RADIAN GROUP INC
Form 10-K
February 28, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2013
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number 1-11356

RADIAN GROUP INC.
(Exact name of registrant as specified in its charter)

Delaware	23-2691170
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1601 Market Street, Philadelphia, PA	19103
(Address of principal executive offices)	(Zip Code)

(215) 231-1000
(Registrant's telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $.001 par value per share	New York Stock Exchange
Preferred Stock Purchase Rights	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES x NO o
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES o NO x
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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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 definitions of “large accelerated filer,” “accelerated filer,” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check One):

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

As of June 30, 2013, the aggregate market value of the registrant’s common stock held by non-affiliates of the registrant was $1,995,499,381 based on the closing sale price as reported on the New York Stock Exchange. Excluded from this amount is the value of all shares beneficially owned by executive officers and directors of the registrant. These exclusions should not be deemed to constitute a representation or acknowledgment that any such individual is, in fact, an affiliate of the registrant or that there are not other persons or entities who may be deemed to be affiliates of the registrant.

The number of shares of common stock, $.001 par value per share, of the registrant outstanding on February 25, 2014 was 173,136,580 shares.

DOCUMENTS INCORPORATED BY REFERENCE

	Form 10-K Reference Document
Definitive Proxy Statement for the Registrant’s 2014 Annual Meeting of Stockholders	Part III (Items 10 through 14)

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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 Securities Exchange Act of 1934 and the United States ("U.S.") Private Securities Litigation Reform Act of 1995. In most cases, forward-looking statements may be identified by words such as "anticipate," "may," "will," "could," "should," "would," "expect," "intend," "plan," "goal," "contemplate," "believe," "estimate," "predict," "project," "potential," "continue," "future," "likely" or the negative or other variations on these words and other similar expressions. These statements, which may include, without limitation, projections regarding our future performance and financial condition, are made on the basis of management's current views and assumptions with respect to future events. Any forward-looking statement is not a guarantee of future performance and actual results could differ materially from those contained in the forward-looking statement. These statements speak only as of the date they were made, and we undertake no obligation to 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 (including 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 or financial guaranty providers, in particular in light of the fact that certain of our former competitors have ceased writing new insurance business and have been placed under supervision or receivership by insurance regulators;
- catastrophic events, municipal and sovereign or sub-sovereign bankruptcy filings or other economic changes in geographic regions where our mortgage insurance exposure is more concentrated or where we have financial guaranty exposure;
- our ability to maintain sufficient holding company liquidity to meet our short- and long-term liquidity needs;
- a reduction in, or prolonged period of depressed levels of, home mortgage originations due to reduced liquidity in the lending market, tighter underwriting standards, or general reduced housing demand in the U.S., which may be exacerbated by regulations impacting home mortgage originations, including requirements established under the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act");
- our ability to maintain an adequate risk-to-capital position, minimum policyholder position and other surplus requirements for Radian Guaranty Inc. ("Radian Guaranty"), our principal mortgage insurance subsidiary, and an adequate minimum policyholder position and surplus for our insurance subsidiaries that provide reinsurance to Radian Guaranty;
- our ability to continue to effectively mitigate our mortgage insurance and financial guaranty losses;
- a more rapid than expected decrease in the levels of mortgage insurance rescissions and claim denials, which have reduced our paid losses and resulted in a significant reduction in our loss reserves, including a decrease in net rescissions or denials resulting from: an increase in the number of successful challenges to previously rescinded policies or claim denials (including as part of one or more settlements of disputed rescissions or denials), or by Fannie Mae or Freddie Mac (the "Government-Sponsored Enterprises" or 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;

- the need, in the event that we are unsuccessful in defending our loss mitigation activities, to increase our loss reserves for, and reassume risk on, rescinded or cancelled loans or denied claims, and to pay additional claims, including amounts previously curtailed;
- any disruption in the servicing of mortgages covered by our insurance policies, as well as poor servicer performance;
- adverse changes in the severity or frequency of losses associated with certain products that we formerly offered (and which remain in our insured portfolio) that are riskier than traditional mortgage insurance or financial guaranty insurance policies;
- a decrease in the persistency rates of our mortgage insurance policies, which has the effect of reducing our premium income on our monthly premium policies and could decrease the profitability of our mortgage insurance business;
- heightened competition for our mortgage insurance business from others such as the Federal Housing Administration, the U.S. Department of Veterans Affairs and other private mortgage insurers, including with respect to 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, that are less dependent on capital support from their subsidiaries than we are or that are new entrants to the industry, and therefore, are not burdened by legacy obligations;
- changes in requirements to remain an eligible insurer to the GSEs (which are expected to be released in 2014 and implemented following a transition period), which may include, among other items, more onerous risk-to-capital ratio requirements, higher capital requirements for loans insured prior to 2009 and a limitation on the amount of capital credit available for the equity in our subsidiaries, including capital attributable to our financial guaranty business;
- changes in the charters or business practices of, or rules or regulations applicable to, the GSEs;
- changes to the current system of housing finance, including the possibility of a new system in which private mortgage insurers are not required or their products are significantly limited in effect or scope;
- the effect of the Dodd-Frank Act on the financial services industry in general, and on our mortgage insurance and financial guaranty businesses in particular, including whether and to what extent loans with private mortgage insurance may be considered “qualified residential mortgages” for purposes of the Dodd-Frank Act securitization provisions;
- the application of existing federal or state laws and regulations, or changes in these laws and regulations or the way they are interpreted, including, without limitation: (i) the resolution of existing, or the possibility of additional, lawsuits or investigations (including in particular investigations and litigation relating to captive reinsurance arrangements under the Real Estate Settlement Procedures Act of 1974); and (ii) legislative and regulatory changes (a) impacting the demand for private mortgage insurance, (b) limiting or restricting the products we may offer or increasing the amount of capital we are required to hold, (c) affecting the form in which we execute credit protection, or (d) otherwise impacting our existing businesses or future prospects;
- the amount and timing of potential payments or adjustments associated with federal or other tax examinations, including adjustments proposed by the Internal Revenue Service 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 or financial guaranty businesses, or to estimate accurately the fair value amounts of derivative instruments in determining gains and losses on these instruments;
- volatility in our earnings caused by changes in the fair value of our assets and liabilities carried at fair value, including our derivative instruments, substantially all of our investment portfolio and certain of our long-term incentive compensation awards;

- our ability to realize some or all of the tax benefits associated with our gross deferred tax assets, which will depend, in part, on our ability to generate sufficient sustainable taxable income in future periods;
- changes in accounting principles generally accepted in the United States of America or statutory accounting principles, rules and guidance, or their interpretation; and
- legal and other limitations on amounts we may receive from our subsidiaries as dividends or through our tax- and expense-sharing arrangements with our subsidiaries.

For more information regarding these risks and uncertainties as well as certain additional risks that we face, you should refer to the Risk Factors detailed in Item 1A of this Annual Report on Form 10-K. 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
Item 1. Business.

I. General
We are a credit enhancement company with a primary strategic focus on domestic residential mortgage insurance on first-lien mortgage loans ("first-liens"). We have two business segments—mortgage insurance and financial guaranty. Our mortgage insurance segment provides credit-related insurance coverage, principally through private mortgage insurance and risk management services, to mortgage lending institutions. See "—Mortgage Insurance." We conduct our business primarily through Radian Guaranty Inc. ("Radian Guaranty"), our principal mortgage insurance subsidiary. Our financial guaranty segment has provided direct insurance and reinsurance on credit-based risks, and also offered credit protection on various asset classes through financial guaranty policies and credit default swaps ("CDS"). While we discontinued writing new financial guaranty business in 2008, we continue to provide financial guaranty insurance on our existing portfolio consisting primarily of public finance and structured finance insured transactions. In addition, our principal financial guaranty subsidiary, Radian Asset Assurance Inc. ("Radian Asset Assurance"), is a wholly-owned subsidiary of Radian Guaranty, which allows our financial guaranty business to serve as an important source of capital support for our mortgage insurance business. See "—Financial Guaranty." A summary of financial information for our business segments for each of the last three fiscal years is included in Note 3 of Notes to Consolidated Financial Statements. Radian Group Inc. ("Radian Group") serves as the holding company for our insurance subsidiaries and does not have any significant operations of its own.
Business Overview and Operating Environment. As a seller of credit protection, our results are subject to macroeconomic conditions and specific events that impact the origination environment and the credit performance of our underlying insured assets. The financial crisis and the downturn in the housing and related credit markets that began in 2007 had a significant negative impact on the operating environment and results of operations for both of our business segments. This was characterized by a decrease in mortgage originations, a broad decline in home prices, mortgage servicing and foreclosure delays, and ongoing deterioration in the credit performance of mortgage and other assets originated prior to 2009, together with macroeconomic factors such as high unemployment, limited employment growth, limited economic growth and a lack of meaningful liquidity in many sectors of the capital markets. More recently, we have experienced a period of economic recovery and the operating environment for our businesses has improved. Our results of operations have continued to improve as the negative impact from losses on the mortgage insurance we wrote during the poor underwriting years of 2005 through 2008 (we refer to this portion of our mortgage insurance portfolio, together with business written prior to 2005, as our "legacy portfolio") has been reduced and we continue to write a high volume of insurance on higher credit quality loans. As of December 31, 2013, our legacy portfolio had been reduced to approximately 40% of our total primary risk in force ("RIF"), while insurance on loans written after 2008 constituted approximately 60% of our primary RIF.
Currently, our business strategy is primarily focused on: (1) growing our mortgage insurance business by writing insurance on high-quality mortgages in the U.S. and exploring other potential alternatives for providing credit-based services to the mortgage finance market; (2) continuing to manage losses in our legacy mortgage insurance and financial guaranty portfolios; (3) continuing to reduce our legacy mortgage insurance and financial guaranty exposures; and (4) continuing to effectively manage our capital and liquidity positions.
Since the financial crisis began in 2007, we have engaged in a number of strategic actions and initiatives in response to the negative economic and market conditions impacting our businesses. These actions include the following:

- We significantly tightened our mortgage insurance underwriting standards to focus primarily on insuring high credit quality, first-liens originated in the U.S. and we ceased writing mortgage insurance on non-traditional and other inherently riskier products (referred to collectively, as "non-traditional" risk). See "—Mortgage Insurance—Business—Traditional Risk."
- We expanded our claims management and loss mitigation efforts to better manage losses in the weak housing market and high default and claim environment.
- Through risk commutations, ceded reinsurance and other transaction settlements and terminations of insured risk, we reduced our direct primary RIF associated with our mortgage insurance portfolio, including non-traditional mortgage

insurance RIF.

- We reduced our financial guaranty net par outstanding primarily through risk commutations, discounted security purchases, ceded reinsurance and transaction settlements and terminations.

- We discontinued writing new financial guaranty business and Radian Group contributed its ownership interest in Radian Asset Assurance to Radian Guaranty. Although this structure makes the capital adequacy of our mortgage insurance business dependent, to a significant degree, on the successful run-off of our financial guaranty business, the structure has provided Radian Guaranty with substantial regulatory capital and, through dividends from Radian Asset Assurance, has increased liquidity at Radian Guaranty.

During 2013, we made further progress in support of our business strategy, including the following:

- In 2013, we wrote $47.3 billion of primary mortgage insurance. Substantially all of our portfolio of insurance written after 2008 is of high credit quality and is expected to generate strong returns.
- Through the expanded eligibility criteria under the most recent Home Affordable Refinance Program (“HARP”) (see “—Regulation—Federal Regulation—Homeowner Assistance Programs”), many borrowers have been able to participate in an benefit from the program. As of December 31, 2013, approximately 11% of our total primary RIF had successfully completed a HARP refinance, which we believe further improves the overall credit profile of our mortgage insurance portfolio.
- We continued to diversify and expand our customer base, adding more than 200 new customers during 2013. Customers added since 2009 accounted for 46% of our new insurance written (“NIW”) during 2013.
- During 2013, Radian Group executed the following transactions in order to improve its liquidity:
  - Exchanged $195.5 million of its outstanding 5.375% Senior Notes due June 2015 for a new series of 9.000% Senior Notes due June 2017. See Note 11 of Notes to Consolidated Financial Statements for further information.
  - Issued $400 million principal amount of 2.250% convertible unsecured senior notes due March 2019 (the “Convertible Senior Notes due 2019”), resulting in net proceeds of approximately $389.8 million. See Note 11 of Notes to Consolidated Financial Statements for further information.
  - Sold 39.1 million shares of common stock in a public offering for $8.00 per share, resulting in net proceeds of approximately $299.4 million.
- In August 2013, Radian Guaranty entered into a Master Transaction Agreement with Freddie Mac (the “Freddie Mac Agreement”) related to a group of 25,760 first-liens guaranteed by Freddie Mac that were insured by Radian Guaranty and were in default as of December 31, 2011. The Freddie Mac Agreement caps Radian Guaranty’s total exposure on the entire population of loans subject to the agreement to $840 million. The maximum exposure of $840 million is comprised of $625 million of claim payments (consisting of $370 million of claims previously paid on this population of loans prior to July 12, 2013, which is the measurement date for purposes of the transaction, and an additional $255 million paid at closing) and $215 million related to rescissions, denials, claim curtailments and cancellations (“Loss Mitigation Activity”) on these loans. See Notes 7 and 9 of Notes to Consolidated Financial Statements for additional information regarding this agreement.
- Radian Asset Assurance continued to reduce its financial guaranty portfolio and provide capital support to Radian Guaranty. Since we stopped writing new financial guaranty business in June 2008, Radian Asset Assurance’s total net par exposure has been reduced by 79.3% to $23.9 billion. From 2008 through the end of 2013, Radian Asset Assurance has released financial guaranty contingency reserves of $424.8 million (which has increased Radian Guaranty’s statutory surplus by an equal amount) and has paid $419.8 million in dividends to Radian Guaranty. See “—Financial Guaranty—Business.”

Regulatory Environment. Our insurance subsidiaries are subject to comprehensive regulations and other requirements. State insurance regulators impose various capital requirements on our insurance subsidiaries. For our mortgage insurance subsidiaries, these include risk-to-capital ratios, other risk-based capital measures and surplus requirements that potentially limit the amount of insurance that each of our mortgage insurance subsidiaries may write. Freddie Mac and Fannie Mae are the primary beneficiaries of the majority of our mortgage insurance policies and the Federal Housing Administration ("FHA") is currently our primary competitor outside of the private mortgage insurance industry. Changes in the charters or business practices of the Government-Sponsored Enterprises ("GSEs"), including the introduction of alternatives to private mortgage insurance or the implementation of new GSE eligibility requirements (which are currently under consideration) with increased capital adequacy requirements for private mortgage insurers, could significantly impact our business. Since 2011, there have been numerous legislative proposals and recommendations focused on reforming the U.S. housing finance industry, including proposals that are intended to wind down the GSEs or to otherwise limit or restrict the activities and businesses of the GSEs. In addition, the mortgage origination market and private mortgage insurers may be adversely impacted by regulatory requirements being developed and implemented under the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"). Our businesses have been and may continue to be significantly impacted by these and other legislative or regulatory developments and proposals. Although we believe that traditional private mortgage insurance will continue to play an important role in any future housing finance structure, it is possible that new federal legislation could reduce the level of private mortgage insurance coverage required to be used by the GSEs as credit enhancement, or even eliminate the requirement altogether, which could reduce our available market and adversely affect our franchise value. See "—Regulation."

Corporate Background. Radian Group has been incorporated as a business corporation under the laws of the State of Delaware since 1991. Our principal executive offices are located at 1601 Market Street, Philadelphia, Pennsylvania 19103, and our telephone number is (215) 231-1000.

Additional Information. Our website address is www.radian.biz. Copies of our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, as well as any amendments to those reports, are available free of charge through our website as soon as reasonably practicable after they are electronically filed with, or furnished to, the Securities and Exchange Commission (the "SEC"). In addition, our guidelines of corporate governance, code of business conduct and ethics (which includes the code of ethics applicable to our chief executive officer, principal financial officer and principal accounting officer) and the governing charters for each committee of our board of directors are available free of charge on our website, as well as in print, to any stockholder upon request. The public may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC and the address of that site is www.sec.gov.

The above references to our website and the SEC's website do not constitute incorporation by reference of the information contained on the websites and such information should not be considered part of this document.

II. Mortgage Insurance

A. Business

Our mortgage insurance segment provides insurance coverage, principally through private mortgage insurance, and risk management services, to mortgage lending institutions. 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 mortgage loans in the secondary mortgage market, most of which are sold to Freddie Mac and Fannie Mae.

1. Traditional Risk

Traditional types of private mortgage insurance include "primary mortgage insurance" and "pool insurance." All of our new insurance written after 2008 has been primary mortgage insurance.

Primary Mortgage Insurance. Primary mortgage insurance provides protection against mortgage defaults at a specified coverage percentage. When there is a valid claim under primary mortgage insurance, the maximum liability is determined by multiplying the claim amount, which consists of the unpaid loan principal, plus past due interest (which is capped at a maximum of two years) and certain expenses associated with the default, by the coverage percentage. Claims may be settled for the maximum liability or for other amounts. See "—Claims Management" below.

We provide primary mortgage insurance on a flow basis and we have also provided primary mortgage insurance on a "structured" basis (in which we insure a group of individual loans). In flow transactions, mortgages typically are insured as they are originated, while in structured transactions, we typically provide insurance on a group of mortgages after they have been originated. A portion of our structured business was written in a "second loss" position, meaning that we are not required to make a payment until a certain aggregate amount of losses have already been recognized on a given set of loans. Most of the mortgage insurance we wrote on structured transactions involved non-prime mortgages (non-prime mortgages include Alternative-A ("Alt-A"), A minus and B/C mortgages, each of which are discussed below under "—Direct Risk in Force—Mortgage Loan Characteristics") and mortgages with higher than average loan balances. A single structured mortgage insurance transaction may be provided on a primary basis or, as discussed below, on a pool basis; and some structured transactions include both primary and pool insured mortgages. We have not written any structured business since 2008.

We wrote $47.3 billion and $37.1 billion of first-lien primary mortgage insurance in 2013 and 2012, respectively. All of our primary mortgage insurance written during 2013 and 2012 was written on a flow basis. Primary insurance on first-liens made up $40.0 billion or 96.1% of our total direct first-lien insurance RIF at December 31, 2013, compared to $34.4 billion or 94.9% at December 31, 2012.

Pool Insurance. We have not written pool insurance since 2008. Prior to that, we wrote pool insurance on a limited basis. Pool insurance differs from primary insurance in that our maximum liability is not limited to a specific coverage percentage on an individual mortgage loan. Instead, an aggregate exposure limit, or "stop loss" (generally between 1% and 10%), is applied to the initial aggregate loan balance on a group or "pool" of mortgages. In addition to a stop loss, many of our pool policies were written in a second loss position. We believe the stop loss and second loss features have been important in limiting our ultimate liability on individual pool transactions.

We wrote much of our pool insurance in the form of structured transactions, including whole loan sales and credit enhancement on loans included in residential mortgage-backed securities ("RMBS"). An insured pool of mortgages may contain mortgages that are already covered by primary mortgage insurance. In these transactions, pool insurance is secondary to any primary mortgage insurance that exists on mortgages within the pool.

Pool insurance made up approximately $1.6 billion or 3.9% of our total direct first-lien insurance RIF at December 31, 2013, as compared to $1.8 billion or 5.1% at December 31, 2012.

2. Non-Traditional Risk

In addition to traditional mortgage insurance, we also provided other forms of credit enhancement on residential mortgage assets. We stopped writing this "non-traditional" business before 2008, other than a small amount of international mortgage insurance, which we discontinued writing in 2008. Since 2007, we have been pursuing opportunities to reduce our non-traditional mortgage insurance RIF through commutations and transaction settlements and terminations. Our total amount of non-traditional RIF was $97 million at December 31, 2013, as compared to $148 million at December 31, 2012.

Our non-traditional products generally have higher risk characteristics and have been highly susceptible to the disruption in the housing and subprime mortgage markets and related credit markets that began during 2007. These non-traditional products included mortgage insurance on second-lien mortgage loans ("second-lien") and credit enhancement covering principal and interest on net interest margin securities ("NIMS") bonds. NIMS bonds represent the securitization of a portion of the excess cash flow and prepayment penalties from a mortgage-backed security ("MBS") comprised mostly of subprime mortgages.

We also provided mortgage insurance on an international basis. In 2008, we stopped writing new international business and have terminated most of our international mortgage insurance risk, with the exception of our insured portfolio in Hong Kong. While we are no longer writing new business in Hong Kong, we continue to insure the existing book of business, which has experienced a very low default rate. At December 31, 2013, our total amount of RIF in Hong Kong was $19 million, as compared to $40 million at December 31, 2012.

3. Premium Rates

Premiums on our mortgage insurance products are paid either on a monthly installment basis (monthly premiums), in a single payment at origination (single premiums), as a combination of up-front premium at origination plus a monthly renewal (split premium), or in some cases as an annual or multi-year premium. For monthly paid premiums, we receive monthly premium payments that provide for the ongoing renewal of our insurance coverage as long as the premiums continue to be paid. For single premium insurance, we receive a single premium payment that is paid at origination and provides coverage for the life of the loan subject to certain conditions. In addition, for our split premium products, we receive an upfront premium payment when the loan is made, plus ongoing monthly renewal premiums. Approximately 68% of our NIW in 2013 was written with monthly premiums or split premiums, and 32% was written with single premiums.

Mortgage insurance premiums can be financed through a number of methods and can either be paid by the borrower or by the lender. Borrower-paid mortgage insurance premiums are paid either through separate escrowed amounts or financed as a component of the mortgage loan amount. Lender paid mortgage insurance premiums are paid by the lender and are typically passed through to the borrower in the form of additional origination fees or a higher interest rate on the mortgage note. Our monthly and other installment mortgage insurance premiums are established as either a fixed percentage of the loan's amortizing balance over the life of the policy, or as a fixed percentage of the initial loan balance for a set period of time (typically ten years), which declines to a lower fixed percentage for the remaining life of the policy.

We set our premium rates at origination when coverage is established. Premiums for our mortgage insurance products are established based on performance models that consider a broad range of borrower, loan and property characteristics. We set our premium levels commensurate with anticipated policy performance assumptions, including, without limitation, our expectations and assumptions about the following factors: (1) the likelihood of default; (2) how long the policy will remain in place; (3) the costs of acquiring and maintaining the insurance; (4) taxes; and (5) the capital that is required to support the insurance. Our performance assumptions for claim frequency and policy life are developed based on internally developed data, as well as data generated from independent, third-party sources. Premium levels are set to achieve an overall risk-adjusted rate of return on capital given modeled performance expectations.

4. Underwriting

Loans are underwritten to determine whether they are eligible for our mortgage insurance. We perform this function directly or, alternatively, we delegate to our customers the ability to underwrite the loans based on agreed-upon underwriting guidelines.

Delegated Underwriting. Through our delegated underwriting program, certain customers that have been approved by us are able to underwrite loans based on agreed-upon underwriting guidelines. Our delegated underwriting program currently involves only lenders that are approved by our risk management group. Delegated underwriting allows our customers to commit us to insure loans meeting agreed-upon guidelines. This enables us to meet lenders' demands for immediate insurance coverage. With delegated underwriting, because the underwriting is being performed by third parties, we also have rights to rescind coverage if there has been a deviation from our agreed-upon underwriting guidelines in addition to our rights with respect to fraud or misrepresentation in the loan origination process that provide us with rights to rescind coverage. During the first quarter of 2012, we began offering a limited rescission waiver program for our delegated underwriting customers, in which we agree not to rescind coverage due to non-compliance with our agreed-upon underwriting guidelines so long as the borrower makes 36 consecutive payments (commencing with the initial required payment) from his or her own funds. This program does not restrict our rights to rescind coverage in the event of fraud or misrepresentation in the origination of the loans we insure. As of December 31, 2013, approximately 74% of our total first-lien insurance in force had been originated on a delegated basis, compared to 79% as of December 31, 2012. See "Item 1A. Risk Factors—Our delegated underwriting program may subject our mortgage insurance business to unanticipated claims."

Non-Delegated Underwriting. Lenders that do not qualify for our delegated underwriting program can submit loan files to us and we will perform the underwriting. In addition, lenders participating in our delegated underwriting program may choose not to use their delegated authority, and instead may submit loans directly to us. For loans that

we underwrite, we generally do not have the same rescission remedies for breach of representations or warranties that we do with respect to delegated underwriting. We mitigate the risk of employee underwriting error through quality control sampling and performance monitoring. As of December 31, 2013, approximately 26% of our total first-lien insurance in force had been originated on a non-delegated basis, compared to 21% as of December 31, 2012.

Contract Underwriting. In our mortgage insurance business, we also have a contract underwriting program through which we provide an outsourced underwriting service to our customers. For a fee, we underwrite our customers' loan files for secondary market compliance (e.g., for sale to the GSEs), and may concurrently assess the file for mortgage insurance. During 2013, loans underwritten through contract underwriting accounted for 3.4% of insurance certificates issued as part of our flow business. These loans are included within the non-delegated underwriting percentages discussed above.

Typically, we agree that if we make a material error in underwriting a loan, we will provide a remedy to the customer by purchasing the loan, by placing additional mortgage insurance on the loan or by indemnifying the customer against loss up to a maximum specified amount. During 2013, we paid losses related to these remedies of approximately $2.1 million. Beginning in 2008, we limited the recourse available to our contract underwriting customers to apply only to those loans that we are simultaneously underwriting for compliance with secondary market compliance and for potential mortgage insurance. We monitor this risk and negotiate our underwriting fee structure and recourse agreements on a client-by-client basis. We also routinely audit the performance of our contract underwriters.

B. Direct Risk in Force

Our business traditionally has involved taking credit risk in various forms across a range of asset classes, products and geographies. Credit risk is measured in our mortgage insurance business as RIF, which approximates the maximum loss exposure that we have at any point in time.

The following table shows the direct RIF (by form of insurance and loan type), before consideration of reinsurance, associated with our mortgage insurance segment as of December 31, 2013 and 2012:

	December 31,	
(In millions)	2013	2012
Primary:		
Prime	$36,613	$30,348
Alt-A	2,017	2,404
A minus and below	1,387	1,620
Total Primary	40,017	34,372
Pool	1,604	1,834
Second-lien, NIMS and other	97	148
Total Direct Mortgage Insurance RIF	$41,718	$36,354

The following discussion mainly focuses on our direct primary RIF, which represents approximately 95.9% of our total mortgage insurance RIF at December 31, 2013. For additional information regarding our pool and non-traditional mortgage insurance RIF, see "—Mortgage Insurance—Business—Traditional Risk" and "—Mortgage Insurance—Business—Non-Traditional Risk."

We analyze our mortgage insurance portfolio in a number of ways to identify any concentrations or imbalances in risk dispersion. We believe the performance of our mortgage insurance portfolio is affected significantly by:

- general economic conditions (in particular home prices and unemployment);
- the age of the loans insured;
- the geographic dispersion of the properties securing the insured loans and the condition of the housing market;
- the quality of underwriting decisions at loan origination; and
- the credit characteristics of the borrower and the characteristics of the loans insured (including loan-to-value ("LTV"), purpose of the loan, type of loan instrument, source of down payment, and type of underlying property securing the loan).

1. Direct Primary RIF by Year of Policy Origination

The following table shows our direct primary mortgage insurance RIF by year of origination and selected information related to that risk as of December 31, 2013:

	December 31, 2013					
($ in millions)	RIF	Number of Defaults	Delinquency Rate	Percentage of Reserve for Losses	Average FICO (1) at Origination	Original Average LTV
2005 and prior	$4,461	24,254	16.0 %	32.9 %	680	90.4 %
2006	2,326	10,440	17.5	18.0	690	91.5
2007	5,247	17,158	15.2	34.5	702	92.9
2008	3,950	7,174	8.9	12.1	727	91.1
2009	1,448	815	2.5	1.2	755	90.0
2010	1,206	247	1.0	0.4	764	91.2
2011	2,263	266	0.6	0.4	762	91.8
2012	7,710	392	0.3	0.4	761	91.8
2013	11,406	163	0.1	0.1	756	92.1
Total	$40,017	60,909		100.0 %		

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(1) Fair Isaac Corporation (“FICO”).

A significant portion of our total mortgage insurance in force (and consequently our premiums earned) is derived from policies written in prior years. Therefore, the amount of time that our insurance certificates remain in force, which is affected by loan repayments and cancellations of our insurance, can have a significant impact on our revenues and our results of operations. One measure for assessing the impact of certificate cancellations on insurance in force is our persistency rate, defined as the percentage of insurance in force that remains on our books after any 12-month period. Because most of our insurance premiums are earned over time, higher persistency rates on monthly insurance policies enable us to recover more of our insurance acquisition costs and generally result in increased profitability. Conversely, assuming all other factors remain constant, higher persistency on single premium business lowers the overall returns from our insured portfolio, as the premium revenue for our single premium policies is the same regardless of the actual life of the insurance policy and we are required to maintain regulatory capital supporting the insurance for the life of the policy. The persistency rate of our primary mortgage insurance was 81.1% at December 31, 2013, compared to 81.8% at December 31, 2012. Historically, there is a close correlation between interest rate environments and persistency rates, primarily as a result of refinance activity that tends to vary with interest rate movements.

2. Geographic Dispersion

The following table shows the percentage of our direct primary mortgage insurance RIF and the associated percentage of our mortgage insurance reserve for losses (by location of property) for the top 10 states in the U.S. (as measured by our direct primary mortgage insurance RIF as of December 31, 2013) as of December 31, 2013 and 2012 :

	December 31,							
	2013				2012			
Top Ten States	RIF		Reserve for Losses		RIF		Reserve for Losses	
California	13.7	%	8.2	%	12.8	%	10.5	%
Texas	6.5		3.0		6.3		2.9	
Florida	6.2		18.3		6.8		17.9	
Illinois	5.6		6.8		5.5		6.8	
Georgia	4.4		3.4		4.4		3.8	
New Jersey	4.0		7.8		4.0		6.2	
Ohio	3.4		3.3		3.8		3.2	
Virginia	3.4		1.4		3.2		1.5	
New York	3.3		7.7		3.6		5.9	
Pennsylvania	3.3		3.5		3.3		2.9	
Total	53.8	%	63.4	%	53.7	%	61.6	%

The following table shows the percentage of our direct primary mortgage insurance RIF and the associated percentage of our mortgage insurance reserve for losses (by location of property) for the top 15 metropolitan statistical areas (“MSAs”) in the U.S. (as measured by our direct primary mortgage insurance RIF as of December 31, 2013) as of December 31, 2013 and 2012:

	December 31,							
	2013				2012			
Top Fifteen MSAs	RIF		Reserve for Losses		RIF		Reserve for Losses	
Chicago, IL	4.6	%	5.7	%	4.4	%	5.6	%
Atlanta, GA	3.4		2.6		3.4		3.0	
Los Angeles - Long Beach, CA	2.9		1.8		2.6		2.0	
Washington, DC-MD-VA	2.8		1.8		2.6		1.7	
Phoenix/Mesa, AZ	2.4		1.2		2.4		2.1	
Houston, TX	2.0		1.0		2.0		1.0	
New York, NY	1.9		4.6		2.1		3.5	
Denver, CO	1.9		0.5		1.7		0.6	
Minneapolis-St. Paul, MN-WI	1.9		0.9		1.7		1.2	
Dallas, TX	1.8		0.7		1.6		0.7	
Philadelphia, PA	1.6		1.2		1.5		1.0	
Riverside-San Bernardino, CA	1.6		1.6		1.5		2.0	
San Diego, CA	1.5		0.6		1.2		0.7	
Seattle, WA	1.4		1.4		1.4		1.5	
Portland, OR	1.4		0.9		1.3		0.9	
Total	33.1	%	26.5	%	31.4	%	27.5	%

3. Mortgage Loan Characteristics

In addition to geographic dispersion, other factors also contribute significantly to our overall risk diversification and the credit quality of our RIF, including product distribution and our risk management and underwriting practices.

