter of 2012
Insureds	Insured parties, with respect to the BofA Settlement Agreement, Countrywide Home Loans, Inc. and Bank of America, N.A., as a successor to BofA Home Loan Servicing f/k/a Countrywide Home Loans Servicing LP
IRS	Internal Revenue Service
LAE	Loss adjustment expense, which includes the cost of investigating and adjusting losses and paying claims
Legacy Portfolio	Mortgage insurance written during the poor underwriting years of 2005 through 2008, together with business written prior to 2005
Loss Mitigation Activity/Activities	Activities such as Rescissions, Claim Denials, Claim Curtailments and cancellations
LTV	Loan-to-value ratio which is calculated as the percentage of the original loan amount to the original value of the property
Master Policies	The Prior Master Policy and the 2014 Master Policy, collectively
Minimum Required Assets	A risk-based minimum required asset amount, as defined in the PMIERs, calculated based on net RIF and a variety of measures designed to evaluate credit quality
Model Act	Mortgage Guaranty Insurers Model Act
Monthly Premium Policy/Policies	Insurance policies where premiums are paid on a monthly installment basis
Moody's	Moody's Investors Service
Mortgage Insurance	Radian's Mortgage Insurance business segment, which provides credit-related insurance coverage, principally through private mortgage insurance, to mortgage lending institutions
MPP Requirement	Certain states' statutory or regulatory risk-based capital requirement that the mortgage insurer must maintain a minimum policyholder position, which is calculated based on both risk and surplus levels
NAIC	National Association of Insurance Commissioners
NIW	New insurance written
NOL	Net operating loss, calculated on a tax basis
Notices of Deficiency	Formal letters from the IRS informing the taxpayer of an IRS determination of tax deficiency and appeal rights
OCI	Other comprehensive income (loss)
PDR	Premium deficiency reserve
Persistency Rate	The percentage of insurance in force that remains on our books after any 12-month period

Term	Definition
PMIERs	Private Mortgage Insurer Eligibility Requirements that were issued by the FHFA in proposed form for public comment on July 10, 2014 and issued in final form on April 17, 2015, as updated on June 30, 2015
PMIERs Financial Requirements	Financial requirements of the PMIERs
Prior Master Policy	Radian Guaranty's master insurance policy in effect prior to the effective date of its 2014 Master Policy
QSR	Quota share reinsurance
QSR Transactions	The Initial QSR Transaction and Second QSR Transaction, collectively
Radian	Radian Group Inc. together with its consolidated subsidiaries
Radian Asset Assurance	Radian Asset Assurance Inc., a New York domiciled insurance subsidiary of Radian Guaranty
Radian Asset Assurance Stock Purchase Agreement	The Stock Purchase Agreement dated December 22, 2014, between Radian Guaranty and Assured Guaranty Corp., a subsidiary of Assured Guaranty Ltd. ("Assured"), to sell 100% of the issued and outstanding shares of Radian Asset Assurance, Radian's financial guaranty insurance subsidiary, to Assured
Radian Group	Radian Group Inc., the registrant
Radian Guaranty	Radian Guaranty Inc., a Pennsylvania domiciled insurance subsidiary of Radian Group
RBC States	Risk-based capital states, which are those states that currently impose a statutory or regulatory risk-based capital requirement
Red Bell	Red Bell Real Estate, LLC, a wholly-owned subsidiary of Clayton
Reinstatements	Reversals of previous rescissions, claim denials and claim curtailments
REMIC	Real Estate Mortgage Investment Conduit
REO	Real estate owned
Rescission	Our legal right, under certain conditions, to unilaterally rescind coverage on our mortgage insurance policies if we determine that a loan did not qualify for insurance
RESPA	Real Estate Settlement Procedures Act of 1974
RGRI	Radian Guaranty Reinsurance Inc., a Pennsylvania domiciled insurance subsidiary of Enhance Financial Services Group Inc., a New York domiciled non-insurance subsidiary of Radian Group
RIF	Risk in force, which approximates the maximum loss exposure at any point in time
Risk-to-capital	Under certain state regulations, a minimum ratio of statutory capital calculated relative to the level of net risk in force
RMBS	Residential mortgage-backed securities
S&P	Standard & Poor's Financial Services LLC
SAP	Statutory accounting practices include those required or permitted, if applicable, by the insurance departments of the respective states of domicile of our insurance subsidiaries
SEC	United States Securities and Exchange Commission
Second QSR Transaction	Second Quota share reinsurance transaction entered into with a third-party reinsurance provider in the fourth quarter of 2012
Second-liens	Second-lien mortgage loans
Senior Notes due 2017	Our 9.000% unsecured senior notes due June 2017 ($195.5 million principal amount)
Senior Notes due 2019	Our 5.500% unsecured senior notes due June 2019 ($300 million principal amount)
Senior Notes due 2020	Our 5.250% unsecured senior notes due June 2020 ($350 million principal amount)
Services	Radian's Mortgage and Real Estate Services business segment, which provides mortgage- and real estate-related products and services to the mortgage finance market
Servicing Only Loans	With respect to the BofA Settlement Agreement, loans other than Legacy Loans that were or are serviced by the Insureds and were 90 days or more past due as of July 31, 2014, or if servicing has been transferred to a servicer other than the Insureds, 90 days or more past due

as of the transfer date

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Term	Definition
Single Premium Policy/Policies	Insurance policies where premiums are paid as a single payment at origination
Stage of Default	The stage a loan is in relative to the foreclosure process, based on whether or not a foreclosure sale has been scheduled or held
Statutory RBC Requirement	Risk-based capital requirement imposed by the RBC States, requiring a minimum surplus level and, in certain states, a minimum ratio of statutory capital relative to the level of risk
Structured Transactions	With respect to mortgage insurance, transactions in which mortgage insurance is provided on a group of mortgages after they have been originated. Structured Transactions contrast with Flow Business, in which mortgage insurance is provided on mortgages on an individual loan basis as they are originated
Subject Loans	Loans covered under the BofA Settlement Agreement, comprising Legacy Loans and Servicing Only Loans
The White Case	A putative class action under RESPA titled White v. PNC Financial Services Group filed in the U.S. District Court for the Eastern District of Pennsylvania
The Menichino Case	A putative class action under RESPA titled Menichino, et al. v. Citibank, N.A., et al. filed in the U.S. District Court for the Western District of Pennsylvania
The Manners Case	A putative class action under RESPA titled Manners, et al. v. Fifth Third Bank, et al. filed in the U.S. District Court for the Western District of Pennsylvania
Time in Default	The time period from the point a loan reaches default status (based on the month the default occurred) to the current reporting date
U.S.	The United States of America
U.S. Treasury	United States Department of the Treasury
VIE	Variable interest entity is a legal entity subject to the variable interest entity subsections of the accounting standard regarding consolidation, and generally includes a corporation, trust or partnership in which, by design, equity investors do not have a controlling financial interest or do not have sufficient equity at risk to finance activities without additional subordinated financial support

Cautionary Note Regarding Forward Looking Statements—Safe Harbor Provisions

All statements in this report that address events, developments or results that we expect or anticipate may occur in the future are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, Section 21E of the Exchange Act and the U.S. Private Securities Litigation Reform Act of 1995. In most cases, forward-looking statements may be identified by words such as "anticipate," "may," "will," "could," "should," "would," "expect," "intend," "pl "contemplate," "believe," "estimate," "predict," "project," "potential," "continue," "seek," "strategy," "future," "likely" or the other variations on these words and other similar expressions. These statements, which may include, without limitation, projections regarding our future performance and financial condition, are made on the basis of management's current views and assumptions with respect to future events. Any forward-looking statement is not a guarantee of future performance and actual results could differ materially from those contained in the forward-looking statement. These statements speak only as of the date they were made, and we undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. We operate in a changing environment. 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:

