RADIAN GROUP INC
Form 10-K
February 26, 2016

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, 2015
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number 1-11356

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

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

(215) 231-1000
(Registrant’s telephone number, including area code)
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

---

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, 2015, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was $3,890,495,962 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 24, 2016 was 197,500,450 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Reference Document	Form 10-K
Definitive Proxy Statement for the Registrant's 2016 Annual Meeting of Stockholders	Part III (Items 10 through 14)

TABLE OF CONTENTS

GLOSSARY OF ABBREVIATIONS AND ACRONYMS

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

Term	Definition
1995 Equity Plan	The Radian Group Inc. 1995 Equity Compensation Plan
2008 Equity Plan	The Radian Group Inc. 2008 Equity Compensation Plan
2008 ESPP	The Radian Group Inc. 2008 Employee Stock Purchase Plan
2014 Equity Plan	The Radian Group Inc. 2014 Equity Compensation Plan
2014 Master Policy	Radian Guaranty's Master Policy that became effective October 1, 2014
ABS	Asset-backed securities
Alt-A	Alternative-A loan where the documentation is generally limited as compared to fully documented loans (considered a non-prime loan grade)
AOCI	Accumulated other comprehensive income (loss)
Appeals	Internal Revenue Service Office of Appeals
ARM	Adjustable rate mortgage
ARR	Asset representation review, as required by Regulation AB governing asset-backed securities, to review assets for compliance with representations and warranties
AREAA	Asian Real Estate Association of America
ASR	Accelerated share repurchase
Assured	Assured Guaranty Corp., a subsidiary of Assured Guaranty Ltd.
Available Assets	As defined in the PMIERs, these assets primarily include the liquid assets of a mortgage insurer and its affiliated reinsurers, and exclude Unearned Premium Reserves
Basel I	The Basel Capital Accord, developed by the Basel Committee on Banking Supervision in 1988, which established international benchmarks for assessing banks' capital adequacy requirements
Basel II	The June 2005 update to the Basel Capital Accord
Basel III	The September 2010 update to the Basel Capital Accord
BIG	Below investment grade
Board	Radian Group's Board of Directors
BofA Settlement Agreement	The Confidential Settlement Agreement and Release dated September 16, 2014, by and among Radian Guaranty and Countrywide Home Loans, Inc. and Bank of America, N.A., as a successor to BofA Home Loan Servicing f/k/a Countrywide Home Loan Servicing LP, in order to resolve various actual and potential claims or disputes as to mortgage insurance coverage on certain Subject Loans
Bylaw Amendment	Amendments to our amended and restated bylaws
Carryforwards	Net operating loss carryforward and tax credit carryforward, collectively
CD	Certificate of deposit
CFPB	Consumer Financial Protection Bureau
Charter Amendment	Amendments to our amended and restated certificate of incorporation
Claim Curtailment	Our legal right, under certain conditions, to reduce the amount of a claim, including due to servicer negligence
Claim Denial	Our legal right, under certain conditions, to deny a claim
Claim Severity	The total claim amount paid divided by the original coverage amount
Clayton	Clayton Holdings LLC, a Delaware domiciled indirect non-insurance subsidiary of Radian Group
CMBS	Commercial mortgage-backed securities
Convertible Senior Notes due 2017	Our 3.000% convertible unsecured senior notes due November 2017 ($450 million original principal amount)

Convertible Senior Notes due 2019	Our 2.250% convertible unsecured senior notes due March 2019 ($400 million original principal amount)
COSO	Committee of Sponsoring Organizations of the Treadway Commission
CP	Commercial paper

Term	Definition
Cures	Loans that were in default as of the beginning of a period and are no longer in default because payments were received and the loan is no longer 60 days past due
Default to Claim Rate	Estimated rate at which defaulted loans result in a claim
Deficiency Amount	The assessed tax liabilities, penalties and interest associated with a formal notice of deficiency letter from the IRS
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act
DTAs	Deferred tax assets
DTLs	Deferred tax liabilities
Equity Plans	The 1995 Equity Compensation Plan, the 2008 Equity Compensation Plan and the 2014 Equity Compensation Plan, together
ESPP	Employee Stock Purchase Plan
Exchange Act	Securities and Exchange Act of 1934, as amended
Extraordinary Dividend	A dividend distribution required to be approved by an insurance company's primary regulator that is greater than would be permitted as an ordinary dividend, which does not require regulatory approval
Fannie Mae	Federal National Mortgage Association
FASB	Financial Accounting Standards Board
FCRA	Fair Credit Reporting Act of 1970
FDCPA	Fair Debt Collection Practices Act
FHA	Federal Housing Administration
FHFA	Federal Housing Finance Agency
FICO	Fair Isaac Corporation
Flow Business	With respect to mortgage insurance, transactions in which mortgage insurance is provided on mortgages on an individual loan basis as they are originated. Flow Business contrasts with Structured Transactions, in which mortgage insurance is provided on a group of mortgages after they have been originated
Foreclosure Stage Default	The Stage of Default indicating that the foreclosure sale has been scheduled or held
Freddie Mac	Federal Home Loan Mortgage Corporation
Freddie Mac Agreement	The Master Transaction Agreement between Radian Guaranty and Freddie Mac entered into in August 2013
FTC	Federal Trade Commission
Future Legacy Loans	With respect to the BofA Settlement Agreement, Legacy Loans where a claim decision has been or will be communicated by Radian Guaranty after February 13, 2013
GAAP	Accounting principles generally accepted in the United States of America
Green River Capital	Green River Capital LLC, a wholly-owned subsidiary of Clayton
GSEs	Government-Sponsored Enterprises (Fannie Mae and Freddie Mac)
HAMP	Homeowner Affordable Modification Program
HARP	Home Affordable Refinance Program
HARP 2	The FHFA's extension of and enhancements to the HARP program
HPA	Homeowners Protection Act
HUD	U.S. Department of Housing and Urban Development
IBNR	Losses incurred but not reported
IIF	Insurance in force is equal to the unpaid principal balances of the underlying loans
Implementation Date	The February 1, 2015 commencement date for activities pursuant to the BofA Settlement Agreement
Initial QSR Transaction	Initial quota share reinsurance agreement entered into with a third-party reinsurance provider in the second quarter of 2012
Insureds	Insured parties, with respect to the BofA Settlement Agreement, Countrywide Home Loans, Inc. and Bank of America, N.A., as a successor to BofA Home Loan Servicing f/k/a

	Countrywide Home Loans Servicing LP
IRS	Internal Revenue Service

Term	Definition
LAE	Loss adjustment expenses, which includes the cost of investigating and adjusting losses and paying claims
Legacy Loans	With respect to the BofA Settlement Agreement, loans that were originated or acquired by an Insured and were insured by Radian Guaranty prior to January 1, 2009, excluding such loans that were refinanced under HARP 2
Legacy Portfolio	Mortgage insurance written during the poor underwriting years of 2005 through 2008, together with business written prior to 2005
LLPA	Loan level price adjustments, based on various risk characteristics, that are charged by the GSEs
Loss Mitigation Activity/Activities	Activities such as Rescissions, Claim Denials, Claim Curtailments and cancellations
LTV	Loan-to-value ratio which is calculated as the percentage of the original loan amount to the original value of the property
Master Policies	The Prior Master Policy and the 2014 Master Policy, collectively
MBS	Mortgage-backed security
MI	Mortgage insurance
Minimum Required Assets	A risk-based minimum required asset amount, as defined in the PMIERs, calculated based on net RIF and a variety of measures designed to evaluate credit quality
Model Act	Mortgage Guaranty Insurers Model Act
Monthly and Other	Insurance policies where premiums are paid on a monthly or other installment basis, excluding Single Premium Policies that are paid in a single premium at origination
Monthly Premium Policy/Policies	Insurance policies where premiums are paid on a monthly installment basis
Moody’s	Moody’s Investors Service
Mortgage Insurance	Radian’s Mortgage Insurance business segment, which provides credit-related insurance coverage, principally through private mortgage insurance, to mortgage lending institutions
MPP Requirement	Certain states’ statutory or regulatory risk-based capital requirement that the mortgage insurer must maintain a minimum policyholder position, which is calculated based on both risk and surplus levels
MSR	Mortgage servicing rights
NAHREP	National Association of Hispanic Real Estate Professionals
NAIC	National Association of Insurance Commissioners
NAREB	National Association of Real Estate Brokers
NIW	New insurance written
NOL	Net Operating Loss - occurs when certain tax-deductible expenses exceed taxable revenues for a taxable year
NPE	Net premiums earned - insurance
NPW	Net premiums written - insurance
NRSRO	Nationally recognized statistical ratings organization
NYSE	New York Stock Exchange
Notices of Deficiency	Formal letters from the IRS informing the taxpayer of an IRS determination of tax deficiency and appeal rights
OCI	Other comprehensive income (loss)
PDR	Premium deficiency reserve
Persistency Rate	The percentage of insurance in force that remains on our books over a period of time
Plan	Tax Benefit Preservation Plan
PMIERs	Private Mortgage Insurer Eligibility Requirements that were issued by the FHFA in proposed form for public comment on July 10, 2014 and issued in final form on April 17, 2015, as updated on June 30, 2015

PMIERs Financial Requirements	Financial requirements of the PMIERs
Prior Master Policy	Radian Guaranty’s master insurance policy in effect prior to the effective date of its 2014 Master Policy

Term	Definition
QM	Qualified mortgage
QM Rule	Rule issued by the CFPB on January 10, 2013, defining qualified mortgage and ability to repay requirements
QSR	Quota share reinsurance
QSR Transactions	The Initial QSR Transaction and Second QSR Transaction, collectively
Radian	Radian Group Inc. together with its consolidated subsidiaries
Radian Asset Assurance	Radian Asset Assurance Inc., a New York domiciled insurance company that was formerly a subsidiary of Radian Guaranty
Radian Asset Assurance Stock Purchase Agreement	The Stock Purchase Agreement dated December 22, 2014, between Radian Guaranty and Assured to sell 100% of the issued and outstanding shares of Radian Asset Assurance, Radian's financial guaranty insurance subsidiary, to Assured
Radian Group	Radian Group Inc., the registrant
Radian Guaranty	Radian Guaranty Inc., a Pennsylvania domiciled insurance subsidiary of Radian Group
Radian Insurance	Radian Insurance Inc., a Pennsylvania domiciled insurance subsidiary of Radian Guaranty
Radian Mortgage Insurance	Radian Mortgage Insurance Inc., a Pennsylvania domiciled subsidiary of Radian Guaranty
Radian Reinsurance	Radian Reinsurance Inc., a Pennsylvania domiciled insurance subsidiary of Radian Group
RBC States	Risk-based capital states, which are those states that currently impose a statutory or regulatory risk-based capital requirement
Red Bell	Red Bell Real Estate, LLC, a wholly-owned subsidiary of Clayton
Reinstatements	Reversals of previous Rescissions, Claim Denials and Claim Curtailments
REIT	Real Estate Investment Trust
REMIC	Real Estate Mortgage Investment Conduit
REO	Real Estate Owned
Rescission	Our legal right, under certain conditions, to unilaterally rescind coverage on our mortgage insurance policies if we determine that a loan did not qualify for insurance
RESPA	Real Estate Settlement Procedures Act of 1974
RGRI	Radian Guaranty Reinsurance Inc., a Pennsylvania domiciled insurance subsidiary of Enhance Financial Services Group Inc., a New York domiciled non-insurance subsidiary of Radian Group
RIF	Risk in force is equal to the underlying loan unpaid principal balance multiplied by the insurance coverage percentage
Risk-to-capital	Under certain state regulations, a minimum ratio of statutory capital calculated relative to the level of net risk in force
RMAI	Radian Mortgage Assurance Inc., a Pennsylvania domiciled insurance subsidiary of Radian Guaranty
RMBS	Residential mortgage-backed securities
RSU	Restricted stock unit
S&P	Standard & Poor's Financial Services LLC
SAP	Statutory accounting practices include those required or permitted, if applicable, by the insurance departments of the respective states of domicile of our insurance subsidiaries
SARs	Stock appreciation rights
SEC	United States Securities and Exchange Commission
Second QSR Transaction	Second Quota share reinsurance transaction entered into with a third-party reinsurance provider in the fourth quarter of 2012
Second-liens	Second-lien mortgage loans
Senior Notes due 2015	Our 5.375% unsecured senior notes due June 2015 ($250 million principal amount)
Senior Notes due 2017	Our 9.000% unsecured senior notes due June 2017 ($195.5 million principal amount)
Senior Notes due 2019	Our 5.500% unsecured senior notes due June 2019 ($300 million principal amount)

Senior Notes due 2020	Our 5.250% unsecured senior notes due June 2020 ($350 million principal amount)
Services	Radian's Mortgage and Real Estate Services business segment, which provides mortgage- and real estate-related products and services to the mortgage finance market

Term	Definition
Servicing Only Loans	With respect to the BofA Settlement Agreement, loans other than Legacy Loans that were or are serviced by the Insureds and were 90 days or more past due as of July 31, 2014, or if servicing has been transferred to a servicer other than the Insureds, 90 days or more past due as of the transfer date
SFR	Single family rental
Single Premium Policy/Policies	Insurance policies where premiums are paid in a single payment at origination
Single Premium QSR	Quota share reinsurance agreement covering certain Single Premium Policies, entered into with a panel of third-party reinsurers in the first quarter of 2016
Sovereign	Sovereign or independent governmental units, including various levels of government (sub-sovereign), collectively
Stage of Default	The stage a loan is in relative to the foreclosure process, based on whether or not a foreclosure sale has been scheduled or held
Statutory RBC Requirement	Risk-based capital requirement imposed by the RBC States, requiring a minimum surplus level and, in certain states, a minimum ratio of statutory capital relative to the level of risk
Structured Transactions	With respect to mortgage insurance, transactions in which mortgage insurance is provided on a group of mortgages after they have been originated. Structured Transactions contrast with Flow Business, in which mortgage insurance is provided on mortgages on an individual loan basis as they are originated
Subject Loans	Loans covered under the BofA Settlement Agreement, comprising Legacy Loans and Servicing Only Loans
Surplus Note	0% Note issued in December 2015 by Radian Guaranty to Radian Group, due December 31, 2025 ($325 million principal amount)
The White Case	A putative class action under RESPA titled White v. PNC Financial Services Group filed in the U.S. District Court for the Eastern District of Pennsylvania
The Menichino Case	A putative class action under RESPA titled Menichino, et al. v. Citibank, N.A., et al. filed in the U.S. District Court for the Western District of Pennsylvania
The Manners Case	A putative class action under RESPA titled Manners, et al. v. Fifth Third Bank, et al. filed in the U.S. District Court for the Western District of Pennsylvania
TILA	Truth in Lending Act
Time in Default	The time period from the point a loan reaches default status (based on the month the default occurred) to the current reporting date
TRID	TILA-RESPA Integrated Disclosure
TSR	Total stockholder return
U.S.	The United States of America
U.S. Treasury	United States Department of the Treasury
Unearned Premium Reserves	Premiums received but not yet earned
VA	U.S. Department of Veterans Affairs
ValuAmerica	ValuAmerica, Inc., a wholly-owned subsidiary of Clayton
VIE	Variable interest entity is a legal entity subject to the variable interest entity subsections of the accounting standard regarding consolidation, and generally includes a corporation, trust or partnership in which, by design, equity investors do not have a controlling financial interest or do not have sufficient equity at risk to finance activities without additional subordinated financial support
Wisconsin OCI	Office of the Commissioner of Insurance of the State of Wisconsin

7

Cautionary Note Regarding Forward Looking Statements—Safe Harbor Provisions

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

- changes in general economic and political conditions, including in particular but without limitation, unemployment rates and changes in housing markets and mortgage credit markets;
- changes in the way customers, investors, regulators or legislators perceive the strength of private mortgage insurers;
- Radian Guaranty Inc.’s ability to remain eligible under the PMIERs and other applicable requirements imposed by the FHFA and by the GSEs to insure loans purchased by the GSEs;
- our ability to maintain sufficient holding company liquidity to meet our short- and long-term liquidity needs and to successfully execute and implement our capital plans, including our ability to enter into and receive GSE approval for a reinsurance transaction to reduce exposure to our Single Premium Policies, which we may not be able to do on favorable terms, if at all;
- our ability to successfully execute and implement our business plans and strategies, including in particular but without limitation, plans and strategies that require GSE approval;
- our ability to maintain an adequate level of capital in our insurance subsidiaries to satisfy existing and future state regulatory requirements;
- changes in the charters or business practices of, or rules or regulations imposed by or applicable to the GSEs;
- any disruption in the servicing of mortgages covered by our insurance policies, as well as poor servicer performance;
- a decrease in the Persistency Rates of our monthly premium mortgage insurance policies;
- heightened competition in our mortgage insurance business, including in particular but without limitation, increased price competition;
- changes to the current system of housing finance;
- the effect of the Dodd-Frank Act on the financial services industry in general, and on our businesses in particular;
- the adoption of new laws and regulations, or changes in existing laws and regulations, or the way they are interpreted;
- the amount and timing of potential payments or adjustments associated with federal or other tax examinations, including deficiencies assessed by the IRS resulting from its examination of our 2000 through 2007 tax years, which we are currently contesting;
- the possibility that we may fail to estimate accurately the likelihood, magnitude and timing of losses in connection with establishing loss reserves for our mortgage insurance business;

- volatility in our results of operations caused by changes in the fair value of our assets and liabilities, including a significant portion of our investment portfolio;
- changes in GAAP or SAP rules and guidance, or their interpretation;
- legal and other limitations on amounts we may receive from our subsidiaries; and
- the possibility that we may need to impair the estimated fair value of goodwill established in connection with our acquisition of Clayton.