LTV. An important indicator of claim incidence in our mortgage insurance business is the relative amount of a borrower's equity that exists in a home. Generally, absent other mitigating factors such as high FICO scores and other credit factors, loans with higher LTVs at inception (i.e., smaller down payments) are more likely to result in a claim than lower LTV loans. For example, absent other mitigating factors, claim incidence on mortgages with LTVs between 90.01% and 95% is generally higher than the claim incidence on mortgages with LTVs between 85.01% and 90%. In 2010, after having discontinued writing insurance on mortgages with LTVs higher than 95% for a period of time, we resumed writing business on loans with LTV ratios between 95.01% and 97% on a limited basis, subject to high credit standards. The average LTV of our primary NIW in 2013 was 91.10%, compared to 90.64% and 90.45% in 2012 and 2011, respectively. See the "Percentage of primary NIW" table in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Mortgage Insurance—NIW, IIF, RIF" for a breakdown of the composition of our NIW by LTV.

FICO Score and Loan Grade. The risk of claim on non-prime loans is significantly higher than that on prime loans. We generally define prime loans as loans where the borrower's FICO score is 620 or higher and the loan file meets "fully documented" standards of our credit guidelines and/or the GSE guidelines for fully documented loans. Substantially all of our NIW after 2008 has been on prime loans and we expect that prime loans will continue to constitute substantially all of our primary NIW for the foreseeable future.

We generally define Alt-A loans as loans where the borrower's FICO score is 620 or higher and the loan documentation has been reduced. Because of the reduced documentation, we consider Alt-A loans to be higher risk than prime loans, particularly Alt-A loans to borrowers with FICO scores below 660. We have insured Alt-A loans with FICO scores ranging from 620 to 660.

We generally define A minus loans as loans where the borrower's FICO score ranges from 575 to 619. We also classify loans with certain characteristics originated within the GSE automated underwriting system as A minus loans, regardless of the FICO score. We generally define B/C loans as loans where the borrower's FICO score is below 575. Certain structured transactions that we insured contained a small percentage of B/C loans. See the "Percentage of primary RIF" table in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Mortgage Insurance—NIW, IIF, RIF" for a breakdown of the composition of our RIF by loan grade.

Loan Type—Adjustable Rate Mortgages ("ARMs"); Interest-Only Mortgages. ARMs are loans that have an initial interest rate that will reset during the life of such loans. Our claim frequency on insured ARMs has been higher than on fixed-rate loans. In many cases, the higher propensity to default can be attributed to "payment shocks" after the initial fixed interest rate period expires and the loan becomes subject to monthly payment increases that occur when interest rates rise. It has been our experience that the credit performance of loans subject to reset five years or later from origination are less likely to result in a claim than ARMs with shorter fixed periods. Approximately 72.3% of the ARMs we insure, including Option ARMs (discussed below), have already had initial interest rate resets. An additional 3.9%, 3.7% and 2.6% of the ARMs we insure are scheduled to have initial interest rate resets during 2014, 2015 and 2016, respectively.

We also have insured ARMs that provide the borrower with different payment options ("Option ARMs"). One of these options is a minimum payment that is below the full amortizing payment, which results in interest being capitalized and added to the loan balance so that the loan balance continually increases, which is also referred to as negative amortization. In addition, we have insured interest-only mortgages, where the borrower pays only the interest charge on a mortgage for a specified period of time, usually five to ten years, after which the loan payment increases to include principal payments. We have not written any insurance on Option ARMs or interest-only mortgages since 2007 and 2011, respectively.

See the "Percentage of primary RIF" table in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Mortgage Insurance—NIW, IIF, RIF" for a breakdown of the composition of our RIF by loan type.

Loan Purpose. Loan purpose also impacts our risk of loss. Cash-out refinance loans, where a borrower receives cash in connection with refinancing a loan, have been more likely to result in a claim than new purchase loans or loans that are refinanced only to adjust rate and term. See the “Percentage of primary RIF” table in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Mortgage Insurance—NIW, IIF, RIF” for the percentage of our NIW and our RIF comprised of refinances.

Loan Size. Higher-priced properties with larger mortgage loan amounts generally have experienced wider fluctuations in value than moderately priced residences and have been more likely to result in a claim. The average loan size of our direct primary mortgage insurance in force (by product) as of December 31, 2013, 2012 and 2011 was as follows:

	December 31,		
(In thousands)	2013	2012	2011
Prime	$195.8	$184.9	$174.2
Alt-A	190.0	193.2	196.3
A minus and below	129.9	131.4	131.9
Total	$192.1	$182.1	$172.8

Property Type. Our risk of loss is impacted by the type of property securing our insured loans. Loans secured by single family detached housing generally have been less likely to result in a claim than loans on other types of properties. Loans on attached housing types tend to be more volatile due to the higher density of these properties.
Occupancy Type. Non-owner occupied homes purchased for investment purposes have been more likely to result in a claim than loans on either primary or second homes.

C. Defaults and Claims

Defaults. In our mortgage insurance segment, the default and claim cycle begins with the receipt of a default notice from the loan servicer. We consider a loan to be in default for financial statement and internal tracking purposes upon receipt of notification by servicers that a borrower has missed two monthly payments. Defaults can occur due to a variety of factors, including death or illness, divorce or other family problems, unemployment, overall changes in economic conditions, housing value changes that cause the outstanding mortgage amount to exceed the value of a home or other events. Depending on the type of loan, default rates may be affected by rising interest rates or an accumulation of negative amortization.

The default rate in our mortgage insurance business is subject to seasonality. Historically, our mortgage insurance business experiences a fourth quarter seasonal increase in the number of defaults and a first quarter seasonal decline in the number of defaults and increase in the number of cures. While this historically has been the case, macroeconomic factors in any given period may influence the default rate in our mortgage insurance business more than seasonality.

The following graph shows the trend of the number of primary defaults by each vintage year as of the end of each quarter following the year of original policy issuance.

The business we wrote in 2005 through 2008 contained a significant number of poorly underwritten and higher risk loans. As a result of these loan characteristics and the economic downturn that began in 2007, we have experienced substantially higher ultimate loss ratios for this portfolio than in previous policy years. In 2008, we implemented a number of changes to our underwriting guidelines aimed at improving the risk characteristics of the loans we insure. Beginning in 2009, the mortgage insurance we have been writing is predominantly prime credit quality fully documented loans, with FICO scores of 740 or above. As a result of our more restrictive underwriting guidelines and the significantly improved risk characteristics of these loans, the default rates for RIF originated beginning in 2009 have significantly improved, in particular when compared to the 2005 through 2008 portfolios.

The following table shows the states that have generated the highest number of primary insurance defaults (measured as of December 31, 2013) in our insured portfolio and the corresponding percentage of total defaults as of the dates indicated:

	December 31,								
	2013			2012			2011		
States with highest number of defaults:									
Florida	9,530	15.6	%	15,415	16.5	%	18,265	16.5	%
Illinois	3,776	6.2		6,034	6.5		6,869	6.2	
New York	3,632	6.0		4,586	4.9		4,572	4.1	
New Jersey	3,503	5.8		4,587	4.9		4,523	4.1	
California	3,221	5.3		6,101	6.5		8,457	7.6	

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Claims. Defaulted loans that fail to become current, or “cure,” may result in a claim under our mortgage insurance policies. Mortgage insurance claim volume is influenced by the circumstances surrounding the default. The rate at which defaults cure, and therefore, do not go to claim, depends in large part on a borrower’s financial resources and circumstances (including whether the borrower is eligible for a loan modification), local housing prices and housing supply (i.e., whether borrowers are able to cure defaults by selling the property in full satisfaction of all amounts due under the mortgage), interest rates and regional economic conditions. In our first-lien insurance business, the insured lender must acquire title to the property before submitting a claim and the time to for a lender to acquire title to a property through foreclosure varies depending on the state. Historically, on average, we do not receive a request for claim payment until approximately 18 months following a default on a first-lien. In recent years this time lag has increased and we have observed a slowdown in foreclosures (and consequently, a slowdown in claims submitted to us) largely due to foreclosure delays due to, among other factors, increased scrutiny within the mortgage servicing industry and foreclosure process. In our second-lien insurance business, which is a small percentage of our RIF, foreclosure is not required and claims are typically submitted based on a contractual number of days that a borrower is in default. As a result, we typically are required to pay a claim much earlier, generally within approximately 150 days of a borrower’s missed payment. For our pool insurance business, loans were insured under policies separate from the master insurance policy used in our primary mortgage insurance business. Typically, our pool policies require the insured to not only acquire title, but also to actively market and ultimately liquidate the real estate asset before filing a claim.

Claim activity is not spread evenly throughout the coverage period of a book of business. Historically, relatively few claims on prime business are received during the first two years following issuance of a policy, and on non-prime business during the first year.

The following table shows the gross amount of direct claims paid by policy origination year for the periods indicated:

	Year Ended December 31,								
($ in millions)	2013			2012			2011		
Direct claims paid by origination year (first-lien):									
2005 and prior	$303	25.7	%	$268	26.4	%	$333	22.7	%
2006	239	20.3		194	19.1		331	22.5	
2007	446	37.9		403	39.8		634	43.1	
2008	169	14.3		137	13.5		166	11.3	
2009	15	1.3		11	1.1		6	0.4	
2010	4	0.3		1	0.1		—	—	
2011	2	0.2		—	—		—	—	
Total direct claims paid	$1,178	100.0	%	$1,014	100.0	%	$1,470	100.0	%

The following table shows the states with the highest direct claims paid (measured as of December 31, 2013) for the periods indicated:

	Year Ended December 31,		
(In millions)	2013	2012	2011
States with highest direct claims paid (first-lien):			
Florida	$247.6	$138.8	$216.2
California	201.5	168.0	255.7
Illinois	108.2	56.8	64.8
Arizona	72.8	83.8	139.7
Georgia	63.5	57.1	78.4

Claim Severity. In addition to claim volume, claim severity is another significant factor affecting losses. The severity of a claim is determined by dividing the claim paid by the original loan amount. The main determinants of the severity of a claim are the size of the loan, the amount of mortgage insurance coverage placed on the loan and the impact of our loss management activities with respect to the loan. Pre-foreclosure sales, acquisitions and other early workout efforts help to reduce overall claim severity, as do actions we may take to reduce claim payment due to servicer

negligence, as discussed below in "Claims Management." The average claim severity for loans covered by our primary insurance was 24.9% for 2013, compared to 25.5% in 2012 and 27.2% in 2011. The average claim severity for loans covered by our pool insurance was 43.3% for 2013, compared to 46.0% in 2012 and 45.1% in 2011.

D. Claims Management

Our claims management process is focused on promptly analyzing and processing claims to ensure that valid claims are paid in a timely and accurate manner. In addition, our mortgage insurance claims management department pursues opportunities to mitigate losses both before and after claims are received. We dedicate significant resources to mortgage insurance claims management.

We have a dedicated loss mitigation group that works with servicers to identify and pursue loss mitigation opportunities for loans in both our performing and non-performing (defaulted) portfolios. This work includes regular surveillance and benchmarking of servicer performance with respect to default reporting, borrower retention efforts, foreclosure alternatives and foreclosure processing. Through this process, we seek to hold servicers accountable for their performance and communicate to servicers identified best practices for servicer performance.

In our traditional mortgage insurance business, upon receipt of a valid claim, we generally have the following three settlement options:

(1) pay the maximum liability—determined by multiplying the claim amount (which consists of the unpaid loan principal, plus past due interest (up to a maximum of two years) and certain expenses associated with the default) by the applicable coverage percentage—and allow the insured lender to keep title to the property;

(2) pay the amount of the claim required to make the lender whole, commonly referred to as the “deficiency amount” (not to exceed our maximum liability), following an approved sale; or

(3) pay the full claim amount and acquire title to the property.

Approved sales in which the underlying property has been sold for less than the outstanding loan amount are commonly referred to as “short sales.” In many cases, short sales result in the payment of a deficiency amount that is equal to the maximum liability amount, while in other cases, the deficiency amount is less than our maximum liability amount. Under our master insurance policy, we retain the right to consent prior to the consummation of any short sales. Historically, we have consented to a short sale only after reviewing various factors, including among other items, the sale price relative to market and the ability of the borrower to contribute to the deficiency amount. In 2012, we entered into agreements with each of the GSEs, pursuant to which we delegated to the GSEs our prior consent rights with respect to short sales on loans owned by the GSEs, subject to such sales meeting the GSE guidelines and processes for short sales as well as certain other factors set forth in the agreement with the GSEs. As a result, instead of reviewing each individual transaction prior to short sale with respect to GSE loans, we instead perform a post claim quality review of these short sales to ensure that they are meeting the specified requirements. We have the ability to terminate our delegated short sale agreements with the GSEs upon 60 days notice. For those loans that are not owned by the GSEs, we continue to perform an individual analysis of each proposed short sale and to provide our consent for these sales, as we believe appropriate.

After a claim is received, our loss management specialists focus on:

- a review to ensure compliance with applicable loan origination programs and our mortgage insurance policy requirements, including: (i) whether the loan qualified for insurance at the time the certificate of coverage was issued; and (ii) whether the insured has satisfied its obligation in meeting all necessary conditions in order for us to pay a claim (commonly referred to as “claim perfection”), including submitting all necessary documentation in connection with the claim;
- analysis and prompt processing to ensure that valid claims are paid in an accurate and timely manner;
- responses to loss mitigation opportunities presented by the insured; and
- aggressive management and disposal of acquired real estate.

Claim Denials. We have the legal right under our master insurance policy to deny a claim if the servicer does not produce documents necessary to perfect a claim, including evidence that the insured has acquired title to the property, within the time period specified in our master insurance policy. Most often, a claim denial is the result of a servicer’s inability to provide the loan origination file or other servicing documents for review. If, after requests by us, the loan origination file or other servicing documents are not provided to us, we generally deny the claim. Under the terms of our master insurance policy, the insured must provide to us the necessary documents to perfect a claim within one year after acquiring title to the property through foreclosure or otherwise. If we deny a claim, we continue to allow the insured the ability to perfect the claim during the one-year period specified in our master insurance policy. If the

insured successfully perfects the claim within our specified timelines, we will process the claim, including a review of the loan to ensure appropriate underwriting and servicing.

Rescissions. We have the legal right, under certain conditions, to unilaterally rescind coverage on our mortgage insurance policies. Under the terms of our master insurance policy, we have 60 days after a claim is received to pay the claim (assuming it has been perfected), subject to various conditions that may toll this 60 day period, such as the insured providing additional items necessary for us to complete a review of the claim. If we determine that a loan did not qualify for insurance, as part of our internal procedures, we issue an “intent to rescind” letter that explains the basis of our decision and provides the insured with a period of up to 90 days from the date of the letter to challenge or rebut our decision. We are not contractually obligated under the terms of our master insurance policy to provide the insured with this opportunity to rebut our decision to rescind coverage.

Typical events that may give rise to our right to rescind coverage include the following: (i) we insure a loan under our master insurance policy in reliance upon an application for insurance that contains a material misstatement, misrepresentation or omission, whether intentional or otherwise, or that was issued as a result of any act of fraud, subject to certain exceptions; or (ii) we find that there was negligence in the origination of a loan that we insured. We also have rights of rescission arising from a breach of the insured’s representations and warranties contained in an endorsement to our master insurance policy that is required with our delegated underwriting program. In certain circumstances, we may seek to rescind structured transactions for breach of representations and warranties pertaining to the insured loans having been underwritten in accordance with the agreed underwriting guidelines and in the absence of any fraud or misrepresentation.

If a rebuttal to our rescission is received and the insured provides additional information supporting the continuation (i.e., non-rescission) of coverage, the claim is re-examined internally by a second, independent group of individuals. If the additional information supports the continuation of coverage, the insurance is reinstated and the claim is paid. After completion of this process, if we determine that the loan did not qualify for coverage, the insurance certificate is rescinded (and the premium refunded) and we consider the rescission to be final and resolved. Although we may make a final determination internally with respect to a rescission, it is possible that a challenge to our decision to rescind coverage may be brought during a specified period of time after we have rescinded coverage. Under our master insurance policy, any suit or action arising from any right of the insured under the policy must be commenced within two years after such right first arose, and within three years for certain other policies, including certain pool insurance policies.

Claim Curtailments. We also have rights under our master insurance policy to curtail, and in some circumstances, deny claims due to servicer negligence. Examples of servicer negligence may include, without limitation:

- a failure to report information to us on a timely basis as required under our master insurance policy;
- a failure to pursue loss mitigation opportunities presented by borrowers, realtors and/or any other interested parties;
- a failure to pursue loan modifications and/or refinancings through programs available to borrowers or an undue delay in presenting claims to us (including as a result of improper handling of foreclosure proceedings), which increases the interest (up to a maximum of two years) or other components of a claim we are required to pay; and
- a failure to initiate and diligently pursue foreclosure or other appropriate proceedings within the timeframe specified in our master insurance policy.

Although we could seek post-claim recoveries from the beneficiaries of our policies if we later determine that a claim was not valid, because our loss mitigation process is designed to ensure compliance with our policies prior to payment of claim, we have not sought, nor do we currently expect to seek, recoveries from the beneficiaries of our mortgage insurance policies once a claim payment has been made.

E. Risk Management

Our mortgage insurance business employs a comprehensive risk management function, which is responsible for establishing our credit and counterparty risk policies, monitoring compliance with our policies, managing our insured portfolio and communicating credit related issues to management and the Credit Committee of our board of directors.

1. Risk Origination and Servicing

We believe that understanding our business partners and customers is a key component of managing risk. Accordingly, we assign individual risk managers to specific lenders and servicers so that they can more effectively perform ongoing business-level due diligence. This also allows us to better customize our credit and servicing policies

to address individual lender-specific and servicer-specific strengths and weaknesses.

2. Portfolio Management

We manage the allocation of capital within our mortgage insurance business by, among other things, establishing portfolio limits for product type, loan attributes, geographic concentration and counterparties. We also identify, evaluate and negotiate potential transactions for terminating insurance risk and for distributing risk to others through reinsurance arrangements discussed below under “—Reinsurance—Ceded.”

As part of our portfolio management function, we monitor and analyze the performance of various risks in our mortgage insurance portfolio. We use this information to develop our mortgage credit risk and counterparty risk policies, and as a component of our default and prepayment analytics.

We have a valuation group that analyzes the current composition of our mortgage insurance portfolio and monitors for compliance with our internally defined risk parameters. This analysis involves assessing risks to the portfolio from the market (e.g., the effects of changes in home prices and interest rates) and analyzing risks from particular lenders, products and geographic locales.

3. Credit Analytics

We establish and maintain mortgage-related, credit risk policies that reflect our willingness to accept risk regarding counterparty, portfolio, operational and structured risks involving mortgage collateral. We establish risk guidelines for product types and loan attributes. Quality control is a key element of our credit analytics function, and as part of our quality control program, we audit individual loan files to examine underwriting decisions for compliance with agreed-upon underwriting guidelines. These audits are conducted across loans submitted through our delegated and non-delegated underwriting channels.

4. Reinsurance—Ceded

We use reinsurance as a risk management tool in our mortgage insurance business.

Third-Party Quota Share Transactions. During 2012, Radian Guaranty entered into two quota share reinsurance agreements with a third-party reinsurance provider in order to proactively manage Radian Guaranty’s risk-to-capital ratio. Through the initial quota share reinsurance transaction in the second quarter of 2012 (the “Initial QSR Transaction”), Radian Guaranty agreed to cede to the third-party reinsurance provider 20% of its NIW beginning with the business written in the fourth quarter of 2011. As of December 31, 2013, RIF ceded under the Initial QSR Transaction was $1.3 billion. In the fourth quarter of 2012, Radian Guaranty and the same third-party reinsurance provider entered into a second quota share reinsurance transaction (the “Second QSR Transaction”). The limitation on ceded risk in the Second QSR Transaction was $750 million initially and the parties have the ability to mutually increase the amount of ceded risk up to a maximum of $2 billion. As of December 31, 2013, RIF ceded under the Second QSR Transaction was $1.3 billion. Under certain circumstances and on specified dates set forth in the quota share reinsurance agreements, Radian Guaranty has the option to reassume a portion of the related RIF in exchange for a payment of a predefined commutation amount from the reinsurer. See Note 8 of Notes to Consolidated Financial Statements for information regarding these two transactions.

Affiliate Reinsurance. Certain states limit the amount of risk a mortgage insurer may retain on a single loan to 25% of the total loan amount. Radian Guaranty currently uses reinsurance from affiliated companies to remain in compliance with these insurance regulations. See “—Regulation—State Regulation—Reinsurance.” In addition, Radian Guaranty has used reinsurance with its subsidiaries to reduce its net RIF.

Smart Home. In 2004, we developed a program referred to as Smart Home, for reinsuring risk associated with non-prime mortgages. These reinsurance transactions, through the use of variable interest entity (“VIE”) structures, effectively transferred risk from our portfolio to investors in the capital markets. From 2004 through 2007, we entered into four Smart Home transactions. As of December 31, 2012, we had terminated three of these transactions. The final Smart Home transaction matured in May 2013.

Captive Reinsurance. We and other companies in the mortgage insurance industry participated in reinsurance arrangements with mortgage lenders commonly referred to as “captive reinsurance arrangements.” Under captive reinsurance arrangements, a mortgage lender typically established a reinsurance company that assumed part of the risk associated with the portfolio of that lender’s mortgages insured by us on a flow basis (as compared to mortgages insured in structured transactions, which typically are not eligible for captive reinsurance arrangements). In return for the reinsurance company’s assumption of a portion of the risk, we ceded to the reinsurance company a portion of the mortgage insurance premiums that would have been paid to us. Captive reinsurance typically was conducted on an “excess-of-loss” basis, with the captive reinsurer paying losses only after a certain level of losses had been incurred. In addition, on a limited basis, we participated in “quota share” captive reinsurance arrangements under which the captive reinsurance company assumed a pro rata share of all losses in return for a pro rata share of the premiums collected. For additional information about our captive reinsurance arrangements, see “Item 3. Legal Proceedings.”

In most cases, the risk assumed by the reinsurance company was an excess layer of aggregate losses that would be penetrated in a situation of adverse loss development. As a result of the housing and related credit market downturn that began in 2007, most captive reinsurance arrangements have “attached,” meaning that losses have exceeded the threshold so that we are now entitled to cash recoveries from the captive. Ceded losses recoverable related to captives at December 31, 2013 were $45.0 million. We expect that most of the actual cash recoveries from those captives that have not yet been terminated will be received over the next few years.

In 2010, we terminated a significant portion of our remaining captive reinsurance arrangements on a “cut-off” basis, meaning that the terminated captive arrangements were dissolved and all outstanding liabilities were settled. All of our existing captive reinsurance arrangements are operating on a run-off basis, meaning that no new business is being placed in these captives.

As of December 31, 2013, we have received total cash reinsurance recoveries (including recoveries from the termination of captive arrangements) from Smart Home and captive reinsurance arrangements of approximately $886.6 million since inception of these programs, with most of these recoveries coming from captive reinsurance arrangements.

F. Customers

The principal customers of our mortgage insurance business are mortgage originators such as mortgage bankers, mortgage brokers, commercial banks, savings institutions, credit unions and community banks.

Beginning in 2009, we launched an initiative to significantly diversify our customer base, including increasing the amount of business we were conducting with credit unions and community banks. Since 2010, we have added more than 900 new customers and significantly increased the amount of business derived from mid-sized mortgage banks. These efforts have contributed to an increase in our market share since 2010 and to the corresponding levels of NIW that we have generated. In addition, we believe our diversification efforts have helped to reduce the potential impact to our business from the loss of any one customer.

Our top 10 mortgage insurance customers, measured by primary NIW, represented 25.8% of our primary NIW in 2013, compared to 24.8% and 34.5% in 2012 and 2011, respectively. The largest single mortgage insurance customer (including branches and affiliates), measured by primary NIW, accounted for 5.8% of NIW during 2013, compared to 6.2% and 10.1% in 2012 and 2011, respectively. Earned premiums attributable to Wells Fargo accounted for more than 10% of our consolidated revenues in 2013 and 2012, and earned premiums attributable to Bank of America exceeded 10% of our consolidated revenues in 2012. See “Item 1A. Risk Factors—Our NIW and franchise value could decline if we lose business from a significant customer.”

G. Sales, Marketing and Customer Support

Our sales and account management team is organized in various geographic regions across the U.S. We have a business development group that is focused on the creation of new mortgage insurance relationships and an account management group that is responsible for supporting our existing mortgage insurance relationships. Mortgage insurance sales and account management personnel are compensated by salary, commissions for NIW and the creation or development of customer relationships and other incentive-based pay, which may be tied to the achievement of

certain sales goals or the promotion of certain products. Commissions vary based on product in order to incent a sales person to achieve an appropriate mix of products in accordance with our business objectives.

We have developed training programs for our customers to help their employees develop the skills to respond to changing market demands and regulatory requirements. Our training is provided to customers to promote the role of private mortgage insurance in the marketplace as well as to promote Radian Guaranty's specific products and offerings. We offer training in three format options: instructor-led classroom sessions, instructor-led webinars and self-directed web-based training. In 2013, we trained more than 24,000 mortgage professionals both in-person and online, an increase of 60% from 2012. To support the growing demand for our training services, we added new resources to the training team in 2013.

H. Competition

We operate in the intensely competitive U.S. mortgage insurance industry. Our competitors include other private mortgage insurers and federal and state governmental and quasi-governmental agencies.

We compete with other private mortgage insurers on the basis of price, terms and conditions, customer relationships, reputation, financial strength measures and overall service. Service-based competition includes effective and timely delivery of products, risk management services, timeliness of claims payments, training, loss mitigation efforts and management and field service expertise. We currently compete directly with the following six private mortgage insurers: Arch U.S. MI (acquired CMG Mortgage Company effective January 30, 2014), Essent Guaranty Inc., Genworth Financial Inc., Mortgage Guaranty Insurance Corporation, NMI Holdings, Inc. and United Guaranty Corporation. Certain of our private mortgage insurance competitors are subsidiaries of larger corporations that may have access to greater amounts of capital and financial resources than we do and may have stronger financial strength ratings than we have. In addition, two of our competitors are new entrants to the industry and are not burdened by legacy credit risks.

In 2011, Republic Mortgage Insurance Company ("RMIC") ceased writing new insurance business. In 2013, the parent company of RMIC announced a plan of recapitalization for another one of its mortgage guaranty subsidiaries, RMIC Companies, Inc. ("RMICC"), that is intended to allow RMICC to recapitalize its mortgage insurance companies and to resume writing new mortgage insurance business in 2014.

We also compete with various federal and state governmental and quasi-governmental agencies, principally the FHA, and to a lesser extent, the U.S. Department of Veterans Affairs ("VA"). Beginning in 2008, the FHA, which historically had not been a significant competitor, substantially increased its market share of the insured mortgage market, and in recent years, the FHA has become the predominant insurer of low down payment mortgages, with a market share as high as 85.4% in both the fourth quarter of 2009 and the first quarter of 2010. Since 2010, the private mortgage insurance industry has been recapturing market share from the FHA, primarily due to increases in the financial strength of certain private mortgage insurers, the development of new products and marketing efforts directed at competing with the FHA, as well as increases in the FHA's pricing and various policy changes at the FHA. In April 2013, the FHA increased its annual insurance premium by ten basis points on new mortgages. It has also reversed a past FHA policy that cancelled premiums on certain loans once the loans had been paid down below a certain percentage. For the fourth quarter of 2013, the FHA's market share was reduced to 36.3% of the insured market. We expect the FHA's share of the mortgage insurance market to continue to decline. See "Item 1A. Risk Factors—Our mortgage insurance business faces intense competition."

III. Financial Guaranty

A. Business

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

We have provided financial guaranty credit protection in several forms, including through the issuance of a financial guaranty insurance policy, by insuring the obligations under one or more CDS and through the reinsurance of both types of obligations. Both a financial guaranty insurance policy and CDS can provide the purchaser of such credit protection with a guaranty of the timely payment of interest and scheduled principal when due on a covered financial obligation. In addition, in the case of most of our financial guaranty CDS, we provide credit protection for losses in excess of specified levels. Each of these forms of credit enhancement requires similar underwriting and surveillance of the insured risks.

We historically offered the following financial guaranty products:

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

In addition, prior to 2005 Radian Asset Assurance offered trade credit and surety reinsurance. Trade credit insurance and reinsurance protects sellers of goods under certain circumstances against non-payment of their receivables. Surety insurance and reinsurance provides financial assurance that an obligor will fulfill promised duties. See “Net Par Outstanding—Aggregate Financial Guaranty Net Par Outstanding” for additional information regarding our remaining trade credit and surety exposure.

In 2008, we ceased writing new financial guaranty business and since then we have significantly reduced our financial guaranty operations and have reduced our financial guaranty net par exposures in order to mitigate uncertainty, maximize the ultimate capital and liquidity available for our mortgage insurance business and accelerate our access to that capital and liquidity. In addition to the normal amortization or scheduled maturity of our financial guaranty portfolios, this reduction has been achieved primarily through risk commutations, ceded reinsurance, discounted insured bond purchases and transaction settlements and terminations.

In 2013 we made further progress in support of our business strategy, including the following:

- In January 2013, Radian Asset Assurance commuted the remaining $822.2 million net par that had been reinsured by Radian Asset Assurance from Financial Guaranty Insurance Company (“FGIC”), including approximately $195.9 million of our $225.3 million net par outstanding, as of December 31, 2012 related to Jefferson County, Alabama sewer warrants, a large distressed public finance credit. This commutation also included all of our exposure to general obligation bonds issued by the City of Detroit, except for $7.9 million, as of December 31, 2013. Radian Asset Assurance paid FGIC $52.4 million as part of this transaction (the “FGIC Commutation”), which payment approximated our existing loss reserves and unearned premium reserves on the commuted transactions;

- During 2013, we agreed with a counterparty in our financial guaranty business to commute a $105 million corporate CDO transaction (the "2013 CDO Commutation"), and four other financial guaranty CDS counterparties exercised their termination rights on a walkaway basis (meaning that our counterparty was not obligated to pay any unaccrued premium or other amount to terminate the transaction) with respect to ten corporate CDOs and a second-to-pay CDO of corporate loans that we insured (collectively, with the 2013 CDO Commutation, the "CDO Early Terminations"). These CDO Early Terminations reduced our financial guaranty net par outstanding by $3.9 billion in the aggregate. There was no material impact on our financial statements as a result of these terminations. In January 2014, a counterparty to a $450 million AAA-rated CDO of commercial mortgage-backed security ("CMBS") exercised its right to terminate the transaction on a walkaway basis; and
- In 2013, we released an aggregate of $67.8 million of statutory contingency reserves as a result of the general reduction in Radian Asset Assurance's net par outstanding as well as the FGIC Commutation.

1. Public Finance

In our public finance business, we insure or have insured the following:

General Obligation Bonds. General obligation bonds are full faith and credit bonds that are issued by states, their political subdivisions and other municipal issuers. These bonds are supported by the general obligation of the issuer to pay from available funds and are often coupled with a pledge of the issuer to levy taxes based on the value of real estate or personal property in an amount sufficient to provide for the full payment of the bonds or in an amount up to a prescribed limitation.