- changes in general economic and political conditions, including unemployment rates, changes in the U.S. housing and mortgage credit markets, declines in home prices and property values, the performance of the U.S. or global economies, the amount of liquidity in the capital or credit markets, changes or volatility in interest rates or consumer confidence and changes in credit spreads, all of which may be impacted by, among other things, legislative activity or inactivity, actual or threatened downgrades of U.S. government credit ratings, or actual or threatened defaults on U.S. government obligations;
- changes in the way customers, investors, regulators or legislators perceive the strength of private mortgage insurers;
- catastrophic events, increased unemployment, home price depreciation or other negative economic changes generally or in geographic regions where our mortgage insurance exposure is more concentrated;
- Radian Guaranty's ability to remain eligible under applicable requirements imposed by the FHFA and by the GSEs to insure loans purchased by the GSEs;
- our ability to maintain sufficient holding company liquidity to meet our short- and long-term liquidity needs. We expect to contribute a portion of our holding company liquidity to support Radian Guaranty's compliance with the PMIERs Financial Requirements which become effective for existing mortgage insurers on December 31, 2015. Our projections regarding the amount of holding company liquidity that we may contribute to Radian Guaranty to comply with the PMIERs Financial Requirements are based on our estimates of Radian Guaranty's Minimum Required Assets and Available Assets, which may not prove to be accurate, and which could be impacted by: (1) our ability to receive, as currently expected, GSE approval for the amendments to our existing reinsurance arrangements and receive the full PMIERs benefit for these arrangements; (2) whether we elect to convert certain liquid assets into PMIERs-compliant Available Assets; (3) the product mix of our NIW and factors affecting the performance of our mortgage insurance business, including our level of defaults, prepayments, the losses we incur on new or existing defaults and the credit characteristics of our mortgage insurance; and (4) how much capital we expect to maintain at our mortgage insurance subsidiaries in excess of the amount required to satisfy the PMIERs Financial Requirements. Contributions of holding company cash and investments from Radian Group will leave less liquidity to satisfy Radian Group's future obligations. Depending on the amount of holding company contributions that we make, we may be required or may decide 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;
- our ability to maintain an adequate level of capital in our insurance subsidiaries to satisfy existing and future state regulatory requirements, including new capital adequacy standards that currently are being developed by the NAIC and that could be adopted by states in which we write business;

- changes in the charters or business practices of, or rules or regulations imposed by or applicable to the GSEs, including: (1) the implementation of the final PMIERs (as updated on June 30, 2015) which will (a) increase the amount of capital that Radian Guaranty is required to hold, and therefore, reduce our current returns on subsidiary capital, (b) potentially impact the type of business that Radian Guaranty is willing to write, which could reduce our NIW and market share, (c) impose extensive and more stringent operational requirements in areas such as claim processing, loss mitigation, document retention, underwriting, quality control, reporting and monitoring, among others, that may result in additional costs to achieve and maintain compliance, and (d) require the consent of the GSEs for Radian Guaranty to take certain actions such as paying dividends, entering into various inter-company agreements, and commuting or reinsuring risk, among others; (2) changes that could limit the type of business that Radian Guaranty and other private mortgage insurers are willing to write or that could impact the process for selecting a mortgage insurance provider, which could reduce our NIW and market share; (3) changes that could increase the cost of private mortgage insurance, including as compared to the FHA pricing, or result in the emergence of other forms of credit enhancement; and (4) changes that could require us to alter our business practices and which may result in substantial additional costs;
- our ability to continue to effectively mitigate our mortgage insurance losses, including a decrease in net Rescissions, Claim Denials or Claim Curtailments resulting from an increase in the number of successful challenges to previous Rescissions, Claim Denials or Claim Curtailments (including as part of one or more settlements of disputed Rescissions or Claim Denials), or as a result of the GSEs intervening in or otherwise limiting our 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 our customers and potential customers, including the potential loss of current or future business and the heightened risk of disputes and litigation;
- any disruption in the servicing of mortgages covered by our insurance policies, as well as poor servicer performance;
- a substantial decrease in the persistency rates of our mortgage insurance policies, which has the effect of reducing our premium income from 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 with respect to other private mortgage insurers, 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 therefore, are not burdened by legacy obligations) and the impact such heightened competition may have on our returns and our NIW;
- the increased utilization of customized (reduced) rates on lender-paid, single premium mortgage insurance products and potentially other mortgage insurance products, which could further reduce our overall average premium rates and returns and, to the extent we decide to limit this type of business, could adversely impact our market share and our customer relationships;
- 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 Wall Street Reform and Consumer Protection Act on the financial services industry in general, and on our businesses in particular;
- the adoption of new or 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: (1) the resolution of existing, or the possibility of additional, lawsuits, inquiries or investigations (including a recent inquiry from the Wisconsin Office of the Commissioner of Insurance to all private mortgage insurers pertaining to customized insurance rates and terms offered to mortgage insurance customers); (2) changes to the Model Act being considered by the NAIC that could include more stringent capital and other requirements for Radian Guaranty in states that adopt the new Model Act in the future; and (3) legislative and regulatory changes (a) impacting the demand for our products, (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 or future prospects;
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the amount and timing of potential payments or adjustments associated with federal or other tax examinations, including deficiencies assessed by the IRS resulting from the examination of our 2000 through 2007 tax years, which we are currently contesting;

- 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 business;
- volatility in our results of operations caused by changes in the fair value of our assets and liabilities, including a significant portion of our investment portfolio;
- changes in GAAP or SAP, if applicable, by the insurance departments of the respective states of domicile of our insurance subsidiaries rules and guidance, or their interpretation;
- 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
- the possibility that we may need to impair the estimated fair value of goodwill established in connection with our acquisition of Clayton, the valuation of which requires the use of significant estimates and assumptions with respect to the estimated future economic benefits arising from certain assets acquired in the transaction such as the value of expected future cash flows of Clayton, Clayton’s workforce, expected synergies with our other affiliates and other unidentifiable intangible assets.

For more information regarding these risks and uncertainties as well as certain additional risks that we face, you should refer to the Risk Factors detailed in Item 1A of our 2014 Form 10-K, and in our subsequent quarterly and other reports, including Item 1A of Part II of this Quarterly Report on Form 10-Q, filed from time to time with the SEC. We caution you not to place undue reliance on these forward-looking statements, which are current only as of the date on which we issued this report. We do not intend to, and we disclaim any duty or obligation to, update or revise any forward-looking statements to reflect new information or future events or for any other reason.

PART I—FINANCIAL INFORMATION

Radian Group Inc.
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

($ in thousands, except share amounts)	June 30, 2015	December 31, 2014
ASSETS		
Investments (Note 5)		
Fixed-maturities available for sale—at fair value (amortized cost $1,196,446 and $528,660)	$1,178,842	$536,890
Equity securities available for sale—at fair value (cost $573 and $76,900)	881	143,368
Trading securities—at fair value	1,466,435	1,633,584
Short-term investments—at fair value	1,649,370	1,300,872
Other invested assets	13,620	14,585
Total investments	4,309,148	3,629,299
Cash	51,381	30,465
Restricted cash	12,633	14,031
Accounts and notes receivable	72,093	85,792
Deferred income taxes, net (Note 12)	651,238	700,201
Goodwill and other intangible assets, net (Note 6)	290,640	288,240
Other assets (Note 8)	349,371	357,864
Assets held for sale (Note 2)	—	1,736,444
Total assets	$5,736,504	$6,842,336
LIABILITIES AND STOCKHOLDERS' EQUITY		
Unearned premiums	$665,947	$644,504
Reserve for losses and loss adjustment expense ("LAE") (Note 9)	1,204,792	1,560,032
Long-term debt (Note 10)	1,224,892	1,192,299
Other liabilities	278,929	326,743
Liabilities held for sale (Note 2)	—	947,008
Total liabilities	3,374,560	4,670,586
Commitments and Contingencies (Note 15)		
Equity component of currently redeemable convertible senior notes (Note 10)	8,546	74,690
Stockholders' equity		
Common stock: par value $.001 per share; 485,000,000 shares authorized at June 30, 2015 and December 31, 2014, respectively; 226,147,213 and 208,601,020 shares issued at June 30, 2015 and December 31, 2014, respectively; 208,586,516 and 191,053,530 shares outstanding at June 30, 2015 and December 31, 2014, respectively	226	209
Treasury stock, at cost: 17,560,597 and 17,547,490 shares at June 30, 2015 and December 31, 2014, respectively	(893,176)	(892,961)
Additional paid-in capital	2,709,721	2,531,513
Retained earnings	548,161	406,814
Accumulated other comprehensive (loss) income ("AOCI") (Note 11)	(11,534)	51,485
Total stockholders' equity	2,353,398	2,097,060
Total liabilities and stockholders' equity	$5,736,504	$6,842,336

See Notes to Unaudited Condensed Consolidated Financial Statements.