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 provide mortgage insurance and products and services to the real estate and mortgage finance industries through our two business segments—Mortgage Insurance and Services. Our Mortgage Insurance segment provides credit-related insurance coverage, principally through private mortgage insurance, to mortgage lending institutions nationwide. We provide our mortgage insurance products mainly through our wholly-owned subsidiary, Radian Guaranty.
Our Services segment provides outsourced services, information-based analytics and specialty consulting for buyers and sellers of, and investors in, mortgage- and real estate-related loans and securities as well as other ABS. The primary lines of business in our Services segment include: (1) loan review and due diligence; (2) surveillance; (3) valuation and component services; (4) REO management services; and (5) services for the United Kingdom and European mortgage markets through our EuroRisk operations. These services and solutions are provided primarily through Clayton and its subsidiaries, including Green River Capital, Red Bell and ValuAmerica.
See Note 4 of Notes to Consolidated Financial Statements for a summary of financial information for our business segments for each of the last three years for the mortgage insurance segment, and since June 30, 2014 (the date of our acquisition of Clayton) for the Services segment, and see “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Overview” for additional information about the performance of our business segments, including revenue by business segment.
Radian Group serves as the holding company for our insurance and other subsidiaries and does not have any operations of its own.
2015 Highlights. Below are highlights of our key accomplishments that furthered our strategic objectives and contributed to our financial and operating results during 2015.

KEY ACCOMPLISHMENTS FOR 2015

• Increased pretax income from continuing operations for 2015 by 8% over 2014, from $407.2 million to $437.8 million
• Increased adjusted pretax operating income for 2015 by 49% over 2014, from $342.4 million to $510.9 million[(1)]
• Effectively managed risk and capital positions to achieve PMIERs compliance by the December 31, 2015 effective date
• Completed the sale of Radian Asset Assurance for a purchase price of approximately $810 million, supporting PMIERs compliance and our strategic focus on the mortgage and real estate industries
• Completed a series of debt and equity transactions to strengthen our capital position, reducing our overall cost of capital and improving our debt maturity profile
• Wrote $41.4 billion of NIW, an increase of 11% over 2014
» NIW consisted of 100% Prime business; 62% with FICO of 740 or above
» Added 136 new mortgage insurance customers in 2015
• Grew our IIF to $175.6 billion at December 31, 2015, from $171.8 billion as of December 31, 2014
• Improved composition of mortgage insurance portfolio
» New business written after 2008 represents 75% of primary RIF, or 84% including HARP volume. This high quality business is expected to generate strong returns on capital
• Continued improvement in credit quality of mortgage insurance portfolio
» Experienced 22% decline in total defaults in 2015 compared to 2014
• Clayton acquired Red Bell and ValuAmerica, expanding the scope of our Services offerings and advancing our strategy to be positioned to offer products and services throughout the entire mortgage value chain

---

(1) Adjusted pretax operating income is a non-GAAP financial measure. See “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Consolidated—Use of Non-GAAP Financial Measure” for a reconciliation of adjusted pretax operating income to the most comparable GAAP measure, pretax income from continuing operations.

For additional information regarding these items as well as other factors impacting our business and financial results in 2015, see “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Business Strategy. Consistent with our long-term strategic objectives highlighted below, our business strategy is focused on growing our businesses, diversifying our revenue sources and increasing our fee-based revenues.

RADIAN’S LONG-TERM STRATEGIC OBJECTIVES

• Grow earnings per share while maintaining attractive returns on equity
» Write high-quality and profitable NIW
» Improve margins through efficiency initiatives and business mix
• Expand the role of mortgage insurance in the mortgage finance industry
• Grow fee income by expanding our presence in the real estate and mortgage finance industries
• Enhance our financial strength and improve our debt maturity profile
• Manage risk and compliance proactively through strong governance and culture

A key element of our business strategy is to use our Services segment to broaden our participation in the residential mortgage market value chain by offering a range of mortgage and real estate-related products and services that complement our mortgage insurance business. This strategy is designed to satisfy an increasing demand in the market, grow our fee-based revenues, strengthen our existing mortgage insurance customer relationships, attract new customers and differentiate us from our mortgage insurance peers. Our strategy for future growth includes expanding our capabilities to increase the depth and breadth of mortgage and real estate products and services we offer to the residential real estate and mortgage finance markets.

Through the combination of our Mortgage Insurance and Services business segments, our array of capabilities are illustrated below.

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 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 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

Overview

Our Mortgage Insurance segment provides credit-related insurance coverage, principally through private mortgage insurance, to mortgage lending institutions nationwide. Private mortgage insurance plays an important role in the U.S. housing finance system by protecting mortgage lenders and investors by mitigating default-related losses on residential mortgage loans. These loans are made to home buyers who generally make down payments of less than 20% of the home's purchase price. Private mortgage insurance promotes affordable home ownership by facilitating the sale of these loans in the secondary mortgage market, most of which are sold to the GSEs.

See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Factors Affecting Our Results—Mortgage Insurance."

Operating Environment

We are a seller of mortgage credit protection and therefore, the demand for our products and services is largely driven by the health of the housing and mortgage finance markets. In addition to total mortgage origination volumes, mortgage insurance industry volumes are impacted by the mix between mortgage originations that are for purchased homes versus refinancings. Historically, mortgage insurance penetration in the overall insurable mortgage market is meaningfully higher for mortgage originations that are for purchased homes compared to refinancings. While the mortgage origination market for 2016 is expected to be lower than it was in 2015, mortgage origination volume from home purchases is expected to comprise a higher percentage of the overall mortgage origination market in 2016. As a result, we expect our NIW for 2016 to be comparable to our NIW for 2015 of $41.4 billion.

Our businesses are also impacted by macroeconomic conditions and specific events that impact the mortgage origination environment and the credit performance of our underlying insured assets. The credit performance of loans originated after 2008 is significantly better than that of the loans in our Legacy Portfolio, as post-2008 loan originations have primarily consisted of prime loans with excellent credit quality. Further, the improving macroeconomic environment has contributed to the positive credit trends in our mortgage insurance portfolio, including a decrease in the number of new defaults as well as improved cure rates. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Mortgage Insurance."

At the same time, while credit quality has been improving, the restrictive credit environment has limited purchase loan originations by making it more challenging for many first-time home buyers to finance a home.

The positive macroeconomic and credit trends, while contributing to the improved financial strength of existing private mortgage insurers, have encouraged newer entrants into the private mortgage insurance industry. This has resulted in an increasingly competitive environment for private mortgage insurers. In addition to other private mortgage insurers, our primary competitors are the FHA and the VA. See "—Competition."

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 insurance subsidiaries, these include Risk-to-capital, other risk-based capital measures and surplus requirements. The GSEs are the primary beneficiaries of most of our mortgage insurance and they impose eligibility requirements that private mortgage insurers must satisfy to be approved to insure loans purchased by the GSEs. In 2015, the FHFA issued the final PMIERs which became effective on December 31, 2015 and set forth revised requirements for private mortgage insurers, including Radian Guaranty, to remain eligible insurers of loans purchased by the GSEs. The PMIERs Financial Requirements require private mortgage insurers to hold significantly more capital than under the previous eligibility requirements. In addition, the PMIERs requirements are comprehensive, covering virtually all aspects of the business and operations of a private mortgage insurer. See "—Regulation." Radian Guaranty currently is in compliance with the requirements of the PMIERs. Changes in the charters or business practices of the GSEs can have a significant impact on our business.

13

Mortgage Insurance Products

Traditional types of private mortgage insurance include "primary mortgage insurance" and "pool insurance."

Traditional Risk - 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 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.

The terms of our primary mortgage insurance coverage are set forth in a master insurance policy that we enter into with each of our customers. Our Master Policies are filed in each of the jurisdictions in which we conduct business. Among other things, our Master Policies set forth the terms and conditions of our mortgage insurance coverage, including: loan eligibility requirements; premium payment requirements; coverage term; provisions for policy administration; exclusions or reductions in coverage; claims payment and settlement procedures; and dispute resolution procedures.

Following the financial crisis, the FHFA and the GSEs identified specific requirements to be included by all private mortgage insurers in their Master Policies for new mortgage insurance applications received on or after October 1, 2014. Among others, these included specific requirements related to loss mitigation and claims processing activities. Radian Guaranty incorporated these principles into its new 2014 Master Policy. Loans that were already insured prior to the October 1, 2014 effective date of the 2014 Master Policy will continue to be subject to the terms and conditions of Radian Guaranty's Prior Master Policy. Any material changes to the 2014 Master Policy are subject to approval by the GSEs and state regulatory approval.

One of the significant changes under the 2014 Master Policy is the inclusion of new rescission relief programs. Subject to certain limited exceptions, including fraud and misrepresentation, the 2014 Master Policy provides that we will not rescind coverage on a loan after 36 months if it meets the following criteria: no loan payment has been 60-days or more delinquent and not more than two loan payments were 30-days delinquent or more in the first 36 months; the 36^{th} loan payment is not 30-days or more delinquent; all loan payments are made from a borrower's own funds; and the loan is not subject to a workout. In addition, Radian Guaranty's Confident Coverage^{SM} program allows lenders to opt in for earlier rescission relief at 12 months if certain additional conditions are satisfied, including that the lender submits specific origination and closing loan file documents for Radian Guaranty's review and the first 12 months of payments were timely and from the borrower's own funds.

We provide primary mortgage insurance on a flow basis and we also provide primary mortgage insurance on a "structured" basis, which includes business that we have written to insure a group of individual loans. In flow transactions, mortgages typically are insured as they are originated, while in our Structured Transactions, we typically provide insurance on a group of mortgages after they have been originated. A portion of our structured business has been 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. See "Mortgage Insurance Portfolio—Direct Risk in Force—Mortgage Loan Characteristics." 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 wrote \$41.4 billion and \$37.3 billion of first-lien primary mortgage insurance in 2015 and 2014, respectively. Based on publicly available information, we estimate that our share of the new insurance written within the private mortgage insurance market (excluding HARP refinancings) was 19.2% and 22.2% for 2015 and 2014, respectively. Substantially all of our primary mortgage insurance written during 2015 and 2014 was written on a flow basis. Primary insurance on first-lien mortgage loans made up \$44.6 billion or 97.5% of our total direct first-lien insurance RIF at December 31, 2015, compared to \$43.2 billion or 96.8% at December 31, 2014.

Traditional Risk - Pool Insurance. Prior to 2008, 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. The terms of our pool policies are privately negotiated and are separate from the Master Policies that we use for our primary mortgage insurance.

We wrote much of our pool insurance in the form of Structured Transactions, such as credit enhancement on loans in pools purchased by the GSEs as well as loans included in RMBS transactions. 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 $1.1 billion or 2.5% of our total direct first-lien insurance RIF at December 31, 2015, as compared to $1.4 billion or 3.2% at December 31, 2014.

Non-Traditional Risk. In addition to traditional mortgage insurance, in the past, we provided other forms of credit enhancement on residential mortgage assets. Our non-traditional products, which included mortgage insurance on Second-liens, generally have higher risk characteristics. We stopped writing these forms of “non-traditional” business before 2008. 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 low default rate. Our total amount of non-traditional RIF, including our international RIF, was $49 million at December 31, 2015, as compared to $73 million at December 31, 2014.

Premium Rates

We set our premium rates when coverage is established, which is generally at the time of origination. Premiums for our mortgage insurance products are established based on performance models that consider a broad range of borrower, loan and property characteristics. Our premium rates are generally subject to regulation, and in most states where our insurance subsidiaries are licensed, our premiums must be filed, and in some cases approved, before their use. See “Regulation—State Regulation.”

We set our premium levels to be competitive within the mortgage insurance industry and to achieve an overall risk-adjusted rate of return on capital given our modeled performance expectations. Our actual returns may differ from our expectations based on market conditions and other factors. The sensitivity of our returns to market conditions will vary based on factors such as whether the insurance is borrower-paid or lender-paid, and whether the payments are made monthly or in a single premium payment at the time of origination. See “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Key Factors Affecting Our Results—Mortgage Insurance—Premiums.”

Among other factors, we set our premium rates based on assumptions about policy performance, 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 data regarding our own historical experience, as well as data generated from independent, third-party sources.

Premiums on our mortgage insurance products are generally paid either on a monthly installment basis (Monthly Premiums) or in a single payment (Single Premiums). In addition, our Monthly and Other premiums may include premiums that are paid as a combination of up-front premium at origination plus a monthly renewal (split premium), as an annual or other periodic premium paid over multiple years or as premiums paid on mortgage loans after their origination. For Single Premium insurance, we receive a single premium payment that is generally paid at the time of loan origination and, subject to certain conditions, provides coverage for the life of the loan. There are many factors that influence the form of premiums we receive, including: (1) the percentage of mortgage originations derived from refinance transactions versus new home purchases (refinancing transactions often are conducted with Single Premiums); (2) the customers with whom we do business (mix of Monthly Premium and Single Premium business varies by customer); and (3) the relative premium levels we and our competitors set for the various forms of premiums offered. Approximately 69% of our NIW in 2015 was written with Monthly and Other premiums, and 31% was written with Single Premiums.

Mortgage insurance premiums can be financed through a number of methods, and while the coverage remains for the benefit of the lender, the premiums may 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 mortgage insurance premiums are generally established as either: (1) a fixed percentage of the loan's amortizing balance over the life of the policy; or (2) as a fixed percentage of the initial loan balance for a set period of time (typically ten years), after which it declines to a lower fixed percentage for the remaining life of the policy.

Underwriting

Mortgage loan applications are underwritten to determine whether they are eligible for our mortgage insurance. We perform this function directly or, alternatively, we delegate to our insured lenders the ability to underwrite the mortgage loans based on compliance with our underwriting guidelines.

Delegated Underwriting. Through our delegated underwriting program we approve insured lenders to underwrite mortgage loan applications based on our mortgage insurance underwriting guidelines. Each lender participating in the delegated underwriting program must be approved by our risk management group. Utilization of our delegated underwriting program enables us to meet lenders' demands for immediate insurance coverage and increases the efficiency of the underwriting process. We use quality control sampling and performance monitoring to manage the risks associated with delegated underwriting. Under the terms of the program, we have certain rights to rescind coverage if there has been a deviation from our underwriting guidelines. For a discussion of these limited rescission rights, see "—Claims Management—Rescissions." As of December 31, 2015, approximately 70% of our total first-lien IIF had been originated on a delegated basis, compared to 72% as of December 31, 2014.