Other Tax Supported Bonds. Tax supported bonds are obligations that are supported by the issuer from specific and discrete sources of taxation. They include tax-backed revenue bonds, general fund obligations and lease revenue bonds. Tax-backed obligations may be secured by a lien on specific pledged tax revenues, such as a sales tax, gasoline tax or other excise tax, or incrementally from growth in property tax revenues. Tax supported bonds also include obligations secured by special assessments levied against property owners and often benefit from issuer covenants to enforce collections of such assessments and to foreclose on delinquent properties. Issuers may be special districts with the power to tax property within a designated smaller portion of the entire political subdivision. Projects financed by these bonds may be used to finance basic infrastructure improvements such as roads, lighting, drainage and utility improvements.

Tax supported bonds also include lease revenue bonds, which typically are general fund obligations of a municipality or other governmental authority that are subject to annual appropriation or abatement. Projects financed and subject to such lease payments ordinarily include real estate or equipment serving an essential public purpose. For some of these bonds, the payment obligations of the issuers or guarantors of such bonds are subject to annual appropriation by the applicable municipality or governmental entity or authority.

Healthcare and Long-Term Care Bonds. Healthcare and long-term care bonds are obligations of healthcare facilities, including community based hospitals and systems, as well as of health maintenance organizations and long-term care facilities. This category of bonds also includes long-term care revenue bonds, which are obligations secured by revenues earned by private non-profit owners and operators of continuing care retirement community facilities or systems. Such obligations are also generally secured by mortgages on the real and personal property of the care facility.

Water/Sewer/Electric/Gas and Investor-Owned Utility Bonds. These bonds include municipal utility revenue bonds and investor-owned utility bonds. Municipal utility revenue bonds are obligations of all forms of municipal utilities, including electric, water and sewer utilities and resource recovery revenue bonds. These utilities may be organized in various forms, including municipal enterprise systems, authorities or joint action agencies. Investor-owned utility bonds are obligations primarily backed by investor-owned utilities, first mortgage bond obligations of for-profit electric or water utilities providing retail, industrial and commercial service, and also include sale-leaseback obligation bonds supported by such entities.

Airports/Transportation Bonds. These bonds include a wide variety of revenue-supported bonds, such as bonds for airports, ports, tunnels, municipal parking facilities, toll roads and toll bridges.

Education Bonds. Education bonds are obligations secured by revenue collected by either public or private secondary schools, colleges and universities. Such revenue can encompass all of an institution's revenues, including tuition and

fees, or in other cases, can be specifically restricted to certain auxiliary sources of revenue.

Housing Bonds. Housing bonds are obligations relating to both single and multi-family housing, issued by states and localities, supported by the cash flow and, in some cases, insurance from entities such as the FHA or private mortgage insurers.

Other Municipal Bonds. These bonds include other debt issued, guaranteed or otherwise supported by U.S. national or local governmental authorities, as well as student loans, revenue bonds and obligations of certain not-for-profit organizations. Other municipal bonds also include other types of municipal obligations, including human service providers, second-to-pay, non-profit institutions and infrastructure bonds (which are obligations issued by a variety of entities engaged in the financing of infrastructure projects, such as social infrastructure and other physical assets delivering essential services supported by long-term concession arrangements with a public sector entity).

International Public Finance Bonds. We also provide credit protection on international public finance bonds of similar types to those described above, as well as some structured finance bonds for which a foreign Sovereign entity has guaranteed the obligations of the issuer.

2. Structured Finance

In our structured finance business, we insure or have insured the following:

Asset-Backed Securities. Funded ABS usually take the form of a secured interest in a pool of assets, often of uniform credit quality, such as credit card or auto loan receivables, commercial or residential mortgages or life insurance policies. Funded ABS also may be secured by a few specific assets such as utility mortgage bonds and multi-family housing bonds. In addition, we have insured future flow DPRs transactions, where our insured obligations are backed by electronic payment orders intended for third-party beneficiaries (e.g., trade-related payments, individual remittances and foreign direct investments).

The performance of synthetic asset-backed obligations is tied to the performance of specific pools of assets, although the obligations are not secured by those assets. Most of the synthetic transactions we insure are CDOs.

CDOs - General. In many of these transactions, primarily our corporate CDOs, we generally are required to make payments to our counterparty above a specified level of subordination, upon the occurrence of credit events related to the borrowings or bankruptcy of obligors contained within pools of corporate obligations or, in the case of pools of mortgage or other asset-backed obligations, upon the occurrence of credit events related to the specific obligations in the pool. When we provide synthetic credit protection on a specific obligation, our payment obligations to our counterparty generally mirror the payment obligations we would have had under a financial guaranty insurance policy. However, unlike most of our financial guaranty insurance policy obligations, where we have subrogation and other rights and remedies, we generally do not have recourse or other rights and remedies against the issuer and/or any related assets for amounts we may be obligated to pay under synthetic transactions. Even in those synthetic transactions where we have recourse or some rights and remedies, such recourse, rights and remedies are generally much more limited than the recourse, rights and remedies we generally have in our more traditional financial guaranty transactions, and frequently need to be exercised indirectly through our counterparty.

A CDO pool typically is composed of assets of varied credit quality and different characteristics with respect to interest rates, amortization and level of subordination. We primarily have provided credit protection in our CDO portfolio with respect to the following types of collateral: corporate debt obligations, TruPs, CMBS, ABS (including RMBS), collateralized loan obligations (“CLOs”) and CDOs containing a combination of such collateral types.

Corporate CDOs. In our corporate CDO transactions, we provide credit protection for certain specified credit events related to the borrowings or bankruptcy of obligors contained within pools of corporate obligations. We only insure specified par amounts for these transactions (and not any interest payments or other amounts). All of our outstanding corporate CDOs are static pools, meaning that the covered reference entities generally cannot be changed without our consent.

The same corporate obligor may exist in a number of our corporate CDO transactions. However, the pool of corporate entities in our directly insured corporate CDO portfolio is well diversified, with no individual exposure to any corporate entity exceeding 1.6% of our net par exposure to the corporate entities included in our directly insured corporate CDOs as of December 31, 2013. As of December 31, 2013, our five largest exposures to corporate entities represented approximately 5.2% of our total aggregate net par exposure to corporate entities in our directly insured corporate CDO portfolio.

The number of corporate entities in our directly insured corporate CDO transactions range between 90 and 124 per transaction. Our par exposure to any single corporate entity in any one transaction ranges from $5.7 million to $120.0 million.

Because each transaction has a significant level of subordination, credit events would typically have to occur with respect to numerous entities in a collateral pool before we would have a claim payment obligation in respect of any particular transaction, meaning that our risk adjusted exposure to each corporate entity in a CDO pool is significantly less than our notional par exposure. In the unlikely event that all of our five largest corporate obligors were to have defaulted at December 31, 2013, absent any other defaults in the CDOs in which these obligors were included, we would not have incurred any losses from these transactions due to the significant subordination remaining in each transaction in which these entities were included.

TruPs CDOs. In our TruPs transactions, we provide credit protection for the timely payment of interest and principal when due on a bond (a "TruPs bond"), representing a senior tranche of a CDO comprised mainly of TruPs. The collateral for TruPs CDOs generally consists of subordinated debt obligations or preferred equity issued by banks, insurance companies, real estate investment trusts and other financial institutions. TruPs are subordinated securities generally issued by financial services institutions to supplement their regulatory capital needs. Generally, TruPs are subordinated to substantially all of an issuing institution's debt obligations, but are senior to payments on equity securities of such issuer (including equity securities purchased by the U.S. government under the Troubled Asset Relief Program).

As of December 31, 2013, the collateral underlying our insured TruPs bonds consisted of securities issued by 489 separate issuers, including 429 banking institutions (comprising 78.2% of the total TruPs collateral based on notional amount) and 59 insurance companies (comprising 21.4% of the total TruPs collateral based on notional amount). In addition, 0.4% of the TruPs collateral was comprised of securities issued by real estate investment trusts.

The collateral underlying our insured TruPs bonds consists of between 19 and 102 issuers per TruPs bond. As of December 31, 2013, our exposure to any one issuer in our insured TruPs bonds ranges from $0.2 million to $42.0 million per bond. No issuer represented more than 12.9% of the total collateral underlying any one TruPs bond.

As a result of the financial downturn beginning in 2007, certain of the issuers in our insured TruPs bonds have defaulted on their obligation to pay interest on their TruPs or have voluntarily chosen to defer interest payments, which is permissible for up to five years. Since we believe there is a strong correlation between interest deferrals and ultimate defaults, we closely monitor deferrals as well as defaults in assessing the subordination remaining beneath our insured TruPs bonds. In both 2012 and 2013, with the general improvement of economic conditions in the U.S., cures of previous deferrals of interest payments on the TruPs collateral have outpaced initial defaults and new deferrals, suggesting that the general financial position of the collateral pools that we insure continues to improve. Based on our most recent projections, we do not expect ultimate net credit losses on any of our insured TruPs bonds. It should be noted, however, that even relatively small changes in TruPs default rates or economic conditions from current projections could have a material impact on the timing and amount of cash available to make interest and principal payments on the underlying TruPs bonds. Therefore, the occurrence, timing and duration of any event of default and the amount of any ultimate principal or interest shortfall payments are uncertain and difficult to predict.

In addition to credit risk, we also potentially face liquidity risk with respect to certain of our TruPs CDOs. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources" for additional information.

CDOs of CMBS. In our CDOs of CMBS transactions, we provide credit protection for the timely payment of principal and interest up to the amount of future premium payable to us when due on these pools of securities.

As of December 31, 2013, we have directly insured four CDOs of CMBS transactions, containing 126 CMBS tranches that were issued as part of 87 securitizations. While there has been some deterioration in the underlying CMBS transactions, a high level of subordination for these transactions remains and we do not currently project principal losses for any of our insured tranches in these transactions.

While Radian Asset Assurance insures all principal shortfalls for our CDOs of CMBS transactions, claims for interest shortfalls are limited under the terms of our credit protection to the amount of premium that we would otherwise be entitled to receive from the applicable transaction. As of December 31, 2013, the remaining aggregate contractual premiums that we expect to earn for these transactions is $3.5 million in the aggregate.

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The total balance of the reference CMBS tranches in these collateral pools is $6.7 billion. The underlying loan collateral pool supporting the CMBS tranches consists of approximately 12,000 loans with a balance of approximately $139.0 billion. The underlying loan collateral is reasonably well diversified both geographically and by property type. Approximately 33.5%, 32.6% and 13.6% of the underlying loan collateral was for office space, retail space and multi-family property, respectively. Approximately 10.4% of the underlying loans are due on or before December 31, 2014, and an additional 51.0% and 34.7% of the underlying loans are due in the years ending December 31, 2015 and 2016, respectively, with the remaining 3.9% due thereafter. Most of the underlying loans that have come due to date have: (i) been repaid prior to their due date; (ii) been refinanced such that we no longer have insured risk to such loan; or (iii) had their maturity date extended. If, however, an underlying loan cannot be repaid, refinanced or extended when due and it defaults, we may be required to pay a principal claim on our insured CDOs of CMBS, subject to applicable subordination, if the amount recovered upon the foreclosure of the underlying property, or otherwise, is insufficient to cover the defaulted loan balance and related expenses.

In January 2014, a counterparty to a $450 million AAA-rated CDO of CMBS transaction exercised its right to terminate the transaction on a walkaway basis.

RMBS. In our insured RMBS transactions, we provide credit protection on $0.3 billion of net par outstanding as of December 31, 2013 on one or more tranches of securities backed by pools of residential mortgages of various types (e.g., prime, Alt-A, subprime). Included in our RMBS transactions is an aggregate of $97.7 million of net par exposure to 2006 and 2007 vintage RMBS, all of which has been assumed from our primary insurance customers. We consider this exposure to be particularly high risk RMBS exposure due to the historically high default rates and aggregate losses on RMBS originated in those years. As of December 31, 2013, 65.0% of our total RMBS net par outstanding is below investment grade (“BIG”) and is rated below BBB-, including 68.1% of our exposure to 2006 and 2007 vintage RMBS.

CLO. We have $0.5 billion net par outstanding as of December 31, 2013, related to two direct CLO transactions. These are second-to-pay transactions in which we will not be obligated to pay a claim unless both the underlying obligation defaults and another insurer defaults on its primary insurance obligation to pay such claim. These second-to-pay transactions are rated A+ and B+ and are both scheduled to mature in 2018. In our CLO transactions, we insure the timely payment of current interest and the ultimate payment of principal on a senior class of notes whose payment obligations are secured primarily by pools of corporate loans or tranches of CLOs.

3. Reinsurance

Assumed Reinsurance. We reinsure direct financial guarantees written by other primary financial guaranty insurers or “ceding companies.” In these transactions, we have assumed a portion of agreed upon risks, either individual risks or a portion of all risks insured by a ceding company, that satisfy agreed upon characteristics. In our financial guaranty reinsurance transactions, the ceding company remains responsible for claims management and loss mitigation efforts. As a result of multiple downgrades of the financial strength ratings of our financial guaranty insurance subsidiaries beginning in June 2008, all of our financial guaranty reinsurance treaties have been terminated on a “run-off” basis, meaning that, except in certain limited circumstances related to loss mitigation efforts, none of our ceding companies may cede additional business to us under our reinsurance agreements with them without our approval. The business they previously ceded to us under these agreements remains outstanding until such time as the underlying policy terminates, the ceding company elects to recapture such business or we mutually agree to a commutation of such risk. Currently, substantially all of our remaining assumed reinsurance exposure is from subsidiaries of Assured Guaranty Ltd. (“Assured”).

As of December 31, 2013, we had assumed approximately $4.9 billion in net par exposure from our primary reinsurance customers, compared to $6.3 billion as of December 31, 2012.

Ceded Reinsurance. Historically, Radian Asset Assurance has ceded very little of its directly insured portfolio. However, in January 2012 as part of a larger transaction with Assured, Radian Asset Assurance ceded approximately $1.8 billion of its direct public finance net par outstanding to Assured. Concurrently with this transaction, Radian Asset Assurance entered into an administrative services agreement for Assured to provide surveillance, risk management, claims administration and claims payment services in connection with the policies ceded to Assured. As of December 31, 2013, approximately $1.1 billion of this ceded net par remains outstanding.

4. Second-to-pay Obligations

We have provided "second-to-pay" credit protection in which we are not required to pay a claim unless both the underlying obligation defaults and another insurer defaults on its primary obligation to cover losses on such defaulted obligation. Consequently, if the conservator for an insolvent primary obligor (such as an insurance regulator) rejects payment of all or a portion of a valid claim, we may be required to pay all or a portion of such valid claim. Because many primary obligors of transactions for which we have second-to-pay exposure are currently experiencing significant financial difficulties and are rated BIG, the likelihood we will be required to pay a claim on our second-to-pay exposures has increased. As of December 31, 2013, we had insured approximately $1.8 billion net par outstanding in second-to-pay exposure.

In 2009, two of the companies that are the primary obligors on certain of the transactions for which we have provided second-to-pay exposure, Syncora Guaranty Inc. ("Syncora") and FGIC, suspended all claims payments following orders by the New York State Department of Financial Services ("NYSDFS"). While the NYSDFS lifted the suspension of payments by Syncora in June 2010, Syncora has subsequently posted additional losses and the NYSDFS could implement the suspension again in the future. In August 2013, a plan of rehabilitation for FGIC pursuant to Article 74 of the New York Insurance Law became effective, which initially permits FGIC only to pay 17% of the amount of any claims.

We also have second-to-pay exposure to Ambac Assurance Corporation ("Ambac"). In 2010, Ambac placed a portion of its obligations into a segregated account that is under the control of the Wisconsin Office of the Commissioner of Insurance ("WOCI"). None of our directly insured second-to-pay exposure to Ambac was placed into the segregated account and we have not received notice that any of the second-to-pay Ambac exposure ceded to us was placed into the segregated account. As of December 31, 2013, Syncora, FGIC and Ambac are the primary insurers on $544.3 million net par outstanding (or 30.7%) of our second-to-pay net par exposure, and $199.4 million (or 36.6%) of our second-to-pay exposure to these three primary insurers is rated BIG. The FGIC Commutation did not affect our second-to-pay exposure to FGIC.

5. Premium Rates

In our financial guaranty business, the issuer of an insured obligation generally pays the premiums for our insurance, either in full at the inception of the policy, which is the case for most public finance transactions, or, in the case of most non-synthetic structured finance transactions, in regular monthly, quarterly, semi-annual or annual installments from the cash flows of the related collateral. Premiums for synthetic CDS are generally paid in periodic installments (i.e. monthly, quarterly, semi-annually or annually) directly from our counterparty and such payments are not dependent upon the cash flows of the insured obligation or the collateral supporting the obligation. Consequently, in these transactions, the corporate creditworthiness of our counterparty is a more important factor than the cash flows from the insured collateral in determining whether we will receive payment. In addition, we generally have a right to terminate our synthetic transactions without penalty if our counterparty fails to pay us or is financially unable to make timely payments to us under the terms of the CDS transactions.

For public finance transactions, premium rates typically represent a percentage of debt service, which includes total principal and interest. For structured finance obligations, premium rates are typically stated as a percentage of the total par outstanding. Premiums are generally non-refundable. Premiums paid in full at inception are recorded initially as unearned premiums and "earned" over the life of the insured obligation (or the coverage period for such obligation, if shorter).

B. Net Par Outstanding

Our business has traditionally involved taking credit risk in various forms across various asset classes, products and geographies. Credit risk is measured in our financial guaranty business as net par outstanding, which represents our proportionate share of the aggregate outstanding principal exposure on insured obligations. We are also responsible for the timely payment of interest on substantially all of our public finance and our non-corporate CDO structured finance obligations. For our insured corporate CDOs and CDOs of CMBS, net par outstanding represents the notional amount of credit protection we are providing on a pool of obligations.

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1. Aggregate Financial Guaranty Net Par Outstanding

The following table shows the distribution of our financial guaranty segment's net par outstanding by type of exposure and as a percentage of financial guaranty's total net par outstanding, as of the dates indicated.

	December 31,					
	2013			2012		
($ in billions)	Net Par Outstanding (1)	% of Total Net Par Outstanding (1)		Net Par Outstanding (1)	% of Total Net Par Outstanding (1)	
Type of Obligation						
Public finance:						
General obligation and other tax supported	$5.3	22.2	%	$6.3	18.7	%
Healthcare and long-term care	2.4	10.0		3.2	9.5	
Water/sewer/electric gas and investor-owned utilities	1.3	5.4		1.8	5.3	
Education	1.1	4.6		1.2	3.6	
Airports/transportation	0.9	3.8		1.1	3.2	
Escrowed transactions (2)	0.9	3.8		1.0	3.0	
Housing	0.1	0.4		0.1	0.3	
Other municipal (3)	0.5	2.1		0.6	1.8	
Total public finance	12.5	52.3		15.3	45.4	
Structured finance:						
CDO	10.7	44.8		17.5	51.9	
Asset-backed obligations	0.6	2.5		0.8	2.4	
Other structured (4)	0.1	0.4		0.1	0.3	
Total structured finance	11.4	47.7		18.4	54.6	
Total	$23.9	100.0	%	$33.7	100.0	%

(1) Represents our exposure to the aggregate outstanding principal on insured obligations. We are also responsible for the timely payment of interest on substantially all of our public finance and our non-corporate CDO structured finance obligations. For our insured corporate CDOs and CDOs of CMBS, net par outstanding represents the notional amount of credit protection we are providing on a pool of obligations.

(2) Escrowed transactions are legally defeased bond issuances where cash or U.S. government securities in an amount sufficient to pay the remaining obligations under such bonds have been deposited in an escrow account for the benefit of the bond holders. Although we have little to no remaining credit risk on these transactions, our insurance policies remain outstanding under accounting principles generally accepted in the United States of America ("GAAP").

(3) Represents other types of municipal obligations, including human service providers, second-to-pay international public finance, non-profit institutions, project finance accommodations and stadiums, none of which individually constitutes a material amount of our financial guaranty net par outstanding.

(4) Represents other types of structured finance obligations, including DPRs, collateralized guaranteed investment contracts or letters of credit, foreign commercial assets and life insurance securitizations, none of which individually constitutes a material amount of our financial guaranty net par outstanding. We no longer have exposure to DPRs as of December 31, 2013.

In addition to our net par outstanding, we continue to have exposure to trade credit reinsurance and surety insurance and reinsurance. Our exposure to these lines of business is measured using probable maximum loss ("PML"), which is the anticipated value of the largest potential loss affecting the insured exposure under a highly stressed scenario, while giving effect to any protective features (i.e. reinsurance or salvage). Based on our estimates, we believe the PML for our remaining trade credit and surety exposure was not material at December 31, 2013 and has not been material for the past several years. However, as discussed in Note 17 of Notes to Consolidated Financial Statements—Commitments

and Contingencies—Other, we recently received claims relating to certain surety bonds, which we are in the process of disputing.

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2. Internal Ratings of our Financial Guaranty Net Par Outstanding

The following table identifies the internal credit ratings we have assigned to our net par outstanding as of December 31, 2013 and 2012:

($ in billions)	December 31, 2013 Net Par Outstanding	Percent		2012 Net Par Outstanding	Percent	
Internal Credit Rating (1)						
AAA	$9.2	38.5	%	$15.2	45.1	%
AA	1.1	4.6		1.6	4.7	
A	3.1	13.0		3.6	10.7	
BBB	8.3	34.7		10.5	31.2	
BIG	2.2	9.2		2.8	8.3	
Total	$23.9	100.0	%	$33.7	100.0	%

(1) Represents our internal ratings estimates assigned to these credits utilizing our internal rating system. See "—Risk Management" below. Each rating within a letter category includes all rating grades within that letter category (e.g., an "A" rating includes "A+," "A" and "A-").

3. Geographic Distribution of Insured Portfolio

The following table shows the geographic distribution of our public finance financial guaranty net par outstanding (as a percentage of our total financial guaranty net par outstanding) as of the dates indicated:

State	December 31, 2013		2012	
Domestic Public Finance by State:				
California	7.4	%	6.2	%
New Jersey	4.1		3.7	
Pennsylvania	2.8		2.5	
Colorado	2.5		1.9	
Texas	2.3		1.9	
Illinois	2.2		1.6	
Puerto Rico	1.9		1.6	
Washington	1.5		1.1	
Florida	1.5		1.1	
New York	1.4		1.5	
Other states	10.9		11.1	
Total Domestic Public Finance	38.5		34.2	
Escrowed Public Finance (1)	3.8		2.8	
International Public Finance	10.0		8.4	
Total Public Finance	52.3	%	45.4	%

(1) The geographic breakdown of our Escrowed Public Finance is not relevant given that amounts due to be paid on these transactions have been collateralized and deposited with a trustee in an escrow account.

The following table shows the distribution of our international financial guaranty net par outstanding (including sovereign debt), as of the dates indicated:

(In millions)	December 31, 2013 Net Par Outstanding	2012 Net Par Outstanding
Type of Obligation		
International Public Finance:		
Non-European International Public Finance	$1,078.0	$1,386.9
Europe (other than “Stressed European Countries” below)	1,223.0	1,360.7
Stressed European Countries (1):		
Spain	49.3	47.7
Italy	25.1	28.9
Hungary	21.9	22.5
Portugal	4.9	6.1
Total Stressed European Countries	101.2	105.2
International Structured Finance (2)	722.3	3,497.2
Total International Financial Guaranty Obligations (3)	$3,124.5	$6,350.0

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(1) Represents the six countries (Portugal, Italy, Ireland, Greece, Spain and Hungary) whose Sovereign obligations have been under particular stress in recent years due to economic uncertainty, potential restructuring and ratings downgrades. As of December 31, 2013, we have no net par exposure to Sovereign obligations in Greece or Ireland.

(2) We consider an insured CDO transaction to be international if the jurisdiction where the largest portion of such transaction’s obligors or obligations, as applicable, is domiciled, is outside of the U.S. We consider our other structured finance insured obligations to be international if the issuer of such obligation is domiciled outside of the U.S.

(3) As of December 31, 2013 and 2012, $172.9 million and $171.8 million, respectively, of our international public finance net par outstanding is Sovereign indebtedness.

4. Largest Single Insured Risks

The following table represents our 10 largest public finance single risks by net par outstanding (together representing 10.8% of financial guaranty's aggregate net par outstanding) as of December 31, 2013 along with the internal credit rating assigned as of that date to each credit:

Credit	Internal Credit Rating (1)	Obligation Type	Aggregate Net Par Outstanding as of December 31, 2013 (In millions)
State of California	BBB	General Obligations	$570.6
North Bay Plenary Health Canadian Hospital (Assured Primary Insurer)	AAA	Healthcare	332.2
State of New Jersey	A	General Obligations	311.8
New Jersey, Transportation Trust Fund Authority	A	General Obligations	309.3
New Jersey Economic Development Authority School FAC	A	General Obligations	233.9
Puerto Rico, Commonwealth GO (2) (3)	BIG	General Obligations	225.5
Puerto Rico Highway and Transportation Authority (3)	BIG	Tax-Backed	175.7
Reliance Rail Finance Pty LTD (4)	BIG	Transportation	164.5
Thames Water Utilities Finance PLC	A	Investor Owned Utilities	128.5
United Utilities Water PLC (Syncora Guarantee Inc. ("Syncora") Primary Insurer)	A	Investor Owned Utilities	115.0
			$2,567.0

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(1) Represents our internal ratings category assigned to these credits utilizing our internal rating system. Each letter category includes all rating grades within that letter category (e.g., an "A" rating includes "A+," "A" and "A-").

(2) Includes exposure to Puerto Rico Public Buildings Authority, which is guaranteed by Puerto Rico.

(3) We downgraded this exposure from the BBB category to the BB category in February 2014.

(4) Represents second-to-pay exposure, either directly written or assumed, where the primary insurer is either Syncora ($103.7 million) or FGIC ($60.8 million).

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The following table represents our 10 largest structured finance single risks by net par outstanding (together representing 23.1% of financial guaranty's aggregate net par outstanding) as of December 31, 2013:

Credit	Internal Credit Rating	Obligation Type	Scheduled Maturity Date		Aggregate Net Par Outstanding as of December 31, 2013 (In millions)
10-Yr Static Synthetic Investment-Grade Corporate CDO	AAA	Corporate CDO	2017		$600.0
10-Yr Static Synthetic Investment-Grade Corporate CDO	AAA	Corporate CDO	2017		600.0
10-Yr Static Synthetic Investment-Grade Corporate CDO	AAA	Corporate CDO	2017		600.0
10-Yr Static Synthetic Investment-Grade Corporate CDO	AAA	Corporate CDO	2017		600.0
10-Yr Static Synthetic Investment-Grade Corporate CDO	AAA	Corporate CDO	2017		600.0
Static Synthetic CDO of CMBS	AAA	CDO of CMBS	2049	(1)	598.5
10-Yr Static Synthetic Investment-Grade Corporate CDO	AAA	Corporate CDO	2017		562.5
Static Synthetic CDO of CMBS	AAA	CDO of CMBS	(2)		450.0
10-Yr Static Synthetic Investment-Grade Corporate CDO	AAA	Corporate CDO	2017		450.0
7-Yr Static Synthetic Investment-Grade Corporate CDO	AAA	Corporate CDO	2014		449.4
					$5,510.4

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(1) While the legal scheduled maturity date is in 2049, the expected maturity is in 2016.

(2) Terminated in January 2014 due to our counterparty exercising its right to terminate the transaction on a walkaway basis.

5. Corporate CDO Portfolio—Industry Concentration

The corporate entities underlying the credit protection in our directly insured corporate CDO transactions are well diversified by industry. The following table summarizes the five largest industry concentrations (according to Standard & Poor's Financial Services LLC ("S&P")) in our financial guaranty directly insured corporate CDO portfolio as of December 31, 2013:

Industry Classification	% of Total Notional	
Telecommunications	7.4	%
Financial Intermediaries	6.1	
Industrial Equipment	5.6	
Retail (excluding food and drug)	5.6	
Utilities	5.0	
Total of five largest industry concentrations	29.7	%

C. Defaults and Claims

The claims payment pattern in our financial guaranty business tends to fluctuate and may be low in frequency and high in severity. Generally, in the event of default, principal payments under a typical financial guaranty insurance policy may not be accelerated without our approval, or the approval of the ceding company in the case of reinsured transactions. Without such approval, the policyholder is entitled to receive payments of principal and interest from us or the ceding company on their regularly scheduled dates as if no default had occurred. In certain of the RMBS we insure, we may become obligated to pay claims to the extent the outstanding principal balance of the insured obligation exceeds the value of the collateral underlying such obligations for a specified number of reporting periods. We, or the ceding company, often have remedies against other parties to the transaction, which may be exercised both before and after making any required default payments.

In our synthetic corporate CDO transactions, losses arise upon the occurrence of a contractually specified credit event (e.g., bankruptcy, a failure to pay or certain restructuring of debt). For a synthetic corporate CDO transaction, a loss is an amount equal to the decrease in market value below the outstanding notional amount we have agreed to insure of a corporate bond meeting agreed upon criteria, but only to the extent that the aggregate of all such loss amounts exceeds an agreed upon amount of subordination.

D. Risk Management

We employ a comprehensive risk management system in our financial guaranty business. This system incorporates and integrates company-wide risk management policies and processes, as well as the prevailing practices of the financial guaranty industry. All of our financial guaranty transactions were subject to an underwriting analysis and risk committee decision process at the time of origination.

Transaction underwriting included an analysis of credit and legal aspects of the transaction, as well as any specific risks that may be inherent in the transaction. Further, we utilized our proprietary internal economic capital model for risk analysis, valuation and as the basis for calculating our risk-adjusted returns on our capital for our financial guaranty business. All directly insured transactions and reinsurance business assumed on a facultative basis were subject to the risk committee decision process used in our financial guaranty business.

Our risk management department uses internal ratings in monitoring our insured transactions. We determine the ratings for a transaction based upon relevant information available to us, which includes: (1) periodic reports supplied by the issuer, trustee or servicer for the transaction; (2) publicly available information regarding the issuer, the transaction structure, the underlying collateral or asset class of the transaction and/or collateral; (3) communications with the issuer, trustee, collateral manager and servicer for the transaction; and (4) when available, public or private ratings assigned to our insured and reinsured transactions or to other obligations that have substantially similar risk characteristics to our transactions without the benefit of financial guaranty or similar credit insurance. In addition, for our assumed reinsurance transactions, we also use information provided by the ceding company, including the ratings assigned to the transaction by such insurer. We also utilize models and methodologies from the nationally recognized statistical ratings organizations (the “NRSROs”) to assist in such analysis. We use this information to develop an independent judgment regarding the risk and loss characteristics for our insured transactions. If public or private ratings have been used, our risk management analysts express a view regarding the opinion and analysis of the NRSROs. When our analysis of the transaction results in a different view of the risk and loss characteristics of an insured transaction, we may assign a different internal rating than that assigned by the NRSROs. Our internal ratings estimates are subject to revision periodically and may differ from the credit ratings assigned by the NRSROs for the same obligation. Unless otherwise indicated, the ratings of our financial guaranty obligations that are referenced in this report have been developed internally.

