RADIAN GROUP INC
Form 10-Q
November 09, 2009
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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 September 30, 2009

OR

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

For the transition period from to

Commission File Number 1-11356

Radian Group Inc.

(Exact name of registrant as specified in its charter)

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 ¨

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check One):

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No 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: 82,775,605 shares of common stock, $0.001 par value per share, outstanding on November 2, 2009.

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Forward-Looking Statements Safe Harbor Provisions

All statements in this report that address events, developments or results that we expect or anticipate may occur in the future are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, Section 21E of the Securities Exchange Act of 1934 and the United States (U.S.) Private Securities Litigation Reform Act of 1995. In most cases, forward-looking statements may be identified by words such as anticipate, may, should, expect, intend, plan, goal, contemplate, believe, estimate, predict, project, potential, contin variations on these words and other similar expressions. These statements, which include, without limitation, projections regarding our future performance and financial condition are made on the basis of management s current views and assumptions with respect to future events. Any forward-looking statement is not a guarantee of future performance and actual results could differ materially from those contained in the forward-looking information. The forward-looking statements, as well as our prospects as a whole, are subject to risks and uncertainties, including the following:

changes in general financial and political conditions, such as the failure of the U.S. economy to recover robustly from the current recession or the U.S. economy reentering a recessionary period following a brief period of stabilization or even growth, a further reduction in the liquidity in the capital markets and further contraction of credit markets, a prolonged period of high unemployment rates and limited home price appreciation or further depreciation, changes or volatility in interest rates or consumer confidence, changes in credit spreads, changes in the way investors perceive the strength of private mortgage insurers or financial guaranty providers, investor concern over the credit quality and specific risks faced by the particular businesses, municipalities or pools of assets covered by our insurance;

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

our ability to successfully execute upon our capital plan for our mortgage insurance business (which depends, in part, on the performance of our financial guaranty portfolio), and if necessary, to obtain additional capital to support new business writings in our mortgage insurance business and the long-term liquidity needs of our holding company (including significant payment obligations in 2010 and 2011);

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

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

our ability to continue to effectively mitigate our mortgage insurance losses, which have positively impacted our provisions for losses;

the negative impact our increased levels of insurance rescissions and claim denials may have on our relationships with customers;

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

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

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

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

reduced opportunities for loss mitigation in markets where housing values do not appreciate or continue to decline;

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changes in persistency rates of our mortgage insurance policies;

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

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

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

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

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

the possibility that we may fail to estimate accurately the likelihood, magnitude and timing of losses in connection with establishing loss reserves for our mortgage insurance or financial guaranty businesses or premium deficiencies for our mortgage insurance businesses, or to estimate accurately the fair value amounts of derivative contracts in our mortgage insurance and financial guaranty businesses in determining gains and losses on these contracts;

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

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

changes in accounting guidance from the Securities and Exchange Commission or the Financial Accounting Standards Board;

legal and other limitations on amounts we may receive from our subsidiaries as dividends or through our tax- and expense-sharing arrangements with our subsidiaries; and

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

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

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements. (Unaudited)

Radian Group Inc.

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(In thousands, except share and per share amounts)	September 30 2009	December 31 2008
ASSETS		
Investments		
Fixed maturities held to maturity at amortized cost (fair value $23,352 and $37,486)	$ 22,253	$ 36,628
Fixed maturities available for sale at fair value (amortized cost $2,077,301 and $3,899,487)	2,041,590	3,647,269
Trading securities at fair value (amortized cost $2,548,808 and $670,835)	2,631,957	654,699
Equity securities available for sale at fair value (cost $182,051 and $212,620)	168,645	165,099
Hybrid securities at fair value (amortized cost $474,036 and $499,929)	487,304	426,640
Short-term investments	1,047,352	1,029,285
Other invested assets (cost $23,256 and $21,388)	23,256	21,933
Total investments	6,422,357	5,981,553
Cash	44,170	79,048
Investment in affiliates	112,034	99,712
Deferred policy acquisition costs	158,813	160,526
Prepaid federal income taxes		248,828
Accrued investment income	53,959	61,722
Accounts and notes receivable (less allowance of $72,526 and $61,168)	163,944	90,158
Property and equipment, at cost (less accumulated depreciation of $88,872 and $84,911)	16,685	18,178
Derivative assets	153,136	179,515
Deferred income taxes, net	351,575	446,102
Reinsurance recoverables	597,067	492,359
Other assets	290,672	258,418
Total assets	$ 8,364,412	$ 8,116,119
LIABILITIES AND STOCKHOLDERS EQUITY		
Unearned premiums	$ 872,375	$ 916,724
Reserve for losses and loss adjustment expenses (LAE)	3,512,999	3,224,542
Reserve for premium deficiency	9,291	86,861
Long-term debt and other borrowings	698,703	857,802
Variable interest entity debt at fair value	328,986	160,035
Derivative liabilities	394,386	519,260
Accounts payable and accrued expenses	406,802	320,185
Total liabilities	6,223,542	6,085,409
Commitments and Contingencies (Note 16)		
Stockholders equity		
Common stock: par value $.001 per share; 325,000,000 shares authorized, 99,824,267 and 98,223,210 shares issued at September 30, 2009 and December 31, 2008, respectively; 82,611,280 and 81,034,883 shares outstanding at September 30, 2009 and December 31, 2008, respectively	100	98
Treasury stock, at cost: 17,212,987 and 17,188,327 shares at September 30, 2009 and December 31, 2008, respectively	(889,212)	(888,057)

Additional paid-in capital	1,366,715	1,350,704
Retained earnings	1,694,219	1,766,946
Accumulated other comprehensive loss, net	(30,952)	(198,981)
Total stockholders equity	2,140,870	2,030,710
Total liabilities and stockholders equity	$ 8,364,412	$ 8,116,119

See accompanying notes to unaudited condensed consolidated financial statements.

Radian Group Inc.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(In thousands, except per share amounts)	Three Months Ended September 30 2009	Three Months Ended September 30 2008	Nine Months Ended September 30 2009	Nine Months Ended September 30 2008
Revenues:				
Premiums written insurance:				
Direct	$ 201,571	$ 232,656	$ 593,794	$ 743,922
Assumed	(206,560)	8,507	(203,362)	45,820
Ceded	(33,071)	(38,712)	(109,835)	(120,340)
Net premiums written	(38,060)	202,451	280,597	669,402
Decrease in unearned premiums	247,547	47,267	333,734	71,374
Net premiums earned insurance	209,487	249,718	614,331	740,776
Net investment income	54,032	65,215	163,566	196,322
Change in fair value of derivative instruments	(30,857)	164,757	(42,955)	928,792
Net gains (losses) on other financial instruments	96,508	(48,602)	175,962	(74,642)
Total other-than-temporary impairment losses	(3)	(15,135)	(873)	(52,230)
Losses recognized in other comprehensive income (loss)				
Net impairment losses recognized in earnings	(3)	(15,135)	(873)	(52,230)
Other income	2,467	2,756	10,487	9,591
Total revenues	331,634	418,709	920,518	1,748,609
Expenses:				
Provision for losses	404,904	544,915	864,408	1,586,505
Provision for premium deficiency	(31,569)	(252,170)	(77,569)	135,727
Policy acquisition costs	14,193	20,770	54,114	120,628
Other operating expenses	54,034	80,781	161,271	199,771
Interest expense	11,296	13,852	35,890	40,177
Total expenses	452,858	408,148	1,038,114	2,082,808
Equity in net income of affiliates	7,946	15,798	23,608	44,028
Pretax (loss) income	(113,278)	26,359	(93,988)	