Non-Delegated Underwriting. In addition to our delegated underwriting program, insured lenders may also submit mortgage loan applications to us and we will perform the mortgage insurance underwriting. In general, we are less likely to exercise our rescission rights with respect to underwriting errors related to loans that we underwrite for mortgage insurance. As a result, following a period of high Rescissions after the financial crisis, many lenders have chosen to have us perform the mortgage insurance underwriting, and we have experienced an increase in the amount of business being submitted to us on a non-delegated basis. Given the professional resources we need to maintain to underwrite mortgage loans, an increase in non-delegated underwriting demand generally increases our operating costs to support this program. As of December 31, 2015, approximately 30% of our total first-lien IIF had been originated on a non-delegated basis, compared to 28% as of December 31, 2014.

Contract Underwriting. We also provide third party contract underwriting services to both our mortgage insurance and Services customers. For a fee, we underwrite our customers' mortgage loan application files for secondary market compliance (e.g., for sale to the GSEs), and may concurrently assess the file for mortgage insurance eligibility. During 2015, mortgage loans underwritten through contract underwriting accounted for 5.7% of insurance certificates issued as part of our Flow Business. These mortgage loans are included within the non-delegated underwriting percentages discussed above.

We offer limited indemnification to our contract underwriting customers with respect to those loans that we simultaneously underwrite for both secondary market compliance and for potential mortgage insurance eligibility. In addition, we may, in certain circumstances, offer limited indemnification when we underwrite a loan only for secondary market compliance. The entity and its employees that provide our contract underwriting services are compliant with the SAFE Act in 49 states. We train our underwriters, require continuing education and routinely audit their performance to monitor the accuracy and consistency of underwriting practices.

B. Mortgage Insurance Portfolio

Direct Risk in Force

Our business traditionally has involved taking credit risk in various forms across a range of asset classes, products and geographies. Exposure in our mortgage insurance business is measured by RIF, which is equal to the underlying loan unpaid principal balance multiplied by the insurance coverage percentage.

The following discussion mainly focuses on our direct primary RIF, which represents approximately 97.4% of our total mortgage insurance RIF of $45.8 billion at December 31, 2015. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Mortgage Insurance—NIW, IIF, RIF" for additional information about the composition of our primary RIF. See "—Business—Mortgage Insurance Products—Traditional Risk" and "—Business—Mortgage Insurance Products—Non-Traditional Risk" for additional informati regarding our pool and non-traditional mortgage insurance RIF.

We analyze our mortgage insurance portfolio in a number of ways to identify any concentrations or imbalances in risk dispersion. We believe that, among other factors, the credit 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 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, 2015:

	December 31, 2015					
($ in millions)	RIF	Number of Defaults	Delinquency Rate	Percentage of Reserve for Losses	Average FICO (1) at Origination	Original Average LTV
2005 and prior	$2,823	13,287	13.9 %	34.7 %	675	89.4 %
2006	1,666	5,649	13.0	16.7	688	91.0
2007	3,891	9,089	10.6	31.8	701	92.5
2008	2,798	3,727	6.4	10.9	726	90.7
2009	736	436	2.5	1.0	754	89.8
2010	616	167	1.3	0.4	764	91.6
2011	1,294	279	1.1	0.5	761	91.9
2012	5,010	596	0.7	1.1	762	92.0
2013	8,056	1,037	0.7	1.6	756	92.3
2014	7,646	837	0.6	1.1	747	92.6
2015	10,091	199	0.1	0.2	748	92.4
Total	$44,627	35,303		100.0 %		

(1) Represents the borrower's credit score at origination. In circumstances where there is more than one borrower, the FICO score for the primary borrower is utilized.

The amount of time that our insurance certificates remain in force, which is affected by loan repayments and terminations of our insurance, can have a significant impact on our revenues and our results of operations. Our Persistency Rate, which is the percentage of IIF that remains on our books after any 12-month period, is one key measure for assessing the impact that insurance terminations resulting in certificate cancellations have on our IIF. Because our insurance premiums are earned over time, higher Persistency Rates on Monthly Premium Policies increase the premiums we receive and generally result in increased profitability and returns. Conversely, assuming all other factors remain constant, higher Persistency Rates 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 and Available Assets supporting the insurance for the life of the policy. The Persistency Rate of our primary mortgage insurance was 78.8% at December 31, 2015, compared to 84.2% at December 31, 2014. Historically, there is a close correlation between interest rates and Persistency Rates, primarily as a result of increased refinancings in lower interest rate environments. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Mortgage Insurance—NIW, IIF, RIF" for the details regarding the Persistency Rates.

2. Geographic Dispersion

The following table shows, as of December 31, 2015 and 2014, 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, 2015):

	December 31,							
	2015				2014			
Top Ten States	RIF		Reserve for Losses		RIF		Reserve for Losses	
California	12.8	%	6.5	%	13.7	%	6.8	%
Texas	7.5		3.6		7.1		3.1	
Florida	6.2		13.1		6.0		16.8	
Illinois	5.7		5.3		5.6		6.1	
Georgia	4.2		3.5		4.3		3.2	
New Jersey	3.8		12.2		3.9		9.8	
Virginia	3.5		1.6		3.4		1.5	
Pennsylvania	3.2		3.7		3.2		3.8	
Colorado	3.1		0.8		3.2		1.0	
Arizona	3.1		1.3		3.2		1.4	
Total	53.1	%	51.6	%	53.6	%	53.5	%

The following table shows, as of December 31, 2015 and 2014, 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 Core Based Statistical Areas, referred to as "CBSAs," in the U.S. (as measured by our direct primary mortgage insurance RIF as of December 31, 2015):

	December 31,							
	2015				2014			
Top Fifteen CBSAs (1)	RIF		Reserve for Losses		RIF		Reserve for Losses	
Chicago, IL-IN-WI	5.4	%	5.0	%	5.3	%	5.8	%
New York, NY-NJ-PA	4.9		18.8		5.0		15.0	
Los Angeles - Long Beach, CA	3.7		1.9		4.1		2.0	
Washington, DC-MD-VA	3.6		2.8		3.6		2.4	
Atlanta, GA	3.4		2.6		3.4		2.4	
Dallas, TX	2.9		1.2		2.7		1.1	
Philadelphia, PA-NJ-DE-MD	2.6		3.9		2.6		3.4	
Phoenix/Mesa, AZ	2.3		0.9		2.3		0.9	
Houston, TX	2.0		1.2		2.0		1.0	
Boston, MA-NH	2.0		1.6		2.0		1.4	
Denver, CO	2.0		0.4		2.1		0.5	
Minneapolis-St. Paul, MN-WI	1.9		0.8		1.9		0.9	
Miami, FL	1.8		4.9		1.8		6.0	
Riverside-San Bernardino, CA	1.7		1.2		1.7		1.3	
Seattle, WA	1.6		1.3		1.6		1.8	
Total	41.8	%	48.5	%	42.1	%	45.9	%

(1) CBSAs are metropolitan areas and include a portion of adjoining states as noted above.

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, underwriting and our risk management practices. We consider a number of borrower and loan characteristics in evaluating the credit quality of our portfolio and developing our pricing and risk management strategies.

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. The average origination LTV of our primary NIW in 2015 was 91.5%, compared to 91.6% and 91.1% in 2014 and 2013, 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.

Loan Grade/FICO Score. The risk of claim on non-prime loans is significantly higher than that on prime loans. We use our proprietary models to classify a loan as either prime or non-prime on the basis of a borrower's FICO score, the level of loan file documentation and other factors. In general we consider a loan to be a prime loan if 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. See the "Improved Characteristics of 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 FICO Score and origination vintage ranges.

Loans that we categorize as Alt-A, A minus loans or B/C loans are considered non-prime loans due to lower FICO scores, reduced loan file documentation, and/or the presence of other risk characteristics. See the "Primary RIF by Risk Grade" 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 risk grade.

Loan Type—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. 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 initial fixed periods. Approximately 64.4% of the ARMs we insure have already had initial interest rate resets. An additional 1.8%, 1.9% and 3.5% of the ARMs we insure are scheduled to have initial interest rate resets during 2016, 2017 and 2018, 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 may also impact our risk of loss. For example, 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 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 IIF (by product) as of December 31, 2015, 2014 and 2013 was as follows:

	December 31,		
(In thousands)	2015	2014	2013
Prime	$202.4	$200.2	$195.8
Alt-A	190.6	190.3	190.0

A minus and below	129.0	129.5	129.9
Total portfolio	199.3	196.8	192.1

We consider other factors, including property type and occupancy type, in assessing our risk of loss. In general, it has been our experience that our risk of claim is lower on loans secured by single family detached housing than loans on other types of properties, and is higher on non-owner occupied homes purchased for investment purposes than on either primary or second homes.

See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Mortgage Insurance—NIW, IIF, RIF" for additional information about the credit quality and characteristics of our direct primary mortgage insurance.

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.

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.

Since 2009, virtually all of our new mortgage insurance business production has been prime business. The loans from our 2009 and later origination years possess significantly improved credit characteristics compared to our Legacy Portfolio. For example, average FICO scores for the borrowers of these insured mortgages are higher compared to mortgages in our Legacy Portfolio. In addition, refinancings under the HARP programs have had a positive impact on the overall credit quality and composition of our mortgage insurance portfolio because the refinancing generally results in terms under which a borrower has a greater ability to pay and more financial flexibility to cover the loan obligations. Our portfolio of business written since the beginning of 2009 has been steadily increasing in proportion to our total primary RIF. The sum of our 2009 through 2015 portfolios and our HARP refinancings accounted for approximately 84% of our total primary RIF at December 31, 2015, compared to 79% at December 31, 2014. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Mortgage Insurance" for additional information about refinancings under the HARP programs.

The following table shows the states that have generated the highest number of primary insurance defaults (measured as of December 31, 2015) in our insured portfolio and the corresponding percentage of total defaults as of the dates indicated:

	December 31, 2015			2014			2013		
States with highest number of defaults:									
Florida	3,571	10.1	%	6,122	13.5	%	9,530	15.6	%
New Jersey	2,686	7.6		3,103	6.8		3,503	5.8	
New York	2,682	7.6		3,161	7.0		3,632	6.0	
Texas	2,019	5.7		2,215	4.9		2,885	4.7	
Illinois	1,894	5.4		2,600	5.7		3,776	6.2	

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, or 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 primary insurance business, the insured lender must acquire title to the property (typically through a foreclosure proceeding) before submitting a claim. The time for a lender to acquire title to a property through foreclosure varies depending on the state. Following the financial crisis, the time between a default and a request for claim payment increased, largely as a result of foreclosure delays due to, among other factors, increased scrutiny within the mortgage servicing industry and foreclosure process. Delays in foreclosures have continued to extend the timing of claim submissions, in particular as compared to historical experience. For our pool insurance business, loans are insured under policies separate from the Master Policies 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, which generally lengthens the time between a default and a claim submission.

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

See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Mortgage Insurance—Provision for Losses" for various claims paid tables, including Direct Claims Paid by Origination Year.

The following table shows the states with the highest direct claims paid (measured as of December 31, 2015) for the periods indicated:

	Year Ended December 31,		
(In millions)	2015	2014	2013
States with highest direct claims paid (first-lien):			
Florida	$183.4	$166.3	$247.6
Illinois	64.2	73.5	108.2
California	52.2	80.8	201.5
New Jersey	38.5	31.4	44.1
Washington	29.3	28.4	44.5

In addition to claim volume, Claim Severity is another significant factor affecting losses. We calculate the Claim Severity by dividing the claim paid amount by the original coverage amount. Factors that impact the severity of a claim include, but are not limited to, the size of the loan, the amount of mortgage insurance coverage placed on the loan, the amount of time between default and claim during which we are expected to cover certain interest and expenses, and the impact of our Loss Mitigation and other 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 105.8% for 2015, compared to 100.2% in 2014. The increase in the average Claim Severity in 2015 was primarily impacted by claims paid related to the implementation of the BofA Settlement Agreement.

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 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. We evaluate and consider a number of factors that assess the quality of the loan origination and the loan servicing in determining the extent of our loss mitigation reviews and which loss mitigation strategies to pursue.

Claims. 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 and allow the insured lender to keep title to the property. The maximum liability is determined by multiplying (x) the claim amount (which consists of the unpaid loan principal, plus past due interest for a period of time specified in our Master Policies and certain expenses associated with the default) by (y) the applicable coverage percentage;

(2) pay the amount of the claim required to make the lender whole (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." Although short sales may have the effect of reducing our ultimate claim obligation, in many cases, a short sale will result in the payment of a claim in an amount that is equal to the maximum liability amount. Under our Master Policies, 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 any shortfall in the sale proceeds as compared to the outstanding loan amount. We have 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, as long as the short sales meet the GSE guidelines and processes for short sales and subject to certain other factors set forth in these agreements. 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 met the specified requirements. We have the ability to terminate our delegated short sale agreements with the GSEs upon 60 days notice. We also provide for limited delegation authority to certain loan servicers for short sales under specific circumstances. For loans that are not owned by the GSEs and for which we have not granted specific delegation authority to the loan servicer, we continue to perform an individual analysis of each proposed short sale and provide our consent to these sales when appropriate.

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

- a review to determine 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
- management and disposal of acquired real estate.

Claim Denials. We have the legal right under our Master Policies to deny a claim if the loan 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 Policies. 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. If we deny a claim, we continue to allow the insured the ability to perfect the claim for a period of time specified in our Master Policies. 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 loan servicing.

Rescissions. Under the terms of our Master Policies we have the legal right, under certain conditions, to unilaterally rescind coverage on our mortgage insurance policies. If we rescind coverage based on a determination that a loan did not qualify for insurance, we provide the insured with a period of time to challenge, or rebut, our decision.

Typical events that may give rise to our right to rescind coverage include: (1) we insure a loan under one of our Master Policies 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 an act of fraud; or (2) 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 Policies 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, we have the claim re-examined internally by a second, independent group. 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 total premiums paid are 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 legal challenge to our decision to rescind coverage may be brought after we have rescinded coverage during a period of time that is specified under the terms of our Master Policies.

In 2012, we began offering a limited rescission waiver program under our Prior Master Policy for our delegated underwriting customers, in which we agree not to rescind coverage due to non-compliance with our 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 part of our 2014 Master Policy for NIW after October 1, 2014, we now offer 12-month and 36-month rescission relief programs in accordance with the specified terms and conditions set forth in the new policy. For a discussion of the 2014 Master Policy, see "—Business—Mortgage Insurance Products—Traditional Risk."

Claim Curtailments. We also have rights under our Master Policies 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 Policies;
- 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 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 Policies.

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. See "—Enterprise Risk Management" for additional information on our risk management activities and enterprise risk management strategy.

Reinsurance—Ceded. We also use reinsurance as a risk management tool in our mortgage insurance business.

Third-Party Quota Share Transactions. During 2012, Radian Guaranty entered into two QSR agreements with a third-party reinsurance provider in order to proactively manage Radian Guaranty's Risk-to-capital. Through 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, 2015, RIF ceded under the Initial QSR Transaction was $0.8 billion. In the fourth quarter of 2012, Radian Guaranty and the same third-party reinsurance provider entered into the Second QSR Transaction. Effective January 1, 2015, having ceded the maximum amounts permitted under the QSR Transactions, Radian Guaranty is no longer ceding NIW under these agreements. As of December 31, 2015, RIF ceded under the Second QSR Transaction was $1.3 billion. For additional information regarding the QSR Transactions, see Note 8 of Notes to Consolidated Financial Statements.

In February 2016, in order to manage the mix of business in our portfolio and to continue managing Radian Guaranty's Minimum Required Assets under the PMIERs in a cost-effective manner, we entered into the Single Premium QSR. The Single Premium QSR (including the amount of the benefit to our Minimum Required Assets under PMIERs) remains subject to GSE approval, and therefore, we have not yet begun to cede any business under this agreement. We can provide no assurance if and when the GSEs may approve the Single Premium QSR, and if it is approved, whether it will be approved in its current form or on alternative terms and conditions that are acceptable to us and the third-party reinsurers.

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 an affiliated reinsurer to comply with these insurance regulations. See "—Regulation—State Regulation—Reinsurance." In addition, Radian Guaranty has previously used reinsurance with its subsidiaries to reduce its net RIF and manage its Risk-to-capital position.

Captive Reinsurance. We and other companies in the mortgage insurance industry have 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 were 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 otherwise 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.

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, 2015 were $7.3 million.