The following table describes the ratings scale we utilize for our internal ratings:

Internal Rating Category (1)	Rating is Assigned When our Analysis Indicates:
AAA	the obligor’s capacity to meet its financial commitment on the obligation is extremely strong and it is subject to the lowest level of credit risk
AA	the obligor’s capacity to meet its financial commitment on the obligation is very strong and it is subject to very low credit risk
A	the obligor’s capacity to meet its financial commitment on the obligation is strong, but it is somewhat more susceptible to adverse changes in circumstances or economic conditions than higher rated obligations and it is subject to low credit risk
BBB	the obligor’s capacity to meet its financial commitment on the obligation is adequate, but adverse changes in circumstances or economic conditions are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation and it is subject to moderate credit risk
BB	the obligation faces significant ongoing uncertainties or exposure to adverse business, financial or economic conditions, which could lead to the obligor’s inadequate capacity to meet its financial commitment on the obligation and it is subject to substantial credit risk
B	adverse business, financial or economic conditions will likely impair the obligor’s capacity or willingness to meet its financial commitment on the obligation even though the obligor currently has the capacity to meet its financial commitments on the obligation and it is subject to high credit risk
CCC	the obligation is currently vulnerable to nonpayment and is dependent upon favorable business, financial and economic conditions for the obligor to meet its financial commitment on the obligation and it is subject to very high credit risk
CC	the obligation is currently highly vulnerable to nonpayment, and absent favorable business, financial and economic conditions, the obligor is highly likely not to have the financial capacity to meet its financial commitment on the obligation and it is subject to extremely high credit risk
C	the obligation is currently extremely vulnerable to nonpayment and payment default is imminent, but the obligation has not yet experienced a payment default
D	there is currently a payment default on the obligation

(1) Our internal ratings may be modified by the addition of a “+” or “-” to show the relative standing within a letter category.

When we refer to an obligation as “below investment grade” or “BIG,” it means we believe the obligation has significant speculative characteristics and is subject to at least substantial credit risk. BIG obligations are rated in the BB, B, CCC, CC, C or D categories.

The risk management function in our financial guaranty business is responsible for the identification, analysis, measurement and surveillance of credit, market, legal and operational risk associated with our financial guaranty transactions. Risk management is also primarily responsible for claims prevention and loss mitigation strategies. This discipline is applied both at the origination of the transaction and during the ongoing monitoring and surveillance of each exposure in the portfolio.

Under an administrative services agreement between Assured and Radian Asset Assurance, Assured provides surveillance, risk management, claims administration and claims payment services in connection with the policies ceded to Assured in 2012 although Radian Asset Assurance is the primary insurer.

Additional information regarding financial guaranty risk management is contained in Notes 2 and 10 of Notes to Consolidated Financial Statements and in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies—Reserve for Losses—Financial Guaranty.”

E. Customers

We have historically conducted our structured finance business with many of the major global financial institutions that structure, underwrite or trade securities issued in structured finance transactions. These institutions typically are large commercial or investment banks that focus on high-quality deals in the public finance and structured finance markets. While our public finance customers have included many of the same financial institutions as our structured finance business, our public finance customers have also included regional financial institutions and issuers that may focus on lower investment grade obligors or obligations. Our financial guaranty ceding companies have consisted mainly of the largest primary insurance companies licensed to write financial guaranty insurance and their foreign-based affiliates.

Since we have discontinued writing or assuming new financial guaranty business, other than as may be necessary to commute, restructure, hedge, or otherwise mitigate losses or reduce exposure in our existing portfolio, we are not seeking new financial guaranty customers and we have terminated all or a substantial portion of our reinsurance relationships with many of the primary financial guaranty insurers with whom we have historically conducted business. However, we continue to maintain relationships with many of the financial institutions that participate in the public finance and structured finance transactions, which we believe will assist us as we explore ways to mitigate losses in and maximize the value of our existing insured financial guaranty portfolio.

IV. Investment Policy and Portfolio

Our investment portfolio is our primary source of liquidity to satisfy our insured obligations and to support our ongoing operations.

We follow an investment policy that is applied on a consolidated risk and asset allocation basis and requires the following:

- At least 75% of our investment portfolio, based on market value, must consist of investment securities that are assigned a quality designation of NAIC 1 by the National Association of Insurance Commissioners (“NAIC”) or equivalent ratings by a NRSRO (i.e., “A-” or better by S&P and “A3” or better by Moody’s Investor Service (“Moody’s”));
- A maximum of 15% of our investment portfolio, based on market value, may consist of investment securities that are assigned a quality designation of NAIC 2 by the NAIC or equivalent ratings by a NRSRO (i.e., “BBB+” to “BBB-” by S&P and “Baa1” to “Baa3” by Moody’s); and
- A maximum of 10% of our investment portfolio, based on market value, may consist of investment securities that are assigned quality designations NAIC 3 through 6 or equivalent ratings by a NRSRO (i.e., “BB+” and below by S&P and “Ba1” and below by Moody’s) and other investments not assigned NAIC quality designations (generally equity).

Portfolio construction is modeled to maximize long-term expected return while maintaining an acceptable risk level. Our investment objectives are to generate tax-efficient income, to preserve capital, and to utilize appropriate risk management. We manage the level of our short-term investments to meet our expected short-term cash requirements. Our investment policies and strategies are subject to change, depending on regulatory, economic and market conditions and our then-existing or anticipated financial condition and operating requirements, including our tax position. The investments held at our insurance subsidiaries are also subject to insurance regulatory requirements applicable to such insurance subsidiaries.

Oversight responsibility of our investment portfolio rests with management—allocations are set by periodic asset allocation studies, calibrated by risk and return and after-tax considerations and are approved by the Investment and Finance Committee of our board of directors (the “Investment Committee”). We manage over 40% of the investment portfolio—the portion of the portfolio largely consisting of U.S. Treasury obligations and short-term investments—internally, with the remainder managed by eight external managers. External managers are selected by management based primarily upon the allocations approved by the Investment Committee, as well as factors such as historical returns and stability of their management teams. Management’s selections are presented to and approved by the Investment Committee.

At December 31, 2013, our investment portfolio had a cost basis of $5,009.6 million and carrying value of $4,931.2 million, including $1,429.2 million of short-term investments. Our investment portfolio did not include any real estate or whole mortgage loans at December 31, 2013. The portfolio included 53 privately placed, investment grade

securities with an aggregate carrying value of $237.5 million at December 31, 2013. At December 31, 2013, 93.0% of our investment portfolio was rated investment grade.

A. Investment Portfolio Diversification

The diversification of our investment portfolio at December 31, 2013 was as follows:

($ in millions)	Fair Value	Percent	
U.S. government and agency securities (1)	$402.9	8.2	%
State and municipal obligations	621.4	12.6	
Money market instruments	672.6	13.6	
Corporate bonds and notes	1,036.6	21.0	
RMBS (2)	560.4	11.4	
CMBS	288.9	5.8	
Other ABS (3)	195.8	4.0	
Foreign government and agency securities	40.7	0.8	
Equity securities (4)	225.8	4.6	
Other investments (5)	136.4	2.7	
Short-term investments—U.S. government treasury bills	756.6	15.3	
Total	$4,938.1	100.0	%

(1) Substantially all of these securities are backed by the full faith and credit of the U.S. government.

(2) These RMBS are guaranteed by Fannie Mae, Freddie Mac or Government National Mortgage Association ("Ginnie Mae").

(3) Primarily comprised of AAA-rated obligations.

(4) Comprised of broadly diversified domestic equity mutual funds ($128.3 million fair value) and various preferred and common stocks invested across numerous companies and industries ($97.5 million fair value).

(5) Includes $54.3 million (fair value) of investments that have a carrying value of $47.4 million, which represents amortized cost, as well as a guaranteed investment contract that is accounted for at fair value.

B. Investment Portfolio Scheduled Maturity

The weighted average duration of the assets in our investment portfolio as of December 31, 2013 was 3.7 years. The following table shows the scheduled maturities of the securities held in our investment portfolio at December 31, 2013:

($ in millions)	Fair Value	Percent	
Short-term investments	$1,429.2	28.9	%
Due in one year or less (1)	178.2	3.6	
Due after one year through five years (1)	493.6	10.0	
Due after five years through ten years (1)	825.6	16.7	
Due after ten years (1)	686.3	13.9	
RMBS (2)	560.4	11.4	
CMBS (2)	288.9	5.8	
Other ABS (2)	195.8	4.0	
Other investments (3)	280.1	5.7	
Total	$4,938.1	100.0	%

(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.

(3) No stated maturity date.

C. Investment Portfolio by Rating

The following table shows the ratings of our investment portfolio as of December 31, 2013:

($ in millions)	Fair Value	Percent	
Rating (1)			
AAA (2)	$2,886.1	58.5	%
AA	421.5	8.5	
A	932.8	18.9	
BBB	348.7	7.1	
BB and below (3)	37.9	0.8	
Not rated	25.7	0.5	
Equity securities	150.1	3.0	
Other invested assets (4)	135.3	2.7	
Total	$4,938.1	100.0	%

(1) Reflects the highest NRSRO rating assigned to the security as of December 31, 2013.

(2) Includes $402.9 million of AAA-rated U.S. government and agency securities, $508.8 million in Ginnie Mae securities, $31.0 million in Freddie Mac securities, and $20.5 million in Fannie Mae securities that have not been rated by a NRSRO as of December 31, 2013.

(3) Securities in this category have been rated non-investment grade by a NRSRO as of December 31, 2013.

(4) Includes Limited Partnership investments and a guaranteed investment contract held by a consolidated VIE.

D. Investment Risk Concentration

The following table shows our investment in any person and its affiliates that exceeded 10% of our total stockholders' equity as well as the percentage of our total investment portfolio that each of these investments represented as of December 31, 2013:

	Market Value			Securities Classifications		
				Municipal Securities	US Treasury Money Market	Equity
($ in thousands)	$	%				
Issuer Description						
Northern Institutional Treasury Portfolio	$399,559	8.1	%	$—	$399,559	$—
Vanguard Institutional Index Fund	128,286	2.6		—	—	128,286
State of Illinois	103,348	2.1		103,348	—	—
BlackRock Liquidity Funds T-Fund Portfolio Money Market	100,980	2.0		—	100,980	—
Federated Treasury Obligations Fund	99,450	2.0		—	99,450	—
Top Investment Portfolio Risk Concentrations	$831,623	16.8	%	$103,348	$599,989	$128,286

V. Regulation

A. State Regulation

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

Insurance regulations address, among other things, the licensing of companies to transact business, claims handling, reinsurance requirements, premium rates and policy forms offered to customers, financial statements, periodic reporting, permissible investments and adherence to financial standards relating to surplus, dividends and other measures of solvency intended to assure the satisfaction of obligations to policyholders.

Our insurance subsidiaries' premium rates and policy forms are generally subject to regulation in every state in which they are licensed to transact business. These regulations are intended to protect policyholders against the adverse effects of excessive, inadequate or unfairly discriminatory rates and to encourage competition in the insurance marketplace. In most states where our insurance subsidiaries are licensed, premium rates and policy forms must be filed with the state insurance regulatory authority and, in some states, must be approved, before their use. Changes in premium rates may be subject to actuarial justification, generally on the basis of the insurer's loss experience, expenses and future projections. In addition, states may consider general default experience in the mortgage insurance industry in assessing the premium rates charged by mortgage insurers.

Each insurance subsidiary is required by the insurance regulatory authority of its state of domicile, and the insurance regulatory authority of each other jurisdiction in which it is licensed to transact business, to make various filings with those insurance regulatory authorities and with the NAIC, including quarterly and annual financial statements prepared in accordance with statutory accounting principles. In addition, our insurance subsidiaries are subject to examination by the insurance regulatory authorities of each of the states in which they are licensed to transact business.

Given the significant losses incurred by many mortgage and financial guaranty insurers in the recent past, our insurance subsidiaries have been subject to heightened scrutiny by insurance regulators, and in particular, the insurance regulatory authorities of the states in which our subsidiaries are domiciled.

The following represent our principal insurance companies:

Radian Guaranty. Radian Guaranty is domiciled and licensed in Pennsylvania as a stock casualty insurance company authorized to carry on the business of credit insurance, which includes the authority to write mortgage guaranty insurance. It is a monoline insurer, restricted to writing only residential mortgage guaranty insurance. In addition to Pennsylvania, Radian Guaranty is authorized to write mortgage guaranty insurance (or in states where there is no specific authorization for mortgage guaranty insurance, the applicable line of insurance under which mortgage guaranty insurance is regulated) in each of the other 49 states, the District of Columbia and Guam. Radian Guaranty is a direct subsidiary of Radian Group.

Radian Asset Assurance. Radian Asset Assurance is domiciled and licensed in New York as a monoline financial guaranty insurer. Radian Asset Assurance is also licensed under New York insurance law to write some types of surety insurance and credit insurance. Radian Asset Assurance is a direct subsidiary of Radian Guaranty.

In addition to New York, Radian Asset Assurance is authorized to write financial guaranty or surety insurance (or in one state where there is no specific authorization for financial guaranty insurance, credit insurance) in each of the other 49 states, the District of Columbia, Guam, the U.S. Virgin Islands and the Commonwealth of Puerto Rico.

Radian Mortgage Assurance Inc. ("RMAI"). RMAI is domiciled and licensed in Pennsylvania as a stock casualty insurance company authorized to carry on the business of credit insurance, which includes the authority to write mortgage guaranty insurance. It is a monoline insurer restricted to writing only residential mortgage guaranty insurance. In addition to Pennsylvania, RMAI is authorized to write mortgage guaranty insurance (or in states where there is no specific authorization for mortgage guaranty insurance, the applicable line of insurance under which mortgage guaranty insurance is regulated), in each of the other 49 states and the District of Columbia, other than Rhode Island where it operates under an industrial insured exemption. RMAI is not currently writing mortgage

guaranty insurance. RMAI is a direct subsidiary of Radian Guaranty.

Radian Guaranty Reinsurance Inc. (“RGRI”). RGRI (formerly known as Commonwealth Mortgage Assurance Company of Texas) is domiciled and licensed in Pennsylvania as a stock casualty insurance company authorized to carry on the business of credit insurance, which includes the authority to reinsure policies of mortgage guaranty insurance. It is a monoline insurer restricted to writing only mortgage guaranty insurance or reinsurance. RGRI is not licensed or authorized to write direct mortgage guaranty insurance in any states other than Pennsylvania and Texas. RGRI is a direct subsidiary of Radian Group.

Radian Insurance Inc. (“Radian Insurance”). Radian Insurance is domiciled and licensed in Pennsylvania as a stock casualty insurance company authorized to carry on the business of credit insurance, which includes the authority to write mortgage guaranty and financial guaranty insurance, as well as the authority to reinsure policies of mortgage guaranty insurance. Radian Insurance is also authorized in Hong Kong to carry on the business of credit insurance, suretyship and miscellaneous financial loss (including mortgage guaranty insurance) through its Hong Kong branch office. Radian Insurance is not licensed or authorized to write direct credit insurance in any locality other than Pennsylvania and Hong Kong. Radian Insurance is a direct subsidiary of Radian Guaranty.

Radian Mortgage Insurance Inc. (“Radian Mortgage Insurance”). Radian Mortgage Insurance is domiciled and licensed in Pennsylvania as a stock casualty insurance company authorized to carry on the business of credit insurance, which includes the authority to reinsure policies of mortgage guaranty insurance. Radian Mortgage Insurance is a monoline insurer restricted to writing only mortgage guaranty insurance or reinsurance. Radian Mortgage Insurance is not licensed or authorized to write direct mortgage guaranty insurance in any states other than Pennsylvania and Arizona. Radian Mortgage Insurance is a direct subsidiary of Radian Guaranty.

1. Insurance Holding Company Regulation

Radian Group is an insurance holding company and our insurance subsidiaries belong to an insurance holding company system. All states have enacted legislation regulating insurance holding company systems, including the non-insurer holding company within that system. These laws generally require each insurance subsidiary within an insurance holding company system to register with the insurance regulatory authority of its domiciliary state, and to furnish to the regulators in these states applicable financial statements, statements related to intercompany transactions and other information concerning the holding company and its affiliated companies within the holding company system that may materially affect the operations, management or financial condition of insurers or the holding company system.

We currently have insurance subsidiaries domiciled in Pennsylvania and New York. As a result, Radian Group is considered an insurance holding company and the insurance holding company laws of Pennsylvania and New York regulate, among other things, certain transactions between Radian Group, our insurance subsidiaries and other parties affiliated with us. These laws also govern certain transactions involving Radian Group’s common stock, including transactions that constitute a “change of control” of Radian Group and, consequently, a “change of control” of our insurance subsidiaries. Specifically, no person may, directly or indirectly, seek to acquire “control” of Radian Group or any of its insurance subsidiaries unless that person files a statement and other documents with the commissioners of insurance of the states in which our insurance subsidiaries are domiciled and each commissioner’s prior approval is obtained. “Control” generally is defined broadly in these statutes. For example, under Pennsylvania’s insurance statutes, control is “presumed to exist if any person, directly or indirectly, owns, controls, holds with power to vote or holds proxies representing ten percent (10%) or more of the voting securities” of a holding company of a Pennsylvania domestic insurer. The statute further defines “control” as the “possession, direct or indirect, of the power to direct or cause the direction of the management and policies of” an insurer.

In addition, material transactions between us or our affiliates and our insurance subsidiaries or among our insurance subsidiaries are subject to certain conditions, including that they be “fair and reasonable.” These conditions generally apply to all persons controlling, or who are under common control with, us or our insurance subsidiaries. Certain transactions between us or our affiliates and our insurance subsidiaries may not be entered into unless the applicable commissioner of insurance is given 30 days’ prior notification and does not disapprove the transaction during that 30-day period.

In 2012, Pennsylvania adopted amendments to its insurance holding company statutes that impose more extensive informational and reporting requirements on parents and other affiliates of Pennsylvania-domiciled insurers with the

purpose of protecting them from enterprise risk. Pennsylvania also adopted the Risk Management and Own Risk and Solvency Assessment Act, effective January 1, 2015, which will, among other things, require Pennsylvania-domiciled insurers to maintain a risk management framework and conduct an Own Risk and Solvency Assessment ("ORSA") in accordance with applicable NAIC requirements.

2. Dividends

Radian Guaranty, Radian Insurance, RMAI, Radian Mortgage Insurance and RGRI. Under Pennsylvania's insurance laws, dividends and other distributions may only be paid out of an insurer's positive unassigned surplus, measured as of the end of the prior fiscal year, unless the Pennsylvania Insurance Commissioner approves the payment of dividends or other distributions from another source. Radian Guaranty, Radian Insurance, RMAI, Radian Mortgage Insurance and RGRI each had negative unassigned surplus at December 31, 2013 of $623.1 million, $305.0 million, $161.0 million, $69.1 million and $360.7 million, respectively; therefore, no dividends or other distributions can be paid from these subsidiaries in 2014 without approval from the Pennsylvania Insurance Commissioner.

While all proposed dividends and distributions to shareholders must be filed with the Pennsylvania Insurance Department prior to payment, if a Pennsylvania domiciled insurer had positive unassigned surplus as of the end of the prior fiscal year, then unless the prior approval of the Pennsylvania Insurance Commissioner is obtained, such insurer could only pay dividends or other distributions during any 12-month period in an aggregate amount less than or equal to the greater of: (i) 10% of the preceding year-end statutory policyholders' surplus; or (ii) the preceding year's statutory net income. Radian Guaranty, Radian Insurance, RMAI, Radian Mortgage Insurance and RGRI did not have positive unassigned surplus as of the end of 2012, and therefore did not have the ability to pay any dividends in 2013.

Radian Asset Assurance. Under New York insurance laws, Radian Asset Assurance may only pay dividends from statutory earned surplus. While all proposed dividends and distributions to shareholders must be filed with the NYSDFS prior to payment, Radian Asset Assurance may pay "ordinary dividends" without prior approval of the NYSDFS when the total of all other dividends declared or distributed by it during the preceding 12 months, is the lesser of 10% of its statutory surplus to policyholders, as shown on its last statement on file with the NYSDFS, or 100% of statutory adjusted net investment income during such period. In addition the NYSDFS, in its discretion, may approve a dividend distribution greater than would be permitted as an ordinary dividend. In the third quarter of 2013, Radian Asset Assurance paid an ordinary dividend of $36.0 million to Radian Guaranty. We expect that Radian Asset Assurance will next have the capacity to pay an ordinary dividend, of approximately $32 million, to Radian Guaranty in the third quarter of 2014.

3. Risk-to-Capital

Under state insurance regulations, Radian Guaranty is required to maintain minimum surplus levels and, in certain states, a minimum ratio of statutory capital relative to the level of net RIF, or "risk-to-capital." Sixteen states (the "RBC States") currently impose a statutory or regulatory risk-based capital requirement (the "Statutory RBC Requirement"). The most common Statutory RBC Requirement is that a mortgage insurer's risk-to-capital ratio may not exceed 25 to 1. In certain of the RBC States there is a Statutory RBC Requirement that Radian Guaranty must maintain a minimum policyholder position, which is calculated based on both risk and surplus levels (the "MPP Requirement"). The statutory capital requirements for the non-RBC States are de minimis (ranging from $1 million to $5 million); however, the insurance laws of these states generally grant broad supervisory powers to state agencies or officials to enforce rules or exercise discretion affecting almost every significant aspect of insurance business, including the power to revoke or restrict an insurance company's ability to write new business. Unless an RBC State grants a waiver or other form of relief, if a mortgage insurer is not in compliance with the Statutory RBC Requirement of such state, it may be prohibited from writing new mortgage insurance business in that state. Radian Guaranty's domiciliary state, Pennsylvania, is not one of the RBC States. In 2013 and 2012, the RBC States accounted for approximately 55.7% and 54.3%, respectively, of Radian Guaranty's total primary NIW.

As of December 31, 2013, Radian Guaranty's risk-to-capital ratio was 19.5 to 1 and Radian Guaranty was in compliance with all applicable Statutory RBC Requirements. Currently, we expect to maintain Radian Guaranty's risk-to-capital ratio at or below 20 to 1. However, we expect this target level to change upon the modification of GSE eligibility requirements or future changes in applicable regulatory requirements. See "Item 1A. Risk Factors—Our insurance subsidiaries are subject to comprehensive regulations and other requirements, including capital adequacy measures, which if we fail to satisfy, could limit our ability to write new insurance and increase restrictions and requirements placed on our insurance subsidiaries."

The NAIC is in the process of reviewing the minimum capital and surplus requirements for mortgage insurers and considering changes to the Mortgage Guaranty Insurers Model Act (the "Model Act"). While the outcome of this

process is not known, it is possible that the NAIC will recommend and adopt more stringent capital requirements that could increase the capital requirements for Radian Guaranty in states that adopt the new Model Act. If the NAIC proposals include more onerous capital requirements, we may need to provide additional capital support to, or arrange additional capital relief for, Radian Guaranty. See “Item 1A. Risk Factors—Radian Group’s sources of liquidity may be insufficient to fund its obligations.”

4. Contingency Reserves

For statutory reporting, mortgage insurance companies are required annually to set aside contingency reserves in an amount equal to 50% of earned premiums. Such amounts cannot be released into surplus for a period of 10 years, except when loss ratios exceed 35%, in which case the amount above 35% can be released under certain circumstances. The contingency reserve, which is designed to be a reserve against catastrophic losses, essentially restricts dividends and other distributions by mortgage insurance companies. We classify the contingency reserves of our mortgage insurance subsidiaries as a statutory liability. At December 31, 2013, Radian Guaranty, Radian Insurance, Radian Mortgage Insurance and RGRI had contingency reserves of $23.0 million, $35.5 million, $6.9 million and $38.5 million, respectively.

Our financial guaranty business also is required to establish contingency reserves. The contingency reserve on direct financial guaranty business written is established net of reinsurance, in an amount equal to the greater of 50% of premiums written or a stated percentage (based on the type of obligation insured or reinsured) of the net amount of principal guaranteed, ratably over 15 to 20 years, depending on the category of obligation insured. The contingency reserve may be released with regulatory approval to the extent that losses in any calendar year exceed a pre-determined percentage of earned premiums for such year, with the percentage threshold dependent upon the category of obligation insured. Such reserves may also be released, subject to regulatory approval in certain instances, upon demonstration that the reserve amount is excessive in relation to the outstanding obligation.

In 2011, 2012 and 2013, we received approval from the NYSDFS to release approximately $30.4 million, $54.5 million and $61.1 million, respectively, from the contingency reserves of Radian Asset Assurance to statutory surplus as a result of certain policies that had matured and other insurance coverage that was terminated.

At December 31, 2013, Radian Asset Assurance had contingency reserves of $264.0 million.

5. Reinsurance

Certain states limit the amount of risk a mortgage insurer may retain on a single loan to 25% of the total loan amount. Coverage in excess of 25% (i.e., deep coverage) must be reinsured. Radian Guaranty currently reinsures coverage in excess of 25% with RGRI, Radian Insurance and Radian Mortgage Insurance in order to remain in compliance with these insurance regulations.

B. Federal Regulation

1. Real Estate Settlement Procedures Act of 1974 (“RESPA”)

Settlement service providers in connection with the origination or refinance of a federally regulated mortgage loan are subject to RESPA. In December 1992, regulations were issued stating that mortgage insurance is considered a settlement service, and therefore, subject to RESPA. As a result, mortgage insurers are subject to the anti-referral fee provisions of Section 8(a) of RESPA, which generally provide, among other things, that mortgage insurers are prohibited from paying or accepting any thing of value in consideration of the referral of business to the mortgage insurer. Many states have similar provisions that prohibit mortgage insurers from giving rebates. RESPA has been interpreted to cover many non-fee services as well. Under the Dodd-Frank Act, the authority to implement and enforce RESPA was transferred to the Consumer Financial Protection Bureau (“CFPB”).

We and other mortgage insurers are currently facing private lawsuits alleging, among other things, that our captive reinsurance arrangements constitute unlawful payments to mortgage lenders under RESPA, and in the past, we have been subject to lawsuits alleging that our pool insurance and contract underwriting services violated RESPA. In addition, we and other mortgage insurers have been subject to inquiries and investigative demands from state and federal governmental agencies, including the CFPB, requesting information relating to captive reinsurance. In April 2013, we reached a settlement with the CFPB that concluded its investigation with respect to Radian Guaranty without any findings of wrongdoing. For additional information about recent litigation and governmental inquiries regarding RESPA and our captive reinsurance arrangements, see “Item 3. Legal Proceedings” and “Item 1A. Risk Factors—Legislation and regulatory changes and interpretations could harm our mortgage insurance business and —We are subject to the risk of private litigation and regulatory proceedings.” We have not entered into any new captive reinsurance arrangement since 2007.

The insurance law provisions of many states, including New York, also prohibit paying for the referral of insurance business and provide various mechanisms to enforce this provision. In February 1999, the NYSDFS issued Circular Letter No. 2 that discusses its position concerning various transactions between mortgage guaranty insurance companies licensed in New York and mortgage lenders. The letter confirms that captive reinsurance transactions are permissible if they "constitute a legitimate transfer of risk" and "are fair and equitable to the parties." The letter also states that "supernotes/performance notes," "dollar pool" insurance, and "un-captive captives" violate New York insurance law.

2. SAFE Mortgage Licensing Act (the "SAFE Act")

The SAFE Act requires mortgage loan originators to be licensed and/or registered with the Nationwide Mortgage Licensing System and Registry (the "Registry"). The Registry is a database established by the Conference of State Bank Supervisors and the American Association of Residential Mortgage Regulators. Among other things, the database was established to support the licensing of mortgage loan originators by each state. As part of this licensing and registration process, loan originators who are employees of institutions other than depository institutions or certain of their subsidiaries that, in each case, are regulated by a Federal banking agency, must generally be licensed under the SAFE Act guidelines enacted by each state in which they engage in loan originator activities and registered with the Registry. To the extent that the SAFE Act is interpreted to apply to our contract underwriters and we are unable to achieve compliance with the SAFE Act in one or more applicable states, we may seek to provide our services through a licensed third-party vendor, and if this is not feasible, we may be required to cease or limit our contract underwriting services in such applicable states. See "Item 1A. Risk Factors—We face risks associated with our contract underwriting business."

3. Home Mortgage Disclosure Act of 1975 ("HMDA")

HMDA requires most originators of mortgage loans (among others) to collect and report data relating to a mortgage loan applicant's race, nationality, gender, marital status and census tract to their respective federal reporting agency. The purpose of the HMDA is to detect possible discrimination in home lending and, through disclosure, to discourage this discrimination. Mortgage insurers are not required pursuant to any law or regulation to report HMDA data. However, mortgage insurers have voluntarily agreed to report the same data on loans submitted for insurance as is required for most mortgage lenders under HMDA.

4. Mortgage Insurance Cancellation

The Homeowners Protection Act of 1998 ("HPA") imposes certain cancellation and termination requirements for borrower-paid private mortgage insurance and requires certain disclosures to borrowers regarding their rights under the law. The HPA also requires certain disclosures for loans covered by lender-paid private mortgage insurance. Specifically, the HPA provides that private mortgage insurance on most loans originated on or after July 29, 1999 may be canceled at the request of the borrower once the LTV reaches 80% of the original unpaid principal balance, provided that certain conditions are satisfied. Under HPA, private mortgage insurance must be canceled automatically once the LTV reaches 78% of the unpaid principal balance (or, if the loan is not current on that date, on the date that the loan becomes current).

The HPA establishes special rules for the termination of private mortgage insurance in connection with loans that are "high risk." The HPA does not define "high risk" loans, but leaves that determination to the GSEs for loans up to the GSE conforming loan limits and to lenders for any other loan. For "high risk" loans above the GSE conforming loan limits, private mortgage insurance must be terminated on the date that the LTV is first scheduled to reach 77% of the unpaid principal balance. In no case, however, may private mortgage insurance be required beyond the midpoint of the amortization period of the loan if the borrower is current on the payments required by the terms of the mortgage.

5. The Fair Credit Reporting Act.

The Fair Credit Reporting Act of 1970 ("FCRA"), as amended, imposes restrictions on the permissible use of credit report information. FCRA has been interpreted by some Federal Trade Commission ("FTC") staff to require mortgage insurance companies to provide "adverse action" notices to consumers in the event an application for mortgage insurance is declined on the basis of a review of the consumer's credit.

6. The GSEs and FHA

As the largest purchasers of conventional mortgage loans, and therefore, the main beneficiaries of private mortgage insurance, the GSEs impose requirements on private mortgage insurers that wish to insure loans sold to the GSEs. In order to be eligible to insure loans purchased by the GSEs, mortgage insurers must meet the GSE eligibility requirements. The current eligibility requirements, among other things, impose limitations on the type of risk insured, standards for the geographic and customer diversification of risk, procedures for claims handling, standards for acceptable underwriting practices, standards for certain reinsurance cessions and financial requirements. In order to maintain the highest level of eligibility with the GSEs, mortgage insurers historically had to maintain an insurance financial strength rating of AA- or Aa3 from at least two of the three rating agencies by which they are customarily rated. Although our ratings have been downgraded substantially below these required ratings, the GSEs have allowed Radian Guaranty to operate under business and financial remediation plans and retain its eligibility status. If the GSEs believe that our remediation plans are not satisfactory, including in particular that such plans will not provide the level of capital required by our mortgage insurance business, we could lose our eligibility with the GSEs. See "Item 1A. Risk Factors—Radian Guaranty could lose its eligibility status with the GSEs, causing Freddie Mac and Fannie Mae to decide not to purchase mortgages insured by Radian Guaranty, which would significantly impair our mortgage insurance franchise." Some of the more recent programs of the GSEs require less mortgage insurance coverage than they historically have required, and they have the ability to further reduce coverage requirements.