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)	2015	2014	2015	2014
Revenues:				
Net premiums earned—insurance	$237,437	$203,646	$462,032	$402,408
Services revenue	43,503	—	74,133	—
Net investment income	19,285	16,663	36,613	31,981
Net gains on investments and other financial instruments	28,448	25,332	45,227	68,300
Other income	1,743	1,739	3,074	2,865
Total revenues	330,416	247,380	621,079	505,554
Expenses:				
Provision for losses	32,560	64,648	77,588	114,274
Policy acquisition costs	6,963	6,746	14,713	13,763
Direct cost of services	23,520	—	42,773	—
Other operating expenses	67,731	60,751	121,505	115,258
Interest expense	24,501	22,348	48,886	42,275
Loss on induced conversion and debt extinguishment (Note 10)	91,876	—	91,876	—
Amortization and impairment of intangible assets	3,281	—	6,304	—
Total expenses	250,432	154,493	403,645	285,570
Pretax income from continuing operations	79,984	92,887	217,434	219,984
Income tax provision (benefit)	34,791	(10,650)	80,514	(29,533)
Net income from continuing operations	45,193	103,537	136,920	249,517
Income from discontinued operations, net of tax	4,855	71,296	5,385	128,075
Net income	$50,048	$174,833	$142,305	$377,592
Net income per share:				
Basic:				
Net income from continuing operations	$0.23	$0.57	$0.71	$1.40
Income from discontinued operations	0.03	0.39	0.03	0.72
Net income	$0.26	$0.96	$0.74	$2.12
Diluted:				
Net income from continuing operations	$0.20	$0.47	$0.59	$1.15
Income from discontinued operations	0.02	0.31	0.02	0.56
Net income	$0.22	$0.78	$0.61	$1.71
Weighted-average number of common shares outstanding—basic	193,112	182,583	192,245	177,903
Weighted-average number of common and common equivalent shares outstanding—diluted	246,650	230,779	244,981	226,767
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 INCOME (LOSS) (UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	2015	2014	2015	2014
Net income	$50,048	$174,833	$142,305	$377,592
Other comprehensive (loss) income, net of tax (Note 11):				
Net foreign currency translation adjustments	158	—	32	—
Unrealized (losses) gains on investments:				
Unrealized holding (losses) gains arising during the period	(21,620)	8,633	(15,166)	11,302
Less: Reclassification adjustment for net gains (losses) included in net income	44,664	(393)	44,631	(389)
Net unrealized (losses) gains on investments	(66,284)	9,026	(59,797)	11,691
Activity related to investments recorded as assets held for sale	(5,082)	647	(3,254)	1,943
Other comprehensive (loss) income, net of tax	(71,208)	9,673	(63,019)	13,634
Comprehensive (loss) income	$(21,160)	$184,506	$79,286	$391,226

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 (Deficit) Earnings	AOCI	Total
BALANCE, JANUARY 1, 2014	$191	$(892,807)	$2,347,104	$(552,226)	$37,383	$939,645
Net income	—	—	—	377,592	—	377,592
Net unrealized gain on investments, net of tax	—	—	—	—	13,634	13,634
Repurchases of common stock under incentive plans	—	(154)	—	—	—	(154)
Issuance of common stock - stock offering	18	—	247,370	—	—	247,388
Issuance of common stock under benefit plans	—	—	487	—	—	487
Issuance of common stock under incentive plans	—	—	175	—	—	175
Stock-based compensation expense, net	—	—	6,390	—	—	6,390
Dividends declared	—	—	(910)	—	—	(910)
BALANCE, JUNE 30, 2014	$209	$(892,961)	$2,600,616	$(174,634)	$51,017	$1,584,247
BALANCE, JANUARY 1, 2015	$209	$(892,961)	$2,531,513	$406,814	$51,485	$2,097,060
Net income	—	—	—	142,305	—	142,305
Net foreign currency translation adjustment, net of tax	—	—	—	—	32	32
Net unrealized loss on investments, net of tax	—	—	—	—	(63,051)	(63,051)
Repurchases of common stock under incentive plans	—	(215)	—	—	—	(215)
Issuance of common stock under benefit plans	—	—	482	—	—	482
Issuance of common stock under incentive plans	1	—	1,112	—	—	1,113
Stock-based compensation expense, net	—	—	6,494	—	—	6,494
Impact of extinguishment of Convertible Senior Notes due 2017 (Note 10)	28	—	349,033	—	—	349,061
Shares repurchased under ASR (Note 16)	(9)	—	(201,991)	—	—	(202,000)
Termination of capped calls (Note 10)	(3)	—	11,976	—	—	11,973
Change in equity component of currently redeemable convertible senior notes	—	—	11,102	—	—	11,102
Dividends declared	—	—	—	(958)	—	(958)
BALANCE, JUNE 30, 2015	$226	$(893,176)	$2,709,721	$548,161	$(11,534)	$2,353,398

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, 2015	2014
Cash flows from operating activities:		
Net cash used in operating activities, continuing operations	$(66,804)	$(236,753)
Net cash used in operating activities, discontinued operations	(1,759)	(23,107)
Net cash used in operating activities	(68,563)	(259,860)
Cash flows from investing activities:		
Proceeds from sales of fixed-maturity investments available for sale	57,309	9,802
Proceeds from sales of equity securities available for sale	145,550	—
Proceeds from sales and redemptions of trading securities	134,427	432,248
Proceeds from redemptions of fixed-maturity investments available for sale	25,179	100
Proceeds from redemptions of fixed-maturity investments held to maturity	—	300
Purchases of fixed-maturity investments available for sale	(725,640)	(165,256)
Purchases of equity securities available for sale	(500)	—
Purchases and redemptions of short-term investments, net	(348,702)	(197,299)
Sales of other assets, net	965	6,750
Proceeds from the sale of investment in affiliate, net of cash transferred	784,866	—
Purchases of property and equipment, net	(10,654)	(8,041)
Acquisitions, net of cash acquired	(6,449)	(295,977)
Net cash provided by (used in) investing activities, continuing operations	56,351	(217,373)
Net cash provided by investing activities, discontinued operations	4,999	14,740
Net cash provided by (used in) investing activities	61,350	(202,633)
Cash flows from financing activities:		
Dividends paid	(958)	(910)
Issuance of long-term debt, net	344,260	294,402
Purchases and redemptions of long-term debt	(128,303)	(57,223)
Proceeds from termination of capped calls	11,973	—
Issuance of common stock	—	247,388
Purchase of shares under ASR	(202,000)	—
Excess tax benefits from stock-based awards	2,679	106
Net cash provided by financing activities, continuing operations	27,651	483,763
Net cash provided by (used in) financing activities, discontinued operations	—	—
Net cash provided by financing activities	27,651	483,763
Effect of exchange rate changes on cash	57	(13)
Increase in cash	20,495	21,257
Cash, beginning of period	30,465	22,880
Less: Change in cash of business held for sale	(421)	1,758
Cash, end of period	$51,381	$42,379
Supplemental disclosures of cash flow information:		
Income taxes paid	$3,786	$5,333
Interest paid	$29,547	$21,558

See Notes to Unaudited Condensed Consolidated Financial Statements.

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Radian Group Inc.
Notes to Unaudited Condensed Consolidated Financial Statements

1. Condensed Consolidated Financial Statements—Significant Accounting Policies and Business Overview
Significant Accounting Policies
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,” the “Company,” “we,” “us” or “our,” unless the context requires otherwise. We generally refer to Radian Group Inc. alone, without its consolidated subsidiaries, as “Radian Group.” Unless otherwise defined in this report, certain terms and acronyms used throughout this report are defined in the Glossary of Abbreviations and Acronyms included as part of this report.
Our condensed consolidated financial statements are prepared in accordance with GAAP and include the accounts of all wholly-owned subsidiaries. All intercompany accounts and transactions, and intercompany profits and losses, have been eliminated. We have condensed or omitted certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with GAAP pursuant to the instructions set forth in Article 10 of Regulation S-X of the SEC.
The financial information presented for interim periods is unaudited; however, such information reflects all adjustments that are, in the opinion of management, necessary for the fair statement of the financial position, results of operations, comprehensive income and cash flows for the interim periods presented. Such adjustments are of a normal recurring nature. The year-end condensed balance sheet data was derived from our audited financial statements, but does not include all disclosures required by GAAP. These interim financial statements should be read in conjunction with the audited financial statements and notes thereto included in our 2014 Form 10-K. The results of operations for interim periods are not necessarily indicative of results to be expected for the full year or for any other period. Certain prior period amounts have been reclassified to conform to current period presentation, including the adoption of an update to the accounting standard for the presentation of debt issuance costs in financial statements, as further described below in Recent Accounting Pronouncements.
Use of Estimates
The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of our contingent assets and liabilities at the dates of the financial statements, as well as the reported amounts of revenues and expenses during the reporting periods. While the amounts included in our condensed consolidated financial statements include our best estimates and assumptions, actual results may vary materially.
Other Significant Accounting Policies
During the second quarter of 2015, Radian Group completed a series of transactions for the purpose of strengthening its capital position, including to reduce its overall cost of capital and improve the maturity profile of its debt. See Recent Developments—Debt and Equity Transactions in this Note 1 for more information.
June 2015 Purchases of Convertible Debt Prior to Maturity. We accounted for the June 2015 purchases of a portion of our outstanding convertible debt in exchange for cash and shares of Radian Group common stock as an induced conversion of convertible debt in accordance with the accounting standard regarding derecognition of debt with conversion and other options, and the accounting standard regarding debt modifications and extinguishments. The accounting standards require the recognition through earnings of an inducement charge equal to the fair value of the consideration delivered in excess of the consideration issuable under the original conversion terms. The remaining consideration delivered and transaction costs incurred are required to be allocated between the extinguishment of the liability component and the reacquisition of the equity component. Therefore, we recognized as a loss on induced conversion and debt extinguishment the sum of: (i) the inducement charge; (ii) the difference between the fair value and the carrying value of the liability component of the purchased debt; (iii) transaction costs allocated to the debt component; and (iv) unamortized debt issuance costs related to the purchased debt.