We have 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 remaining captive reinsurance arrangements are operating on a run-off basis, meaning that no new business is being placed in these captives. We have not entered into any new captive reinsurance arrangements since 2007, and we have an agreement with the Minnesota Department of Commerce that we will not enter into any new captive reinsurance arrangements for a period of ten years ending in June 2025. See Note 17 of Notes to Consolidated Financial Statements.

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. Sources of primary NIW by type of mortgage originator for the year ended December 31, 2015 are shown in the chart below.

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 approximately 900 new customers and significantly increased the amount of business derived from mid-sized mortgage banks. We believe these 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 28.0% of our primary NIW in 2015, compared to 22.9% and 25.8% in 2014 and 2013, respectively. Our largest single mortgage insurance customer (including branches and affiliates), measured by primary NIW, accounted for 4.6% of NIW during 2015, compared to 4.0% and 5.8% in 2014 and 2013, respectively. Earned premiums attributable to Wells Fargo accounted for more than 10% of our consolidated revenues in 2015, 2014 and 2013.

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 developing 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.

A key element of our business strategy is to broaden our participation in the residential mortgage market value chain through our Services segment. We have a dedicated team that is focused on marketing our Services capabilities to our mortgage insurance customers. We expect the continued sales of these complementary products and services to our mortgage insurance customers will strengthen our relationships with those customers and that the availability of these products and services will attract new customers. We believe that offering these complementary services and products differentiates us from our mortgage insurance competitors and enhances our ability to compete in the insured market.

Additionally, we have established exclusive partnerships with a number of organizations that are focused on supporting minority homeownership, including NAHREP, NAREB and AREAA. We believe that these partnerships will help us establish and deepen our relationship with the growing minority segments of the population that are expected to constitute a significant portion of new household formation in the U.S. in the future.

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 2015, we trained more than 41,000 mortgage professionals both in-person and online, an increase of 38% from 2014.

H. Competition

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

We compete with other private mortgage insurers primarily on the basis of price, underwriting guidelines, customer relationships, reputation, perceived financial strength (including based on credit ratings) and overall service. Service-based competition includes effective and timely delivery of products, timeliness of claims payments, customer service, timely and accurate servicing of policies, training, loss mitigation efforts and management and field service expertise. Pricing has always been competitive in the mortgage insurance industry. However, the presence of newer entrants in the industry has increased price competition as these companies seek to gain a greater presence in the market and more established industry participants seek to defend their market share and customer relationships. As a result, recent pricing trends have included: (i) the increased use of a spectrum of filed rates to allow for formulaic, risk-based pricing (commonly referred to as “black-box” pricing); (ii) a significant increase in the broad use of customized (often discounted) rates on lender-paid, Single Premium policies, and more recently, on borrower-paid, monthly premium policies; and (iii) overall reductions in standard filed rates on borrower-paid policies. The willingness of mortgage insurers to offer reduced pricing (through filed or customized rates) has been met with an increased demand from certain large lenders for reduced rate products. This has further intensified the pricing environment and has resulted in new pricing levels (whether through filed or customized rates) that private mortgage insurers are expected to meet in order to avoid risking a potential significant loss in NIW.

The heightened pricing competition has occurred in the context of generally higher capital requirements being applied to private mortgage insurers as a result of the PMIERs and more aggressive pricing by the FHA (which is most impactful with respect to high-LTV loans for borrowers with FICO scores below 720). This has produced a marketplace where balancing both targeted returns on new business and an acceptable share of the insured market has become increasingly challenging for all participants. In formulating our strategy in this environment, we have taken a disciplined approach to establishing rates and delivering a mix of business that is expected to produce our targeted level of returns on a blended basis and an acceptable level of NIW. In furtherance of this strategy, we recently: (1) increased our filed rates for lender-paid mortgage insurance; (2) continued to use the authority set forth in our rate filings to provide customized premiums for lender-paid, Single Premium mortgage insurance on a selective and negotiated basis while, importantly, declining to participate in significantly discounted, Single Premium business that has been offered for bid on an aggregated basis (which we estimate represented approximately 5% of the total private mortgage insurance market in 2015); and (3) determined to change our borrower-paid, filed rates in order to remain competitive, which generally will have the effect of decreasing our standard rates on higher FICO business and raising our rates on lower FICO business where the FHA is already very competitive.

As a result of these changes, we believe we remain well positioned to compete for the high-quality business being originated today and to capture a larger share of the generally more profitable, borrower-paid business, while at the same time maintaining attractive projected returns on NIW within our targeted ranges. While our portfolio returns will depend on a number of factors, including the amount and mix of NIW that we are able to write at these new levels and the amount of reinsurance we use in the future, we currently expect our pricing changes will produce returns on new business on an unlevered basis (i.e., after-tax underwriting returns plus projected investment income) of approximately 13% to 14% and approximately 16% to 17% on a levered basis (i.e., after-tax returns taking into consideration a targeted corporate debt to capital ratio of less than 30%). Most importantly, we believe our pricing actions will allow us to compete more effectively.

Certain of our private mortgage insurance competitors are subsidiaries of larger corporations that have access to greater amounts of capital and financial resources than we do at a lower cost of capital (including, as a result of tax-advantaged, off-shore reinsurance vehicles) and have better financial strength ratings than we have. As a result, they may be better positioned to compete outside of traditional mortgage insurance, including if the GSEs pursue alternative forms of credit enhancement other than traditional mortgage insurance. In addition, three of our competitors are newer entrants to the industry and are not burdened by legacy credit risks.

27

We also compete with governmental and quasi-governmental agencies, principally the FHA and the VA. Beginning in 2008, the FHA, which historically had not been a significant competitor, substantially increased its market share of the insured mortgage market. Since then, the private mortgage insurance industry generally had been recapturing market share from the FHA, primarily due to: improvements in the financial strength of private mortgage insurers; the development of new products and marketing efforts directed at competing with the FHA; increases in the FHA's pricing; the U.S. government's pursuit of legal remedies against FHA approved lenders related to loans insured by the FHA; as well as various policy changes at the FHA, including the general elimination of the premium cancellation provision. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations — Key Factors Affecting Our Results — Mortgage Insurance — NIW." However, in January 2015, the FHA announced a 50 basis point reduction to its annual mortgage insurance premium. This reduction has impacted our competitiveness with respect to certain high-LTV loans to borrowers with FICO scores below 720. As a result, the FHA's recent share of the insured market has been increasing once again.

In addition, we have faced increasing competition from the VA. Based on publicly available information, the VA accounted for 25.4% of the insurable mortgage market in 2015. We believe that the VA's market share has generally been increasing because the VA offers 100% LTV loans and charges a one-time funding fee that can be included in the loan amount but no additional monthly expense, and because of an increase in the number of borrowers that are eligible for the VA's program.

III. Mortgage and Real Estate Services ("Services")

A. Acquisition of Clayton

On June 30, 2014, we acquired Clayton, a leading provider of services and solutions to the mortgage and real estate industries. In connection with the acquisition of Clayton, we introduced a new reporting segment - Mortgage and Real Estate Services, also referred to as "Services." During the first quarter of 2015, Clayton acquired Red Bell, a real estate brokerage, valuation and technology company. In addition, in October 2015, Clayton acquired ValuAmerica, a national title agency and appraisal management company with a technology platform that helps mortgage lenders and their vendors streamline and manage their supply chains and operational workflow. See Notes 1 and 7 of Notes to Consolidated Financial Statements for additional information regarding these acquisitions. These acquisitions expanded Clayton's scope of services and are consistent with our strategy to provide services throughout the mortgage and real estate industries.

B. Business

1. Services Offered

Our Services segment consists primarily of Clayton and provides services and solutions to the real estate and mortgage finance industries, including outsourced services, mortgage-related analytics and specialized consulting and surveillance services for buyers and sellers of, and investors in, mortgage- and real estate-related loans and securities as well as other ABS. Our Services segment provides information and services that financial institutions, investors and government entities, among others, use to evaluate, acquire, securitize, service and monitor loans and ABS. The primary services offered are described further below and include: loan review and due diligence; surveillance; valuation and component services and REO management services; and services for the United Kingdom and European mortgage markets offered through Clayton's EuroRisk operations.

Loan Review and Due Diligence. Our loan review and due diligence services include loan-level due diligence for various asset classes and securitizations, with a primary focus on the residential mortgage and non-GSE RMBS markets. We utilize skilled professionals and proprietary technology to conduct these services, with product offerings focused on credit underwriting, regulatory compliance and collateral valuation. These services help our clients understand the risk contained in a loan file, and provide them with information to help them price, acquire, securitize or service the assets we review.

As part of our due diligence and review services, we offer credit underwriting reviews and compliance reviews to verify that loan file documentation conforms to specified guidelines and regulatory requirements. We leverage our underwriting expertise to offer mortgage fraud review and re-verification, including identifying breaches in representations and warranties made by sellers of the loans. In addition, we offer data integrity services.

Surveillance. Our surveillance services utilize proprietary technology and skilled professionals to provide ongoing, independent monitoring of mortgage servicer and loan performance. We offer risk management and servicing oversight solutions, including RMBS surveillance, regulatory and operational loan level oversight, asset representation review, or ARR, services in connection with securitizations, and consulting services. RMBS surveillance services monitor the servicers of mortgage loans underlying outstanding RMBS. Regulatory and operational oversight provides regular monitoring of servicing operations to measure and assess compliance with applicable policies and regulations. Our ARR services provide targeted loan and receivable oversight for ABS issuers and their investors in the event of certain default triggers within the ABS. Our consulting services are focused on regulatory compliance and operational reviews of both mortgage servicers and loan originators.

Valuation and Component Services. Our valuation and component service offerings are primarily focused on the single family rental, or SFR, market, and include valuations, property inspections, title reviews, lease reviews and tax lien reviews. We provide these services and due diligence reviews to issuers of SFR securitizations as well as to lenders and investors in the single family rental market. In addition, we provide valuation services, which primarily consist of broker price opinions, to investors and servicers of non-performing mortgage loans and REO properties, real estate brokerage services and technology solutions, as well as appraisal, title and closing services through Clayton's Red Bell and ValuAmerica subsidiaries.

REO Management. Our REO management services provide management of the entire REO disposition process, including management of the eviction and redemption process, management of property preservation and repairs, property valuation, title reviews and curative work, marketing, offer negotiation and closing services.

EuroRisk. Our EuroRisk operations provide outsourced mortgage services in the United Kingdom and Europe, with offerings that include due diligence services, quality control reviews, valuation reviews and consulting services. EuroRisk provides services to mortgage originators and servicers, as well as to investors in performing and non-performing mortgage loans. All of the EuroRisk services revenue is generated in foreign countries, primarily the United Kingdom and Greece.

Sales volume in our Services segment primarily depends on the overall activity in the mortgage finance market and the health of related industries. We believe the diversity of the services offered by our Services segment, which are intended to cover all phases of the mortgage value chain, will help to support the demand for services throughout various economic and mortgage finance environments. For example, the demand for due diligence services may decrease in unfavorable economic conditions due to lower mortgage origination and securitization volumes, whereas the demand for REO management services may tend to increase in such an environment. In addition, while the size of the mortgage finance market may be adversely impacted by increased regulatory requirements, such as the recently adopted CFPB mortgage servicing standards and the new regulatory requirements for third-party review of loans in asset-backed securities, these requirements may increase the demand for certain of our services, such as surveillance.

2. Mortgage and Real Estate Services Revenue Drivers

For each of the services we offer in our Services segment, the following chart summarizes the percentage of total Services revenue for each business line, a sample of its market segments and the type of clients that it serves as well as the current and expected future revenue drivers.

.

	% of Services Revenue[(1)] 2015/2014	Market Segments	Clients	Current Revenue Drivers	Potential Future Revenue Drivers
Loan Review and Due Diligence	28%/36%	Mortgage Origination Performing & Non-Performing Loan Trades Non-Agency RMBS Securitization GSE Risk-Sharing Transactions MSR Transactions	Banks, REITs, Mortgage Originators Banks, Investment Banks, Private Equity Firms, REITs Banks, Investment Banks, REITs GSEs, Banks, Investment Banks Banks, REITs, Mortgage Servicers	Balanced Mix of Non-Agency RMBS Securitization, Whole Loan Trades (Performing & Non-Performing) and Origination Services	Non-Agency RMBS Securitization Due Diligence GSE Risk-Sharing Transactions Leverage Radian’s Large Client Base to Grow Origination Services

Part I Item 1. Business

	% of Services Revenue[1] 2015/2014	Market Segments	Clients	Current Revenue Drivers	Potential Future Revenue Drivers
Surveillance	20%/17%	Non-Performing Loan Servicing/Servicing Compliance Oversight	Banks, Mortgage Servicers	Oversight of Non-Performing Loan Servicing/Compliance for Large Banks and Servicers Surveillance on Pre-2008 Non-Agency RMBS for Issuers	Surveillance on New Non-Agency RMBS Issuance for Issuers and for Investors ARR Services and Surveillance for other ABS Asset Classes Oversight of Non-Performing Loan Servicing/Compliance for Large Banks and Servicers
		Non-Agency RMBS Securitization/Surveillance	Banks, Investment Banks, REITs, Asset Managers		
		ABS Securitization/ARR Services	Auto, Credit Card, Equipment & Student Loan Issuers		
Valuation and Component Services	31%/23%	SFR Securitization	Banks, Investment Banks, Issuers	SFR Securitizations by and Debt Facilities for Large Institutional SFR Investors SFR Acquisitions (Private Equity Firms, REITs) Non-Performing Loan Servicing (Banks, Mortgage Servicers) Mortgage Origination Support	SFR Securitizations by and Debt Facilities for Small and Large SFR Investors Valuation Support for Mortgage Origination, Servicing and RMBS Securitization with Red Bell Technology Title Policies and Appraisals Services w/ValuAmerica
		Title Policies, Title Curative, Appraisal Services	Mortgage Originators, SFR Owners, Banks		
		SFR Debt Facilities	Banks, Private Equity Firms, REITs		
		Non-Performing Loan Trades	Banks, Private Equity Firms, REITs		
		Non-Performing Loan Servicing	Banks, Mortgage Servicers		
		SFR Acquisitions	Private Equity Firms, REITs		
		Mortgage Origination	Banks, REITs, Mortgage Originators		

	% of Services Revenue[1] 2015/2014	Market Segments	Clients	Current Revenue Drivers	Potential Future Revenue Drivers
REO Management	14%/16%	REO Asset Management	Banks, GSEs, Mortgage Servicers, Private Equity Firms	REO Asset Management Services - Remaining Backlog of Distressed Loans	REO Asset Management Services - Remaining Backlog of Distressed Loans, Property Sales
		SFR Rental Property	Private Equity Firms, REITs		REO Asset Management Technology - Red Bell's Pyramid System
EuroRisk	7%/8%	Performing & Non-Performing Loan Trades	Banks, Investment Banks, Private Equity Firms	Non-Performing Loan Trades	RMBS Securitization
		Mortgage Origination	Banks, Mortgage Originators		Non-Performing Loan Trades
		RMBS Securitization	Banks, Investment Banks		

(1) Represents the percentage of total Services revenue for the each of the years ended December 31, 2014 and 2015, respectively.

See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Factors Affecting Our Results—Services."

3. Fee-for-Service Contracts

Our Services segment is a fee-for-service business. Our services revenue is generated under three basic types of contracts:

Fixed-Price Contracts. Under a fixed-price contract, we agree to perform the specified work for a pre-determined per-unit or per-file price. We use fixed-price contracts in our valuation and component services, as well as in our loan review and due diligence services. These contracts are also used in our surveillance business for our servicer oversight services and RMBS surveillance services, as well as in our REO management business.

Time-and-Expense Contracts. Under a time-and-expense contract, we are paid a fixed hourly rate, and we are reimbursed for billable out-of-pocket expenses as work is performed. These contracts are used in our loan review and due diligence and EuroRisk services offerings, as well as in the consulting services that we offer as part of our surveillance business.

Percentage-of-Sale Contracts. A portion of REO management services are provided under percentage-of-sale contracts, in which we are paid a contractual percentage of the sale proceeds upon the sale of each property. These contracts are only used for our REO management services.