The GSEs acting independently or through their conservator, the Federal Housing Finance Agency ("FHFA"), also have the ability, among other things to:

- implement new eligibility requirements for mortgage insurers, including increased capital adequacy standards (see "Item 1A. Risk Factors—Radian Guaranty could lose its eligibility status with the GSEs, causing Freddie Mac and Fannie Mae to decide not to purchase mortgages insured by Radian Guaranty, which would significantly impair our mortgage insurance franchise.");
- alter underwriting standards on mortgages they purchase;
- establish policies or requirements that may result in a reduction in the number of mortgages they acquire;
- alter the national conforming loan limit for mortgages acquired by them;
- alter the terms on which mortgage insurance coverage may be canceled before reaching the cancellation thresholds established by law;
- establish and change the terms required to be included in mortgage insurance policies they acquire. (The private mortgage insurers recently implemented changes to their master insurance policies to reflect a series of changes agreed upon with the GSEs with respect to, among other things, loss mitigation and claims processing activities, as well as the GSEs' rights under the policies. These changes are expected to become effective in 2014.);
- require private mortgage insurers to perform specified activities intended to avoid or mitigate loss on insured mortgages that are in default;
- establish and require changes to the amount of loan level delivery fees or guarantee fees (which may result in higher cost to borrowers) that the GSEs charge on loans that require mortgage insurance (see "Item 1A. Risk Factors—Our mortgage insurance business faces intense competition.");
- intervene in mortgage insurers' rescission practices or settlements with servicers. (In April 2011, Freddie Mac advised its servicers that they must obtain its prior approval for settlements with servicers and Fannie Mae advised its servicers that they are prohibited from entering into such settlements.); and
- influence a mortgage lender's selection of the mortgage insurer providing coverage.

We have participated in "affordable housing" programs for low- and moderate-income borrowers. These programs have included mortgages with LTV ratios between 90.01% to 95%, 95.01% to 97%, and 97.01% to 100% and liberalized underwriting guidelines to achieve the programs' objectives. Although our default experience on loans that we have insured through these programs has been worse than on loans that are not "affordable housing" loans, the percentage of our RIF currently attributable to these programs is not material. As of January 2013, the GSEs discontinued programs to acquire loans with LTV ratios at or above 97%.

In July 2008, an overhaul of regulatory oversight of the GSEs was enacted. The new provisions, contained within the Housing and Economic Recovery Act of 2008 ("HERA"), encompass substantially all of the GSE operations. This new

law abolished the former regulator for the GSEs, the Office of Federal Housing Enterprise Oversight, and created a new regulator, the FHFA, in addition to other oversight reforms.

In September 2008, the FHFA was appointed as the conservator of the GSEs to ensure that the GSEs operate in a safe and sound manner. Since its inception, FHFA has undertaken actions to scale back the GSEs' presence in the mortgage market, strengthen their financial positions, and help struggling borrowers, including expanding the HARP eligibility requirements. Despite these actions, many policymakers have encouraged FHFA to take further action with respect to the GSEs to help facilitate a broader and more robust recovery of the housing market. In response, FHFA released a strategic plan for the next phase of the conservatorship, which would build a single platform infrastructure for the mortgage market going forward and reduce the role of the GSEs, while increasing private sector participation and helping borrowers to avoid foreclosure. See "—Housing Finance Reform" below for further discussion.

Under the Emergency Economic Stimulus Act of 2008 ("EESA") and the American Recovery and Reinvestment Act of 2009, the loan limits for FHA-insured loans and the loan limits on GSE conforming loans in certain areas, were temporarily increased to a maximum of $729,750. The increase in the loan limits for FHA-insured loans and GSE conforming loans was intended to increase the size of the secondary market for purchasing and securitizing home loans and to encourage the GSEs to continue to provide liquidity to the residential mortgage market, particularly in higher-priced areas, at a time when many banks and similar institutions had significantly curtailed their activities due to the subprime lending crisis that developed during 2007. On October 1, 2011, the higher FHA and GSE loan limits expired and those limits decreased to $625,500. In November 2011, Congress raised FHA's loan limits for high cost areas back to $729,750, while keeping the GSE limits for high-cost areas at $625,500, resulting in loan limits for FHA-insured loans that were higher than loan limits for privately-insured loans for the first time in history, enabling FHA to insure a broader range of loans than private mortgage insurers. These higher FHA loan limits expired December 31, 2013 resulting in the GSEs and FHA now both being subject to the same loan limits.

In November 2011, the U.S. Department of Housing and Urban Development ("HUD") released its annual report to Congress on the financial condition of the FHA Mutual Mortgage Insurance Fund, which found that the FHA's single family mortgage and reverse mortgage insurance programs had fallen below the statutorily-required 2% capital reserve ratio.

In September 2013, the FHA was required to access its existing U.S. Department of the Treasury ("U.S. Treasury") line of credit in the amount of $1.7 billion in order to ensure it has sufficient reserves to cover anticipated losses on the loans it insures. The FHA continues to operate below its statutorily-required capital reserve ratio.

As a result of the FHA's financial condition, Congress is now considering FHA reform in addition to GSE reform. Legislation to significantly change the solvency of the FHA has been introduced in Congress. Among other things, the proposed legislation seeks to raise the minimum capital ratio for the FHA. Given that FHA and GSE reform have significant impacts on each other, as well as on borrower access to credit and the housing market more broadly, policymakers may consider both GSE reform and FHA reform together. It is unclear whether FHA reform legislation will be adopted and, if so, what provisions it might ultimately contain and how it might impact the private mortgage insurance industry.

7. Housing Finance Reform

In February 2011, the Obama Administration released a proposal to reform the U.S. housing finance market. In its proposal, the Obama Administration sought to gradually reduce the federal government's role in housing finance, including the ultimate wind-down of the GSEs, and to increase the role of private capital.

The Obama Administration's proposal has shaped the debate in Congress as the Senate Banking Committee and the House Financial Services Committee are currently considering legislation to reform the housing finance market. Most of the legislative proposals have included reference to loan level credit enhancement, such as private mortgage insurance. It is unclear whether housing finance reform legislation will be adopted and, if so, what form it will ultimately take.

In February 2012, the acting director of the FHFA, proposed to Congress a strategic plan for the next phase of the conservatorship of the GSEs. This plan, as updated, identifies three strategic goals for this next phase: (1) build a single infrastructure to support the mortgage credit business, including mortgage servicing agreements and requirements placed on companies that service mortgages; (2) reduce the GSEs' presence in the market and replace them with increased private sector participation; and (3) maintain foreclosure prevention activities and credit availability for new and refinanced mortgages. We believe the most significant components of this plan are the

FHFA's recommendations for: (i) shifting mortgage credit risk to the private sector through increases to the GSE guarantee fee pricing in an effort to encourage private capital; (ii) establishing risk-sharing arrangements that require private investors to share in credit loss; and (iii) expanding reliance on mortgage insurance by requiring deeper mortgage insurance coverage on individual loans or through pool-level insurance policies to insure a portion of the mortgage credit risk currently retained by the GSEs. At this time, it is not possible to estimate the impact of the FHFA's proposed strategic plan on our business.

In January 2014, following the appointment of Mel Watt as Director of the FHFA, the FHFA announced that it would delay the implementation of planned increases to the GSEs' guarantee fees that were scheduled to go into effect in March 2014. The FHFA delayed implementation in order to further review the impact that these increases might have on the availability of mortgage credit. Part of the review will likely take into consideration a FHFA Request for Comment on a proposal to increase GSE guarantee fees at regular intervals beginning in October 2014.

As the regulator and conservator of the GSEs, the FHFA has made changes to the business and operations of the GSEs. Both Fannie Mae and Freddie Mac have reported profits for the past several quarters and this development may impact the timing and outcome of efforts to reform the GSEs and the housing finance system in the U.S.

There is a possibility that new federal legislation could change the role of private mortgage insurance by, among other items, changing the combined LTV ratio for which private mortgage insurance or other loan level credit enhancement is required by the GSEs, changing the role of the GSEs in the secondary mortgage market, or continuing to change the GSE guarantee fees and FHA premium pricing. See "Item 1A. Risk Factors—Because most of the mortgage loans that we insure are sold to Freddie Mac and Fannie Mae, changes in their charters or business practices could significantly impact our mortgage insurance business." and "—Our mortgage insurance business faces intense competition." We cannot predict whether any of the existing housing finance reform proposals will be adopted or how any new laws, regulations or initiatives that may be proposed will impact our business.

8. The Dodd-Frank Act

The Dodd-Frank Act contains many requirements and mandates significant rulemaking by several regulatory agencies to implement the Dodd-Frank Act's provisions. The full scope of the Dodd-Frank Act and its impact on our mortgage insurance and financial guaranty businesses remain uncertain. The Dodd-Frank Act established the CFPB to regulate the offering and provision of consumer financial products and services, including residential mortgages, under federal law and transferred authority to the CFPB to enforce many existing consumer related federal laws. Under the Dodd-Frank Act, the CFPB is authorized to issue regulations prohibiting a creditor from making a residential mortgage loan unless the creditor makes a reasonable and good faith determination that, at the time the loan is consummated, the consumer has a reasonable ability to repay the loan (the "Ability to Repay rule"). The Dodd-Frank Act provides that a creditor may presume that a borrower will be able to repay a loan if the loan has certain low-risk characteristics that meet the definition of a qualified mortgage ("QM").

On January 10, 2013, the CFPB issued the CFPB QM Rule. The CFPB QM Rule became effective on January 10, 2014. Under the CFPB QM Rule, a loan is deemed to be a QM if, among other factors:

- the term of the loan is less than or equal to 30 years;
- there are no negative amortization, interest only or balloon features;
- the lender properly documents the loan in accordance with the requirements;
- the total "points and fees" do not exceed certain thresholds (as further discussed below); and
- the total debt-to-income ratio of the borrower does not exceed 43%.

Loans that meet the definition of a QM under the CFPB QM Rule receive either a rebuttable or conclusive presumption of compliance with the rule's ability to repay requirements depending upon the pricing of the loan relative to the Average Prime Offer Rate. The CFPB QM Rule provides a "safe harbor" for loans that otherwise satisfy the CFPB QM requirements and have annual percentage rates ("APRs") below the threshold of 150 basis points over the Average Prime Offer Rate, and a "rebuttable presumption" for loans that otherwise satisfy the CFPB QM requirements and have an APR at or above that threshold. For a loan to satisfy the CFPB QM Rule requirements, the points and fees payable in connection with the loan may not exceed 3% of the total loan amount (for loans of $100,000 or more; different limitations apply to smaller balance loans). As it relates to private mortgage insurance, any premium charges payable after closing (e.g., monthly premiums) are excluded from the points and fees calculation. With regard to up-front private mortgage insurance premiums (premium charges payable at or before closing), the portion of the premium that is not in excess of the then current up-front FHA premium at the time of the loan's origination is also excluded from the points and fees calculation (so long as the charges meet certain refundability criteria), while any portion that is in excess of the current up-front FHA premium is included in the calculation of points and fees. We offer mortgage insurance products that provide for up-front premiums and to the extent that these products cause a loan not to meet the CFPB QM Rule requirements, it may impact the structure, marketability and pricing of these

products which could impact the amount and mix of new insurance we write and our share of the private mortgage insurance market.

Most notably for the private mortgage insurance industry, the CFPB QM Rule establishes a temporary alternative QM definition applicable to any loans that are eligible to be purchased, guaranteed or insured by the GSEs. Loans acquired by the GSEs are allowed QM status under this temporary rule if they meet requirements to avoid certain loan features that are considered as increasing the risk of default (e.g., no negative amortization and generally no balloons or interest-only features) and the limitation on points and fees discussed above. Under the temporary alternative QM definition, adherence to the CFPB QM Rule provision governing the back end debt-to-income ratio of 43% will not be required for loans acquired by the GSEs. The GSEs will continue to purchase loans that meet the underwriting and delivery eligibility requirements stated in their respective selling guides, even if the borrowers of such loans have a debt-to-income ratio of greater than 43%. With regard to GSE-eligible loans, the temporary alternative QM definition will expire on the earlier of seven years from the effective date of the rule or when GSE conservatorship or receivership ends.

The Dodd-Frank Act separately granted statutory authority to HUD (for FHA-insured loans), the VA (for VA-guaranteed loans), the U.S. Department of Agriculture ("USDA") and the Rural Housing Service ("RHS") to develop their own definitions of a qualified mortgage in consultation with the CFPB. In December 2013, HUD adopted a separate definition of a qualified mortgage for loans insured by the FHA. HUD's qualified mortgage definition is less restrictive than the CFPB's definition in certain respects and it is possible that lenders will prefer the FHA-insured loans to loans insured by private mortgage insurance. To the extent other government agencies that guarantee residential mortgage loans also adopt their own definitions of a qualified mortgage and those definitions are more favorable to lenders and mortgage holders than the CFPB QM Rule that applies to the GSEs and the markets in which we operate, our mortgage insurance business may be adversely affected.

There is a risk that the Ability to Repay rules will restrict the size of the overall mortgage market, and consequently, the number of loans requiring private mortgage insurance, due to the unwillingness of creditors to provide non-qualified mortgages. Further, the bifurcation between loans that are eligible for either a conclusive or a rebuttable presumption could also further impact the market for loans generally available for private mortgage insurance.

The Dodd-Frank Act requires securitizers to retain some of the credit risk associated with mortgage loans that they transfer, sell or convey, unless the mortgage loans are qualified residential mortgages ("QRMs") or are insured by the FHA or another federal agency. The Dodd-Frank Act provides that the definition of QRM will be determined jointly by six separate regulators, with consideration to be given, among other things, to the presence of mortgage insurance in connection with loan performance. The risk retention requirement is imposed on "securitizers" and not the originators or subsequent purchasers, although in certain circumstances a portion of the risk may be allocated to the originator. In March 2011, regulators released a proposed rule that included a proposed definition of QRM. That proposed rule included down payment requirements for QRMs without incorporating or including consideration of loans that are covered by mortgage insurance. In response to public comments to the proposed rule, federal regulators issued a revised proposed risk retention rule, including a definition of QRMs, in August 2013. The revised proposed rule generally defines QRM as a mortgage meeting the requirements of a qualified mortgage under the CFPB QM Rule described above. The regulators also proposed an alternative definition of QRMs ("QM-plus") that utilizes certain QM criteria but also includes a maximum LTV of 70%. Neither of the revised proposed QRM definitions incorporate or consider the use of mortgage insurance. The public comment period for the new proposed rule expired on October 30, 2013. Substantially all of our primary RIF includes loans for which the down payment was less than 20% and, therefore, the LTV would exceed 80%. For information regarding the percentage of our primary RIF by LTV, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Mortgage Insurance—NIW, IIF, RIF."

Because of the capital support provided by the U.S. Government to the GSEs, the GSEs satisfy the proposed risk retention requirements of the Dodd-Frank Act while they are in conservatorship, so sellers of loans to the GSEs will not be subject to the risk retention requirements referenced above. This means that lenders that originate loans that are sold to or securitized with the GSEs while the GSEs are in conservatorship would not be required to retain risk under the proposed or final QRM rule.

For loans that are securitized in the private label securitization market, if the final QRM definition does not give consideration to private mortgage insurance in calculating LTV or it provides that loans with down payments of less

than 20% do not qualify as a QRM, it could have an adverse effect on the demand for private mortgage insurance in this market. The public comment period for the revised proposed rule expired on October 30, 2013. The timing for the adoption of final risk retention rules and the QRM definition remains uncertain and we cannot be certain of the form the final rules and the definition may take.

In addition to the foregoing, the Dodd-Frank Act:

- sets new limitations and restrictions on banking, derivatives and ABS, including the imposition of additional registration, reporting, market conduct and capital and margin posting requirements on certain participants in the derivatives markets that may make it more difficult for us to commute, restructure, hedge or otherwise mitigate losses or reduce exposure on our existing financial guaranty portfolio;
- places limits on the ability of many financial institutions to hold certain assets, including those referred to as "covered funds." To the extent that financial institutions that are included in our insured portfolios (primarily in our insured TruPs CDOs) for which we provide credit protection may be required to liquidate assets at a loss, or the market perceives there is a risk of such losses, it may adversely affect the credit quality of the institution and consequently increase our derivative liability, and could produce credit losses, on such insured obligations;
- establishes a Financial Stability Oversight Council ("FSOC"), which is authorized to subject non-bank financial companies deemed systemically important financial institutions to more rigorous prudential standards and other requirements and to subject such companies to a special liquidation process outside the federal bankruptcy code, administered by the Federal Deposit Insurance Corporation (the "FDIC") (although insurance company subsidiaries would remain subject to liquidation and rehabilitation proceedings under state law). Additionally, in 2013, the FSOC designated several large insurers as systemically important financial institutions and is in the stages of reviewing several more. In its 2012 Annual Report, the FSOC recommended that FSOC member agencies, HUD, and Congress develop a long-term housing finance reform framework that supports the central role of private capital and the emphasis on consumer and investor protections in any future housing finance system. It is unclear whether the FSOC will take any additional steps to address housing finance reform; and
- establishes a Federal Insurance Office within the U.S. Treasury. While not having a general supervisory or regulatory authority over the business of insurance, the director of this office performs various functions with respect to insurance, including serving as a non-voting member of the FSOC and making recommendations to the FSOC regarding insurers to be designated as systemically important institutions and subject to more stringent regulation. The Federal Insurance Office recently published a study on how to modernize and improve the system of insurance regulation in the U.S., which recommended the development and implementation of federal oversight for private mortgage insurers. To the extent these recommendations are acted upon by legislators or other executive action, a divergence from the current system of state regulation could increase compliance burdens and possibly impact our financial condition.

We cannot predict the requirements of the remaining final regulations ultimately adopted under the Dodd-Frank Act, the full effect such regulations will have on financial markets generally, or on our mortgage insurance and financial guaranty businesses specifically, the additional costs associated with compliance with such regulations or changes to our operations that may be necessary to comply with the Dodd-Frank Act and the rules adopted thereunder, any of which could have a material adverse effect on our businesses, cash flows, financial condition and results of operations. See "Item 1A. Risk Factors—The Dodd-Frank Act may have a material effect on our mortgage insurance and financial guaranty businesses."

9. Homeowner Assistance Programs

EESA included provisions that require the U.S. Secretary of the Treasury ("Treasury Secretary") to encourage further use of the Hope for Homeowners program. Under EESA, the Treasury Secretary is required to "maximize assistance to homeowners and encourage mortgage servicers to take advantage of available programs (including the Hope for Homeowners program) to minimize foreclosures." In 2008, the U.S. Treasury announced the Homeowner Affordability and Stability Plan to restructure or refinance mortgages to avoid foreclosures through: (i) refinancing mortgage loans through HARP; (ii) modifying first- and second-lien mortgage loans through the Homeowner Affordable Modification Program ("HAMP") and the Second Lien Modification Program; and (iii) offering other alternatives to foreclosure through the Home Affordable Foreclosure Alternatives Program ("HAFA"). Details of these programs are as follows:

- In 2009, the GSEs began offering the HARP program, which allows a borrower who is not delinquent to refinance his or her mortgage to a more stable or affordable loan if such borrower has been unable to take advantage of lower interest rates because his or her home has decreased in value. To be eligible, a borrower must meet certain conditions, including that the borrower must be current on the mortgage at the time of the refinance, with no late payment in the past six months and no more than one late payment in the past 12 months. In November 2011, FHFA made enhancements to the HARP program ("HARP 2") to increase the number of borrowers who can qualify for refinancing. The HARP 2 program was recently extended to December 31, 2015 for loans that were originated or acquired by the GSEs by or before May 30, 2009. Importantly, the FHFA reached an agreement with private mortgage insurers to facilitate the transfer of mortgage insurance on loans to be refinanced without regard to LTV. Legislation is not required to make changes to HARP because FHFA has the authority to make changes to the program on its own. This may include changes to further extend the program beyond 2015 or to expand eligibility requirements. Whether any changes will be implemented or the potential impact of any such changes is unknown.
- In February 2009, the U.S. Treasury established HAMP as a program to modify certain loans to make them more affordable to borrowers, with the goal of reducing the number of foreclosures. Under HAMP, an eligible borrower's monthly payments may be lowered by lowering interest rates, extending the term of the mortgage or deferring principal. To be eligible, a borrower must meet certain conditions, including conditions with respect to the borrower's current income and non-mortgage debt obligations. In June 2012, the HAMP program extended the population of eligible homeowners to (i) homeowners applying for a modification on a home that is not their primary residence, but the property is currently rented or the homeowner intends to rent it; (ii) homeowners who were previously ineligible because their debt-to-income ratio was 31% or lower; (iii) homeowners who previously received a HAMP trial period plan, but defaulted in their trial payments; and (iv) homeowners who previously received a HAMP permanent modification, but defaulted in their payments, therefore losing good standing. Enrollment in the HAMP program was recently extended to coincide with the HARP deadline of December 31, 2015.
- HAFA, which became effective in April 2010, is intended to provide additional alternatives to foreclosures by providing incentives to encourage a borrower and servicer to agree that: (i) a borrower can sell his or her home for less than the full amount due on the mortgage and fully satisfy the mortgage; or (ii) a borrower can voluntarily transfer ownership of his or her home to the servicer in full satisfaction of the mortgage. Loans that are eligible for this program must have been originated prior to January 1, 2009.
- The U.S. Treasury also has developed uniform guidance for loan modifications to be used by participating servicers in the private sector. The GSEs have incorporated material aspects of these guidelines for loans that they own and loans backing securities that they guaranty.

See "Item 1A. Risk Factors—Loan modification, refinancing and other similar programs may not provide us with a material benefit."

Beginning in 2008, certain mortgage industry participants have implemented their own programs to modify troubled residential mortgages. For example, Bank of America and Countrywide Financial Corporation entered into a settlement with various states' Attorneys General that requires the creation of a proactive home retention program that is intended to systematically modify troubled mortgages to allow for up to $8.4 billion in interest rate and principal reductions for nearly 400,000 Countrywide customers. In addition, the FDIC, initially in its role as conservator for IndyMac Bank, also implemented broad modification procedures for institutions acquiring failed institutions under loss-share agreements.

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In 2010, the Obama Administration announced $7.6 billion of funding under EESA to 18 states and the District of Columbia where the average price for homes had fallen by more than 20% from its peak price and to states with the highest concentration of their populations living in counties with unemployment rates greater than 12 percent or unemployment rates that were at or above the national average. These funds, under the “Hardest Hit Fund” Program, have been made available to eligible states and local housing finance agencies to assist borrowers, including unemployed borrowers, borrowers that owe more than the current value of their home, and borrowers with home equity loans or second-liens. The U.S. Treasury has provided guidelines for funding and other eligibility requirements under the Hardest Hit Fund Program and homeowners in participating states can apply for the Hardest Hit Fund through 2017 or until all program funds are allocated for homeowner assistance.

In February 2012, the U.S. Department of Justice, HUD and 49 state attorneys general (excluding Oklahoma) announced a $25 billion global settlement with Ally Financial Inc., Bank of America Corporation, Citibank, JPMorgan Chase Bank, N.A. and Wells Fargo Bank N.A. According to the announcement, the settlement resolved many of the potential state and federal civil charges about allegations of improper foreclosure practices, including “robosigning.” Consumer relief payments in the form of, among other things, permanent principal reductions on eligible delinquent loans comprise $17 billion of the settlement. The settlement also includes $3 billion to facilitate refinancing for eligible borrowers who are not delinquent and are underwater on their mortgages. An additional $5 billion will be paid in cash to the U.S. government and the participating state governments, of which $1.5 billion is to be used for eligible borrowers who have lost their homes to foreclosure between 2008 and 2011. In addition, the participating banks have agreed to implement a detailed set of national servicing standards, which in part have been incorporated into the CFPB’s servicing regulations that became effective in January 2014.

10. Privacy and Information Security

The Gramm-Leach-Bliley Act of 1999, or “GLB,” imposes privacy requirements on financial institutions, including obligations to protect and safeguard consumers’ nonpublic personal information and records, and limitations on the re-use of such information. Federal regulatory agencies have issued the Interagency Guidelines Establishing Information Security Standards, or “Security Guidelines,” and interagency regulations regarding financial privacy, or “Privacy Rule,” implementing sections of GLB. The Security Guidelines establish standards relating to administrative, technical, and physical safeguards to ensure the security, confidentiality, integrity, and the proper disposal of consumer information. The Privacy Rule limits a financial institution’s disclosure of nonpublic personal information to unaffiliated third parties unless certain notice requirements are met and the consumer does not elect to prevent or “opt out” of the disclosure. Pursuant to the Privacy Rule, financial institutions that are required to provide privacy notices to their customers and consumers are required to describe the financial institutions’ policies and practices to protect the confidentiality and security of the information. With respect to our business, GLB is enforced by the U.S. Federal Trade Commission, or “FTC,” and state insurance regulators. Many states have enacted legislation implementing GLB and establishing information security regulation. Many states have enacted privacy and data security laws that impose compliance obligations beyond GLB, including obligations to protect social security numbers and provide notification in the event that a security breach results in a reasonable belief that unauthorized persons may have obtained access to consumer nonpublic information.

C. Basel II and Basel III Capital Accords

In 1988, the Basel Committee on Banking Supervision (“BCBS”) developed the Basel Capital Accord (“Basel I”), which established international benchmarks for assessing banks’ capital adequacy requirements. In June 2005, the BCBS issued an update to Basel I (“Basel II”). Basel II was implemented by many banks in the U.S. and many other countries in 2009 and 2010. Basel II affects the capital treatment provided to mortgage insurance by domestic and international banks in both their origination and securitization activities. The Basel II provisions relating to residential mortgages and mortgage insurance may provide incentives to certain of our bank customers not to insure mortgages having a lower risk of claim and to insure mortgages having a higher risk of claim.

In September 2010, the BCBS released the third Basel Capital Accord (“Basel III”) guidelines, which increased the capital requirements for certain banking organizations. Implementation of Basel III required formal regulations to be adopted in the U.S., and in December 2010, the BCBS released a new bank capital framework (“Basel III capital adequacy guidelines”) that raised minimum capital requirements for banks. Implementation of the Basel III capital

adequacy guidelines in the U.S. required three federal banking regulators to issue legally binding rules.

In July 2013, the federal regulators issued final rules to implement Basel III. The final rules reverted to the current treatment of mortgages for capital purposes rather than adopting a previously proposed 200% requirement risk-weighting of residential mortgage for LTVs higher than 80%, without regard to the presence of mortgage insurance. The federal regulators noted in issuing the final rules that they may reconsider the issue of risk-weighting residential securities again, once the impact of other housing related rules such as the QM and QRM rules are known. The final Basel III rules retain the existing risk-weighting for mortgage-backed pass-through securities guaranteed by the GSEs. However, the final Basel III rules significantly change the calculation of risk weights for securitization exposures in which credit risk is tranched. Under the final Basel III rules, the risk weighting for these securitization exposures is subject to a 20% floor and can increase to 1,250% for junior tranches. Under the QRM risk-retention rules, sponsors of securitizations of non-QRM loans will be required to retain an exposure to securitizations they sponsor. Therefore, under the final Basel III rules, it is possible that these bank sponsors will be required to hold greater amounts of capital with respect to a securitization of non-QRM loans than if the bank had retained the entire portfolio of loans. This may create a disincentive to originate non-QRM loans, which may decrease demand for our private mortgage insurance products in the non-QRM market based on the outcome of the QRM rulemaking.
See "Item 1A. Risk Factors—The implementation of the Basel II capital adequacy requirements and the Basel III guidelines may discourage the use of mortgage insurance."

D. Foreign Regulation

By reason of Radian Insurance's authorization, in September 2006, to conduct insurance business through a branch in Hong Kong, we are subject to regulation by the Hong Kong Insurance Authority ("HKIA"). The HKIA's principal purpose is to supervise and regulate the insurance industry, primarily for the protection of policyholders and the stability of the industry. Hong Kong insurers are required by the Insurance Companies Ordinance to maintain minimum capital as well as an excess of assets over liabilities of not less than a required solvency margin, which is determined on the basis of a statutory formula. Foreign-owned insurers are also required to maintain assets in Hong Kong in an amount sufficient to ensure that assets will be available in Hong Kong to meet the claims of Hong Kong policyholders if the insurer should become insolvent. The HKIA also reviews the backgrounds and qualifications of insurance companies' directors and key local management to ensure that these "controllers" are "fit and proper" to hold their positions and has the authority to approve or disapprove key appointments.

VI. Employees

At December 31, 2013, we had 782 employees, with 133 individuals employed by Radian Group, and 610 and 39 individuals employed in our mortgage insurance and financial guaranty businesses, respectively. Management considers employee relations to be good.

Item 1A. Risk Factors.

Our insurance subsidiaries are subject to comprehensive regulations and other requirements, including capital adequacy measures, which if we fail to satisfy, could limit our ability to write new insurance and increase restrictions and requirements placed on our insurance subsidiaries.

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

The GSEs and state insurance regulators impose various capital requirements on our insurance subsidiaries. These include risk-to-capital ratios, other risk-based capital measures and surplus requirements that potentially 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. Our failure to maintain adequate levels of capital, among other things, could lead to intervention by the various insurance regulatory authorities or the GSEs, which could materially and adversely affect our business, business prospects and financial condition. For a discussion of potential changes to the GSEs' eligibility requirements for private mortgage insurers, see "Radian Guaranty could lose its eligibility status with the GSEs, causing Freddie Mac and Fannie Mae to decide not to purchase mortgages insured by Radian Guaranty, which would significantly impair our mortgage insurance franchise."

Under state insurance regulations, Radian Guaranty is required to maintain minimum surplus levels and, in certain states, a minimum ratio of statutory capital relative to the level of net RIF, or "risk-to-capital." Sixteen states (the "RBC States") currently impose a statutory or regulatory risk-based capital requirement (the "Statutory RBC Requirement"). The most common Statutory RBC Requirement is that a mortgage insurer's risk-to-capital ratio may not exceed 25 to 1. In certain of the RBC States there is a Statutory RBC Requirement that Radian Guaranty must maintain a minimum policyholder position, which is calculated based on both risk and surplus levels (the "MPP Requirement"). The statutory capital requirements for the non-RBC States are de minimis (ranging from $1 million to $5 million); however, the insurance laws of these states generally grant broad supervisory powers to state agencies or officials to enforce rules or exercise discretion affecting almost every significant aspect of insurance business, including the power to revoke or restrict an insurance company's ability to write new business. Unless an RBC State grants a waiver or other form of relief, if a mortgage insurer is not in compliance with the Statutory RBC Requirement of such state, it may be prohibited from writing new mortgage insurance business in that state. Radian Guaranty's domiciliary state, Pennsylvania, is not one of the RBC States. In 2013 and 2012, the RBC States accounted for approximately 55.7% and 54.3%, respectively, of Radian Guaranty's total primary NIW.

As of December 31, 2013, Radian Guaranty's risk-to-capital ratio was 19.5 to 1 and Radian Guaranty was in compliance with all applicable Statutory RBC Requirements. Currently, we expect to maintain Radian Guaranty's risk-to-capital ratio at or below 20 to 1. However, we expect this target level to change upon the modification of GSE eligibility requirements or future changes in applicable regulatory requirements.

Absent new capital contributions or other capital relief, Radian Guaranty's risk-to-capital ratio generally increases as we increase our net RIF or as we incur operating losses. In 2014, we project that we will write over $40 billion in additional NIW and our net RIF is expected to increase. Radian Guaranty's risk-to-capital ratio has been negatively impacted in recent years by operating losses. The ultimate amount and timing of any future incurred losses will depend, in part, on general economic conditions and other factors, including the health of credit markets, home prices and unemployment rates, all of which are difficult to predict and beyond our control. Our mortgage insurance incurred losses are driven primarily by new mortgage insurance defaults and changes in the assumptions used to determine our loss reserves. Establishing loss reserves in our businesses requires significant judgment by management with respect to the likelihood, magnitude and timing of anticipated losses. If the actual losses we ultimately realize are in excess of the loss estimates we use in establishing loss reserves, we may be required to take unexpected charges to income, which could adversely affect Radian Guaranty's statutory capital position.