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

Accelerated Share Repurchase. Our ASR program consists of the combination of the purchase of Radian Group common stock from an investment bank and a forward contract with that investment bank indexed to Radian Group common stock. We account for the ASR program in accordance with the provisions of the accounting standards regarding derivatives and hedging for contracts indexed to an entity's own stock, and the accounting standard regarding equity. The up-front payment to the investment bank as part of the ASR program is accounted for as a reduction to stockholders' equity in our consolidated balance sheets in the period the payment was made. The shares of Radian Group common stock received were retired, resulting in a decrease in shares issued and outstanding and a corresponding increase in unissued shares in the periods delivered. We reflect the ASR program as a repurchase of common stock in the periods delivered for purposes of calculating earnings per share and as forward contracts indexed to the company's own common stock. The ASR program met all of the applicable criteria for equity classification, and therefore, was not accounted for as a derivative instrument.

See Note 2 in our 2014 Form 10-K for information regarding other significant accounting policies.

Recent Accounting Pronouncements

In May 2014, the FASB issued an update to the accounting standard regarding revenue recognition. This update is intended to provide a consistent approach in recognizing revenue. In accordance with the new standard, recognition of revenue occurs when a customer obtains control of promised goods or services, in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, the new standard requires that reporting companies disclose the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. While this update is not expected to change revenue recognition principles related to our insurance products, this update may be applicable to revenues from our Services segment, which has been included in our condensed consolidated statements of operations beginning with the third quarter of 2014. In July 2015, the FASB delayed the effective date for this updated standard to interim and annual periods beginning after December 15, 2017. We are currently evaluating the impact to our financial statements and future disclosures as a result of this update, if any.

In April 2015, the FASB issued an update to the accounting standard for the presentation of debt issuance costs in financial statements. The new standard requires an entity to present debt issuance costs related to a recognized debt liability as a direct reduction from the carrying amount of the related debt liability, consistent with debt discounts, rather than as a separate asset as currently required. The recognition and measurement guidance for debt issuance costs are not affected by the update. The provisions of this update are effective for interim and annual periods beginning after December 15, 2015, and must be applied on a retrospective basis for all periods presented. We early adopted this update effective June 30, 2015, as permitted for financial statements that have not been previously issued. The implementation of this update resulted in a reclassification of approximately $17.6 million of remaining debt issuance costs on our December 31, 2014 consolidated balance sheet, from other assets, to be presented as a reduction of the related debt liability. This update has also been applied retrospectively to prior periods presented. See Note 10 for additional information on the impact of the reclassification.

In April 2015, the FASB issued an update to the accounting standard for the accounting of internal-use software. The amendments in this update provide guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The provisions of this update are effective for interim and annual periods beginning after December 15, 2015, and early adoption is permitted. Management is currently evaluating the potential impact to our financial statements, if any.

In May 2015, the FASB issued an update to the accounting standard for the accounting of short-duration insurance contracts by insurance entities. The amendments in this update require insurance entities to disclose certain information about the liability for unpaid claims and claim adjustment expenses. The additional information required is focused on improvements in disclosures regarding insurance liabilities, including the timing, nature and uncertainty of future cash flows related to insurance liabilities and the effect of those cash flows on the statement of comprehensive income. The disclosures required by this update are effective for annual periods beginning after December 15, 2015, and interim periods within annual periods beginning after December 15, 2016; early adoption is permitted. We are currently evaluating the impact to our financial statements and future disclosures as a result of this update.

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

Business Overview
We provide mortgage and real estate products and services and have two reportable business segments—Mortgage Insurance and Services. On April 1, 2015, Radian Guaranty completed the previously disclosed sale to Assured of 100% of the issued and outstanding shares of Radian Asset Assurance, a financial guaranty insurer, pursuant to the Radian Asset Assurance Stock Purchase Agreement dated as of December 22, 2014. As a result, until the April 1, 2015 sale date, the operating results of Radian Asset Assurance are classified as discontinued operations for all periods presented in our condensed consolidated statements of operations. Prior periods have been revised to conform to the current period presentation for these changes. See Note 2 for additional information related to discontinued operations.
Mortgage Insurance
Our Mortgage Insurance segment provides credit-related insurance coverage, principally through private mortgage insurance, to mortgage lending institutions. We provide our mortgage insurance products mainly through our wholly-owned subsidiary, 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 down payments of less than 20% of the home’s purchase price. Private mortgage insurance also facilitates the sale of these low-downpayment mortgage loans in the secondary mortgage market, most of which are sold to the GSEs. Our Mortgage Insurance segment currently offers primary mortgage insurance coverage on residential First-liens, and at June 30, 2015, primary insurance on First-liens comprised approximately 97.4% of our $44.8 billion total direct RIF. At June 30, 2015, pool insurance, which we previously offered, represented approximately 2.5% of our total direct RIF.
The FHFA, the GSEs and state insurance regulators impose various capital and financial requirements on our insurance subsidiaries. These include financial requirements, such as Risk-to-capital, other risk-based capital measures and surplus requirements, as well as the PMIERs Financial Requirements discussed below. Failure to comply with applicable financial requirements may limit the amount of insurance that our insurance subsidiaries may write. The GSEs and our state insurance regulators also possess significant discretion with respect to our insurance subsidiaries.
On April 17, 2015, the FHFA issued the final PMIERs, setting forth revised requirements for private mortgage insurers, including Radian Guaranty, to remain eligible insurers of loans purchased by the GSEs. On June 30, 2015, the GSEs updated the PMIERs Financial Requirements to increase the amount of Available Assets that must be held by a private mortgage insurer for loans originated on or after January 1, 2016 that are insured under lender-paid mortgage insurance policies not subject to automatic termination under the HPA. Once the PMIERs become effective for existing eligible mortgage insurers on December 31, 2015, the PMIERs Financial Requirements will replace the capital adequacy standards under the current GSE eligibility requirements.
The PMIERs Financial Requirements require a mortgage insurer’s Available Assets to meet or exceed its Minimum Required Assets. Under the final PMIERs, Radian Guaranty’s Available Assets and Minimum Required Assets are determined on an aggregate basis, taking into account the assets and insured risk of Radian Guaranty and its affiliated reinsurers. Therefore, developments that impact the assets and insured risk of Radian Guaranty and its affiliated reinsurers individually (such as capital contributions from Radian Group) also will impact the aggregate Available Assets and Minimum Required Assets, and importantly, Radian Guaranty’s compliance with the PMIERs Financial Requirements. As a result, references to Radian Guaranty’s Available Assets and Minimum Required Assets take into consideration both Radian Guaranty and its affiliated reinsurers.
Based on our current estimates of Radian Guaranty’s Available Assets and Minimum Required Assets as of June 30, 2015, we expect that Radian Guaranty will have the ability to immediately comply with the PMIERs Financial Requirements through one or more future contributions of a portion of our holding company liquidity to Radian Guaranty and its affiliated reinsurers.
The implementation of the final PMIERs (as updated on June 30, 2015) will: (1) increase the amount of capital that Radian Guaranty is required to hold, and therefore, reduce our current returns on subsidiary capital; (2) potentially impact the type of business that Radian Guaranty is willing to write; (3) impose extensive and more stringent

operational requirements in areas such as claim processing, loss mitigation, document retention, underwriting, quality control, reporting and monitoring, among others, that may result in additional costs to achieve and maintain compliance; and (4) require the consent of the GSEs for Radian Guaranty to take certain actions such as paying dividends, entering into various intercompany agreements, and commuting or reinsuring risk, among others.

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

The NAIC is in the process of reviewing the minimum capital and surplus requirements for mortgage insurers and is considering changes to the Model Act. While the outcome of this process is not known, it is possible that among other changes, the NAIC will recommend and adopt more stringent capital requirements than currently exist under the Model Act, which could increase the capital requirements for Radian Guaranty in states that adopt the new Model Act.