In most cases, our contracts with our clients do not include minimum volume commitments and can be terminated at any time by our clients. Although some of our contracts and assignments are recurring in nature, and include repetitive monthly assignments, a significant portion of our engagements are transactional in nature and may be performed in connection with securitizations, loan sales, loan purchases or other transactions. Due to the transactional nature of our business, our Services segment revenues may fluctuate from period to period as transactions are commenced or completed.

C. Customers

We have a broad range of customers for our Services segment due to the breadth of services we are able to offer across the mortgage value chain. Our principal customers are buyers and sellers of, and investors in, mortgage- and real estate-related loans and securities and other debt instruments. These customers comprise:

- Banks, credit unions, independent mortgage banks and other originators of mortgage loans;
- RMBS/ABS issuers, securitization trusts, the GSEs, private equity, hedge funds, REITs, investment banks and other investors in mortgage-related debt instruments, whole loans and other securities;
- SFR owners;
- Mortgage servicers; and
- Regulators and rating agencies involved in the mortgage, real estate and housing finance markets.

Our clients include many of the largest financial institutions and participants in the mortgage sector and, as such, our services revenue is concentrated among our largest clients. The top ten clients for our Services segment contributed 49% of the total services revenues during the year ended December 31, 2015. See "—Mortgage and Real Estate Services Revenue Drivers."

D. Competition

We believe our Services business is uniquely positioned as a single provider of an array of outsourced services and solutions to participants in the mortgage value chain and that this position differentiates us from our competitors. We are not aware of any other company that provides a comparable range of services to the residential mortgage and real estate industries. However, our Services business has multiple competitors within each of its individual lines of business. Our competitors mainly include small privately-held companies and subsidiaries of large publicly-traded companies.

Significant competitors within each of our business lines include:

- Loan Review and Due Diligence – American Mortgage Consultants, Inc. and JCIII & Associates (consolidated in a business combination as American Mortgage Consultants, Inc., effective December 2015), Digital Risk, LLC, LenderLive Network, Inc., Opus Capital Markets Consultants, LLC and Stewart Lender Services, Inc.
- Surveillance – CoreLogic, Inc., Digital Risk, LLC, FTI Consulting, Inc., Pentalpha Surveillance LLC and Promontory Financial Group, LLC
- Valuation and Component Services – Carrington Property Services, LLC, ClearCapital.com, Inc., CoreLogic, Inc., Pro Teck Valuation Services, First American, Collateral Analytics and Black Knight Financial Services
- REO Management – Altisource Portfolio Solutions S.A., Solutionstar Holdings LLC, Stewart Lender Services, Inc. and VRM Mortgage Services
- EuroRisk – Deloitte LLP, PricewaterhouseCoopers LLP, Ernst & Young LLP, KPMG LLP, Situs Group, LLC, Euristix Ltd, Rockstead Ltd and Grant Thornton

Across all business lines, we compete on the basis of industry expertise, price, technology, service levels and relationships.

IV. Discontinued Operations — Financial Guaranty

A. Business

Radian completed the sale of Radian Asset Assurance to Assured on April 1, 2015, pursuant to the Radian Asset Assurance Stock Purchase Agreement dated as of December 22, 2014. Until the April 1, 2015 sale date, the operating results of Radian Asset Assurance were classified as discontinued operations for all periods presented in our condensed consolidated statements of operations. Previously, Radian Asset Assurance had represented substantially all of the financial guaranty segment; therefore, as a result of the sale, we no longer report a financial guaranty business segment.

Radian Asset Assurance provided direct insurance and reinsurance on credit-based structured finance and public finance risks. For additional information related to discontinued operations, see Note 3 of Notes to Consolidated Financial Statements.

V. Investment Policy and Portfolio

Our investment portfolio is our primary source of liquidity.

We follow an investment policy that is applied on a consolidated risk and asset allocation basis and requires, among other things, 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 NAIC or equivalent ratings by a NRSRO (i.e., “A-” or better by S&P and “A3” or better by 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).

Our portfolio has been constructed 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 current and future tax positions. 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, and allocations are set by periodic asset allocation studies, calibrated by risk and return and after-tax considerations. We manage approximately 16% of the investment portfolio (the portion of the portfolio largely consisting of U.S. Treasury obligations, exchange traded funds and short-term investments) internally, with the remainder primarily managed by three external managers. External managers are selected by management based primarily upon the selected allocations, as well as factors such as historical returns and stability of their management teams. Management’s selections are presented to and approved by the Finance and Investment Committee of our Board.

At December 31, 2015, our investment portfolio had a cost basis of $4.35 billion and carrying value of $4.30 billion, including $1.11 billion of investments maturing within one year or less. Our investment portfolio did not include any residential real estate or whole mortgage loans at December 31, 2015. At December 31, 2015, 97.6% of our investment portfolio was rated investment grade. For additional information about our investment portfolio, see the information that follows, as well as Notes 5 and 6 in Notes to Consolidated Financial Statements.

A. Investment Portfolio Diversification

The composition of our investment portfolio, presented as a percentage of overall fair value at December 31, 2015, was as follows:

As of December 31, 2015 we did not have any investment in any person and its affiliates that exceeded 10% of our total stockholders’ equity.

B. Investment Portfolio Scheduled Maturity

The weighted average duration of the assets in our investment portfolio as of December 31, 2015 was 4.3 years. We seek to manage our investment portfolio to maintain sufficient liquidity within our risk and return tolerances and to satisfy our operating and other financial needs based on our current liabilities and business outlook. The following table shows the scheduled maturities of the securities held in our investment portfolio at December 31, 2015:

($ in millions)	Fair Value	Percent	
Due in one year or less (1)	$1,113.5	25.9	%
Due after one year through five years (1)	502.7	11.7	
Due after five years through ten years (1)	801.7	18.6	
Due after ten years (1)	565.4	13.2	
RMBS (2)	297.1	6.9	
CMBS (2)	544.6	12.7	
Other ABS (2)	371.6	8.6	
Other investments (3)	105.3	2.4	
Total	$4,301.9	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 chart provides the ratings of our investment portfolio, presented as a percentage of overall fair value, as of December 31, 2015:

VI. Enterprise Risk Management

As part of our risk management strategy, we operate a comprehensive Enterprise Risk Management (ERM) program. Radian employs more than 50 dedicated risk management professionals and has developed and established credit, portfolio, and counterparty risk policies, enterprise risk management policies, procedures for monitoring compliance with these policies, and comprehensive capabilities and tools to identify, communicate, and mitigate credit and risk-related issues.

The risks that fall under the program span the entire spectrum of organizational risks and include risks that may not be easily quantifiable or measurable. These include critical risks that fall into our credit, financial, operational, legal & compliance, and strategic risk categories. Our ERM process is designed to provide executive management with the ability to evaluate the most significant risks we face and to calibrate the risk mitigation strategies to account for challenges in the current business environment, as well as external factors that may negatively impact our operations.

Our ERM program takes a holistic approach to managing risks that we face in our business. A cross-functional team, guided by subject matter experts and experienced managers, follows a systematic method to identify, evaluate and monitor risks, both known and emerging. Risk assessments and mitigation plans are developed to address these risks. These assessments and plans are subject to review and modification to account for changes in markets and the regulatory environment, as well as other internal or external factors.

Our ERM program includes ongoing analysis and ranking of the most significant risks and the alignment of risk management activities with business strategies. We believe that risk scoring and validation of the effectiveness of risk management plans through management reporting promote accountability for risk management activities throughout the organization.

Mortgage Insurance Risk Management

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 customers so that they can more effectively perform ongoing business-level due diligence. This also allows us to better customize our policies to address individual customers' strengths and weaknesses. The risk managers are located across the country, and their direct interaction with our customers and their access to local markets improves Radian's ability to observe business patterns and manage risk trends. This oversight provides us with the ability to review and study best practices throughout the industry and develop robust data management analysis.

Portfolio Management. We have developed risk and capital allocation models to support our mortgage insurance business. These models provide robust analysis to establish portfolio limits for product type, loan attributes, geographic concentrations and counterparties. We proactively monitor market concentrations across these attributes. We also identify, evaluate and negotiate potential transactions for terminating insurance risk and for distributing risk to others, including through reinsurance arrangements. See "Item 1. Business — Mortgage Insurance — Risk Management — Reinsurance — Ceded" for more information about the use of reinsurance as a risk management tool in our mortgage insurance business.

As part of our portfolio management function, we monitor and analyze the performance of various risks in our mortgage 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 assesses risks to the portfolio from the market (e.g., the effects of changes in home prices and interest rates) and risks from particular lenders, products and geographic locales.

Credit Policy. We have developed and maintain mortgage-related, credit risk policies. These policies reflect our tolerance levels with respect to accepting risk regarding counterparty, portfolio, operational, and structured risks involving mortgage collateral. Our credit policy team develops and updates our mortgage insurance eligibility and guidelines through regular monitoring of competitor offerings, customer input regarding high-LTV lending needs, analysis of historical performance and portfolio trends, quality assurance results, underwriter experience and observations, and risk tolerances. The credit policy team is also responsible for loan and lender-level exceptions to published guidelines as well as lender corrective action in the event we discover credit performance issues, such as high early payment defaults. The credit policy team works closely with our team of mortgage insurance underwriters to ensure that underwriting decisions align with risk tolerances and principles.

Quality Assurance. Quality assurance 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. Our quality assurance team audits both Radian’s customers and Radian’s underwriters to ensure quality in our NIW. Observations and trends derived from our quality assurance process serve as critical inputs into portfolio monitoring, eligibility and guideline updates, and customer surveillance and also provide valuable feedback to our customers and our underwriters regarding the quality of their mortgage insurance underwriting decisions.

Loss Mitigation. 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 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.

Risk Modeling. We have expertise in the development and deployment of integrated credit and interest rate risk models. Using analytical techniques, we have developed loan level default and prepayment models that can be used for a wide range of risk management applications, including portfolio analysis, credit decision making, forecasting, and reserving, among others.

VII. Regulation

A. State Regulation

We and our insurance subsidiaries are subject to comprehensive regulation 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. These regulations principally are designed for the protection of policyholders, rather than for the benefit of investors. 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. 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 authority of their state of domicile, as well as each of the states in which they are licensed to transact business.

1. Our Insurance Subsidiaries

All of our insurance subsidiaries are domiciled in Pennsylvania.

Effective December 31, 2015, as part of our efforts to create a more efficient organizational structure, we obtained the necessary approvals from the Pennsylvania Insurance Commissioner to effectuate a reorganization of our mortgage insurance subsidiaries, which included a significant redistribution of assets and RIF among our legal entities. As a result of these actions, substantially all of the RIF and assets previously held by certain of our insurance subsidiaries (Radian Guaranty Reinsurance, RMAI, Radian Insurance and Radian Mortgage Insurance) were transferred to Radian Guaranty and a newly formed insurance company, Radian Reinsurance. As a result of this reorganization, the following represent our principal insurance companies as of December 31, 2015:

- Radian Guaranty. Radian Guaranty is our primary mortgage insurance company. Radian Guaranty is our only mortgage insurance company that is eligible to insure GSE loans. 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 Reinsurance. Radian Reinsurance is our exclusive affiliated reinsurer that is eligible to provide affiliate reinsurance to Radian Guaranty. Radian Reinsurance is a direct subsidiary of Radian Group.
- Radian Insurance. Radian Insurance is our insurance subsidiary that is authorized in Hong Kong to insure our remaining Hong Kong insurance portfolio and also insures our other remaining non-traditional risk. Radian Insurance is a direct subsidiary of Radian Guaranty.

In addition, we have the following insurance subsidiaries, each of which had no risk as of December 31, 2015: Radian Investor Surety Inc.; Radian Mortgage Guaranty; Radian Guaranty Reinsurance; Radian Mortgage Insurance and RMAI.

2. Insurance Holding Company Regulation

Radian Group is an insurance holding company and our insurance subsidiaries belong to an insurance holding company system. All states regulate 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.

Radian Group is considered an insurance holding company and, because all of our insurance subsidiaries are domiciled in Pennsylvania, the insurance holding company laws of Pennsylvania regulate, among other things, certain transactions between Radian Group, our insurance subsidiaries and other parties affiliated with us. The holding company laws of Pennsylvania 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 Pennsylvania Insurance Commissioner and the commissioner's prior approval is obtained. Under Pennsylvania's insurance statutes, "control" is defined broadly and 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 Pennsylvania Insurance Commissioner is given 30 days' prior notification and does not disapprove the transaction during that 30-day period.

Pennsylvania also requires that we identify the material risks within the insurance holding company system that could pose enterprise risk to the insurer. Pennsylvania has adopted the Risk Management and Own Risk and Solvency Assessment Act, which was effective January 1, 2015 and requires, among other things, that Pennsylvania-domiciled insurers maintain a risk management framework and conduct an Own Risk and Solvency Assessment ("ORSA") annually in accordance with applicable NAIC requirements.

3. Dividends

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. 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 had negative unassigned surplus at December 31, 2015 of $679.9 million and therefore no dividends or other distributions can be paid from Radian Guaranty in 2016 without approval from the Pennsylvania Insurance Commissioner. Due in part to the need to set aside contingency reserves as discussed below, we do not expect that Radian Guaranty will have positive unassigned surplus and therefore, will not have the ability to pay ordinary dividends for the foreseeable future. Neither Radian Guaranty nor Radian Reinsurance paid any dividends in 2015 or 2014.

All of our other insurance subsidiaries had negative unassigned surplus at December 31, 2015 (except Radian Mortgage Guaranty, which had an immaterial amount of positive unassigned surplus). Therefore, no dividends or other distributions can be paid by these subsidiaries in 2016 without approval from the Pennsylvania Insurance Commissioner.

In 2015, in connection with the reorganization of our insurance subsidiaries discussed above, the Pennsylvania Insurance Department authorized Radian Insurance, RMAI, Radian Mortgage Insurance, RGRI and Radian Investor Surety Inc. to pay extraordinary dividends. None of the distributions from these entities were retained by Radian Group, as all proceeds were distributed to either Radian Guaranty or Radian Reinsurance.

4. 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 currently impose a Statutory RBC Requirement. The most common Statutory RBC Requirement is that a mortgage insurer's Risk-to-capital may not exceed 25 to 1. In certain of the RBC States, Radian Guaranty must satisfy a 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 such as Radian Guaranty 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 2015 and 2014, the RBC States accounted for approximately 55.8% and 56.3%, respectively, of Radian Guaranty's total primary NIW. As of December 31, 2015, Radian Guaranty's Risk-to-capital was 14.3 to 1, and Radian Guaranty was in compliance with all applicable Statutory RBC Requirements.

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 among other changes, 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. While we cannot provide any assurance, we do not believe that the capital requirements that may be adopted under the new Model Act are likely to exceed those of the PMIERs. See "Item 1A. Risk Factors—Our insurance subsidiaries are subject to comprehensive state insurance regulations and other requirements, which we may fail to satisfy.

5. 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, 2015, Radian Guaranty and Radian Reinsurance had contingency reserves of $860.9 million, and $128.8 million, respectively.

6. 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.

7. Our Services Business - Real Estate, Title and Appraisal Management Licensing

Our Services subsidiaries are subject to regulation and oversight by the states where they conduct their businesses, including requirements to be licensed and/or registered in the states in which they conduct operations. Red Bell and its affiliates provide real estate brokerage services in each of the fifty states and the District of Columbia, and they and their designated brokers are required to hold licenses and conduct their brokerage business in conformity with the applicable license laws and administrative regulations of the states in which they are conducting their business. ValuAmerica and its affiliates provide title services and serve as an appraisal management company in a number of states, and are required to hold the required licenses in the jurisdictions where they operate their business. ValuAmerica is domiciled and licensed in Pennsylvania as a resident title insurance agency and licensed as a non-resident title insurance agency in a number of other states. Title insurance agency licensing is primarily regulated by states in which the services are being offered with licensing and registration typically within the jurisdiction of each State Department of Insurance.

Our valuation subsidiaries are also subject to comprehensive oversight by the states in which they operate. Real estate appraisal management statutes and regulations vary from state to state, but generally grant broad supervisory powers to agencies or officials to examine companies and enforce rules. While these businesses are generally state regulated, the Dodd-Frank Act established minimum requirements to be implemented by states regarding the registration and supervision of appraisal management companies. Most states have based their legislation on model legislation developed by the Appraisal Institute for the registration and oversight of appraisal management companies.