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Radian Guaranty's capital position also is dependent on the performance of our financial guaranty portfolio. In 2008, we contributed our ownership interest in Radian Asset Assurance to Radian Guaranty. While this reorganization has provided Radian Guaranty with substantial regulatory capital and dividends, it also makes the capital adequacy of our mortgage insurance business dependent, to a significant degree, on the successful run-off of our financial guaranty business. Any decrease in the statutory capital in our financial guaranty business (other than a decrease resulting from the dividend or distribution of cash or other assets from Radian Asset Assurance to Radian Guaranty) would therefore have a negative impact on Radian Guaranty's capital position and may affect its ability to remain in compliance with Statutory RBC Requirements. In addition, any decrease in the amount of capital credit that Radian Guaranty otherwise receives with respect to its ownership of Radian Asset Assurance could have a negative impact on Radian Guaranty's capital adequacy for purposes of GSE eligibility. As of December 31, 2013, our mortgage insurance segment maintained claims paying resources of $2.9 billion, which consists of contingency reserves, statutory policyholders' surplus, unearned premium reserves and loss reserves. If the performance of our financial guaranty portfolio deteriorates, including if we are required to establish (or increase) statutory reserves on defaulted obligations that we have insured, or if we make net commutation payments to terminate insured financial guaranty obligations in excess of the then established statutory reserves for such obligations, the statutory capital of Radian Guaranty also would be negatively impacted. See "Deterioration in our financial guaranty portfolio could reduce Radian Asset Assurance's statutory surplus and negatively impact its ability to pay dividends to Radian Guaranty."

We actively manage Radian Guaranty's capital position in various ways, including: (1) through internal and external reinsurance arrangements; (2) by seeking opportunities to reduce our risk exposure through commutations or other negotiated transactions; and (3) by contributing additional capital from Radian Group to our mortgage insurance subsidiaries. The amount of capital contributions required for Radian Guaranty to remain in compliance with the Statutory RBC Requirements could be substantial and could exceed amounts available at Radian Group. See "Radian Group's sources of liquidity may be insufficient to fund its obligations."

We use reinsurance from affiliated companies to support Radian Guaranty's risk-to-capital ratio. Certain of these affiliated reinsurance companies currently are operating at relatively low capital levels and have required, and may in the future require, additional capital contributions from Radian Group. Radian Mortgage Insurance Inc. and Radian Insurance are each required to maintain a minimum statutory surplus of $20 million to remain authorized reinsurers. RGRI, which provides reinsurance to Radian Guaranty for coverage in excess of 25% of certain loans insured by Radian Guaranty, is a sister company of Radian Guaranty, and therefore, any contributions to this insurer would not be consolidated with Radian Guaranty's capital for purposes of calculating Radian Guaranty's risk-to-capital position. If we are limited in, or prohibited from, using reinsurance arrangements to reduce Radian Guaranty's risk, including as a result of any new eligibility requirements adopted by the GSEs, it would adversely affect Radian Guaranty's risk-to-capital position.

In the event Radian Guaranty is unable to comply with applicable Statutory RBC Requirements in the future, we may apply for waivers of the Statutory RBC Requirements or for other similar relief for Radian Guaranty in each of the RBC States. In the past, in order to maximize our financial flexibility, we applied for waivers or similar relief for Radian Guaranty in each of the RBC States. Of the 16 RBC States, Radian Guaranty had previously received waivers or similar relief from 10 of them. Many of these waivers expired in 2013 and, at this time, we have determined not to seek extensions or renewals of expiring waivers because we expect to be able to comply with the applicable Statutory RBC Requirements for the foreseeable future. If we were to require waivers or other similar relief in the future, there can be no assurance that: (1) Radian Guaranty would be granted waivers from the RBC States or (2) if granted, we would be able to comply with any conditions or additional requirements that may be imposed as a condition to such waivers.

If, in the future, Radian Guaranty were unable to comply with applicable Statutory RBC Requirements of an RBC State and could not obtain a waiver or other similar relief from that state, we may seek to write new first-lien insurance in RMAI. RMAI is a wholly-owned subsidiary of Radian Guaranty and is licensed to write mortgage insurance in each of the fifty states and the District of Columbia. RMAI previously was approved as an eligible insurer by each of the GSEs in certain of the RBC States on a limited basis and subject to certain conditions, including that Radian Guaranty was unable to obtain a waiver of the Statutory RBC Requirements in those states. These GSE approvals expired on December 31, 2013 and we did not seek an extension. Accordingly, before RMAI would be able

to write new first-lien insurance in the future, RMAI would need to be approved by each of the GSEs again. There can be no assurance that such approvals would be granted, and if granted, that we would be able to comply with any conditions or additional requirements that may be imposed.

Our existing capital resources may not be sufficient to successfully manage Radian Guaranty's capital position. The GSEs are in the process of proposing revised eligibility requirements that are expected to, among other things, contain new capital adequacy requirements for private mortgage insurers that are more onerous than the capital requirements currently in effect. See "Radian Guaranty could lose its eligibility status with the GSEs, causing Freddie Mac and Fannie Mae to decide not to purchase mortgages insured by Radian Guaranty, which would significantly impair our mortgage insurance franchise." In addition, the NAIC is in the process of reviewing the minimum capital and surplus requirements for mortgage insurers and considering changes to the Model Act. While the outcome of this process is not known, it is possible that the NAIC will recommend and adopt more stringent capital requirements that could increase the capital requirements for Radian Guaranty in states that adopt the new Model Act. If the NAIC proposals or the new GSE eligibility requirements include more onerous capital requirements, we may need to provide additional capital support to, or arrange additional capital relief for, Radian Guaranty, including potentially, entering into new reinsurance arrangements, making greater than anticipated capital contributions from Radian Group's available unrestricted cash and liquid investments or seeking to raise funds in private or public capital transactions. Depending on the extent of our future incurred losses along with the amount of new insurance that we write and other factors, the amount of capital contributions that may be required to maintain compliance with applicable regulatory and other requirements, including capital adequacy standards, could be significant and could exceed all of our remaining available capital. In the event we contribute a significant amount of Radian Group's available capital to Radian Guaranty, our financial flexibility would be significantly reduced, making it more difficult for Radian Group to meet its obligations in the future, including future principal payments on our outstanding debt.

If Radian Guaranty is not in compliance with a state's applicable Statutory RBC Requirement, it may be prohibited from writing new business in that state until it is back in compliance or it receives a waiver of, or similar relief from, the requirement. In those states that do not have a Statutory RBC Requirement, it is not clear what actions the applicable state regulators would take if a mortgage insurer fails to meet the Statutory RBC Requirement established by another state. Accordingly, if Radian Guaranty were to fail to meet the Statutory RBC Requirement in one or more states, it could be required to suspend writing business in some or all of the states in which it does business. In addition, the GSEs and our mortgage lending customers may decide not to conduct new business with Radian Guaranty (or may reduce current business levels) or impose restrictions on Radian Guaranty while its capital position remained at such levels. The franchise value of our mortgage insurance business would likely be significantly diminished if we were prohibited from writing new business or restricted in the amount of new business we could write in one or more states.

We have incurred significant losses on our insured products as a result of the economic downturn that began in 2007 and we expect to incur additional losses in the future.

As a seller of credit protection, our results are subject to macroeconomic conditions and specific events that impact the credit performance of our underlying insured assets. Many of these conditions are beyond our control, including national and regional economic conditions, housing prices, unemployment levels, interest rate changes, the availability of credit and other factors. The financial crisis and the downturn in the U.S. housing and related credit markets that began in 2007 have had a significant negative impact on the operating environment and results of operations for our businesses. Since 2007, we have experienced high levels of defaults and claims in our mortgage insurance legacy portfolio that have negatively impacted our results of operations.

Although there has been continued improvement in the U.S. economy and the operating environment for our businesses, the U.S. economy and certain housing markets remain in a state of recovery and, in many respects, are weak compared to historical standards. As a result, it is difficult to predict with any degree of certainty if and when a full recovery of the economy will occur, including meaningful increases in employment and a broad and lasting recovery in the housing market. In light of this, there remains a great deal of uncertainty regarding our ultimate loss performance, including in particular the performance of our legacy portfolio. While we expect incurred losses in our mortgage insurance business will continue to improve in 2014 as the economy and housing market continue to recover and strengthen, this expectation is based on factors that are beyond our control, and therefore, we can provide no assurance whether our projections will prove to be accurate.

In addition to the factors cited above, our results of operations and financial condition could be negatively impacted by natural disasters or other catastrophic events, acts of terrorism, war or other severe conflicts, event-specific

economic depressions or other harmful events in the regions, including in foreign countries, where we do business or have insured exposure.

Our financial guaranty portfolio has also been negatively impacted by the slow improvement and the continuing uncertain state of the credit markets and the overall economy and may incur losses in the future. See "Our financial guaranty portfolio has experienced losses as a result of the most recent economic downturn and is susceptible to further deterioration, which could have a material adverse effect on the capital adequacy of Radian Guaranty."

Our loss mitigation strategies are less effective in markets where housing values fail to appreciate or continue to decline.

The amount of mortgage insurance loss we suffer depends in part on the extent to which the home of a borrower who has defaulted on a mortgage can be sold for an amount that will cover the unpaid principal and interest on the mortgage and the expenses of the sale. In the event of a claim under our mortgage insurance master policy, we generally have the option of paying the entire loss amount and taking title to a mortgaged property or paying our coverage percentage. In the past, we generally were able to take title to properties underlying certain defaulted loans and sell the properties quickly at prices that allowed us to recover some or all of our losses. However, in more recent years, our ability to mitigate our losses in this manner has been significantly reduced. Further, in certain cases and subject to certain conditions, we consent to a sale of the property by the borrower for less than the amount needed to cover the borrower's mortgage obligation (a "short sale"), which often has the effect of reducing our ultimate claim payment obligation. If housing values decline on either a broad geographic basis or in the regions where our business is concentrated, the frequency of defaulted loans resulting in claims under our policies could increase and our ability to mitigate our losses on defaulted mortgages through short sales or through the resale of properties we acquire may be reduced, which could have a material adverse effect on our business, financial condition and results of operations.

A portion of our mortgage insurance RIF consists of higher risk loans, such as high-LTV, non-prime and adjustable rate mortgage loans, as well as pool mortgage insurance.

High-LTV Mortgages. We provide mortgage insurance on residential mortgage loans made mostly to home buyers who make down payments of less than 20% of the home's purchase price. As a result, we typically insure loans where borrowers have less equity at risk at origination than borrowers who make larger down payments; therefore, with respect to this loan characteristic, the loans we insure have a higher propensity to default relative to the total mortgage market. In addition, of the mortgage loans that we have insured, 10.4% of our total primary mortgage insurance RIF at December 31, 2013 consisted of insurance on mortgage loans with LTVs at origination of greater than 95%. We believe mortgage loans with LTVs greater than 95%, absent other mitigating factors such as high FICO scores, default substantially more often than those with lower LTVs. In addition, when we are required to pay a claim on a higher LTV loan, it is generally more difficult to recover our costs from the underlying property, especially in areas with declining property values. Beginning in 2008, we altered our underwriting criteria to significantly reduce the number of new loans we are insuring with LTVs greater than 95% and we have adopted more stringent guidelines for loans with LTVs greater than 90%. While we believe these changes have improved the overall risk profile of our new business written, our results of operations and financial condition may continue to be negatively impacted by the performance of our existing insured loans with high-LTVs, especially those loans originated in 2005 through 2008.

Non-Prime Loans. A large percentage of the mortgage insurance we wrote in years 2005 through 2008 was written on non-prime loans. At December 31, 2013, our non-prime mortgage insurance RIF, including Alt-A, was 8.5% of our total primary insurance RIF. Historically, non-prime loans are more likely to result in claims than prime loans. We have experienced a significant number of loan defaults related to Alt-A loans originated in 2005 through 2008. These losses have occurred more rapidly and well in excess of historical loss patterns and have contributed in large part to our elevated losses since 2007. Our results of operations and financial condition may continue to be negatively affected by the performance of non-prime loans.

Adjustable Rate Mortgages. ARMs are loans that have an initial interest rate that will reset during the life of the loan. ARMs also include loans with negative amortization features, such as pay option ARMs, as well as interest only mortgages. Our claim frequency on ARMs has been higher than on fixed rate loans. In many cases the higher propensity to default is due to monthly payment increases that occur when interest rates rise or when the initial interest rate expires. At December 31, 2013, approximately 4.7% of our primary mortgage insurance RIF consisted of ARMs other than interest only mortgages, and approximately 3.3% of our primary mortgage insurance RIF consisted of interest-only mortgages. Defaults related to these products may continue to be higher than for fixed rate loans, and the performance of ARMs in our portfolio may adversely affect our results of operations.

Pool Mortgage Insurance. We wrote pool mortgage insurance, which exposes us to an increased risk of greater loss severity on individual loans as compared to primary mortgage insurance. Our pool mortgage insurance products generally cover all losses in a pool of loans up to our stop loss, which generally is between 1% and 10% of the initial aggregate loan balance of the entire pool of loans. Therefore, under pool mortgage insurance, we could be required to pay the full claim amount of every loan in the pool up to our stop loss, rather than a percentage of each defaulted loan, as is the case with traditional primary mortgage insurance. At December 31, 2013, approximately 3.8% of our total mortgage insurance RIF was attributable to pool mortgage insurance. Under most of our pool mortgage insurance policies, the property underlying a defaulted loan must be sold before a claim may be submitted to us. Therefore, in a weak housing market, we expect to pay larger pool mortgage insurance claims when homes are sold after a prolonged period of home price depreciation, in particular when homes remain unsold for extended periods of time. Greater than expected pool mortgage claims would adversely affect our results of operations.

Insurance rescissions and claim denials are not expected to continue at the elevated levels we have been experiencing and a number of our lender customers are challenging our loss mitigation actions.

Since 2008, the amount of insurance we have rescinded due to fraud, misrepresentation, underwriting negligence or other non-compliance with our insurance policies has increased significantly. Likewise, the number of claims that we have denied has also increased, primarily due to the inability of our servicing customers to provide the loan origination file or other servicing records that are necessary for our review within the time periods specified under our insurance policies to perfect a claim.

These rescissions and denials have materially mitigated our paid losses and resulted in a significant reduction in our loss reserves. Our estimate of future expected rescissions and denials on defaulted loans (net of future rescissions or denials we expect to reinstate) reduced our loss reserves as of December 31, 2013 by approximately $247.0 million. During 2013 and 2012, we rescinded or denied approximately $252.9 million and $818.7 million, respectively, of first-lien claims submitted to us for payment (net of those loans for which we reinstated coverage or paid a claim following an initial rescission or denial decision) compared to approximately $645.1 million for 2011. These amounts also include a small amount of submitted claims that were subsequently withdrawn by the insured. We do not expect that rescissions and denials will continue to mitigate paid losses at the same levels we have recently experienced, in particular as the 2005 through 2008 origination years continue to decrease. In recent periods, lenders have demonstrated an increased ability to produce the additional information necessary to perfect a claim. As a result, we expect that a significant portion of previously denied claims will be resubmitted with the required documentation and ultimately paid, and we have incorporated this expectation into our reserve estimate. Our incurred but not reported (“IBNR”) reserve estimate, which consists primarily of our estimate of the future reinstatements of previously rescinded policies and denied claims, was $281.9 million, $323.0 million and $170.6 million at December 31, 2013, 2012 and 2011, respectively.

In addition, as part of our claims review process, we assess whether defaulted loans were serviced appropriately in accordance with our insurance policies and servicing guidelines. To the extent a servicer has failed to satisfy its servicing obligations, our policies provide that we may curtail the claim payment for such default, and in some circumstances, cancel coverage or deny the claim. Since 2011, claim curtailments have increased both in frequency and in size, which has contributed to a reduction in the severity of our claim payments during this period. While we cannot give assurance regarding the extent or level at which such claim curtailments will continue, we expect the trend of elevated claim curtailments to continue in light of well publicized issues in the servicing industry and our existing legacy portfolio of aged defaults. As of December 31, 2013, our IBNR reserve estimate included $14.9 million related to our estimate of the future overturn of previous curtailments. Further, we have identified a significant number of loans in our total defaulted portfolio for which “Appropriate Proceedings” (actions or proceedings such as foreclosure that provide the insured with title to the property) may not have been commenced within the outermost deadline in our master insurance policy. We currently are in discussions with the servicers for these loans regarding the potential violations and our corresponding rights under the master insurance policy. While we can provide no assurance regarding the outcome of these discussions or the ultimate resolution of these issues, it is possible that these discussions could result in arbitration or legal proceedings.

We are currently in active discussions with customers regarding a portion of our loss mitigation activities. These discussions, if not resolved, could result in arbitration or judicial proceedings, which could be brought with respect to

all rescissions, denials, cancellations and claim curtailments that have been challenged by such customers. The heightened risk of disputes with our customers regarding our loss mitigation activities could have a negative impact on our relationships with such customers or potential customers, including the potential loss of business and an increased risk of disputes and litigation.

Under our master insurance policy, any suit or action arising from any right of the insured under the policy generally must be commenced within two years after such right arose and within three years for certain other policies, including certain of our pool insurance policies. We have faced an increasing number of challenges from certain lender customers regarding our loss mitigation activities which have led us to reverse some of our prior decisions regarding rescissions, denials and claim curtailments.

On August 1, 2011, Radian Guaranty filed a lawsuit against Quicken Loans Inc. ("Quicken") in the U.S. District Court for the Eastern District, seeking a declaratory judgment that Radian Guaranty properly rescinded mortgage insurance coverage under our master insurance policy and delegated underwriting endorsement for a population of home mortgage loans that were originated by Quicken based upon deficiencies and improprieties in the underwriting process. See "Item 3. Legal Proceedings." We may be unsuccessful in this proceeding or other similar proceedings that may be brought with respect to our loss mitigation activities, which may be costly and time consuming. Our rescission practices with respect to Quicken's loans are generally the same as for other lenders and servicers. Therefore, any adverse result in the Quicken proceeding or other similar proceedings may adversely affect the outcome or ultimate result of rescissions involving other lenders and servicers.

The determination of our reserve for losses involves significant use of estimates with regard to the likelihood, magnitude and timing of a loss, including an estimate of the number of defaulted loans that will be successfully rescinded or denied. If the actual amount of rescissions and denials is significantly lower than our estimate, as a result of a greater than anticipated number of successful challenges to our rescissions and denials, litigation, settlements or other factors, or if the levels of rescission and denials decrease faster than we expect, our losses may materially increase, which could have a material adverse effect on our financial condition and results of operations. Similarly, if a significant amount of our claim curtailments are successfully challenged, it could result in our payment of additional claims, which could adversely affect our financial condition.

Because most of the mortgage loans that we insure are sold to Freddie Mac and Fannie Mae, changes in their charters or business practices could significantly impact our mortgage insurance business.

Freddie Mac and Fannie Mae are the beneficiaries of the majority of our mortgage insurance policies. Freddie Mac's and Fannie Mae's federal charters generally prohibit them from purchasing any mortgage with a loan amount that exceeds 80% of a home's value, unless that mortgage is insured by a qualified mortgage insurer, the mortgage seller retains at least a 10% participation in the loan or the seller agrees to repurchase or replace the loan in the event of a default. As a result, high-LTV mortgages purchased by Freddie Mac or Fannie Mae generally are insured with private mortgage insurance. Changes in the charters or business practices of Freddie Mac or Fannie Mae, or in the regulatory environment in which they operate, could reduce the number of mortgages they purchase that are insured by us and consequently diminish our franchise value. In particular, with respect to loans they purchase, the GSEs acting independently or through their conservator, the FHFA, have the ability, among other things, to:

- implement new eligibility requirements for mortgage insurers, including more onerous capital standards (see "Radian Guaranty could lose its eligibility status with the GSEs, causing Freddie Mac and Fannie Mae to decide not to purchase mortgages insured by Radian Guaranty, which would significantly impair our mortgage insurance franchise.");
- alter underwriting standards on mortgages they purchase;
- establish policies or requirements that may result in a reduction in the number of mortgages they acquire;
- alter the national conforming loan limit for mortgages acquired by them;
- alter the terms on which mortgage insurance coverage may be canceled before reaching the cancellation thresholds established by law;
- establish and change the terms required to be included in mortgage insurance policies they acquire. (The private mortgage insurers recently implemented changes to their master insurance policies to reflect a series of changes agreed upon with the GSEs with respect to, among other things, loss mitigation and claims processing activities, as well as the GSEs' rights under the policies. These changes are expected to become effective in 2014.);
- require private mortgage insurers to perform specified activities intended to avoid or mitigate loss on insured mortgages that are in default;
- establish and require changes to the amount of loan level delivery fees or guarantee fees (which may result in a higher cost to borrowers) that the GSEs charge on loans that require mortgage insurance (see "Our mortgage insurance

business faces intense competition.”);

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intervene in mortgage insurers' rescission practices or settlements with servicers. (In April 2011, Freddie Mac advised its servicers that they must obtain its prior approval for settlements with servicers and Fannie Mae advised its servicers that they are prohibited from entering into such settlements.); and
- influence a mortgage lender's selection of the mortgage insurer providing coverage.

Certain of Freddie Mac's and Fannie Mae's programs require less insurance coverage than they historically have required, and they have the ability to further reduce coverage requirements, which could reduce the amount of mortgage insurance they purchase from us, and consequently have an adverse effect on our results of operations. For a number of years, the GSEs have had programs under which lenders could choose, for certain loans, a mortgage insurance coverage percentage that was the minimum required by the GSEs' charters, with the GSEs paying a lower price for these loans ("charter coverage"). In 2010, Fannie Mae broadly expanded the types of loans eligible for charter coverage. To the extent lenders selling loans to Fannie Mae choose charter coverage for loans that we insure, our revenues would likely be reduced.

The GSEs' business practices may be impacted by their results of operations, as well as by legislative or regulatory changes governing their operations. In July 2008, an overhaul of regulatory oversight of the GSEs was enacted. The provisions contained within HERA encompass substantially all of the GSEs' operations. HERA abolished the former regulator for the GSEs and created a new regulator, the FHFA, in addition to other oversight reforms. In September 2008, the FHFA was appointed as the conservator of the GSEs to control and direct the operations of the GSEs. The continued role of the conservator may increase the likelihood that the business practices of the GSEs will be changed in ways that may have an adverse effect on us. In particular, the GSEs may seek alternatives other than private mortgage insurance to conduct their business.

In February 2011, the Obama Administration released a proposal to reform the U.S. housing finance market. In its proposal, the Obama Administration sought to gradually reduce the federal government's role in housing finance, including the ultimate wind-down of the GSEs, and to increase the role of private capital. The Obama Administration's proposal has shaped the debate in Congress as the Senate Banking Committee and the House Financial Services Committee are currently considering legislation to reform the housing finance market. Most of the legislative proposals have included reference to loan level credit enhancement, such as private mortgage insurance. It is unclear whether housing finance reform legislation will be adopted and, if so, what form it will ultimately take.

The future structure of the residential housing finance system remains uncertain, including the impact of any such changes on our business. Although we believe that traditional private mortgage insurance will continue to play an important role in any future housing finance structure, new federal legislation could reduce the level of private mortgage insurance coverage used by the GSEs as credit enhancement, or even eliminate the requirement, which would reduce our available market and could adversely affect our mortgage insurance business.

Our financial guaranty portfolio has experienced losses as a result of the most recent economic downturn and is susceptible to further deterioration, which could have a material adverse effect on the capital adequacy of Radian Guaranty.

During the third quarter of 2008, Radian Group contributed its ownership interest in Radian Asset Assurance to Radian Guaranty. While this reorganization has provided Radian Guaranty with substantial regulatory capital and dividends, it also makes the capital adequacy of our mortgage insurance business dependent, to a significant degree, on the successful run-off of our financial guaranty business. If the performance of our financial guaranty portfolio deteriorates, including if we are required to establish (or increase) statutory reserves on defaulted obligations that we have insured, or if we make net commutation payments to terminate insured financial guaranty obligations in excess of the then established statutory reserves for such obligations, the statutory capital of Radian Guaranty also would be negatively impacted. For a discussion of the credit performance of our financial guaranty portfolio, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Financial Guaranty—Financial Guaranty Portfolio—Credit Performance/Credit Quality."

Deterioration in our financial guaranty portfolio could reduce Radian Asset Assurance's statutory surplus and negatively impact its ability to pay dividends to Radian Guaranty.

The performance of our financial guaranty business may affect whether Radian Asset Assurance will be permitted to pay dividends to Radian Guaranty in the future as it has in past years, as well as the amount of any such dividends. At December 31, 2013, Radian Asset Assurance maintained claims paying resources of $1.6 billion, including statutory

surplus of approximately $1.2 billion. Radian Asset Assurance paid dividends to Radian Guaranty in 2012 and 2013 totaling $54.0 million and $36.0 million, respectively. We expect that Radian Asset Assurance will next have the capacity to pay an ordinary dividend, of approximately $32 million, to Radian Guaranty in the third quarter of 2014.

The timing and amount of any future dividend payments will depend on the dividend capacity of our financial guaranty business, which is governed by New York insurance laws. If the performance of our financial guaranty portfolio deteriorates materially or the amount we pay to terminate any particular financial guaranty exposure is larger than the amount of the statutory reserves for such exposure, Radian Asset Assurance's statutory surplus may be reduced. If this were to occur, Radian Asset Assurance would likely have less capacity to pay dividends to Radian Guaranty and could be prohibited from paying dividends altogether, which could have a negative impact on Radian Guaranty's available liquidity.

We face risks associated with our exposure to other financial guaranty issuers.

As of December 31, 2013, Radian Asset Assurance had approximately $4.9 billion outstanding par on its total reinsurance portfolio and $1.8 billion outstanding par written on a second-to-pay basis.

Our ceding companies are primarily responsible for surveillance, loss mitigation and salvage on the risks that they cede to us. They may be less willing than us to perform these tasks to the extent necessary to minimize potential losses and/or maximize potential salvage on the transactions we reinsure. In addition, they may have different incentives to eliminate long-term liabilities than we do. We generally do not have direct access to the insured obligation or the right to perform our own loss mitigation or salvage work on these transactions. We also have limited visibility with respect to the performance of many of the obligations we reinsure. See "If the estimates we use in establishing loss reserves are incorrect, we may be required to take unexpected charges to income, which could adversely affect our capital position."

The ceding companies sometimes delegate their loss adjustment functions to third parties, the cost of which is then proportionally allocated to us and any other reinsurers for the insured transaction. Accordingly, the losses and loss adjustment expenses allocated to us on our reinsured risks may be higher than otherwise would have been the case if we were responsible for surveillance, loss mitigation and salvage for these risks. In addition, should a ceding company become insolvent, there is a risk that the recoveries that it receives in any given transaction may become a part of its general estate rather than being allocated among the reinsurers paying the related claim. These factors could have a material adverse effect on our financial condition and operating results.

Assured is primarily responsible for surveillance, loss mitigation salvage and claim payments on the risks we ceded to them in 2012. If they should be unable to make claim payments on the risks Radian Asset Assurance ceded to them, then Radian Asset Assurance would be responsible for losses and LAE on such policies and face similar risks to those we have on risk assumed from the ceding companies.

In addition to reinsurance, we have insured certain transactions on a second-to-pay basis, meaning that we are not required to pay a claim unless both the underlying obligation and another insurer defaults on its primary obligation to cover losses on such defaulted obligation. Consequently, if the conservator for an insolvent financial guarantor rejects payment of all or a portion of a valid claim, we may be required to pay all or a portion of such claim. Because many primary obligors on transactions where we have second-to-pay exposure are currently experiencing significant financial difficulties, the likelihood of our having to pay a claim on our second-to-pay transactions has increased.

In 2009, Syncora and FGIC suspended all claims payments following orders by the NYSDFS. While the NYSDFS lifted the suspension of payments by Syncora in June 2010, Syncora has subsequently posted additional losses and it is possible the NYSDFS could implement the suspension again in the future. In August 2013, a plan of rehabilitation for FGIC pursuant to Article 74 of the New York Insurance Law became effective, which initially permits FGIC only to pay 17% of the amount of any claims. In 2010, Ambac placed a portion of its obligations into a segregated account that is under the control of the WOCI. None of our directly insured second-to-pay exposure to Ambac was placed into the segregated account and we have not received notice that any of the second-to-pay exposure ceded to us by Ambac was placed into the segregated account. As of December 31, 2013, Syncora, FGIC and Ambac are the primary insurers on $544.3 million net par outstanding of our second-to-pay exposure and $199.4 million of our second-to-pay exposure with respect to these three primary insurers is rated BIG.

Radian Guaranty could lose its eligibility status with the GSEs, causing Freddie Mac and Fannie Mae to decide not to purchase mortgages insured by Radian Guaranty, which would significantly impair our mortgage insurance franchise.

In order to be eligible to insure loans purchased by the GSEs, mortgage insurers must meet the GSE's eligibility requirements. The current GSE eligibility requirements, among other things, impose limitations on the type of risk that may be insured, standards for the diversification of risk, procedures for claims handling, standards for acceptable underwriting practices, standards for certain reinsurance cessions and financial and capital requirements. If we fail to

satisfy one or more of these requirements, Freddie Mac and/or Fannie Mae could restrict Radian Guaranty from conducting certain types of business with them or take actions that may include not purchasing loans insured by Radian Guaranty.

In addition to these requirements, in order to maintain the highest level of eligibility with Freddie Mac and Fannie Mae, mortgage insurers historically were required to maintain an insurer financial strength rating of AA- or Aa3 from at least two of the three ratings agencies by which they were customarily rated. Both Freddie Mac and Fannie Mae have indicated that loss of mortgage insurer eligibility will no longer be automatic due to a failure to meet the financial strength rating requirements, and instead will be subject to review if and when the downgrade occurs. Because Radian Guaranty does not meet the financial strength rating requirements specified in the GSEs' eligibility guidelines, Radian Guaranty currently is operating as an eligible insurer under remediation plans with Freddie Mac and Fannie Mae that describe how we intend to achieve consistent levels of operating profitability and ultimately regain higher financial strength ratings for our mortgage insurers. We cannot be certain whether, or for how long, either of the GSEs will continue to allow Radian Guaranty to operate as an eligible insurer under our existing remediation plans.

During 2014, we expect the GSEs to release revisions to their standard mortgage insurer eligibility requirements, including certain changes that are more stringent than the current requirements. Among other changes, the new GSE eligibility requirements are expected to contain new capital adequacy standards for private mortgage insurers that are more onerous than the capital requirements that are currently in effect, including potentially: (i) a risk-to-capital ratio below Radian Guaranty's 19.5 to 1 risk-to-capital ratio as of December 31, 2013; (ii) higher capital requirements for loans insured prior to 2009; and (iii) a limitation on the amount of capital credit attributable to subsidiaries of the eligible insurer (including potentially Radian Guaranty's capital that is attributable to its ownership of Radian Asset Assurance, our financial guaranty subsidiary). While it remains unclear what form the new eligibility requirements may take or the potential implementation period that may be allowed, we expect the GSEs to release the new eligibility requirements in 2014 and for them to become effective following an implementation period. If the new GSE eligibility requirements include more onerous capital requirements, including any one or more of the potential requirements referenced above, it is likely that we would need to provide additional capital support to, or arrange additional capital relief for, Radian Guaranty, including potentially, increasing the amount of capital contributions from our available holding company funds or from funds raised in private or public capital transactions. See "Radian Group's sources of liquidity may be insufficient to fund its obligations."

Although we expect to be able to retain Radian Guaranty's eligibility status with the GSEs, we cannot be certain that this will occur. Loss of Radian Guaranty's eligibility status with the GSEs would likely have an immediate and material adverse impact on the franchise value of our mortgage insurance business and our future prospects and would negatively impact our results of operations and financial condition.