Services

Our Services segment provides outsourced services, information-based analytics and specialty consulting for buyers and sellers of, and investors in, mortgage loans and other real estate-related loans and securities as well as other forms of collateral. The primary services of our Services segment include: (1) loan review/due diligence; (2) surveillance; (3) valuation and component services; (4) REO management; and (5) EuroRisk mortgage services in the United Kingdom and Europe. These services and solutions are provided primarily through Clayton and its subsidiaries, including Green River Capital and Red Bell.

During the first quarter of 2015, Clayton further expanded its service offerings by acquiring Red Bell, a real estate brokerage company that provides products and services that include automated valuation models; broker price opinions used by investors, lenders and loan servicers; and advanced technology solutions for: (1) monitoring loan portfolio performance; (2) tracking non-performing loans; (3) managing REO assets; and (4) valuing and selling residential real estate through a secure platform. Red Bell is part of the Services segment. See Note 6 for additional information.

Recent Developments

Debt and Equity Transactions

During the second quarter of 2015, Radian Group successfully completed a series of transactions for the purpose of strengthening its capital position, including to reduce its overall cost of capital and improve the maturity profile of its debt. This series of transactions had four components:

- the issuance of $350 million aggregate principal amount of Senior Notes due 2020;
- the purchases of approximately $389.1 million aggregate principal amount of Convertible Senior Notes due 2017;
- the termination of a corresponding portion of the capped call transactions related to the purchased Convertible Senior Notes due 2017; and
- the entry into an ASR program to repurchase an aggregate of $202 million of Radian Group common stock.

The purchases of the Convertible Senior Notes due 2017 resulted in a pretax charge of approximately $91.9 million in the second quarter of 2015, recorded as loss on induced conversion and debt extinguishment.

See Notes 10 and 16 for additional information.

BofA Settlement Agreement

Implementation of the BofA Settlement Agreement commenced on February 1, 2015 for Subject Loans held in portfolio by the Insureds or purchased by the GSEs as of that date. Approximately 12% of the Subject Loans are neither held in portfolio by the Insureds nor owned by the GSEs, and require the consent of certain other investors for these loans to be included in the BofA Settlement Agreement, except with respect to certain limited rights of cancellation. The deadline for such consent has been extended to August 15, 2015. See Note 10 of Notes to Consolidated Financial Statements in our 2014 Form 10-K for additional information about the BofA Settlement Agreement.

2. Discontinued Operations

On April 1, 2015, Radian Guaranty completed the sale of 100% of the issued and outstanding shares of Radian Asset Assurance for a purchase price of approximately $810 million, pursuant to the Radian Asset Assurance Stock Purchase Agreement. The divestiture was intended to better position Radian Guaranty to comply with the PMIERs and to support Radian’s strategic focus on the mortgage and real estate industries. After closing costs and other adjustments, Radian Guaranty received net proceeds of $789 million. See Note 1 for additional information regarding the PMIERs.

Previously, Radian Asset Assurance comprised substantially all of the financial guaranty segment. Radian Asset Assurance provided direct insurance and reinsurance on credit-based risks. As a result, the assets and liabilities associated with the discontinued operations historically were a source of significant volatility to Radian's results of operations, due to various factors including fluctuations in fair value and credit risk.

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

Based upon the applicable terms of the Radian Asset Assurance Stock Purchase Agreement, we determined that Radian Asset Assurance met the criteria for held for sale and discontinued operations accounting at December 31, 2014. As a result, we recognized a pretax impairment charge of approximately $468 million for the year ended December 31, 2014 and an additional charge of $14.3 million for the six months ended June 30, 2015. The operating results of Radian Asset Assurance are classified as discontinued operations for all periods presented in our condensed consolidated statements of operations. We recorded net income from discontinued operations of $5.4 million related to this sale in the first six months of 2015, consisting primarily of the recognition of investment gains previously deferred and recorded in accumulated other comprehensive income and recognized as a result of the completion of the sale of Radian Asset Assurance to Assured on April 1, 2015, and adjustments to estimated transaction costs and taxes. No general corporate overhead or interest expense was allocated to discontinued operations.
In the tables below we have summarized the major components of the net income from discontinued operations, as well as the assets and liabilities held for sale.
The income from discontinued operations, net of tax, consisted of the following components for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	2015	2014	2015	2014
Net premiums earned	$—	$10,468	$1,007	$17,371
Net investment income	—	9,074	9,153	17,985
Net gains on investments and other financial instruments	7,818	19,978	21,486	42,159
Change in fair value of derivative instruments	—	57,477	2,625	107,563
Other income	—	78	—	79
Total revenues	7,818	97,075	34,271	185,157
Provision for losses	—	5,078	502	10,727
Policy acquisition costs	—	1,675	(191)	3,272
Other operating expense	—	4,800	4,107	10,202
Total expenses	—	11,553	4,418	24,201
Equity in net loss of affiliates	—	—	(13)	(13)
Income from operations of businesses held for sale	7,818	85,522	29,840	160,943
Loss on sale	(350)	—	(14,280)	—
Income tax provision	2,613	14,226	10,175	32,868
Income from discontinued operations, net of tax	$4,855	$71,296	$5,385	$128,075

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

The assets and liabilities associated with the discontinued operations have been segregated in the condensed consolidated balance sheets for periods prior to the sale. The following table summarizes the major components of Radian Asset Assurance's assets and liabilities held for sale on the condensed consolidated balance sheets as of the date indicated:

(In thousands)	December 31, 2014
Fixed-maturity investments	$224,552
Equity securities	3,749
Trading securities	689,887
Short-term investments	435,413
Other invested assets	108,206
Other assets	274,637
Total assets held for sale	$1,736,444
Unearned premiums	$158,921
Reserve for losses and LAE	31,558
VIE debt	85,016
Derivative liabilities	183,370
Other liabilities	488,143
Total liabilities held for sale	$947,008

3. Segment Reporting

We currently have two strategic business units that we manage separately—Mortgage Insurance and, effective with the June 30, 2014 acquisition of Clayton, our Services segment. Adjusted pretax operating income for each segment represents segment results on a standalone basis; therefore, inter-segment eliminations and reclassifications required for consolidated GAAP presentation have not been reflected. The operating results of Radian Asset Assurance are classified as discontinued operations for all periods presented in our condensed consolidated statements of operations. Previously, Radian Asset Assurance had represented substantially all of the financial guaranty segment; therefore, we no longer report a financial guaranty business segment. Certain corporate income and expenses that were previously allocated to the financial guaranty segment but were not reclassified to discontinued operations, such as corporate investment income, interest expense and corporate overhead expenses, have been reallocated to the Mortgage Insurance segment. Prior periods have been revised to conform to the current period presentation for these changes. See Note 2 for additional information related to discontinued operations.

We allocate to our Mortgage Insurance segment: (i) corporate expenses based on an allocated percentage of time spent on the Mortgage Insurance segment; (ii) all corporate cash and investments; (iii) all interest expense except for interest expense related to the Senior Notes due 2019 that were issued to purchase Clayton; and (iv) for periods prior to the April 1, 2015 sale of Radian Asset Assurance, corporate income and expenses that were previously allocated to our financial guaranty segment and were not allocated to discontinued operations.

We allocate to our Services segment: (i) corporate expenses based on an allocated percentage of time spent on the Services segment; and (ii) as noted above, all interest expense related to the Senior Notes due 2019. No corporate cash or investments are allocated to the Services segment. We have included Clayton's results of operations from the June 30, 2014 date of acquisition. Inter-segment activities are recorded at market rates for segment reporting and eliminated in consolidation.

Effective with the fourth quarter of 2014, our Services segment undertook the management responsibilities of certain additional loan servicer surveillance functions that were previously considered part of our Mortgage Insurance segment. As a result, these services and activities are now reported in our Services segment for all periods presented.

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

Adjusted Pretax Operating Income (Loss)

Our senior management, including our Chief Executive Officer (our chief operating decision maker), uses adjusted pretax operating income (loss) as our primary measure to evaluate the fundamental financial performance of each of Radian's business segments and to allocate resources to the segments. Adjusted pretax operating income (loss) is defined as pretax income (loss) from continuing operations excluding the effects of: net gains (losses) on investments and other financial instruments; loss on induced conversion and debt extinguishment; acquisition-related expenses; amortization and impairment of intangible assets; and net impairment losses recognized in earnings.

Although adjusted pretax operating income (loss) excludes certain items that have occurred in the past and are expected to occur in the future, the excluded items represent those that are: (1) not viewed as part of the operating performance of our primary activities; or (2) not expected to result in an economic impact equal to the amount reflected in pretax income (loss) from continuing operations. These adjustments, along with the reasons for their treatment, are described below.