B. GSE Requirements

As the largest purchasers of conventional mortgage loans, and therefore, the main beneficiaries of private mortgage insurance, the GSEs impose eligibility requirements that private mortgage insurers must satisfy in order to be approved to insure loans purchased by the GSEs.

PMIERs - Private Mortgage Insurer Eligibility Requirements. In order to be eligible to insure loans purchased by the GSEs, mortgage insurers such as Radian Guaranty must meet the GSEs' eligibility requirements, or PMIERs. The GSEs recently revised the PMIERs, effective December 31, 2015, with the aim of ensuring that approved insurers will possess the financial and operational capacity to serve as strong counterparties to the GSEs throughout various market conditions. The PMIERs are comprehensive, covering virtually all aspects of the business and operations of a private mortgage insurer, including internal risk management and quality controls, the relationship between the GSEs and the approved insurer and the approved insurer's financial condition. The GSEs have significant discretion under the PMIERs as well as a broad range of consent rights to approve various actions of the approved insurer. The GSEs may amend the PMIERs at any time in their sole discretion.

The PMIERs Financial Requirements require that a mortgage insurer's Available Assets (as defined, these primarily include liquid assets and exclude premiums received but not yet earned) meet or exceed its Minimum Required Assets (a risk-based minimum required asset amount calculated based on net RIF, and which is intended to approximate the maximum loss exposure based on a variety of criteria designed to evaluate credit quality). Under the PMIERs, Radian Guaranty's Available Assets and Minimum Required Assets are determined on an aggregate basis, taking into account the assets and insured risk of Radian Guaranty and its affiliated reinsurers. Therefore, developments that impact the assets and insured risk of Radian Guaranty's affiliated reinsurers (such as capital contributions from Radian Group) also will impact the aggregate Available Assets and Minimum Required Assets, and importantly, Radian Guaranty's compliance with the PMIERs Financial Requirements. In comparison to the prior GSE eligibility requirements, the PMIERs Financial Requirements include more stringent financial requirements for defaulted loans, as well as loans with a higher likelihood of default and/or certain credit characteristics, such as higher LTVs and lower FICO scores, and for loans originated after January 1, 2016 that are insured under lender-paid mortgage insurance policies not subject to automatic termination under the HPA. Therefore, if our mix of business includes a higher percentage of loans that are subject to these increased financial requirements, it would increase the Minimum Required Assets and/or the amount of Available Assets that Radian Guaranty is required to hold.

The PMIERs provide that the factors that are applied to calculate and determine a mortgage insurer's Minimum Required Assets will be updated every two years or more frequently, as determined by the GSEs, to reflect changes in macroeconomic conditions or loan performance. As a result, there is some ongoing uncertainty regarding the amount of capital that private mortgage insurers, including Radian Guaranty, may require in the future in order to remain compliant with the PMIERs Financial Requirements.

The PMIERs contain extensive requirements related to the conduct and operations of our mortgage insurance business, including stringent operational requirements in areas such as claim processing, loss mitigation, document retention, underwriting, quality control, reporting and monitoring, among others. In addition, the PMIERs require private mortgage insurers to obtain the prior consent of both GSEs before taking certain actions such as paying dividends, entering into various inter-company agreements and commuting or reinsuring risk, among others.

Radian Guaranty currently is in compliance with the PMIERs. If Radian Guaranty is not able to comply with the PMIERs in the future, it could lose its eligibility with the GSEs. See "Item 1A. Risk Factors—Radian Guaranty may fail to maintain its eligibility status with the GSEs."

Other GSE Business Practices and Requirements. The GSEs acting independently or through their conservator, the FHFA, have the ability to change their business practices and requirements in ways that impact our business. Recent examples of changes in the GSEs' business practices and requirements that have impacted our business are:

- implementation of new minimum requirements for master insurance policies for loans the GSEs acquire that include, among other requirements, specific standards for loss mitigation and claims processing activities; and

- The PMIERs as discussed above.

The GSEs previously had discontinued programs to acquire loans with LTV ratios at or above 97%. However, in December 2014, the GSEs announced new lending guidelines that enable them to acquire loans with LTV ratios of 97% that include a requirement for private mortgage insurance, for certain qualifying borrowers. In April 2015, the FHFA directed the GSEs to modify their guarantee fee pricing. Among others, the changes to the guarantee fee included: (i) eliminating the adverse market charge that had been in place since 2008; and (ii) increasing the upfront fees by 25 basis points for loans with terms exceeding 15 years that have both an LTV ratio of 80 percent or less and credit-score of 700 or more. To date, the results of these most recent changes in the GSEs' fees have not had a significant impact on the competitiveness of our pricing in relation to the FHA's pricing.

See "Item 1A. Risk Factors—Changes in the charters, business practices, or role of the GSEs in the U.S. housing market generally, could significantly impact our mortgage insurance business."

C. Federal Regulation

1. Housing Finance Reform

Presently, the federal government plays a significant role in the U.S. housing finance system through, among other things, the involvement of the FHFA and GSEs, the FHA and the VA. There has been ongoing debate about the roles that the federal government and private capital should play in the housing finance system, and in recent years, there generally has been broad policy consensus that there is a need to increase the role of private capital.

Since FHFA was appointed as conservator of the GSEs in September 2008, there has been a wide range of legislative proposals to reform the U.S. housing finance market, including proposals for GSE reform ranging from some that advocate nearly complete privatization and elimination of the role of the GSEs to others that support a system that combines a federal role with private capital. The placement of the GSEs into the conservatorship of the FHFA increases the likelihood that Congress will address the role and purpose of the GSEs in the U.S. housing finance market. Further, Freddie Mac declared a net loss in the third quarter of 2015, which raises the possibility of a need for further U.S. government assistance in the future. This development potentially could accelerate efforts to reform the GSEs and the housing finance system in the U.S. It remains unclear whether housing finance reform legislation will be adopted, and if so, what form it may ultimately take.

In the absence of comprehensive legislation, the FHFA has made changes to the business and operations of the GSEs. As a mechanism for implementing changes, the FHFA most commonly uses the annual process of releasing a strategic plan for conservatorship and setting goals for the GSEs (the "Scorecard") to meet as part of their on-going regulation. The 2016 Scorecard includes deadlines for the development of a single security in the next three years, a possible change to the appraisal oversight function, exploring options for the creation of a new streamlined refinance program to replace HARP and HAMP upon their expiration, and an increase of the mandate for the GSEs to transfer credit risk, also known as "credit risk transfer."

The mandate for increased credit risk transfer builds upon the goals set in each of the last three years for the GSEs to transfer portions of their mortgage credit risk to the private sector by experimenting with different forms of transactions and structures. In 2016, the GSEs are directed to conduct an analysis and assessment of risk transfer transactions at the time of initial risk-taking (i.e., "front-end"). If any of these credit risk transfer transactions displace primary, standard levels of mortgage insurance, the amount of insurance we write may be reduced. There is, however, also the opportunity for these transactions to include additional mortgage insurance in excess of standard coverage amounts through a concept known as "deeper cover MI," which could increase the amount of insurance we write. As a result, it is difficult to predict the impact of any credit risk transfer products and transactions implemented by the GSEs.

See "Item 1A. Risk Factors—Changes in the charters, business practices, or role of the GSEs in the U.S. housing market generally, could significantly impact our mortgage insurance business." and "—Our mortgage insurance business faces intense competition."

2. FHA

Private mortgage insurance competes with the single-family mortgage insurance programs of the FHA. As such, the FHA is one of our biggest competitors. We compete on the basis of loan limits, pricing and credit guidelines. Since the financial crisis, the loan limits for FHA-insured loans and the loan limits for GSE conforming loans have been substantially the same, as is the case presently. It is possible that, in the future, Congress could impose different loan limits for FHA loans than for GSE conforming loans as it has done in the past, which could impact the competitiveness of private mortgage insurance in relation to FHA programs.

Beginning in 2008, the FHA, which historically had not been a significant competitor, substantially increased its market share of the insured mortgage market. Since then, the private mortgage insurance industry generally had been recapturing market share from the FHA, due to, among other factors, improvements in the financial strength of private mortgage insurers, increases in the FHA's pricing and various policy changes at the FHA, such as the general elimination of a policy that provided for the cancellation of premium payments after the unpaid principal balance, excluding the upfront premium, reaches 78% of the lower of the initial sales price or initial appraised value, as well as more aggressive loss mitigation actions. In January 2015, the FHA reduced its annual mortgage insurance premium by 50 basis points for loans entering the origination process on or after January 26, 2015, including refinancings. The FHA's upfront mortgage insurance premium was not changed. This recent FHA price reduction has impacted the competitiveness of private mortgage insurance with respect to certain high-LTV loans to borrowers with FICO scores below 720. As a result, the FHA's share of the insured market has increased in 2015.

In November 2015, 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 recovered and now exceeded its minimum capitalization threshold for the first time since 2011. This development may put pressure on the FHA to further reduce premiums or implement changes to its current non-cancellation policy or other policies. Reductions in the FHA's annual premiums or changes to its policies may further impact our competitiveness with the FHA.

Congress has been considering FHA reform in addition to GSE reform. 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. While it is unclear whether FHA reform legislation will be adopted and, if so, what provisions it might ultimately contain, if legislative changes to the FHA and GSEs are not made contemporaneously, there is a possibility that the relative competitiveness of private mortgage insurance could be disadvantaged.

3. The Dodd-Frank Act

The Dodd-Frank Act mandates significant rulemaking by several regulatory agencies to implement its provisions. 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, including TILA and RESPA. Among the most significant provisions for private mortgage insurers under the Dodd-Frank Act are the ability to repay mortgage provisions ("Ability to Repay Rule"), the securitization risk retention provisions and the expanded mortgage servicing requirements under TILA and RESPA.

Qualified Mortgage Requirements - Ability to Repay Requirements. Under the Dodd-Frank Act, Ability to Repay Rule, mortgage lenders are required to make 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 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 or "QM."

The CFPB established rigorous underwriting and product feature requirements for the loans to be deemed QM. Within those regulations, the CFPB created a special exemption for Fannie Mae and Freddie Mac for a period ending upon the earlier of the end of conservatorship or January 10, 2021, which allows any loan that meets the GSE underwriting and product guidelines to be a QM. The CFPB regulations became effective in January 2014.

The Dodd-Frank Act also granted the FHA, VA and the U.S. Department of Agriculture ("USDA") flexibility to establish their own definitions of QM for their insurance guaranty programs. Both the FHA and VA have created their own definition of QM that differ from both the CFPB's definition and the current underwriting and product guidelines at the GSEs that are subject to the special exemption. To the extent these alternate definitions of QM 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, it could further drive business to these agencies and have a negative impact on our mortgage insurance business.

Qualified Residential Mortgage Regulations - Securitization Risk Retention Requirements. The Dodd-Frank Act requires securitizers to retain at least 5% 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. Under applicable federal regulations, a QRM is generally defined as a mortgage meeting the requirements of a qualified mortgage under the CFPB’s QM rule described above. 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 securitizers would not be required to retain risk under the final QRM rule on loans that are guaranteed by the GSEs while in conservatorship. The final rule requires the agencies that implemented the rule to review the QRM definition no later than four years after its effective date and every five years thereafter, and allows each agency to request a review of the definition at any time.

Mortgage Servicing Rules. The Dodd-Frank Act amended and expanded upon mortgage servicing requirements under TILA and RESPA. The CFPB was required to amend Regulation Z (promulgated under TILA) and Regulation X (promulgated under RESPA) to conform these regulations to the new statutory requirements. The final rules implementing these expanded and detailed mortgage servicing requirements became effective in January 2014. Among other things, the rules include new or enhanced requirements for handling loans that are in default. Since 2014, the CFPB has clarified those rules through subsequent rulemakings and provided guidance on how servicers must apply them in certain circumstances. The CFPB is expected to finalize its latest rulemaking in the summer of 2016. Complying with the mortgage servicing rules has been challenging and costly for many loan servicers. Among its products and services, our Services business provides services to financial institutions that are focused on evaluating compliance with and establishing processes and procedures to implement compliance with national and state servicing standards, including the CFPB's mortgage servicing regulations.

Other. In addition to the foregoing, the Dodd-Frank Act 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, such as serving as a non-voting member of the Financial Stability Oversight Council. In December 2013, the Federal Insurance Office 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. In its 2015 annual report to Congress, the Federal Insurance Office again recommended federal enforcement of federal standards for the mortgage insurance industry. To the extent these recommendations are acted upon by legislators or other executive action, a divergence from the current system of state regulation could significantly change compliance burdens and possibly impact our financial condition.

4. RESPA

Settlement service providers in connection with the origination or refinance of a federally regulated mortgage loan are subject to RESPA. Under the Dodd-Frank Act, the authority to implement and enforce RESPA was transferred to the CFPB. RESPA authorizes the CFPB, the U.S. Department of Justice, state attorneys general and state insurance commissioners to bring civil enforcement actions, and also provides for criminal penalties and private rights of action. Mortgage insurance is considered to be a settlement service for purposes of RESPA under applicable regulations. As a result, mortgage insurers are subject to the anti-referral fee provisions of Section 8 of RESPA which, among other things, generally provide that mortgage insurers are prohibited from paying or accepting anything of value in connection with the referral of a settlement service. Our acquisition of Clayton in 2014 has enhanced the suite of both settlement and non-settlement services available to our customers, including real estate, valuation, appraisal, title and closing services through Clayton's Red Bell and ValuAmerica subsidiaries. To the extent any of these services are settlement services for purposes of RESPA, the "anti-referral fee" and "anti-kickback" provisions of Section 8 of RESPA may apply and it could impact how these services are marketed and sold individually or together with the mortgage insurance we offer.

In the past, we and other mortgage insurers have faced lawsuits alleging, among other things, that our captive reinsurance arrangements constituted unlawful payments to mortgage lenders under RESPA. Several of these lawsuits were dismissed and in March 2015 we entered into a settlement agreement relating to the remaining lawsuits, pursuant to which the plaintiffs agreed to voluntarily dismiss their claims with prejudice and to fully release Radian Guaranty from any future claims related to the claims in these lawsuits. We also 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. As part of the settlement, Radian Guaranty paid a civil penalty and agreed that it would not enter into any new captive reinsurance agreement or reinsure any new loans under any existing captive reinsurance agreement for a period of ten years. In

June 2015, Radian Guaranty executed a Consent Order with the Minnesota Department of Commerce that resolved the Minnesota Department of Commerce's outstanding inquiries related to captive reinsurance arrangements involving mortgage insurance in Minnesota without any findings of wrongdoing. As part of the Consent Order, Radian Guaranty paid a civil penalty and agreed not to enter into new captive reinsurance arrangements for a period of ten years ending in June 2025. We have not entered into any new captive reinsurance arrangements since 2007.

The CFPB amended Regulations X and Z to establish significant new disclosure requirements and forms in Regulation Z for most closed-end consumer credit transactions secured by real property through a regulation known as the "TILA RESPA Integrated Disclosure (TRID) rule" or the "Know Before You Owe" (KBYO) Mortgage Disclosures that became effective October 3, 2015. The TRID rule mandates that a series of enhanced disclosures be provided to consumers in connection with the origination of most types of residential mortgage loans. Early public reports indicate that some lenders and their service partners have had difficulties implementing this new disclosure regime, which has resulted in delays in closing loans. In addition, difficulties implementing the new disclosure requirements may result in possible liability for lenders and purchasers. Consequently, the slowdown in the volume of newly originated loans as a result of the implementation of the TRID/KBYO rule has had a negative impact on the residential mortgage market, including the number of transactions available for the loan review and due diligence services offered by our Services segment. However, the need to determine whether loans comply with the strict requirements in the TRID/KBYO rule, many of which are highly technical, may increase the demand for these services in the future.

5. Homeowner Assistance Programs

The Emergency Economic Stimulus Act of 2008 ("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 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. The HARP program, as subsequently modified by the HARP 2 program, was extended to December 31, 2015, for loans that were originated or acquired by the GSEs by or before May 30, 2009. Under recently adopted legislation, the program was further extended and now will terminate by December 31, 2016. The FHFA and the GSEs are exploring options to replace HARP 2 with an on-going refinance program. 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. The HAMP program was extended to December 31, 2016, and cannot be extended without new legislation.
- 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 program is available through participating lenders through December 31, 2016.
- 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 guarantee.