A decrease in the volume of home mortgage originations could result in fewer opportunities for us to write new insurance business.

The amount of new business we write depends, among other things, on a steady flow of low down payment mortgages that require our mortgage insurance. The factors that affect the volume of low down payment mortgage originations include:

- the level of home mortgage interest rates and the deductibility of mortgage interest for income tax purposes;
- the health of the domestic economy as well as conditions in regional and local economies;
- housing affordability;
- population trends, including the rate of household formation;
- the rate of home price appreciation, which in times of heavy refinancing can affect whether refinance loans have loan-to-value ratios that require private mortgage insurance; and
- government housing policy encouraging loans to first-time homebuyers.

In addition, losses from the recent economic downturn have caused lenders to substantially reduce the availability of these low down payment loans and to significantly tighten their underwriting standards. Fewer loan products and tighter loan qualifications, while improving the overall quality of new mortgage originations, have in turn reduced the number of qualified homebuyers and made it more difficult for buyers (in particular first-time buyers) to obtain mortgage financing or to refinance their existing mortgages. In addition, the significant disruption in the housing and related credit markets that began in 2007 led to reduced investor demand for mortgage loans and MBS in the secondary market, which historically has been a source of funding for many mortgage lenders. This significantly reduced liquidity in the mortgage funding marketplace, forcing many lenders to retain a larger portion of their

mortgage loans and MBS and leaving them with less capacity to continue to originate new mortgages.

Total domestic mortgage originations have decreased significantly from the $2.7 trillion in 2006 (pre-dating the housing downturn) to approximately $1.8 trillion for 2013, and are expected to decline to approximately $1.2 trillion in 2014. If the volume of new mortgage originations continues to remain at low levels for a prolonged period, we will likely experience a reduced opportunity to write new insurance business and will be subject to increased competition with respect to that opportunity, which could reduce the size of our mortgage insurance business and have a significant negative effect on both our ability to execute our business plans and our overall franchise value. See "Our mortgage insurance business faces intense competition." Further, the Dodd-Frank Act's reforms to strengthen lending standards, improve underwriting standards and increase accountability in the loan origination and securitization processes could further reduce the total number of mortgage originations in the future, in particular with respect to the high-LTV market. In addition, when the implications of the Basel III final rule and the potential impact of the risk-retention aspect of QRM are considered in coordination, it is possible that lenders will be discouraged from writing non-QRM mortgages, which could result in fewer opportunities for us to write new business. See "Legislation and regulatory changes and interpretations could harm our mortgage insurance business" and "The implementation of the Basel II capital adequacy requirements and the Basel III guidelines may discourage the use of mortgage insurance."
Our NIW and franchise value could decline if we lose business from a significant customer.
Our mortgage insurance business depends on our relationships with our customers, and in particular, our relationships with our largest lending customers. The loss of business from a significant customer could have an adverse effect on the amount of new business we are able to write, and consequently, our franchise value.
As of December 31, 2013, our top 10 mortgage insurance customers (measured by NIW) were generally responsible for 25.8% of our primary NIW in 2013. For the past several years we have been focused on expanding and diversifying our customer base, and in 2013, 9.0% of our NIW was from customers new to us in 2012 and 2013. Notwithstanding this diversification trend, maintaining our business relationships and business volumes with our largest lending customers remains critical to the success of our business.
In response to the recent financial crisis and the related deterioration in housing markets, we tightened our underwriting guidelines, and as a result, we declined to insure some of the loans originated by our larger customers. We also increased our loss mitigation activities to enforce our rights under our mortgage insurance policies with respect to loans originated during a period of historically poor underwriting and a subsequent period of servicing problems that increased our risk of loss. Our tighter guidelines and increased level of loss mitigation activity has negatively affected our relationships with certain of our customers and could result in customers choosing to limit the amount of business they conduct with us or ceasing to do business with us entirely. See "Insurance rescissions and claim denials are not expected to continue at the elevated levels we have been experiencing and a number of our lender customers are challenging our loss mitigation actions."
Our master insurance policies and related lender agreements do not, and by law cannot, require our mortgage insurance customers to do business with us. Although we have taken steps to significantly expand and diversify our customer base in recent years, we cannot be certain that any loss of business from a single lender would be replaced from other new or existing lending customers in the industry. As a result of current market conditions, our lending customers may decide to write business only with certain mortgage insurers based on their views with respect to an insurer's pricing, service levels, underwriting guidelines, loss mitigation practices, financial strength or other factors. In addition, many of our customers currently are placing a significant portion of their mortgage insurance business with us. Our customers may choose to diversify the mortgage insurers with which they do business, which could negatively affect our level of NIW and our market share.
Our mortgage insurance business faces intense competition.
The U.S. mortgage insurance industry is intensely competitive. Our competitors include other private mortgage insurers and federal and state governmental and quasi-governmental agencies, principally the FHA, which significantly increased its competitive position in the mortgage insurance market during the financial crisis.

We compete with other private mortgage insurers on the basis of price, underwriting guidelines, terms and conditions, customer relationships, reputation, financial strength and service. The improvement in the credit quality of new loans being insured in the current market, combined with the deterioration of the financial positions of many existing private mortgage insurance companies during the financial crisis (which led insurance regulators to take action with respect to certain companies), in part due to their legacy books of insured mortgages, has brought new entrants to our industry and could encourage additional new competitors. In addition to Radian Guaranty, there currently are six other private mortgage insurers eligible to write business for the GSEs. Certain of our private mortgage insurance competitors are subsidiaries of larger corporations that may have access to greater amounts of capital and financial resources than we do and may have stronger financial strength ratings than we have. In addition, two of our competitors who are new entrants to the industry are not burdened by legacy credit risks. If we are unable to compete with other providers, including new entrants that are not burdened by legacy credit risks or by loss mitigation actions on legacy insurance portfolios, it could have a material adverse effect on our business position, financial condition and operating results.

We also compete with governmental and quasi-governmental entities that typically do not have the same capital requirements or business objectives that we and other private mortgage insurance companies have, and therefore, generally had greater financial flexibility in their pricing guidelines and capacity that could put us at a competitive disadvantage. Beginning in 2008, the FHA, which historically had not been a significant competitor, substantially increased its share of the mortgage insurance market, including by insuring a number of loans that would meet our current underwriting guidelines, sometimes at a lower monthly cost to the borrower than a loan that carries our mortgage insurance.

Since 2010, the private mortgage insurance industry steadily has recaptured market share from the FHA, primarily due to increases in the financial strength of certain private mortgage insurers and the development of new products and marketing efforts directed at competing with the FHA, as well as increases in the FHA's pricing and other operational changes at the FHA including heightened loss mitigation efforts and the elimination of certain insurance cancellation rights. Although the FHA's market share has been gradually declining, the FHA may continue to maintain a strong market position and could increase its market position again in the future.

Factors that could cause the FHA to maintain or increase its share of the mortgage insurance market include:

- past and potential future capital constraints of the private mortgage insurance industry;
- the tightening by private mortgage insurers of underwriting guidelines based on past loan performance or other risk concerns;
- the increased levels of loss mitigation activity by private mortgage insurers on older vintage portfolios compared to the FHA's historical practice of engaging in limited loss mitigation activities;
- an increase in the loan level delivery fees charged by the GSEs on loans that require mortgage insurance and changes in the amount of guarantee fees for the loans that the GSEs acquire (which may result in higher cost to borrowers), which changes have, in the past, been implemented in furtherance of goals other than profits;
- the perceived operational ease of using FHA insurance compared to the products of private mortgage insurers; and
- the implementation of new regulations under the Dodd-Frank Act and the Basel III guidelines that may be more favorable to the FHA compared to private mortgage insurers (see "The Dodd-Frank Act may have a material effect on our mortgage insurance and financial guaranty businesses" and "The implementation of the Basel II capital adequacy requirements and the Basel III guidelines may discourage the use of mortgage insurance").

In the event that a government-owned entity or GSE in one of our markets decides to reduce prices significantly or alter the terms and conditions of its mortgage insurance or other credit enhancement products in furtherance of political, social or other goals rather than a profit motive, we may be unable to compete in that market effectively, which could have an adverse effect on our business, financial condition and operating results.

One or more private mortgage insurers may seek to regain market share from the FHA or other mortgage insurers by reducing pricing, loosening their underwriting guidelines, or relaxing their loss mitigation practices, which could, in turn, improve their competitive position in the industry and negatively impact our level of NIW.

In addition, before the recent housing downturn, an increasing number of alternatives to traditional private mortgage insurance developed, many of which reduced the demand for our mortgage insurance. As a result of the disruptions in the housing finance and credit markets, however, many of the alternatives to private mortgage insurance are not widely available. As market conditions change, we again could face significant competition from these alternatives, as

well as from other new alternatives that may develop.

Our business depends, in part, on effective and reliable loan servicing.
We depend on reliable, consistent third-party servicing of the loans that we insure. Dependable servicing generally ensures timely billing and effective loss mitigation opportunities for delinquent or near-delinquent loans. As part of our claims review process, we assess whether defaulted loans were serviced appropriately in accordance with our insurance policies and servicing guidelines. In the high claims environment of the recent past, we have found a high frequency of servicer negligence with respect to the loans we have insured, which makes us more susceptible to greater losses on these loans.
Challenging economic and market conditions may affect the ability of our servicers to effectively maintain their servicing operations. In addition, the financial crisis and economic downturn led to a significant increase in the number of delinquent mortgage loans. These increases have strained the resources of servicers, reducing their ability to undertake loss mitigation efforts in a timely manner, including the processing of potential loan modifications, which could help limit our losses. Further, due to the strain on the resources of servicers, delinquent loan servicing is increasingly being transferred to specialty servicers. The transfer of servicing can cause a disruption in the servicing of delinquent loans. Additionally, specialty servicers may not have sufficient resources to effectively handle the substantially higher volume of delinquent loans.
Recent state and federal inquiries and investigations into whether servicers have acted improperly in foreclosure proceedings, including the cost of and conditions imposed in settlements of such inquiries or investigations, have further strained the resources of servicers. In January 2013, the CFPB issued final rules that establish national servicing standards for servicing residential mortgage loans and impose new and potentially more burdensome requirements, procedures and standards. These new rules became effective in January 2014. Complying with the new rules may impact the servicing of mortgage loans covered by our insurance policies.
If a disruption occurs in the servicing of mortgage loans covered by our insurance policies, this, in turn, could contribute to a rise in delinquencies and/or claims among those loans and could have a material adverse effect on our business, financial condition and operating results.
Loan modification, refinancing and other similar programs may not provide us with a material benefit.
The FDIC, the GSEs and various lenders have adopted programs to modify loans to make them more affordable to borrowers with the goal of reducing the number of foreclosures. In addition, in 2009, the U.S. Treasury implemented the HAMP program, which provides guidelines for loan modifications. Some of the eligibility criteria for these programs require information about borrowers, such as the borrowers' current income and non-mortgage debt obligations. Because the GSEs and the lenders do not share such information with us, we cannot determine with certainty the number of loans in our default inventory that remain eligible to participate in such programs. While modifications continue to be made under these programs, it is unclear how many successful loan modifications will result from these programs, in particular in light of the high level of re-default rates for loans that have been modified through these programs. To the extent modifications cure previously defaulted loans, our loss reserves do not account for potential re-defaults unless at the time the reserve is established, the re-default has already occurred. We believe that we have realized the majority of the benefits from HAMP because the number of loans insured by us that we are aware are entering HAMP trial modification periods has decreased significantly over time. Enrollment in the HAMP program was recently extended to December 31, 2015.
In 2009, the GSEs began offering HARP. HARP allows a borrower who is not delinquent to refinance a mortgage if such borrower has been unable to take advantage of lower interest rates because the borrower's home has decreased in value. To be eligible, a borrower must meet certain conditions, including that the borrower must be current on the mortgage at the time of the refinance, with no late payment in the past six months and no more than one late payment in the past 12 months. In November 2011, FHFA made enhancements to the HARP program ("HARP 2") to increase the number of borrowers who can qualify for refinancing. The program was recently extended to December 31, 2015, for loans that were originated or acquired by the GSEs by or before May 30, 2009. Importantly, the FHFA reached an agreement with private mortgage insurers, including Radian Guaranty, to facilitate the transfer of mortgage insurance on loans to be refinanced without regard to LTV. While HARP 2 may result in fewer delinquent loans and claims, our ability to rescind coverage on HARP loans will be limited in certain circumstances pursuant to our agreement with the FHFA. The changes implemented by HARP 2 have increased the number of borrowers who may benefit from the program and, as of December 31, 2013, approximately 11% of our total primary mortgage insurance RIF had

successfully completed a HARP refinance. The expiration, termination or temporary cessation of any of these programs could result in an increased number of claims in our mortgage insurance business and could adversely affect our business and results of operations.

We cannot ascertain the total benefits we may derive from these loan modification programs, particularly given the uncertainty around the re-default rates for loans that have been modified through these programs. Re-defaults can result in losses that could be greater than we would have paid had the loan not been modified. If a mortgage balance is reduced as a result of a loan modification program, we may still be responsible under our master insurance policy to pay the original balance if the borrower re-defaults on that mortgage after its balance has been reduced.

The extended period of time that a loan remains in our delinquent loan inventory may increase the severity of claims we ultimately are required to pay.

Foreclosure backlogs may further delay our receipt of claims, resulting in an increase in the period that a loan remains in our delinquent loan inventory, and may increase the severity of claims that we are ultimately required to pay. Over the past several years, the average time it takes to receive a claim associated with a defaulted loan has increased. This is, in part, due to new loss mitigation protocols established by servicers and to a significant backlog of foreclosure proceedings in many states, and especially in those states that impose a judicial process for foreclosures. Generally, foreclosure delays do not stop the accrual of interest or affect other expenses on a loan, and unless a loan is cured during such delay, once title to the property ultimately is obtained and a claim is filed, our paid claim amount may include additional interest (subject to a two-year limitation under our insurance policies) and expenses. However, where our claim amount is increased because of foreclosure delays caused by a failure to appropriately service or meet other conditions under our insurance policies, we are entitled to curtail or adjust claims appropriately.

Our success depends on our ability to assess and manage our underwriting risks; the premiums we charge may not be adequate to compensate us for our liability for losses.

Our mortgage insurance and financial guaranty premium rates may not be adequate to cover future losses. The estimates and expectations we use to establish premium rates are based on assumptions made at the time our insurance is written. Our mortgage insurance premiums are based on our long-term expected risk of claims on insured loans and take into account, among other factors, each loan's LTV, type (e.g., prime vs. non-prime or fixed vs. variable payments), premium structure (e.g., single lump sum, monthly or other variations), term, coverage percentage and whether there is a deductible in front of our loss position. Our financial guaranty premiums are based on our expected risk of claim on the insured obligation and take into account, among other factors, the rating and creditworthiness of the issuer and of the insured obligations, the type of insured obligation, the policy term and the structure of the transaction being insured. These assumptions may ultimately prove to be inaccurate. In particular, the predictive value of historical data may be less reliable during periods of greater economic stress and, accordingly, our ability to correctly estimate our premium requirements may be impaired during periods of economic uncertainty such as we have recently experienced.

We generally cannot cancel or elect not to renew the mortgage insurance or financial guaranty insurance coverage we provide, and because we generally fix premium rates for the life of a policy when issued, we cannot adjust renewal premiums or otherwise adjust premiums during the life of a policy. Therefore, even if the risk underlying many of the mortgage or financial guaranty products we have insured develops more adversely than we anticipated, including as a result of the ongoing weakness in many parts of the economy and in certain housing markets, and the premiums our customers are currently paying for similar coverage on new business from us and others has increased, we generally cannot increase the premium rates on this in-force business, or cancel coverage or elect not to renew coverage, to mitigate the effects of such adverse developments. Our premiums earned and the associated investment income on those premiums may ultimately prove to be inadequate to compensate for the losses that we may incur with respect to those insured risks. See "We have incurred significant losses on our insured products as a result of the economic downturn that began in 2007 and we expect to incur additional losses in the future."

Our delegated underwriting program may subject our mortgage insurance business to unanticipated claims.

In our mortgage insurance business, we enter into agreements with our mortgage lender customers that commit us to insure loans made by them using pre-established underwriting guidelines. Once we accept a lender into our delegated underwriting program, we generally insure a loan originated by that lender even if the lender has not followed our specified underwriting guidelines. Under this program, a lender could commit us to insure a material number of loans with unacceptable risk profiles before we discover the problem and terminate that lender's delegated underwriting authority or pursue other rights that may be available to us, such as our rights to rescind coverage or deny claims.

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We face risks associated with our contract underwriting business.
We provide contract underwriting services on a limited basis for certain of our mortgage lender customers, including on loans for which we are not providing mortgage insurance. For substantially all of the existing loans that were originated through our contract underwriting services, we have agreed that if we make a material error in providing these services and the error leads to a default, the mortgage lender may, subject to certain conditions, require us to purchase the loan, issue mortgage insurance on the loan or indemnify the lender against future loss associated with the loan. Accordingly, we have assumed some credit risk and interest-rate risk in connection with providing these services. We also face regulatory risk in providing these services. See "Legislation and regulatory changes and interpretations could harm our mortgage insurance business."
Our current credit ratings and the insurance financial strength ratings assigned to our mortgage insurance subsidiaries could weaken our competitive position.
Recently, the credit ratings of Radian Group and the insurance financial strength ratings assigned to our insurance subsidiaries have been subject to upgrades, reflecting the improvement in our overall financial condition and the operating environment for our business. Notwithstanding these upgrades, however, our ratings remain below investment grade and may be downgraded in the future. The current financial strength ratings for our principal insurance subsidiaries are:

	Moody's	S&P
Radian Guaranty	Ba3	BB-
Radian Asset Assurance	Ba1	B+

Historically, our ratings were critical to our ability to market our products and to maintain our competitive position and customer confidence in our products. In addition, in order to maintain the highest level of eligibility with the GSEs, mortgage insurers historically had to maintain an insurance financial strength rating of AA- or Aa3 from at least two of the three rating agencies by which they are customarily rated. Although Radian Guaranty's ratings are substantially below those required ratings, the GSEs have allowed Radian Guaranty to operate under business and financial remediation plans and retain its eligibility status. As discussed above, the FHFA is in the process of developing new eligibility requirements for private mortgage insurers. While the form of these new requirements remains uncertain, we believe the new requirements will focus primarily on a mortgage insurer's capital adequacy and will not include a specific ratings requirement.
Our financial strength ratings currently are below the ratings assigned to certain other private mortgage insurers, some of which have been assigned investment grade ratings. Despite this, we have been successful in competing in the private mortgage insurance market, and we do not believe our current ratings have had a material adverse affect on our relationships with customers. To the extent this changes, however, and financial strength ratings become a more prominent consideration for lenders, we may be competitively disadvantaged by customers choosing to do business with private mortgage insurers that have higher financial strength ratings.
We believe that financial strength ratings remain a significant consideration for participants seeking to secure credit enhancement in the non-GSE mortgage market, which includes most non-QM loans. While this market has remained limited since the financial crisis, we view this market as an area of potential future growth and our ability to participate in this market could depend on our ability to secure investment grade ratings for our mortgage insurance subsidiaries. In addition, if legislative or regulatory changes were to alter the current state of the housing finance industry such that the GSEs no longer operated in their current capacity, we may be forced to compete in a new marketplace in which ratings may play a greater role. If we are unable to compete effectively in the current or any future markets as a result of the financial strength ratings assigned to our mortgage insurance subsidiaries, the franchise value and future prospects for our mortgage insurance business could be negatively affected.
Because we do not establish reserves in our mortgage insurance business until a borrower has failed to make two monthly payments, our financial statements do not reflect our ultimate expected obligation for losses on our entire portfolio of insured mortgages.
We do not establish reserves in our mortgage insurance business until we are notified that a borrower has failed to make at least two monthly payments when due. Because our mortgage insurance reserving does not account for the impact of future losses that we expect to incur with respect to performing (non-defaulted) loans, our obligation for ultimate losses that we expect to incur at any period end is not reflected in our financial statements, except to the

extent that a premium deficiency exists. As a result, future losses beyond what we have recorded in our financial statements may have a material impact on future results as defaults occur.

If the estimates we use in establishing loss reserves are incorrect, we may be required to take unexpected charges to income, which could adversely affect our capital position.

We establish loss reserves in both our mortgage insurance and financial guaranty businesses to provide for the estimated cost of future claims. Because our reserves represent only our best estimate of claims to be paid in the future, these reserves may be insufficient to satisfy the full amount of claims that we ultimately have to pay. Setting our loss reserves requires significant judgment by management with respect to the likelihood, magnitude and timing of each potential loss. The models, assumptions and estimates we use to establish loss reserves may not prove to be accurate, especially during an extended economic downturn or a period of extreme market volatility and uncertainty, such as we have recently experienced.

Many of the programs and initiatives that have been implemented to prevent or forestall mortgage foreclosures, as well as the significant backlog of foreclosure proceedings in many states that impose a judicial process on such proceedings, have resulted in fewer defaulted loans moving to claim, and consequently, an increase in the aging of our inventory of defaulted loans. As a result, the number of our defaulted loans that have been in default for 240 or more days, which represents our most aged category of defaulted loans, currently represents a much larger portion of our default inventory than has historically been the case. While these loans are generally assigned a higher loss reserve based on our belief that they are more likely to result in a claim, we also assume, based on historical trends, that a significant portion of these loans will cure or otherwise not result in a claim. Given the significant period of time that these loans have been in default, it is possible that the ultimate cure rate for these defaulted loans will be significantly less than historical rates, and therefore, less than our current estimates of cures for this inventory of defaults. Further, the foreclosure moratoriums and other delays have resulted in further aging of our defaulted loan portfolio, which has decreased claim payments (perhaps only temporarily) and created additional uncertainty regarding the likelihood, magnitude and timing of anticipated losses. If our estimates are inadequate, we may be required to increase our reserves, which could have a material adverse effect on our financial condition, capital position and operating results.

In addition to establishing mortgage insurance loss reserves for defaulted loans, under GAAP, we are required to establish a premium deficiency reserve, or PDR, for our mortgage insurance products if the amount by which the net present value of expected future losses for a particular product and the expenses for such product exceeds the net present value of expected future premiums and existing reserves for such product. We evaluate whether a premium deficiency exists at the end of each fiscal quarter. As of December 31, 2013, a premium deficiency reserve of approximately $1.8 million existed for our second-lien insurance business. Our evaluation of premium deficiency is based on our best estimate for future losses, expenses and premiums. This evaluation depends upon many significant assumptions, including assumptions regarding future macroeconomic conditions, and therefore, is inherently uncertain and may prove to be inaccurate. Although no premium deficiency existed on our first-lien insurance business at December 31, 2013, there can be no assurance that premium deficiency reserves will not be required for this product or our other mortgage insurance products in future periods.

It also is difficult to estimate appropriate loss reserves for our financial guaranty business because of the nature of potential losses in this business, which are largely influenced by the particular circumstances surrounding individual troubled credits, including the availability of loss mitigation. As a result, our loss reserves are less capable of being evaluated based on historical assumptions or precedent. See "Our financial guaranty portfolio has experienced losses as a result of the most recent economic downturn and is susceptible to further deterioration, which could have a material adverse effect on the capital adequacy of Radian Guaranty." In addition, in our financial guaranty reinsurance business, we rely, in part, on information provided by our ceding customers in order to establish reserves. If this information is incomplete, inaccurate or untimely, our loss reserves may not be estimated accurately and could require material adjustment in future periods as new or corrected information becomes available.

Our success depends, in part, on our ability to manage risks in our investment portfolio.

Our investment portfolio is our primary source of liquidity. We maintain an investment policy to manage our investments and those of our insurance subsidiaries that are subject to state insurance laws. We may be forced to change our investments or investment policies depending upon regulatory, economic and market conditions and our existing or anticipated financial condition and operating requirements, including the tax position, of our business segments. In addition, if we underestimate our policy liabilities or improperly structure our investments to meet those liabilities, we could have unexpected losses, including losses resulting from the forced liquidation of investments

before their maturity.

Our investment objectives may not be achieved. Although our portfolio consists mostly of highly-rated investments, the success of our investment strategy is affected by general economic conditions, which may adversely affect the markets for credit and interest-rate-sensitive securities, including the extent and timing of investor participation in these markets, the level and volatility of interest rates and, consequently, the value of our fixed-income securities. Volatility or illiquidity in the markets in which we hold positions has reduced the market value of some of our investments, and if this worsens substantially it could have a material adverse effect on our liquidity, financial condition and operating results.

Compared to historical averages, interest rates and investment yields on our investments generally have declined in recent years, which has reduced the investment income we generate. In addition, we have kept a larger portion of our investment portfolio in shorter maturity investments in order to meet the expected liquidity needs of our operating subsidiaries. This, in turn, has further reduced our investment income, as interest rates on short-term investments have been minimal. We depend on our investments as a source of revenue and a prolonged period of lower than expected investment yields would have an adverse impact on our revenues and could potentially adversely affect our results of operations.

Radian Group’s sources of liquidity may be insufficient to fund its obligations.

Radian Group serves as the holding company for our insurance subsidiaries and does not have any significant operations of its own. Radian Group’s principal liquidity demands include funds for: (i) additional potential capital support for our mortgage insurance subsidiaries, including to maintain Radian Guaranty’s risk-to-capital position at or below levels imposed by the GSEs and state regulatory authorities; (ii) the payment of dividends on our common stock; (iii) the payment of certain corporate expenses; (iv) interest payments on our outstanding debt; (v) the repayment of our outstanding long-term debt, including $54.5 million principal amount of outstanding debt due in June 2015, $195.5 million principal amount of outstanding debt due in June 2017, $450 million principal amount of convertible debt due in November 2017 and, at our option, any related conversion premium that we elect to settle in cash, and potentially $400 million of convertible debt due in March 2019 for which the principal amount and any conversion premium may, at our option, be settled in cash; and (vi) potential payments to the U.S. Treasury resulting from the examination of our 2000 through 2007 consolidated federal income tax returns by the IRS. Radian Group currently has immediately available, either directly or through an unregulated subsidiary, unrestricted cash and liquid investments of approximately $615 million, after consideration of a $100 million capital contribution made to Radian Guaranty in February 2014. The $615 million of available liquidity excludes certain additional cash and liquid investments that have been advanced from our subsidiaries for corporate expenses and interest payments. Substantially all of Radian Group's obligations to pay corporate expenses and interest payments on outstanding debt are reimbursed to Radian Group through the expense-sharing arrangements currently in place with its subsidiaries.

As of December 31, 2013, Radian Guaranty’s risk-to-capital ratio was 19.5 to 1. Currently, we expect to maintain Radian Guaranty’s risk-to-capital ratio at or below 20 to 1. Absent any other form of risk-to-capital support, we estimate that between $50 million and $100 million in additional capital contributions from Radian Group to Radian Guaranty will be required during the next 12 months, primarily as a result of the significant expected increase in Radian Guaranty’s RIF, in order to maintain Radian Guaranty’s risk-to-capital ratio at or below 20 to 1. A greater level of capital contributions could be required if Radian Guaranty’s incurred losses are higher than anticipated or if our net RIF ultimately exceeds our current projections. See “Our insurance subsidiaries are subject to comprehensive regulations and other requirements, including capital adequacy measures, which if we fail to satisfy, could limit our ability to write new insurance and increase restrictions and requirements placed on our insurance subsidiaries.”

Radian Group also could be required to provide further capital support to Radian Guaranty to satisfy new mortgage insurance eligibility standards currently being developed by the FHFA. During 2014, we expect the GSEs to release revisions to their standard mortgage insurer eligibility requirements, including certain changes that are more onerous than the current requirements, including potentially: (i) a risk-to-capital ratio below Radian Guaranty’s 19.5 to 1 risk-to-capital ratio as of December 31, 2013; (ii) higher capital requirements for loans insured prior to 2009; and (iii) a limitation on the amount of capital credit available for subsidiary capital (including Radian Guaranty’s capital that is attributable to its ownership of Radian Asset Assurance). In addition, the NAIC is in the process of reviewing the minimum capital and surplus requirements for mortgage insurers and considering changes to the Model Act. While the outcome of this process is not known, it is possible that the NAIC will recommend and adopt more stringent capital requirements that could increase the capital requirements for Radian Guaranty in states that adopt the new Model Act. If the new GSE eligibility requirements or the NAIC proposals include more onerous capital requirements, including any one or more of the potential requirements referenced above, it is likely that we would need to provide additional capital support to, or arrange additional capital relief for, Radian Guaranty, including potentially, entering into new reinsurance arrangements, increasing the amount of capital contributions from Radian Group’s available unrestricted cash and liquid investments or seeking to raise funds in private or public capital transactions. For example, if Radian Guaranty is required to maintain a maximum risk-to-capital ratio of 18 to 1, absent any other form of risk-to-capital

support, we estimate that we would be required to contribute $200 to $300 million to Radian Guaranty during the next 12 months (i.e., an incremental $150 to $200 million above those amounts expected to be required to maintain a risk-to-capital ratio of 20 to 1). See “Radian Guaranty could lose its eligibility status with the GSEs, causing Freddie Mac and Fannie Mae to decide not to purchase mortgages insured by Radian Guaranty, which would significantly impair our mortgage insurance franchise.”

Radian Group's U.S. consolidated federal income tax returns for tax years 2000 through 2007, which include the federal income tax returns of our wholly-owned subsidiary, RGRI, were examined by the IRS. We are currently contesting proposed adjustments resulting from the IRS examination of these tax years, which relate to the recognition of certain tax losses and deductions that were generated through our investment in a portfolio of non-economic Real Estate Mortgage Investment Conduits ("REMICs") residual interests currently held by RGRI. If these adjustments were sustained, RGRI would be required to pay additional income taxes of approximately $128 million plus proposed penalties of approximately $42 million. Additionally, we would incur interest expense on any sustained adjustments. Radian Group has agreed to indemnify RGRI for any tax payments ultimately due to the IRS for the proposed adjustments. This indemnification was made in lieu of an immediate capital contribution to RGRI that otherwise would have been required for RGRI to maintain its minimum statutory surplus requirements in light of remeasurement as of December 31, 2011 of uncertain tax positions related to the portfolio of REMIC residual interests. See "The IRS is examining our consolidated federal income tax returns for the years 2000 through 2007."
Cash flows from our investment portfolio, dividends from Radian Guaranty and permitted payments to Radian Group under tax- and expense-sharing arrangements with our subsidiaries are Radian Group's principal sources of cash. In light of operating losses in Radian Guaranty, we do not anticipate that it will be permitted under applicable insurance laws to issue dividends to Radian Group for the foreseeable future. To the extent Radian Asset Assurance is able to declare dividends, these dividends will be paid to Radian Guaranty and not to Radian Group. The expense-sharing arrangements between Radian Group and our insurance subsidiaries, as amended, have been approved by applicable state insurance departments, but such approval may be revoked at any time.
In light of Radian Group's long- and short-term needs, it is possible that our liquidity demands could exceed currently available holding company funds. If this were to occur, we may need to increase our available liquidity by incurring additional debt, by issuing additional equity or by selling assets, any of which we may be unable to do on favorable terms, if at all.
Our reported earnings are subject to fluctuations based on changes in our credit derivatives, trading securities, and other financial instruments that require us to adjust their fair market value as reflected on our statements of operations.
We have significant assets and liabilities that we carry at fair value, with changes in fair market value recorded on our statements of operations each period. These assets and liabilities include our credit derivatives, trading securities and VIE debt and related assets. Because the changes in fair value of these derivatives and other financial instruments are reflected on our statements of operations, they have the potential to affect our reported earnings and create earnings volatility. Economic conditions, as well as adverse capital market conditions, including but not limited to, credit spread changes, benchmark interest rate changes, market volatility and declines in the value of underlying collateral will impact the value of our investments and derivatives, potentially resulting in unrealized losses.
Specifically with respect to our credit derivatives, the gains and losses on these contracts are derived from internally generated models, which may differ from models used by our counterparties or others in the industry. We estimate fair value amounts using market information, to the extent available, and valuation methodologies that we deem appropriate in order to estimate the fair value amounts that would be exchanged to sell an asset or transfer a liability. Considerable judgment is required to interpret available market data to develop the estimates of fair value. Since there currently is no active market for many of our credit derivatives, we have had to use assumptions as to what could be realized in a current market exchange. In the event that our investments or derivative contracts were sold or transferred in a forced liquidation or otherwise, the fair values received or paid could be materially different from those reflected in our financial statements. Additionally, our actual ultimate credit losses on these derivatives could significantly exceed or be significantly less than our fair value liabilities.
Temporary market or credit spread changes, as well as actual credit improvement or deterioration in our derivative contracts, are reflected in changes in fair value of derivative instruments. We also make an adjustment to our derivative liability valuation methodology to account for our own non-performance risk by incorporating our observable CDS spread into the determination of fair value of our credit derivatives. Since January 2007, our five-year CDS spread has increased significantly and has fluctuated materially. Our five-year CDS spread was 323 basis points as of December 31, 2013. This market perception of our risk of non-performance has had the effect of reducing our derivative liability valuations by approximately $209.9 million as of December 31, 2013. Perceived improvement in our financial condition could cause our CDS spread to tighten. If our CDS spread tightens significantly, and other

credit spreads utilized in our fair value methodologies remained constant, our earnings could be reduced.