(1) Net gains (losses) on investments and other financial instruments. The recognition of realized investment gains or losses can vary significantly across periods as the activity is highly discretionary based on the timing of individual securities sales due to such factors as market opportunities, our tax and capital profile and overall market cycles. Unrealized investment gains and losses arise primarily from changes in the market value of our investments that are classified as trading. These valuation adjustments may not necessarily result in economic gains or losses.

Trends in the profitability of our fundamental operating activities can be more clearly identified without the fluctuations of these realized and unrealized gains or losses. We do not view them to be indicative of our fundamental operating activities. Therefore, these items are excluded from our calculation of adjusted pretax operating income (loss). However, we include the change in expected economic loss or recovery associated with our consolidated VIEs, if any, in the calculation of adjusted pretax operating income (loss).

(2) Loss on induced conversion and debt extinguishment. Gains or losses on early extinguishment of debt or losses incurred to purchase our convertible debt prior to maturity are discretionary activities that are undertaken in order to take advantage of market opportunities to strengthen our financial and capital positions; therefore, these activities are not viewed as part of our operating performance. Such transactions do not reflect expected future operations and do not provide meaningful insight regarding our current or past operating trends. Therefore, these items are excluded from our calculation of adjusted pretax operating income (loss).

(3) Acquisition-related expenses. Acquisition-related expenses represent the costs incurred to effect an acquisition of a business (i.e., a business combination). Because we pursue acquisitions on a strategic and selective basis and not in the ordinary course of our business, we do not view acquisition-related expenses as a consequence of a primary business activity. Therefore, we do not consider these expenses to be part of our operating performance and they are excluded from our calculation of adjusted pretax operating income (loss).

(4) Amortization and impairment of intangible assets. Amortization of intangible assets represents the periodic expense required to amortize the cost of intangible assets over their estimated useful lives. Intangible assets with an indefinite useful life are also periodically reviewed for potential impairment, and impairment adjustments are made whenever appropriate. These charges are not viewed as part of the operating performance of our primary activities and therefore are excluded from our calculation of adjusted pretax operating income (loss).

(5) Net impairment losses recognized in earnings. The recognition of net impairment losses on investments can vary significantly in both size and timing, depending on market credit cycles. We do not view these impairment losses to be indicative of our fundamental operating activities. Therefore, whenever these losses occur, we exclude them from our calculation of adjusted pretax operating income (loss).

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

Summarized operating results for our segments as of and for the periods indicated, are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	2015	2014	2015	2014
Mortgage Insurance				
Net premiums written—insurance	$251,082	$221,947	$492,990	$434,900
Increase in unearned premiums	(13,645)	(18,301)	(30,958)	(32,492)
Net premiums earned—insurance	237,437	203,646	462,032	402,408
Net investment income (1)	19,285	16,663	36,613	31,981
Other income (1)	1,743	1,620	3,074	2,616
Total	258,465	221,929	501,719	437,005
Provision for losses	31,637	64,648	77,488	114,274
Change in expected economic loss or recovery for consolidated VIEs	—	180	—	319
Policy acquisition costs	6,963	6,746	14,713	13,763
Other operating expenses before corporate allocations	41,853	36,356	75,903	74,120
Total (2)	80,453	107,930	168,104	202,476
Adjusted pretax operating income before corporate allocations	178,012	113,999	333,615	234,529
Allocation of corporate operating expenses (1)	12,516	17,021	22,274	32,905
Allocation of interest expense (1)	20,070	22,348	40,023	42,275
Adjusted pretax operating income	$145,426	$74,630	$271,318	$159,349

(1) For periods prior to the April 1, 2015 sale of Radian Asset Assurance, includes certain corporate income and expenses that have been reallocated to the Mortgage Insurance segment that were previously allocated to the former financial guaranty segment, but were not reclassified to discontinued operations, as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	2015	2014	2015	2014
Net investment income	$—	$1,392	$882	$2,689
Other income	—	113	26	182
Allocation of corporate operating expenses	—	4,412	2,074	8,561
Allocation of interest expense	—	15,943	9,918	30,498

(2) Includes inter-segment expenses as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	2015	2014	2015	2014
Inter-segment expenses	$1,092	$—	$1,994	$—

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

(In thousands)	Three Months Ended June 30, 2015	2014	Six Months Ended June 30, 2015	2014
Services				
Services revenue	$44,595	$—	$76,127	$—
Other income	—	119	—	249
Total (1)	44,595	119	76,127	249
Direct cost of services	25,501	—	44,754	—
Other operating expenses before corporate allocations	11,522	642	20,379	1,501
Total	37,023	642	65,133	1,501
Adjusted pretax operating income (loss) before corporate allocations	7,572	(523)	10,994	(1,252)
Allocation of corporate operating expenses	1,307	—	2,288	—
Allocation of interest expense	4,431	—	8,863	—
Adjusted pretax operating income (loss)	$1,834	$(523)	$(157)	$(1,252)

(1) Includes inter-segment revenues as follows:

(In thousands)	Three Months Ended June 30, 2015	2014	Six Months Ended June 30, 2015	2014
Inter-segment revenues	$1,092	$—	$1,994	$—

Selected balance sheet information for our segments as of the periods indicated, is as follows:

	At June 30, 2015		
(In thousands)	Mortgage Insurance	Services	Total
Total assets	$5,384,224	$352,280	$5,736,504

	At December 31, 2014		
(In thousands)	Mortgage Insurance	Services	Total
Assets held for sale (1)	$—	$—	$1,736,444
Total assets	4,769,014	336,878	6,842,336

(1) Assets held for sale are not part of the Mortgage Insurance or Services segments.

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

The reconciliation of adjusted pretax operating income to consolidated pretax income from continuing operations is as follows:

(In thousands)	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Adjusted pretax operating income (loss):				
Mortgage Insurance (1) (2)	$145,426	$74,630	$271,318	$159,349
Services (2)	1,834	(523)	(157)	(1,252)
Total adjusted pretax operating income	147,260	74,107	271,161	158,097
Net gains on investments and other financial instruments (3)	28,448	25,512	45,227	68,619
Loss on induced conversion and debt extinguishment	(91,876)	—	(91,876)	—
Acquisition-related expenses	(567)	(6,732)	(774)	(6,732)
Amortization and impairment of intangible assets	(3,281)	—	(6,304)	—
Consolidated pretax income from continuing operations	$79,984	$92,887	$217,434	$219,984

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(1) For periods prior to the April 1, 2015 sale of Radian Asset Assurance, includes certain corporate income and expenses that have been reallocated to the Mortgage Insurance segment, as listed in the preceding tables. These amounts represent items that were previously allocated to the former financial guaranty segment, but were not reclassified to discontinued operations.

(2) Includes inter-segment expenses and revenues as listed in the notes to the preceding tables.

(3) The change in expected economic loss or recovery associated with our previously owned VIEs is included in adjusted pretax operating income above, although it represents amounts that are not included in net income. Therefore, for purposes of this reconciliation, net gains on investments and other financial instruments has been adjusted by $0.2 million and $0.3 million for the three and six months ended June 30, 2014, respectively, to reverse this item.

On a consolidated basis, "adjusted pretax operating income (loss)" is a measure not determined in accordance with GAAP. Total adjusted pretax operating income (loss) is not a measure of total profitability, and therefore should not be viewed as a substitute for GAAP pretax income (loss). Our definition of adjusted pretax operating income (loss) may not be comparable to similarly-named measures reported by other companies.

4. Fair Value of Financial Instruments

Available for sale securities, trading securities and certain other assets are recorded at fair value. All changes in the fair value of trading securities 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 AOCI. There were no significant changes to our fair value methodologies during the six months ended June 30, 2015.

In accordance with GAAP, we established a three-level valuation hierarchy for disclosure of fair value measurements based on the transparency of inputs to the valuation of an asset or liability as of the measurement date. 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 level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the measurement in its entirety. The three levels of the fair value hierarchy are defined 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. Level III inputs are used to measure fair value only to the extent that observable inputs are not available.