See "Item 1A. Risk Factors—Foreclosure prevention and borrower relief programs may not continue to provide us with a material benefit."

6. The SAFE Mortgage Licensing Act ("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. The entity and its employees that provide our contract underwriting services are compliant with the SAFE Act in 49 states.

7. Mortgage Insurance Cancellation

The 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 cancelled 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.

8. The Fair Credit Reporting Act

The FCRA, as amended, imposes restrictions on the permissible use of credit report information. FCRA has been interpreted by some 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.

9. Privacy and Information Security - Gramm-Leach-Bliley Act of 1999 (the "GLBA") and State Law

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. We and our customers are subject to a variety of privacy and information security laws and regulations. The GLBA 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. GLBA is enforced by state insurance regulators and by federal regulatory agencies. In addition, many states have enacted privacy and data security laws that impose compliance obligations beyond GLBA, including obligations to provide notification in the event that a security breach results in a reasonable belief that unauthorized persons may have obtained access to consumer nonpublic personal information

10. Asset Backed Securitizations

Our Services business provides services to issuers of and investors in asset backed securitizations and similar transactions. As a result, regulations impacting the asset backed securitization market may impact our Services business directly, or indirectly through the regulation of our Services customers.

In August 2014, the SEC adopted final rules under Regulation AB that substantially revise the offering process, disclosure and reporting requirements for offerings of ABS. The final Regulation AB II rules implement several key areas of reform. Specifically, Regulation AB II introduces several new requirements related to public offerings of ABS, including the following that are significant for our Services business:

- New asset-level disclosure requirements for ABS backed by residential mortgage loans, commercial mortgage loans, automobile loans or leases, re-securitizations of ABS backed by any of those asset types, and debt securities; and
- A requirement that the transaction documents provide for the appointment of an "asset representations manager" to review the pool assets when certain trigger events occur.

Issuers of publicly offered ABS must comply with Regulation AB II's new rules, forms and disclosures no later than November 23, 2015, except for the asset-level disclosure requirements which become applicable on November 23, 2016.

In August 2014, the SEC also adopted its final credit rating agency reform rules. These rules became effective June 15, 2015. The new NRSRO rules include, among other things, new rules and forms that apply to providers of third-party due diligence services (such as our Services business) for both publicly and privately issued Exchange Act-ABS (which includes CLOs, CDOs and synthetic securitizations). The new NRSRO rules require any issuer or underwriter of registered or unregistered ABS that are to be rated by a NRSRO, to furnish a form filed on the SEC's EDGAR system that describes the findings and conclusions of any third-party due diligence report obtained by the issuer or underwriter. The rule also requires that a due diligence firm (such as our Services business) that is engaged to perform services in connection with any rated ABS issuance furnish a form that describes the scope of due diligence services performed and a summary of their findings and conclusions. The form is required to be posted on the ABS issuer's password-protected website that is required under Rule 17g-5 of the Exchange Act.

11. FDCPA

The FDCPA prohibits third party debt collectors from using abusive, unfair or deceptive practices to collect a debt. The FDCPA is enforced by the FTC. For purposes of the FDCPA, a debt collector is a person who regularly collects or attempts to collect consumer debts for another person or institution. The FDCPA specifies, among other things, the times and places where a debt collector may communicate with the consumer and which third parties a debt collector may contact other than the consumer, as well as the ways in which such communication may be conducted. Failure to comply with the FDCPA may result in liability for actual damages, punitive damages and other costs and fees, all as set forth in the FDCPA.

Certain of our Services business activities involve direct communications with consumers who have defaulted on mortgage loans, primarily to determine their desire to explore their options with the loan servicer or investor, and to make these introductions, as necessary. These consumer-related interactions may be construed to constitute debt collection activities within the meaning of the FDCPA.

12. Mortgage Insurance Tax Deduction

In December 2015, Congress once again temporarily extended the tax deduction available to certain individuals, subject to income limitations, for the payment of mortgage insurance premiums. Under that legislation, the deduction is allowable for filers for the 2015 and 2016 tax years. There are pending legislative efforts to make this tax deduction a permanent part of the Internal Revenue Code, but to date have not been enacted. Further extension or permanence would assist private mortgage insurance in its competition with simultaneous second loans that are designed to avoid the use of private mortgage insurance. It is difficult to predict whether the deduction will be further extended in the future or if legislation to make the deduction permanent will become law.

D. Basel III

Over the past few decades, the Basel Committee on Banking Supervision has established international benchmarks for assessing banks' capital adequacy requirements. Included within those benchmarks are capital standards related to the residential lending and securitization activity and importantly for private mortgage insurers, the treatment of mortgage insurance on those loans. These benchmarks are then interpreted and implemented via rulemaking by U.S. banking regulators.

In July 2013, U.S. banking regulators promulgated regulations to implement significant elements of the Basel framework, referred to as "Basel III." In that rulemaking, there is a five year phase-in period that started tolling in January 2014. Today, the current capital regime under Basel III for U.S. banks assigns a 50% or 100% risk weight to one- to four-unit residential mortgage exposures. Generally, residential mortgage exposures that are prudently underwritten and performing receive a 50% risk weight, while all other residential mortgage exposures are assigned a 100% risk weight. In March 2015, the U.S. banking regulators clarified that LTV ratios can account for credit enhancement such as private mortgage insurance in determining whether a loan is made in accordance with prudent underwriting standards for purposes of receiving the preferred 50% risk weight.

In December 2014, the Basel Committee on Banking Supervision issued a proposal for further revisions to Basel III. It proposed adjustments to the risk weights for residential mortgage exposures that take into account LTV and the borrower's ability to service a mortgage as a proxy for a debt service coverage ratio. The proposed LTV ratio did not take into consideration any credit enhancement, including private mortgage insurance. Comments closed on the 2014 proposal in March 2015, and in December 2015, the Basel Committee released a second proposal that retained the LTV provisions of the initial draft, but not the debt servicing coverage ratios. The 2015 proposal remains open for comment until March 11, 2016.

Following consideration of the comments received, it is possible that newly revised risk weighting guidelines from the Basel Committee on Banking Supervision may be proposed and that the U.S. banking regulators may consider changes to the existing rules. It is unclear whether new guidelines will be proposed or finalized.

See "Item 1A. Risk Factors—The implementation of the Basel III guidelines may discourage the use of mortgage insurance."

E. 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.

VIII. Employees

At December 31, 2015, we had 1,881 employees, with 71 individuals employed by Radian Group, and 1,079 and 731 individuals employed in our Services and Mortgage Insurance businesses, respectively. Management considers employee relations to be good.

Item 1A. Risk Factors.

Radian Guaranty may fail to maintain its eligibility status with the GSEs.

In order to be eligible to insure loans purchased by the GSEs, mortgage insurers such as Radian Guaranty must meet the GSEs' eligibility requirements, or PMIERS. The GSEs recently revised the PMIERs, which are effective December 31, 2015, with the aim of ensuring that approved insurers will possess the financial and operational capacity to serve as strong counterparties to the GSEs throughout various market conditions. As a consequence, the PMIERs are comprehensive, covering virtually all aspects of the business and operations of a private mortgage insurer, including internal risk management and quality controls, the relationship between the GSEs and the approved insurer and the approved insurer's financial condition. The GSEs have significant discretion under the PMIERs as well as a broad range of consent rights to approve various actions of the approved insurer. The GSEs may amend the PMIERs at any time in their sole discretion. If Radian Guaranty is unable to satisfy the requirements set forth in the PMIERs, Freddie Mac and/or Fannie Mae could restrict it from conducting certain types of business with them or take actions that may include not purchasing loans insured by Radian Guaranty.

The PMIERs Financial Requirements require that a mortgage insurer's Available Assets (as defined, these primarily include liquid assets and exclude premiums received but not yet earned) meet or exceed its Minimum Required Assets (a risk-based minimum required asset amount calculated based on RIF, and which is intended to approximate the loss exposure based on a variety of criteria designed to evaluate credit quality). As of December 31, 2015, Radian Guaranty satisfied the PMIERs Financial Requirements, with its Available Assets exceeding Minimum Required Assets by a modest cushion. Based on our projections, we currently believe Radian Guaranty and its affiliates will continue to generate sufficient capital to support its compliance with the PMIERs Financial Requirements. These projections are based on management's estimates of a number of factors that could prove to be materially different. In particular, Radian Guaranty's ability to continue to comply with the PMIERs Financial Requirements could be impacted by: (1) the product mix of our NIW and factors affecting the performance of our mortgage insurance business, including our level of defaults, prepayments, the losses we incur on new or existing defaults and the credit characteristics of our mortgage insurance; (2) our ability to continue to receive the full PMIERs benefit for our existing third-party QSR arrangements (which are subject to annual review by the GSEs); and (3) the possibility that the GSEs will increase the capital requirements under the PMIERs Financial Requirements, given that the factors used to determine a mortgage insurer's Minimum Required Assets will be updated every two years or more frequently, as determined by the GSEs, to reflect changes in macroeconomic conditions or loan performance.

Compliance with the PMIERs Financial Requirements could impact our holding company liquidity. If additional cash from Radian Group is required to support Radian Guaranty's compliance with the PMIERs Financial Requirements, it will leave less liquidity to satisfy Radian Group's other obligations. Depending on the amount of liquidity that is utilized from Radian Group, we may be required (or may decide) to seek additional capital by incurring additional debt, issuing additional equity, or selling assets, which we may not be able to do on favorable terms, if at all.

The PMIERs Financial Requirements are more stringent than previous capital standards and have negatively impacted projected returns on capital throughout the industry. Compliance with the PMIERs Financial Requirements could impact our NIW and further impact our returns. The PMIERs Financial Requirements include more stringent financial requirements for loans with a higher likelihood of default and/or certain credit characteristics, as well as for loans originated after January 1, 2016 that are insured under lender-paid mortgage insurance policies not subject to automatic termination under the HPA. Therefore, if our mix of business includes more loans that are subject to these increased financial requirements, it would increase the amount of Available Assets that Radian Guaranty is required to hold. As a result, depending on the circumstances, we may limit the type and volume of business we are willing to write based on the increased financial requirements associated with certain loans. This could reduce the amount of NIW we write, which could reduce our revenues.

Compliance with the PMIERs has resulted in additional expenses and has required significant time and attention. In addition to the PMIERs Financial Requirements, the PMIERs contain new requirements related to the operations of our mortgage insurance business, including extensive operational requirements in areas such as claim processing, loss mitigation, document retention, underwriting, quality control, reporting and monitoring, among others. These increased operational requirements have resulted in additional expenses and have required substantial time and effort from management and our employees, which we expect will continue.

Compliance with the PMIERs requires us to seek GSE approval before taking many actions, such as paying dividends, entering into various inter-company agreements and commuting or reinsuring risk, among others. These restrictions could prohibit or delay Radian Guaranty from taking certain actions that would be advantageous to it or its affiliates.

Although we expect Radian Guaranty to retain its eligibility status with the GSEs and to continue to comply with the PMIERs, we cannot provide assurance that this will occur. Loss of Radian Guaranty's eligibility status with the GSEs would have an immediate and material adverse impact on the franchise value of our mortgage insurance business and our future prospects, as well as a material negative impact on our results of operations and financial condition.

Our insurance subsidiaries are subject to comprehensive state insurance regulations and other requirements, which we may fail to satisfy.

We and our insurance subsidiaries are subject to comprehensive, detailed regulation by the insurance regulators in the states where they are licensed to transact business. These regulations are principally designed for the protection of our insurance 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.

Among other matters, the 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 may limit the amount of insurance that our insurance subsidiaries write. Our failure to maintain adequate levels of capital, among other things, could lead to intervention by the various insurance regulatory authorities, which could materially and adversely affect our business, business prospects and financial condition.

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 it was not in compliance. The franchise value of our mortgage insurance business likely would 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.

Radian Group also may be required to provide capital support for Radian Guaranty and its affiliated insurers if additional capital is required by those subsidiaries pursuant to future changes to insurance laws and regulations. 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 among other changes, the NAIC will adopt more stringent capital requirements than currently exist in the Model Act, which could increase the capital requirements for Radian Guaranty in states that adopt it.

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. Increased competition in the private mortgage insurance industry has resulted in heightened pricing competition among mortgage insurers as well as demands from customers for reduced pricing. The limited flexibility currently provided under existing regulatory requirements with respect to insurance rates has made it increasingly more difficult to respond to competitor pricing actions and customer demands in a timely fashion. We could lose business opportunities if we are unable to respond to our customer demands in a timely and acceptable manner. We and other mortgage insurers have been subject to inquiries from the Wisconsin Department of Insurance regarding insurance rates and policy form filings. The current environment could increase the likelihood that additional regulatory inquiries may be initiated.

The credit performance of our insured portfolio is impacted by macroeconomic conditions and specific events that affect the ability of borrowers to pay their mortgages.

As a seller of mortgage credit protection and mortgage and real estate products and services, our results are subject to macroeconomic conditions and specific events that impact the mortgage origination environment and 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. In general, a deterioration in economic conditions decreases the likelihood that borrowers will have sufficient income to satisfy their mortgage obligations and can also adversely affect housing values, which in turn can influence the willingness of borrowers to continue to make mortgage payments despite having the financial resources to do so.

Mortgage defaults also can occur due to a variety of specific events affecting borrowers, including death or illness, divorce or other family problems, unemployment, increases in the interest rates of adjustable rate mortgages, changes in regional economic conditions, and housing value changes that cause the outstanding mortgage amount to exceed the value of a home or other events. In addition, natural disasters, acts of terrorism, war or other severe conflicts, event-specific economic depressions or other catastrophic events could result in increased defaults due to the impact of such events on the ability of borrowers to satisfy their mortgage obligations and the value of affected homes. Unfavorable macroeconomic developments and the other factors cited above could have a material negative impact on our results of operations and financial condition.

The length of time that our mortgage insurance policies remain in force could decline and result in a decrease in our revenue.

As of December 31, 2015, approximately 69% of our total primary insurance in force consists of policies for which we expect to receive premiums in the future, including on a monthly basis. As a result, most of our earned premiums are derived from insurance that was written in prior years. The length of time that this insurance remains in force, which we refer to as the Persistency Rate, is a significant determinant of our revenues. A lower Persistency Rate could reduce our future revenues. The factors affecting the length of time that our insurance remains in force include:

- prevailing mortgage interest rates compared to the mortgage rates on our IIF, which affects the incentives for borrowers to refinance (i.e., lower current interest rates make it more attractive for borrowers to refinance and receive a lower interest rate);
- applicable policies for mortgage insurance cancellation, along with the current value of the homes underlying the mortgages in our IIF;
- the credit policies of lenders, which may make it more difficult for homeowners to refinance loans; and
- economic conditions that can affect a borrower’s decision to pay-off a mortgage earlier than required.

If these or other factors cause the length of time that our policies remain in force to decline, our future revenues could be negatively impacted, which could negatively impact our results of operations and financial condition.

Our Loss Mitigation Activity is not expected to mitigate losses to the same extent as in prior years; Loss Mitigation Activity has negatively impacted our customer relationships and may further negatively impact these relationships in the future.

As part of our claims management process we pursue opportunities to mitigate losses both before and after we receive claims. Following the financial crisis, our Loss Mitigation Activities, such as Rescissions, Claim Denials and Claim Curtailments, increased significantly in response to the poor underwriting, servicer negligence and general non-compliance with our insurance policies that was prevalent in the period leading up the crises. These Loss Mitigation Activities materially mitigated our paid losses during this period and resulted in a significant reduction in our loss reserves. As our Legacy Portfolio has become a smaller percentage of our overall insured portfolio and mortgage underwriting and servicing have generally improved, there has been a decrease in the amount of Loss Mitigation Activity required with respect to the claims we receive, and we expect this trend to continue. As a result, our future Loss Mitigation Activity is not expected to mitigate our paid losses to the same extent as in prior years.