Under our long-term incentive compensation program, we currently have outstanding stock-based performance awards that are to be settled in cash. These awards mainly consist of performance-based RSU awards that were granted in 2011 and 2012 and which vest in June 2014 and June 2015, respectively. For more information regarding these awards, see Note 15 of Notes to Consolidated Financial Statements. Because these awards are cash-settled, we are required to determine their fair value as of the end of each reporting period and to record any changes in their fair value within other operating expenses. As a result, any change in the fair value of these awards, which is highly correlated to changes in our stock price, can result in volatility in our results of operations during the periods that these awards remain outstanding.

Our information technology systems may fail or we may experience an interruption in their operation.

Our business is highly dependent on the effective operation of our information technology systems. Our information technology systems are vulnerable to damage or interruption from power outages, computer and telecommunications failures, computer viruses, cyber-attacks, security breaches, catastrophic events and errors in usage. Although we have disaster recovery and business continuity plans in place, we may not be able to adequately execute these plans in a timely fashion. We rely on our information technology systems for many enterprise-critical functions and a prolonged failure or interruption of these systems for any reason could cause significant disruption to our operations and have a material adverse effect on our business, financial condition and operating results.

We may lose business if we are unable to meet our customers' technological demands.

Our ability to meet the needs of our customers is dependent on our ability to keep pace with technological advances and to invest in new technology as it becomes available. Participants in the mortgage insurance industry rely on e-commerce and other technologies to provide their products and services. Our customers generally require that we provide aspects of our products and services electronically and the percentage of our NIW and claims processing that we deliver electronically has continued to increase. We expect this trend to continue and, accordingly, we may not satisfy our customers' requirements if we fail to invest sufficient resources or otherwise are unable to maintain and upgrade our technological capabilities. This may result in a decrease in the business we receive, which could negatively impact our business and results of operations.

Our information technology systems may become outdated and we may not be able to make timely modifications to support our products and services.

Our business is highly dependent on the effective operation of our information technology systems. Many of our information technology systems have been in place for a number of years. When we make changes to our existing products and services, or as new products with new features emerge, our systems require modification in order to support these products and process transactions appropriately. Making appropriate modifications to our systems involves inherent time lags and may require us to incur significant expenses. If we are unable to make necessary modifications to our systems in a timely and cost-effective manner or successfully upgrade our systems to avoid obsolescence of our information technology platform, our business, financial condition and operating results could be negatively affected.

We are in the process of implementing a major technology project to improve our operating systems, including a new platform for our mortgage insurance underwriting, policy administration, claims management and billing processes. The project is intended to enhance our business and technological capabilities by increasing operational efficiencies and reducing complexities resulting from multiple platforms. The implementation of these technological improvements is complex, expensive and time consuming. If we fail to timely and successfully implement the new technology systems and business processes, or if the systems do not operate as expected, it could have an adverse impact on our business, business prospects and results of operations.

The security of our information technology systems may be compromised and confidential information, including non-public personal information that we maintain, could be improperly disclosed.
Our information technology systems may be vulnerable to physical or electronic intrusions, computer viruses or other attacks. As part of our business, we, and certain of our subsidiaries and affiliates, maintain large amounts of confidential information, including non-public personal information on consumers and our employees. Breaches in security could result in the loss or misuse of this information, which could, in turn, result in potential regulatory actions or litigation, including material claims for damages, as well as interruption to our operations and damage to our reputation. While we believe we have appropriate information security policies and systems in place in order to prevent unauthorized use or disclosure of confidential information, including non-public personal information, there can be no assurance that such use or disclosure will not occur. Any compromise of the security of our information technology systems, or unauthorized use or disclosure of confidential information, could subject us to liability, damage our reputation and have a material adverse effect on our business, financial condition and operating results.
We are subject to the risk of private litigation and regulatory proceedings.
We currently are a party to material litigation and are subject to certain regulatory proceedings. The cost to defend these actions and the ultimate resolution of these matters could have a material adverse impact on our business, financial condition and results of operations. Additional lawsuits, regulatory proceedings and other matters may also arise in the future.
In the past, we have been subject to litigation alleging, among other things, that our captive reinsurance agreements, as well as pool insurance and contract underwriting services, constitute unlawful payments to mortgage lenders under RESPA. We and other private mortgage insurers currently are serving as a defendant in a series of putative class action lawsuits under RESPA with respect to our captive reinsurance agreements. In addition, we and other mortgage insurers have been subject to inquiries and investigative demands from state and federal governmental agencies, including the CFPB, requesting information relating to captive reinsurance. In April 2013, we reached a settlement with the CFPB that concludes its investigation with respect to Radian Guaranty without any findings of wrongdoing. We and other mortgage insurers have also been subject to inquiries from the Minnesota Department of Commerce relating to captive reinsurance. We are cooperating with the Minnesota Department of Commerce and are engaged in active discussions with them regarding their inquiries, including various alternatives for resolving this investigation. For additional information about these lawsuits and governmental inquiries, see “Item 3. Legal Proceedings.” Various regulators, including the CFPB, state insurance commissioners or state attorneys general may bring additional actions or proceedings regarding our compliance with RESPA or other laws applicable to our mortgage insurance business. We cannot predict whether additional actions or proceedings will be brought against us or the outcome of any such actions or proceedings.
Since 2008, the amount of insurance we have rescinded due to fraud, misrepresentation, underwriting negligence or other non-compliance with our insurance policies has increased significantly and we have denied a significant number of claims for failing to satisfy the claim perfection requirements under our master insurance policy. In more recent years, we have curtailed a significant number of claims as a result of servicers failing to satisfy the standards set forth in our master insurance policy and servicing guidelines thereby increasing our risk of loss. In addition, we have identified a significant number of defaulted loans for which “appropriate proceedings” (actions or proceedings such as foreclosure that provide the insured with title to the property) may not have been commenced within the outermost deadline in our master insurance policy. We currently are in discussions with the servicers for these loans regarding this potential violation and our corresponding rights under the master insurance policy. We face an increasing number of challenges from certain of our lender customers regarding our loss mitigation activities, some of which have resulted in reversals of our decisions regarding rescissions, denials or claim curtailments. We are currently in discussions with customers regarding our loss mitigation activities, which if not resolved, could result in arbitration or additional judicial proceedings.

On August 1, 2011, Radian Guaranty filed a lawsuit against Quicken in the U.S. District Court for the Eastern District of Pennsylvania, seeking a declaratory judgment that Radian Guaranty properly rescinded mortgage insurance coverage under our master insurance policy and delegated underwriting endorsement for a population of home mortgage loans that were originated by Quicken based upon deficiencies and improprieties in the underwriting process. See "Item 3. Legal Proceedings." We cannot predict the outcome of the Quicken litigation or whether additional actions may be brought against us. Because the Quicken litigation relates to mortgage insurance policy terms and practices that are widely used in the mortgage insurance industry, the outcome of this litigation or other litigation in our industry relating to loss mitigation activities may impact us. If this litigation results in a change in mortgage insurance policy terms and practices that are widely used by the mortgage insurance industry, including by us, or if we engage in further material litigation with any customer and, as a result, the customer limits the amount of business they conduct with us or terminates our business relationship altogether, it could have a negative impact on our business and results of operations.

See "Insurance rescissions and claim denials are not expected to continue at the elevated levels we have been experiencing and a number of our lender customers are challenging our loss mitigation actions." See also "Legislation and regulatory changes and interpretations could harm our mortgage insurance business" and "The IRS is examining our consolidated federal income tax returns for the years 2000 through 2007."

The IRS is examining our consolidated federal income tax returns for the years 2000 through 2007.

We are currently contesting proposed adjustments resulting from the examination by the IRS of our 2000 through 2007 consolidated federal income tax returns. The IRS opposes the recognition of certain tax losses and deductions that were generated through RGRI's investment in a portfolio of non-economic REMIC residual interests and has proposed adjustments denying the associated tax benefits of these items. The proposed adjustments relating to the 2000 through 2007 tax years, if sustained, will result in additional income taxes of approximately $128 million plus proposed penalties of approximately $42 million. Additionally, we would incur interest expense on any sustained adjustments. We appealed these proposed adjustments to the IRS Office of Appeals ("Appeals") and made "qualified deposits" with the U.S. Treasury in the amount of approximately $85 million in June 2008 relating to the 2000 through 2004 tax years and approximately $4 million in May 2010 relating to the 2005 through 2007 tax years to avoid the accrual of above-market-rate interest with respect to the proposed adjustments.

We have made several attempts to reach a compromised settlement with Appeals, but in January 2013, we were notified that Appeals had rejected our latest settlement offer and plans to issue the formal notice of deficiency. Upon receipt of that notice, we will have 90 days to either pay the assessed tax liabilities, penalties and interest (the "deficiency amount") in full or petition the U.S. Tax Court to litigate the deficiency amount. Litigation of the deficiency amount may result in substantial legal expenses and the litigation process could take several years to resolve. We can provide no assurance regarding the outcome of any such litigation or whether a compromised settlement with the IRS will ultimately be reached. After discussions with our legal advisors about the issues raised in the examination, we believe that an adequate provision for income taxes has been made for the potential liabilities that may result from this matter. However, if the ultimate resolution of this matter produces a result that differs materially from our current expectations, there could be a material impact on our effective tax rate, results of operations and cash flows.

Radian Group has assumed the obligation to pay the ultimate tax liability by indemnifying RGRI for such liability, including any portion of the "qualified deposits" that is used to satisfy such liability. See "Radian Group's sources of liquidity may be insufficient to fund its obligations."

We may not be able to realize all of our deferred tax assets in the future.

As of December 31, 2013, before consideration of our valuation allowance, we had deferred tax assets ("DTA"), net of deferred tax liabilities, of approximately $1,040.2 million. We are required to establish a valuation allowance against our deferred tax assets when it is more likely than not that all or some portion of our DTA will not be realized. At each balance sheet date we assess our need for a valuation allowance, and our assessment is based on all available evidence, both positive and negative. This requires management to exercise judgment and make assumptions regarding whether the DTA will be realized in future periods. Future realization of our DTA will ultimately depend on whether we generate sufficient taxable income of the appropriate character (ordinary income or capital gains) within the applicable carryback and carryforward periods provided under the tax law.

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Our ability to recognize tax benefits on future U.S. tax losses and our existing U.S. loss positions may be limited under applicable tax laws.

We have generated substantial net operating losses ("NOLs"), loss carryforwards and other tax attributes for U.S. tax purposes that can be used to reduce our future federal income tax obligations. Our ability to fully utilize these tax assets (including NOLs of approximately $1.8 billion as of December 31, 2013) will be adversely affected if we have an "ownership change" within the meaning of Section 382 of the Internal Revenue Code ("Section 382"). An ownership change is generally defined as a greater than 50 percentage point increase in equity ownership by "five-percent shareholders" (as that term is defined for purposes of Section 382) in any three-year period. We may experience an "ownership change" in the future as a result of changes in our stock ownership.

On October 8, 2009, our board of directors adopted a Tax Benefit Preservation Plan (the "Plan"), which, as amended, was approved by our stockholders at our 2010 and 2013 annual meetings. We also adopted certain amendments to our amended and restated bylaws (the "Bylaw Amendment") and at our 2010 and 2013 annual meetings, our stockholders approved certain amendments to our amended and restated certificate of incorporation (the "Charter Amendment"). The Plan, the Bylaw Amendment and the Charter Amendment were implemented in order to protect our ability to utilize our NOLs and other tax assets and prevent an "ownership change" under U.S. federal income tax rules by restricting or discouraging certain transfers of our common stock that would: (i) create or result in a person becoming a five-percent shareholder under Section 382; or (ii) increase the stock ownership of any existing five-percent shareholder under Section 382. The continued effectiveness of the Plan, the Bylaw Amendment and the Charter Amendment are subject to the reapproval of the Plan and the relevant section of our amended and restated certificate of incorporation by our stockholders every three years and there can be no assurance that if we elect to present them to our stockholders for reapproval in the future, our stockholders will reapprove them.

There is no guarantee that our tax benefit preservation strategy will be effective in protecting our NOLs and other tax assets. The amount of our NOLs has not been audited or otherwise validated by the IRS. The IRS could challenge the amount of our NOLs and other tax assets, which could result in an increase in our liability in the future for income taxes. In addition, determining whether an "ownership change" has occurred is subject to uncertainty, both because of the complexity and ambiguity of Section 382 and because of limitations on a publicly traded company's knowledge as to the ownership of, and transactions in, its securities. Therefore, even though we currently have several measures in place to protect our NOLs (such as the Plan, the Bylaw Amendment and the Charter Amendment), we cannot provide any assurance that the IRS or other taxing authority will not claim that we have experienced an "ownership change" and attempt to reduce the benefit of our tax assets.

Legislation and regulatory changes and interpretations could harm our mortgage insurance business.

Our mortgage insurance business is subject to many federal and state lending and insurance laws and regulations and may be affected by changes in these laws and regulations.

In particular, our mortgage insurance business may be significantly impacted by the following:

- The Dodd-Frank Act and the rules and regulations adopted thereunder, including in particular the definition of QRM that is ultimately adopted. See "The Dodd-Frank Act may have a material effect on our mortgage insurance and financial guaranty businesses.";
- Legislation or regulatory action impacting the charters or business practices of the GSEs. See "Because most of the mortgage loans that we insure are sold to Freddie Mac and Fannie Mae, changes in their charters or business practices could significantly impact our mortgage insurance business.";
- Legislative reform of the U.S. housing finance system;
- Legislation and regulation impacting the FHA and its competitive position versus private mortgage insurers. See "Our mortgage insurance business faces intense competition.";
- State insurance laws and regulations that address, among other items, licensing of companies to transact business, claims handling, reinsurance requirements, premium rates, policy forms offered to customers and requirements for risk-to-capital ratios, minimum policyholder positions, reserves, surplus, reinsurance and payment of dividends. See "Our insurance subsidiaries are subject to comprehensive regulations and other requirements, including capital adequacy measures, which if we fail to satisfy, could limit our ability to write new insurance and increase restrictions and requirements placed on our insurance subsidiaries.";
- The application of state, federal or private sector programs aimed at supporting borrowers and the housing market;

- The application of RESPA, the FCRA and other laws to mortgage insurers, including with respect to captive reinsurance arrangements. See “We are subject to the risk of private litigation and regulatory proceedings.”;

- New federal standards and oversight for mortgage insurers, including as a result of the Federal Insurance Office of the U.S. Treasury having recently published a study on how to modernize and improve the system of insurance regulation in the U.S. that, among other things, calls for federal standards and oversight for mortgage insurers to be developed and implemented. See "The Dodd-Frank Act may have a material effect on our mortgage insurance and financial guaranty businesses."; and
- The implementation in the U.S. of the Basel II capital adequacy requirements and the Basel III guidelines. See "The implementation of the Basel II capital adequacy requirements and the Basel III guidelines may discourage the use of mortgage insurance."

Any of the items discussed above could harm our operating results, financial condition and business prospects. In addition, our mortgage insurance business could be impacted by new legislation or regulations, as well as changes to existing legislation or regulations, that are not currently contemplated and which could occur at any time.

The implementation of the Basel II capital adequacy requirements and the Basel III guidelines may discourage the use of mortgage insurance.

In 1988, the BCBS developed Basel I, which established international benchmarks for assessing banks' capital adequacy requirements. In June 2005, the BCBS issued Basel II. Basel II has been implemented by many banks in the U.S. and many other countries in 2009 and 2010. Basel II affects the capital treatment provided to mortgage insurance by domestic and international banks in both their origination and securitization activities. The Basel II provisions related to residential mortgages and mortgage insurance may provide incentives to certain of our bank customers not to insure mortgages having a lower risk of claim and to insure mortgages having a higher risk of claim.

In September 2010, the BCBS released Basel III guidelines, which will increase the capital requirements of certain banking organizations. Implementation of Basel III requires formal regulations, and in December 2010, the BCBS released the Basel III capital adequacy guidelines that raised minimum capital requirements for banks. Implementation of the Basel III capital adequacy guidelines in the U.S. required three federal banking regulators to issue legally binding rules. In June 2012, the federal regulators released proposed rules to implement Basel III. The proposed Basel III rules would have, among other things, assigned risk-weightings based on a residential mortgage's LTV ratio, without regard to the presence of private mortgage insurance.

In July 2013, the federal regulators issued final rules to implement Basel III. The final rules reverted to the current treatment of mortgages for capital purposes rather than adopting the proposed 200% requirement risk-weighting for residential mortgages with LTVs higher than 80% without regard to the presence of mortgage insurance. The federal regulators issuing the final rules noted that they may reconsider the issue of risk weighting residential mortgage securities again, once the impact of other housing related rules such as QM and QRM are known. We cannot predict what any such future rules may prescribe or the impact on our business.

The final Basel III rules retain the existing risk-weighting for mortgage-backed pass-through securities guaranteed by the GSEs. However, the final Basel III rules significantly change the calculation of risk weights for securitization exposures in which credit risk is tranched. Under the final Basel III rules, the risk weighting for these securitization exposures is subject to a 20% floor and can increase to 1,250% for junior tranches. Under the QRM risk-retention rules, sponsors of securitizations of non-QRM loans will be required to retain an exposure to the securitizations they sponsor. Therefore, under the final Basel III rules, it is possible that these bank sponsors will be required to hold greater amounts of capital with respect to a securitization of non-QRM loans than if the bank had retained the entire portfolio of loans. This may create a disincentive to originate non-QRM loans which may decrease demand for our private mortgage insurance products in the non-QRM market based on the outcome of the QRM rulemaking.

The Dodd-Frank Act may have a material effect on our mortgage insurance and financial guaranty businesses.

The Dodd-Frank Act contains many requirements and mandates significant rulemaking by several regulatory agencies to implement the Dodd-Frank Act's provisions. The full scope of the Dodd-Frank Act and its impact on our mortgage insurance and financial guaranty businesses remain uncertain. The Dodd-Frank Act established the CFPB to regulate the offering and provision of consumer financial products and services, including residential mortgages, under federal law and transferred authority to the CFPB to enforce many existing consumer related federal laws. Under the Dodd-Frank Act, the CFPB is authorized to issue regulations prohibiting a creditor from making a residential mortgage loan unless the creditor makes a reasonable and good faith determination that, at the time the loan is consummated, the consumer has a reasonable ability to repay the loan (the "Ability to Repay rule"). The Dodd-Frank

Act provides that a creditor may presume that a borrower will be able to repay a loan if the loan has certain low-risk characteristics that meet the definition of a QM.

On January 10, 2013, the CFPB issued the CFPB QM Rule. The CFPB QM Rule became effective on January 10, 2014. Under the CFPB QM Rule, a loan is deemed to be a QM if, among other factors:

- the term of the loan is less than or equal to 30 years;
- there are no negative amortization, interest only or balloon features;
- the lender properly documents the loan in accordance with the requirements;
- the total "points and fees" do not exceed certain thresholds (as further discussed below); and
- the total debt-to-income ratio of the borrower does not exceed 43%.

For a loan to satisfy the CFPB QM Rule requirements, the points and fees payable in connection with the loan may not exceed 3% of the total loan amount (for loans of $100,000 or more; different limitations apply to smaller balance loans). Loans that meet the definition of a QM under the CFPB QM Rule receive either a rebuttable or conclusive presumption of compliance with the rule's ability to repay requirements depending upon the pricing of the loan relative to the Average Prime Offer Rate. The CFPB QM Rule provides a "safe harbor" for loans that otherwise satisfy the CFPB QM requirements and have annual percentage rates ("APRs") below the threshold of 150 basis points over the Average Prime Offer Rate, and a "rebuttable presumption" for loans that otherwise satisfy the CFPB QM requirements and have an APR at or above that threshold. As it relates to private mortgage insurance, any premium charges payable after closing (e.g., monthly premiums) are excluded from the points and fees calculation. With regard to up-front private mortgage insurance premiums (premium charges payable at or before closing), the portion of the premium that is not in excess of the then current up-front FHA premium at the time of the loan's origination is also excluded from the points and fees calculation (so long as the charges meet certain refundability criteria), while any portion that is in excess of the current FHA up-front premium is included in the calculation of points and fees. We offer mortgage insurance products that provide for up-front premiums and to the extent that these products cause a loan not to meet the CFPB QM Rule requirements, it may impact the structure, marketability and pricing of these products which could impact the amount and mix of new insurance we write and our share of the private mortgage insurance market.

Most notably for the private mortgage insurance industry, the CFPB QM Rule establishes a temporary alternative QM definition applicable to any loans that are eligible to be purchased, guaranteed or insured by the GSEs. Loans acquired by the GSEs are allowed QM status under this temporary rule if they meet certain requirements with regard to avoiding risky loan features (e.g., no negative amortization and generally no balloons or interest-only features) and the limitation on points and fees discussed above. Under the temporary alternative QM definition, adherence to the CFPB QM Rule provision governing the back end debt-to-income ratio of 43% will not be required for loans acquired by the GSEs. The GSEs will continue to purchase loans that meet the underwriting and delivery eligibility requirements stated in their respective selling guides, even if the borrowers of such loans have a debt-to-income ratio of greater than 43%. With regard to GSE-eligible loans, the temporary alternative QM definition will expire on the earlier of seven years from the effective date of the rule or when GSE conservatorship or receivership ends.

The Dodd-Frank Act separately granted statutory authority to HUD (for FHA-insured loans), the VA (for VA-guaranteed loans), the USDA and the RHS to develop their own definitions of a qualified mortgage in consultation with the CFPB. In December 2013, HUD adopted a separate definition of a qualified mortgage for loans insured by the FHA. HUD's qualified mortgage definition is less restrictive than the CFPB's definition in certain respects and it is possible that lenders will prefer the FHA-insured loans to loans insured by private mortgage insurance. To the extent other government agencies that guarantee residential mortgage loans also adopt their own definitions of a qualified mortgage and those definitions are more favorable to lenders and mortgage holders than the CFPB QM Rule that applies to the GSEs and the markets in which we operate, our mortgage insurance business may be adversely affected.

There is a risk that the Ability to Repay rules will restrict the size of the overall mortgage market, and consequently, the number of loans requiring private mortgage insurance, due to the unwillingness of creditors to provide non-qualified mortgages. Further, the bifurcation between loans that are eligible for either a conclusive or a rebuttable presumption could also further impact the market for loans generally available for private mortgage insurance.

The Dodd-Frank Act requires securitizers to retain some of the credit risk associated with mortgage loans that they transfer, sell or convey, unless the mortgage loans are QRMs or are insured by the FHA or another federal agency. The Dodd-Frank Act provides that the definition of QRM will be determined jointly by six separate regulators, with consideration to be given, among other things, to the presence of mortgage insurance in connection with loan performance. The risk retention requirement is imposed on "securitizers" and not the originators or subsequent purchasers, although in certain circumstances a portion of the risk may be allocated to the originator. In March 2011, regulators released a proposed rule that included a proposed definition of QRM. That proposed rule included down payment requirements for QRMs without incorporating or including consideration of loans that are covered by mortgage insurance. In response to public comments to the proposed rule, federal regulators issued a revised proposed risk retention rule, including a definition of QRMs, in August 2013. The revised proposed rule generally defines QRM as a mortgage meeting the requirements of a qualified mortgage under the CFPB QM Rule described above. The regulators also proposed an alternative definition of QRMs ("QM-plus") that utilizes certain QM criteria but also includes a maximum LTV of 70%. Neither of the revised proposed QRM definitions incorporate or consider the use of mortgage insurance. The public comment period for the new proposed rule expired on October 30, 2013. Substantially all of our primary RIF includes loans for which the down payment was less than 20% and, therefore, the LTV would exceed 80%. For information regarding the percentage of our primary RIF by LTV, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Mortgage Insurance—NIW, IIF, RIF."

Because of the capital support provided by the U.S. Government to the GSEs, the GSEs satisfy the proposed risk retention requirements of the Dodd-Frank Act while they are in conservatorship, so sellers of loans to the GSEs will not be subject to the risk retention requirements referenced above. This means that lenders that originate loans that are sold to or securitized with the GSEs while the GSEs are in conservatorship would not be required to retain risk under the proposed or final QRM rule.

For loans that are securitized in the private label securitization market, if the final QRM definition does not give consideration to private mortgage insurance in calculating LTV or it provides that loans with down payments of less than 20% do not qualify as a QRM, it could have an adverse effect on the demand for private mortgage insurance in this market. The public comment period for the revised proposed rule expired on October 30, 2013. The timing for the adoption of final risk retention rules and the QRM definition remains uncertain and we cannot be certain of the form the final rules and the definition may take.

In addition to the foregoing, the Dodd-Frank Act:

- sets new limitations and restrictions on banking, derivatives and ABS, including the imposition of additional registration, reporting, market conduct and capital and margin posting requirements on certain participants in the derivatives markets that may make it more difficult for us to commute, restructure, hedge or otherwise mitigate losses or reduce exposure on our existing financial guaranty portfolio;
- places limits on the ability of many financial institutions to hold certain assets, including those referred to as "covered funds." To the extent that financial institutions that are included in our insured portfolios (primarily in our insured TruPs CDOs) for which we provide credit protection may be required to liquidate assets at a loss, or the market perceives there is a risk of such losses, it may adversely affect the credit quality of the institution and consequently increase our derivative liability, and could produce credit losses on such insured obligations;
- establishes a Federal Insurance Office within the U.S. Treasury. While not having a general supervisory or regulatory authority over insurance, the director of this office performs various functions with respect to insurance at a federal level. The Federal Insurance Office recently published a study on how to modernize and improve the system of insurance regulation in the U.S., which recommended the development and implementation of federal oversight for private mortgage insurers. To the extent these recommendations are acted upon by legislators or other executive action, a divergence from the current system of state regulation could increase compliance burdens and possibly impact our financial condition.

We cannot predict the requirements of the remaining final regulations ultimately adopted under the Dodd-Frank Act, the full effect such regulations will have on financial markets generally, or on our mortgage insurance and financial guaranty businesses specifically, the additional costs associated with compliance with such regulations or changes to our operations that may be necessary to comply with the Dodd-Frank Act and the rules adopted thereunder, any of

which could have a material adverse effect on our businesses, cash flows, financial condition and results of operations.

Item 1B. Unresolved Staff Comments.
None.

Item 2. Properties.
At our corporate headquarters in Philadelphia, Pennsylvania, we lease approximately 151,197 square feet of office space and 1,740 square feet of data storage space under a lease that expires in August 2017. In addition, we also lease the following:

- 23,453 feet of office space in Philadelphia, Pennsylvania (separate from our headquarters) which is intended for our mortgage insurance operations and IT personnel. This lease expires December 31, 2024;
- 7,314 square feet of office space in Ohio and South Carolina, serving as our mortgage insurance service center (Ohio) and space for a subsidiary office (South Carolina). The lease for our Ohio service center expires in 2015 and the space for our South Carolina office is month to month;
- 121,093 square feet of office space for our financial guaranty operations in New York City. The lease for this space expires August 31, 2015. We occupy 26,538 square feet of this space and sublease 94,555 square feet;
- Approximately 500 square feet of office space for our mortgage insurance operations in Hong Kong. The lease for this space expires on January 31, 2015;
- 27,360 square feet of office space for our data center in Dayton, Ohio. The lease for this space expires on March 31, 2016;
- 4,782 square feet of office space for our mortgage insurance operations in Denver, Colorado that expires September 30, 2015; and
- Approximately 125 square feet of office space for investment management services in Wilmington, Delaware that is month to month.

We currently have a co-location agreement with Xand that serves as a production and disaster location in Audubon, Pennsylvania. This agreement expires May 30, 2015.
We believe our existing properties are well utilized, suitable and adequate for our present circumstances.

Item 3. Legal Proceedings.
We are routinely involved in a number of legal actions and proceedings, the outcome of which are uncertain. The legal proceedings could result in adverse judgments, settlements, fines, injunctions, restitutions or other relief that could require significant expenditures or have other effects on our business. In accordance with applicable accounting standards and guidance, we establish accruals for a legal proceeding only when we determine both that it is probable that a loss has been incurred and the amount of the loss is reasonably estimable. We accrue the amount that represents our best estimate of the probable loss; however, if we can only determine a range of estimated losses, we accrue an amount within the range that, in our judgment, reflects the most likely outcome, and if none of the estimates within the range is more likely, we accrue the minimum amount of the range.
In the course of our regular review of pending legal matters, we determine whether it is reasonably possible that a potential loss relating to a legal proceeding may have a material impact on our liquidity, results of operations or financial condition. If we determine such a loss is reasonably possible, we disclose information relating to any such potential loss, including an estimate or range of loss or a statement that such an estimate cannot be made. On a quarterly and annual basis, we review relevant information with respect to legal loss contingencies and update our accruals, disclosures and estimates of reasonably possible losses or range of losses based on such reviews. We are often unable to estimate the possible loss or range of loss until developments in such matters have provided sufficient information to support an assessment of the range of possible loss, such as quantification of a damage demand from plaintiffs, discovery from other parties and investigation of factual allegations, rulings by the court on motions or appeals, analysis by experts, and the progress of settlement negotiations. In addition, we generally make no disclosures for loss contingencies that are determined to be remote. For matters for which we disclose an estimated loss, the disclosed estimate reflects the reasonably possible loss or range of loss in excess of the amount accrued, if any.

Loss estimates are inherently subjective, based on currently available information, and are subject to management's judgment and various assumptions. Due to the inherently subjective nature of these estimates and the uncertainty and unpredictability surrounding the outcome of legal proceedings, actual results may differ materially from any amounts that have been accrued.

On August 1, 2011, Radian Guaranty filed a lawsuit against Quicken in the U.S. District Court for the Eastern District of Pennsylvania. On September 5, 2012, Radian Guaranty filed an amended complaint. Radian Guaranty's complaint, as amended, seeks a declaratory judgment that it properly rescinded mortgage insurance coverage under Radian Guaranty's master insurance policy and delegated underwriting endorsement for approximately