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

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, 2014. For a complete understanding of those valuation techniques and inputs used as of June 30, 2015, these unaudited condensed consolidated financial statements should be read in conjunction with the audited annual financial statements and notes thereto included in our 2014 Form 10-K.
The following is a list of those assets that are measured at fair value by hierarchy level as of June 30, 2015:

(In millions)	Level I	Level II	Level III	Total
Assets at Fair Value				
Investment Portfolio:				
U.S. government and agency securities	$598.3	$—	$—	$598.3
State and municipal obligations	—	330.8	—	330.8
Money market instruments	828.1	—	—	828.1
Corporate bonds and notes	—	1,321.7	—	1,321.7
RMBS	—	237.3	—	237.3
CMBS	—	383.4	—	383.4
Other ABS	—	274.0	—	274.0
Foreign government and agency securities	—	36.7	—	36.7
Equity securities	21.1	46.4	0.5	68.0
Other investments (1)	—	217.2	—	217.2
Total Investments at Fair Value (2)	1,447.5	2,847.5	0.5	4,295.5
Total Assets at Fair Value	$1,447.5	$2,847.5	$0.5	$4,295.5

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(1) Comprising short-term certificates of deposit ($1.0 million) and short-term commercial paper ($216.2 million) included within Level II.

(2) Does not include certain other invested assets ($13.6 million), primarily invested in limited partnerships, accounted for as cost-method investments and not measured at fair value.

At June 30, 2015, total Level III assets of $0.5 million accounted for less than 0.1% of total assets measured at fair value. This investment was purchased during the three months ended June 30, 2015, and there were no related gains or losses recorded during the quarter. There were no Level III liabilities.

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

The following is a list of those assets that are measured at fair value by hierarchy level as of December 31, 2014:

(In millions)	Level I	Level II	Total
Assets at Fair Value			
Investment Portfolio:			
U.S. government and agency securities	$836.9	$3.0	$839.9
State and municipal obligations	—	362.8	362.8
Money market instruments	600.3	—	600.3
Corporate bonds and notes	—	992.8	992.8
RMBS	—	132.3	132.3
CMBS	—	246.8	246.8
Other ABS	—	185.5	185.5
Foreign government and agency securities	—	37.7	37.7
Equity securities (1)	164.0	51.6	215.6
Other investments (2)	—	1.0	1.0
Total Investments at Fair Value (3)	1,601.2	2,013.5	3,614.7
Total Assets at Fair Value	$1,601.2	$2,013.5	$3,614.7

(1) Comprising broadly diversified domestic equity mutual funds and certain common stocks included within Level I and various preferred stocks invested across numerous companies and industries included within Level II.
(2) Comprising short-term certificates of deposit.
(3) Does not include certain other invested assets ($14.6 million), primarily invested in limited partnerships, accounted for as cost-method investments and not measured at fair value. Also excludes investments classified as assets held for sale of $495.1 million, $839.2 million and $102.6 million, with fair values categorized in Level I, Level II and Level III, respectively.

At December 31, 2014, there were no Level III assets other than those classified as assets held for sale, and total Level III liabilities of $3.8 million accounted for 100% of total liabilities measured at fair value.

There were no transfers between Level I and Level II for the three and six months ended June 30, 2015 or 2014. There were also no transfers involving Level III assets or liabilities for the three and six months ended June 30, 2015. For both the three and six months ended June 30, 2014, there were $17.3 million of other ABS securities transferred from Level II to Level III as the pricing inputs were no longer considered observable. During the three months ended September 30, 2014, all of our other ABS securities were transferred from Level III to Level II, as third-party pricing became available.

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, 2015 Carrying Amount	June 30, 2015 Estimated Fair Value		December 31, 2014 Carrying Amount	December 31, 2014 Estimated Fair Value	
Assets:						
Other invested assets	$13.6	$21.0	(1)	$14.6	$20.5	(1)
Liabilities:						
Long-term debt	1,224.9	1,681.0	(1)	1,192.3	1,859.3	(1)

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

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

5. Investments
Our available for sale securities within our investment portfolio consisted of the following as of the dates indicated:

	June 30, 2015			
(In thousands)	Amortized Cost	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
Fixed-maturities available for sale:				
U.S. government and agency securities	$5,745	$5,784	$39	$—
State and municipal obligations	17,668	18,476	810	2
Corporate bonds and notes	529,942	517,857	1,850	13,935
RMBS	158,134	156,532	513	2,115
CMBS	218,531	213,988	97	4,640
Other ABS	243,096	243,045	693	744
Foreign government and agency securities	23,330	23,160	186	356
	1,196,446	1,178,842	4,188	21,792
Equity securities available for sale	573	881	308	—
Total debt and equity securities	$1,197,019	$1,179,723	$4,496	$21,792

	December 31, 2014			
(In thousands)	Amortized Cost	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
Fixed-maturities available for sale:				
U.S. government and agency securities	$5,709	$5,751	$48	$6
State and municipal obligations	17,727	18,910	1,183	—
Corporate bonds and notes	277,678	284,408	7,288	558
RMBS	41,467	42,520	1,053	—
CMBS	57,358	58,234	876	—
Other ABS	109,420	107,701	8	1,727
Foreign government and agency securities	19,301	19,366	307	242
	528,660	536,890	10,763	2,533
Equity securities available for sale (1)	76,900	143,368	66,468	—
Total debt and equity securities	$605,560	$680,258	$77,231	$2,533

(1) Comprising broadly diversified domestic equity mutual funds ($143.0 million fair value) and a preferred stock investment in Freddie Mac ($0.4 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, 2015	December 31, 2014
Trading securities:		
U.S. government and agency securities	$131,335	$134,530
State and municipal obligations	312,340	343,926
Corporate bonds and notes	660,964	708,361
RMBS	80,772	89,810
CMBS	169,443	188,615
Other ABS	30,952	77,755
Foreign government and agency securities	13,548	18,331
Equity securities	67,081	72,256
Total	$1,466,435	$1,633,584

For trading securities held at June 30, 2015 and December 31, 2014, we had net unrealized losses during the six months ended June 30, 2015 and unrealized gains during the year ended December 31, 2014 associated with those securities of $13.7 million and $65.7 million, respectively.

For the six months ended June 30, 2015, we did not transfer any securities from the available for sale or trading categories.

Net realized and unrealized gains (losses) on investments and other financial instruments consisted of:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	2015	2014	2015	2014
Net realized gains (losses):				
Fixed-maturities held to maturity	$—	$—	$—	$(9)
Fixed-maturities available for sale	(8)	(604)	(59)	(599)
Equities available for sale	68,723	—	68,723	—
Trading securities	(8,291)	(41)	(12,859)	(4,392)
Short-term investments	4	—	4	—
Other	1	(63)	106	(53)
Net realized gains (losses) on investments	60,429	(708)	55,915	(5,053)
Unrealized (losses) gains on trading securities	(31,638)	28,941	(10,937)	76,572
Total net gains on investments	28,791	28,233	44,978	71,519
Net (losses) gains on other financial instruments	(343)	(2,901)	249	(3,219)
Net gains on investments and other financial instruments	$28,448	$25,332	$45,227	$68,300

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

The following tables show the gross unrealized losses and fair value of our securities deemed "available for sale" 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, 2015: ($ in thousands)	Less Than 12 Months			12 Months or Greater			Total		
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	$5,727	$2	—	$—	$—	1	$5,727	$2
Corporate bonds and notes	95	408,203	13,528	7	10,172	407	102	418,375	13,935
RMBS	9	116,631	2,115	—	—	—	9	116,631	2,115
CMBS	30	195,913	4,640	—	—	—	30	195,913	4,640
Other ABS	28	114,059	273	10	39,860	471	38	153,919	744
Foreign government and agency securities	11	10,971	340	1	183	16	12	11,154	356
Total	174	$851,504	$20,898	18	$50,215	$894	192	$901,719	$21,792

December 31, 2014: ($ in thousands)	Less Than 12 Months			12 Months or Greater			Total		
Description of Securities	# of securities	Fair Value	Unrealized Losses	# of securities	Fair Value	Unrealized Losses	# of securities	Fair Value	Unrealized Losses
U.S. government and agency securities	—	$—	$—	1	$3,455	$6	1	$3,455	$6
Corporate bonds and notes	24	40,917	410	1	1,027	148	25	41,944	558
Other ABS	34	97,356	1,727	—	—	—	34	97,356	1,727
Foreign government and agency securities	4	6,353	242	—	—	—	4	6,353	242
Total	62	$144,626	$2,379	2	$4,482	$154	64	$149,108	$2,533

During the first six months of 2015 and 2014, we did not recognize in earnings any impairment losses related to credit deterioration.

Although we held securities in an unrealized loss position as of June 30, 2015, we did not consider them to be other-than-temporarily impaired as of such date. For all investment categories, the unrealized losses of 12 months or greater duration as of June 30, 2015, were generally caused by interest rate or credit spread movements since the purchase date. As of June 30, 2015, we estimated that the present value of cash flows expected to be collected from these securities would be sufficient to recover the amortized cost basis of these securities. As of June 30, 2015, 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, which may be at maturity; therefore, we did not consider these investments to be other-than-temporarily impaired at June 30, 2015.

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

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

	June 30, 2015	
	Available for Sale	
(In thousands)	Amortized Cost	Fair Value
Due in one year or less (1)	$7,381	$7,399
Due after one year through five years (1)	51,208	51,265
Due after five years through ten years (1)	345,233	340,126
Due after ten years (1)	172,863	166,487
RMBS (2)	158,134	156,532
CMBS (2)	218,531	213,988
Other ABS (2)	243,096	243,045
Total	$1,196,446	$1,178,842

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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.

At June 30, 2015 and December 31, 2014, Radian Guaranty had $210.3 million and $209.3 million, respectively, in a collateral account pursuant to the Freddie Mac Agreement. These investments, which are primarily invested in trading securities, are pledged to cover Loss Mitigation Activity on the loans subject to that agreement. Subject to certain conditions in the Freddie Mac Agreement, amounts in the collateral account may be released to Radian Guaranty over time to the extent that Loss Mitigation Activity becomes final in accordance with the terms of the Freddie Mac Agreement. However, if the amount of Loss Mitigation Activity that becomes final in accordance with the Freddie Mac Agreement is less than $205 million prior to August 29, 2017, then any shortfall will be paid on that date to Freddie Mac from the funds remaining in the collateral account, subject to certain adjustments designed to allow for any Loss Mitigation Activity that has not become final or any claims evaluation that has not been completed as of that date. From the time the collateral account was established through June 30, 2015, approximately $128 million of Loss Mitigation Activity had become final in accordance with the Freddie Mac Agreement and approximately $13 million of submitted claims had been rescinded, denied, curtailed or cancelled, but were not yet considered final in accordance with the Freddie Mac Agreement.

6. Goodwill and Other Intangible Assets, Net

The following table shows the changes in the carrying amount of goodwill, all of which relates to our Services segment, as of and for the year-to-date periods ended June 30, 2015 and December 31, 2014:

(In thousands)	Goodwill	Accumulated Impairment Losses	Net
Balance at December 31, 2013	$2,095	$—	$2,095
Goodwill acquired	191,932	—	191,932
Impairment losses	—	(2,095)	(2,095)
Balance at December 31, 2014	194,027	(2,095)	191,932
Goodwill acquired	2,388	—	2,388
Impairment losses	—	—	—
Balance at June 30, 2015	$196,415	$(2,095)	$194,320

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

During the first quarter of 2015, Clayton further expanded its service offerings by acquiring Red Bell, a real estate brokerage company that provides products and services that include automated valuation models; broker price opinions used by investors, lenders and loan servicers; and advanced technology solutions for: (1) monitoring loan portfolio performance; (2) tracking non-performing loans; (3) managing REO assets; and (4) valuing and selling residential real estate through a secure platform. The acquisition did not meet the criteria to be considered a material business combination. The transaction was treated as a purchase for accounting purposes, with the excess of the acquisition price over the estimated fair value of the net assets acquired resulting in goodwill of $2.4 million. The goodwill represents the estimated future economic benefits arising from the assets acquired that did not qualify to be identified and recognized individually, and includes the value of the discounted expected future cash flows, the workforce, expected synergies with our other affiliates and other unidentifiable intangible assets. Goodwill is deemed to have an indefinite useful life and is subject to review for impairment annually, or more frequently, whenever circumstances indicate potential impairment. Our goodwill balance at June 30, 2015 relates entirely to our Services segment, as a result of our acquisition of Clayton and its subsequent acquisition of Red Bell.
The following is a summary of the gross and net carrying amounts and accumulated amortization of our other intangible assets as of and for the year-to-date periods indicated:

	As of June 30, 2015		
(In thousands)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Client relationships	$83,072	$(6,939)	$76,133
Technology	10,940	(1,741)	9,199
Trademark	8,300	(807)	7,493
Client backlog	6,680	(3,295)	3,385
Non-competition agreements	185	(75)	110
Total	$109,177	$(12,857)	$96,320

	As of December 31, 2014		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Client relationships	$79,203	$(2,917)	$76,286
Technology	8,970	(797)	8,173
Trademark	7,860	(393)	7,467
Client backlog	6,680	(2,406)	4,274
Non-competition agreements	145	(37)	108
Total	$102,858	$(6,550)	$96,308

The estimated aggregate amortization expense for the remainder of 2015 and thereafter is as follows (in thousands):

2015	$6,548
2016	12,559
2017	11,918
2018	11,286
2019	10,050
2020	8,497
Thereafter	35,462

For tax purposes, substantially all of our goodwill and other intangible assets are expected to be deductible and will be amortized over a period of 15 years.

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

7. Reinsurance
The effect of reinsurance on net premiums written and earned is as follows:

(In thousands)	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Net premiums written-insurance:				
Direct	$258,198	$238,590	$513,446	$467,859
Assumed	8	10	55	20
Ceded	(7,124)	(16,653)	(20,511)	(32,979)
Net premiums written-insurance	$251,082	$221,947	$492,990	$434,900
Net premiums earned-insurance:				
Direct	$249,797	$221,171	$491,961	$437,047
Assumed	10	12	23	24
Ceded	(12,370)	(17,537)	(29,952)	(34,663)
Net premiums earned-insurance	$237,437	$203,646	$462,032	$402,408

In 2012, Radian Guaranty entered into two separate QSR agreements with a third-party reinsurance provider. As of June 30, 2015, RIF ceded under the Initial QSR Transaction and the Second QSR Transaction was approximately $1.0 billion and $1.4 billion, respectively.

The Second QSR Transaction provides that, effective December 31, 2015, Radian Guaranty will have the ability, at its option, to recapture half of the reinsurance ceded with respect to conventional GSE loans, which would result in Radian Guaranty reassuming the related RIF potentially in exchange for a payment of a profit commission amount from the reinsurer. Our results for the three and six months ended June 30, 2015 include an accrual of $5.8 million for this potential profit commission, based on experience to date for the Second QSR Transaction and our current expectation to exercise our option to recapture ceded RIF.

The following tables show the amounts related to the QSR Transactions for the periods indicated:

	Initial QSR Transaction			
(In thousands)	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Ceded premiums written	$3,822	$5,046	$7,889	$10,350
Ceded premiums earned	6,424	6,803	12,442	13,610
Ceding commissions written	828	1,262	1,708	2,588

	Second QSR Transaction			
(In thousands)	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Ceded premiums written	$395	$8,072	$6,924	$15,365
Ceded premiums earned	3,039	7,197	11,807	13,782
Ceding commissions written	2,154	2,825	4,439	5,378

Radian Guaranty has ceded the maximum amount permitted under the QSR Transactions (up to $1.6 billion of ceded RIF for each); therefore, Radian Guaranty is no longer ceding NIW under these transactions. Effective January 1, 2015, the ceding commission was reduced from 25% to 20% for two-thirds of the reinsurance ceded under the Initial QSR Transaction. Ceded losses to date under the QSR Transactions have been immaterial.

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

8. Other Assets
The following table shows the components of other assets for the periods indicated:

(In thousands)	June 30, 2015	December 31, 2014
Deposit with the IRS (Note 12)	$88,557	$88,557
Corporate-owned life insurance	81,998	80,755
Prepaid reinsurance premiums	47,835	57,291
Property and equipment (1)	35,380	27,248
Accrued investment income	24,475	20,022
Reinsurance recoverables	13,227	28,119
Deferred policy acquisition costs	9,866	12,003
Other	48,033	43,869
Total other assets	$349,371	$357,864

(1) Property and equipment, at cost less accumulated depreciation of $103.3 million and $100.2 million at June 30, 2015 and December 31, 2014, respectively.

9. Losses and Loss Adjustment Expense
All of the balance and activity of our consolidated reserve for losses and loss adjustment expense relate to the Mortgage Insurance segment. The following table shows our reserve for losses and LAE by category at the end of each period indicated:

(In thousands)	June 30, 2015	December 31, 2014
Reserve for losses by category:		
Prime	$562,918	$700,174
Alt-A	256,854	292,293
A minus and below	148,043	179,103
IBNR and other	125,038	223,114
LAE	48,141	56,164
Reinsurance recoverable (1)	11,677	26,665
Total primary reserve	1,152,671	1,477,513
Pool	47,902	75,785
IBNR and other	891	1,775
LAE	2,353	3,542
Total pool reserve	51,146	81,102
Total First-lien reserve	1,203,817	1,558,615
Second-lien and other (2)	975	1,417
Total reserve for losses	$1,204,792	$1,560,032

(1) Primarily represents ceded losses on captive transactions and the QSR Transactions.
(2) Does not include our Second-lien PDR that is included in other liabilities.

Radian Group Inc.