In addition, under the new, uniform master policies developed with the GSEs in 2014, including our 2014 Master Policy for NIW after October 1, 2014, with only limited exceptions, the potential for Loss Mitigation Activity generally is more limited throughout the private mortgage insurance industry. Radian Guaranty also now offers 12-month and 36-month rescission relief programs in accordance with the specified terms and conditions set forth in the new 2014 Master Policy. We expect that these factors will further contribute to a reduction in Loss Mitigation Activity for NIW under this policy.

Part 1 Item 1A. Risk Factors

Our Loss Mitigation Activities have resulted in disputes with our customers and in some cases, damaged our relationships with certain customers, resulting in a loss of business. While we have resolved many of these disputes, a risk remains that our Loss Mitigation Activities could continue to have a negative impact on our relationships with customers or potential customers, in particular given customer expectations that Loss Mitigation Activity will be significantly limited in the future. Further, if a dispute is not resolved, it could result in arbitration or judicial proceedings. To the extent that past or future Loss Mitigation Activities continue to impact our customer relationships, our competitive position could be adversely affected, resulting in the potential loss of business and impacting our results of operations.

Foreclosure prevention and borrower relief programs may not continue to provide us with a material benefit.

The federal government and various lenders have adopted programs, such as HARP and HAMP, to modify loans to make them more affordable to borrowers with the goal of reducing the number of foreclosures. While the ultimate success of these loan modification programs will depend on the re-default rates for loans that have been modified through these programs, we believe these programs have significantly benefited the composition and credit quality of our Legacy Portfolio.

While modifications continue to be made under these programs, the number of loans remaining in our mortgage insurance portfolio that are eligible to complete a HARP refinance or other loan modification has substantially declined. In addition, both the HARP and HAMP programs are expected to terminate by December 31, 2016, and it is not possible to predict whether they will be replaced with other loan modification programs. As a result, we do not expect to continue to benefit from these programs in the future.

Changes in the charters, business practices, or role of the GSEs in the U.S. housing market generally, could significantly impact our mortgage insurance business.

Our current business model is highly dependent on the GSEs. The GSEs are the primary beneficiaries of most of our mortgage insurance policies, and they impose eligibility requirements that private mortgage insurers must satisfy to insure loans purchased by the GSEs. The GSEs' federal charters generally require credit enhancement for low down payment mortgage loans (i.e., a loan amount that exceeds 80% of a home's value) in order for such loans to be eligible for purchase by them. Lenders generally have used mortgage insurance to satisfy this credit enhancement requirement. As a result, low down payment mortgages purchased by the GSEs generally are insured with private mortgage insurance.

The GSEs' business practices may be impacted by their results of operations, as well as by legislative or regulatory changes. Since September 2008, the GSEs have been operating under the conservatorship of the FHFA. The continued role of the conservator may increase the likelihood of changes in these business practices, and potentially in ways that may be adverse to us. With respect to loans purchased by the GSEs, changes in the business practices of the GSEs which can be implemented by the GSEs acting independently or through the FHFA, could negatively impact our mortgage insurance business and financial performance, including changes to:

- eligibility requirements for a mortgage insurer to become and remain an approved eligible insurer for the GSEs;
- the underwriting standards on mortgages they purchase;
- policies or requirements that may result in a reduction in the number of mortgages they acquire;
- the national conforming loan limit for mortgages they acquire;
- the level of mortgage insurance required, including expanding the loans that are eligible for reduced insurance coverage;
- the terms on which mortgage insurance coverage may be canceled before reaching the cancellation thresholds established by law;
- the requirements for terms required to be included in master policies for the mortgage insurance policies they acquire;
- requirements for actions to be taken that are intended to avoid or mitigate loss on insured mortgages that are in default;
-

the amount of LLPAs or guarantee fees (which may result in a higher cost to borrowers) that the GSEs charge on loans that require mortgage insurance; and

- influence a mortgage lender’s selection of the mortgage insurer providing coverage.

The FHFA's 2016 strategic plan for the GSEs announced an increase of the mandate for the GSEs to transfer credit risk to the private sector by experimenting with different forms of transactions and structures. The GSEs have been directed to conduct in 2016 an analysis and assessment of credit risk transfer transactions at the time of initial risk-taking. It is difficult to predict what type of transactions and structures may be used and whether they may displace primary, standard levels of mortgage insurance, which could negatively impact our franchise value, results of operations and financial condition, or whether they may create an opportunity to increase the amount of insurance we write. As a result, the impact of any credit risk transfer products and transactions implemented by the GSEs is uncertain and hard to predict.

Since the FHFA was appointed as conservator of the GSEs, there have been a wide range of legislative proposals to reform the U.S. housing finance market, including proposals for GSE reform ranging from some that advocate nearly complete privatization and elimination of the role of the GSEs to others that support a system that combines a federal role with private capital. The future structure of the residential housing finance system remains uncertain, including the impact of any 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 significantly reduce our available market, diminish the franchise value of our mortgage insurance business and materially and adversely affect our business prospects, 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 benefit from our mortgage insurance. The volume of low down payment mortgage originations is impacted by a number of factors, including:

- restrictions on mortgage credit due to changes in lender underwriting standards, more restrictive regulatory requirements such as the required ability-to-pay determination prior to extending credit, and the significantly reduced private securitization market;
- home mortgage interest rates;
- the health of the domestic economy generally, as well as specific conditions in regional and local economies;
- housing affordability;
- population trends, including the rate of household formation;
- the rate of home price appreciation;
- government housing policy encouraging loans to first-time homebuyers; and
- the practices of the GSEs, including the extent to which the guaranty fees, LLPAs, credit underwriting guidelines and other business terms provided by the GSEs affect lenders' willingness to extend credit for low down payment mortgages.

Although for the past several years, mortgage origination volumes have been supported by increased mortgage refinancings as a result of the low interest rate environment, as well as a recovery in the home purchase market, total domestic mortgage originations have decreased significantly from the $2.7 trillion in 2006 (pre-dating the housing downturn) to approximately $1.6 trillion in 2015. Most industry experts are predicting a decrease in size of the mortgage market in 2016 compared to 2015, primarily as a result of a decrease in the number of projected refinancing transactions. If the volume of new mortgage originations continues to decline or remains at reduced levels for a prolonged period of time, we could experience a reduced opportunity to write new insurance business and likely will be subject to increased competition with respect to that opportunity, which could negatively affect our business prospects, results of operations and our financial condition.

Our NIW and franchise value could decline if we lose business from significant customers.

Our mortgage insurance business depends on our relationships with our customers, and in particular, our relationships with our largest lending customers. Our customers place insurance with us directly on loans that they originate and they also do business with us indirectly through purchases of loans that already have our mortgage insurance coverage. Our relationships with our customers may influence both the amount of business they do with us directly and also their willingness to continue to approve us as a mortgage insurance provider for loans that they purchase. The loss of business from significant customers could have an adverse effect on the amount of new business we are able to write, and consequently, our franchise value.

During 2015, our top 10 mortgage insurance customers (measured by NIW) were responsible for 28.2% of our primary NIW as compared to 22.9% in 2014. Although we have taken steps in recent years to diversify our customer base, if we were to lose a significant customer, it is unlikely that the loss could be completely offset by other customers in the near-term, if at all. Some of our lending customers may decide to write business only with a limited number of mortgage insurers or 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. Alternatively, in light of the increased number of participants in the private mortgage insurance industry, certain other lending customers have chosen for risk management purposes to diversify and expand the number of mortgage insurers with which they do business, which has negatively affected our level of NIW and market share with those customers. Given the amount of business we currently do with many of our customers, it is possible that further diversification will continue, which could have a negative impact on our NIW if we are unable to mitigate the market share loss through new customers or increases in business with other customers. Any significant loss in our market share could negatively impact our mortgage insurance franchise, results of operations and financial condition.

Our mortgage insurance business faces intense competition.

The U.S. mortgage insurance industry is highly competitive. Our competitors include other private mortgage insurers and governmental agencies, principally the FHA and VA.

We compete with six other private mortgage insurers that are eligible to write business for the GSEs. We compete with these private mortgage insurers on the basis of price, underwriting guidelines, customer relationships, reputation, perceived financial strength (including based on credit ratings) and overall service. Service-based competition includes effective and timely delivery of products, timeliness of claims payments, timely and accurate servicing of policies, training, loss mitigation efforts and management and field service expertise.

Pricing has always been competitive in the mortgage insurance industry. However, the presence of newer entrants in the industry has increased price competition as these companies seek to gain a greater presence in the market and more established industry participants seek to defend their market share and customer relationships. As a result, recent pricing trends have included: (i) the increased use of a spectrum of filed rates to allow for formulaic, risk-based pricing (commonly referred to as "black-box" pricing); (ii) a significant increase in the broad use of customized (often discounted) rates on lender-paid, Single Premium policies, and more recently, on borrower-paid, monthly premium policies; and (iii) overall reductions in standard filed rates on borrower-paid policies. The willingness of mortgage insurers to offer reduced pricing (through filed or customized rates) has been met with an increased demand from certain large lenders for reduced rate products. This has further intensified the pricing environment and has resulted in new pricing levels (whether through filed or customized rates) that private mortgage insurers are expected to meet in order to avoid risking a potential significant loss in NIW.

The heightened pricing competition has occurred in the context of generally higher capital requirements being applied to private mortgage insurers as a result of the PMIERs and more aggressive pricing by the FHA (which is most impactful with respect to high-LTV loans for borrowers with FICO scores below 720). This has produced a marketplace where balancing both targeted returns on new business and an acceptable share of the insured market has become increasingly challenging for all participants. In formulating our strategy in this environment, we have taken a disciplined approach to establishing rates and delivering a mix of business that is expected to produce our targeted level of returns on a blended basis and an acceptable level of NIW. In furtherance of this strategy, we recently: (1) increased our filed rates for lender-paid mortgage insurance; (2) continued to use the authority set forth in our rate filings to provide customized premiums for lender-paid, Single Premium mortgage insurance on a selective and negotiated basis while, importantly, declining to participate in significantly discounted, Single Premium business that has been offered for bid on an aggregated basis (which we estimate represented approximately 5% of the total private mortgage insurance market in 2015); and (3) determined to change our borrower-paid, filed rates in order to remain competitive, which generally will have the effect of decreasing our standard rates on higher FICO business and raising our rates on lower FICO business where the FHA is already very competitive.

While we believe our pricing actions will allow us to compete more effectively, our pricing strategy may not be successful. Despite our pricing actions, we may experience returns below our targeted returns and we may lose business to other competitors. There can be no assurance that pricing competition will not intensify further, which could result in a further decrease in projected returns for the industry and for Radian Guaranty.

Certain of our competitors are subsidiaries of larger corporations that may have access to greater amounts of capital and financial resources than we do at a lower cost of capital (including, as a result of tax-advantaged, off-shore reinsurance vehicles) and have better financial strength ratings than we have. As a result, they may be better positioned to compete outside of traditional mortgage insurance, including if the GSEs were to pursue alternative forms of credit enhancement other than traditional mortgage insurance.

Part 1 Item 1A. Risk Factors

We also compete with governmental entities, such as the FHA and VA, that typically do not have the same capital requirements or business objectives that we and other private mortgage insurance companies have, and therefore, may have greater financial flexibility in their pricing guidelines and capacity that could put us at a competitive disadvantage. If these entities lower their pricing or alter the terms and conditions of their 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.

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. While the private mortgage insurance industry generally had been recapturing market share from the FHA, in January 2015, the FHA implemented a 50 basis point reduction to its annual mortgage insurance premium, which has impacted our competitiveness with respect to certain high-LTV loans to borrowers with FICO scores below 720. 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 remain a significant competitor include:

- governmental policy, including further decreases in the pricing of FHA insurance or changes in the terms of such insurance;
- capital constraints of the private mortgage insurance industry;
- the tightening by private mortgage insurers of underwriting guidelines based on risk concerns;
- increases in the LLPAs charged by the GSEs on loans that require mortgage insurance and changes in the amount of guarantee fees for the loans that they acquire (which may result in higher cost to borrowers); and
- the perceived operational ease of using FHA insurance compared to the products of private mortgage insurers.

Other private mortgage insurers may seek to regain market share from the FHA or other mortgage insurers by further reducing pricing, or relaxing their loss mitigation practices, which could, in turn, improve their competitive position in the industry and negatively impact our level of NIW. A decline in industry NIW might result in increased competition as certain private mortgage insurance companies may seek to maintain their NIW levels within a smaller market overall.

We have faced increasing competition from the VA. Based on publicly available information, the VA accounted for 25.4% of the insurable mortgage market in 2015. We believe that the VA's market share has generally been increasing because the VA offers 100% LTV loans and charges a one-time funding fee that can be included in the loan amount but no additional monthly expense, and because of an increase in the number of borrowers that are eligible for the VA's program.

In addition, as market conditions change, alternatives to traditional private mortgage insurance may become more prevalent, which could reduce the demand for private mortgage insurance, including:

- lenders and other investors holding mortgages in their portfolio and self-insuring;
- lenders using pass-through vehicles that take on the risk of loss for loans ultimately sold to the GSEs;
- engaging in credit-linked note transactions or other structured risk transfer transactions in the capital markets;
- risk sharing or using other risk mitigation techniques in conjunction with reduced levels of private mortgage insurance coverage; and
- lenders originating mortgages using "piggyback" structures to avoid private mortgage insurance, such as a first-lien mortgage with an 80% LTV and a second mortgage with a 10%, 15% or 20% LTV.

Managing the competitive environment is extremely challenging given the multitude of various factors discussed above. If we do not appropriately manage the strategic decisions required in this environment, our franchise value, business prospects, results of operations and financial condition could be negatively impacted.

56

Our business depends, in part, on effective and reliable loan servicing.
We depend on third-party servicing of the loans that we insure. Dependable servicing is necessary for timely billing and effective loss mitigation opportunities for delinquent or near-delinquent loans. Challenging economic and market conditions following the financial crisis strained the resources of servicers and negatively affected the ability of many servicers to effectively service the loans that we insured. We believe that servicers have improved their operations and standards in recent years; however, it is possible that another period of economic stress and high mortgage defaults could again negatively impact the servicing of our insured loans. Further, servicers are now required to comply with new and more burdensome requirements, procedures and standards for servicing residential mortgages. While these new requirements, which have been instituted by the CFPB and others following the financial crises, are intended to improve servicing performance, they also impose a high cost of compliance on servicers that may impact their financial condition and their operating effectiveness. If we experience a disruption in the servicing of mortgage loans covered by our insurance policies, this, in turn, could contribute to a rise in defaults and/or claims among those loans, which could have a material adverse effect on our business, financial condition and operating results.
An extension in the period of time that a loan remains in our delinquent loan inventory may increase the severity of claims that we ultimately are required to pay.
High levels of defaults and corresponding delays in foreclosures could delay our receipt of claims, resulting in an increase in the period that a loan remains in our delinquent loan inventory, and as a result, the severity of claims that we are ultimately required to pay. Following the financial crisis, the average time that it has taken for us to receive a claim has increased. This is, in part, due to loss mitigation protocols that were established by servicers and also 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 and expenses, increasing the severity of claims we ultimately are required to pay. While foreclosure timelines have improved in recent years, a portion of our Legacy Portfolio consists of severely delinquent loans. Further, another period of significant economic stress and a high-level of defaults could once again delay claims and result in higher levels of severity. Higher levels of severity would increase our incurred losses and could negatively impact our results of operations and financial condition.
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 and the amount of capital we are required to hold against our insured risks. We expect to incur future losses beyond what we have recorded in our financial statements.
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, among other items, the amount of capital we are required to hold against our insured risks and our estimates of the long-term risk of claims on insured loans. Our premium rates take into account, among other factors, 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. These assumptions may ultimately prove to be inaccurate.
We generally cannot cancel or elect not to renew the mortgage insurance 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, if the risk underlying a mortgage loan we have insured develops more adversely than we anticipated, 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. Similarly, if the amount of capital we are required to hold against our insured risks increases from the amount we were required to hold at the time a policy was written (as occurred when the PMIERs Financial Requirements became effective and could occur again if the GSEs impose more burdensome capital requirements as part of their periodic review of the PMIERs Financial Requirements), we cannot adjust the premiums to compensate for this. As a result, if we are unable to compensate for or offset the increased capital requirements in other ways, the returns on our business may be lower than we assumed

or expected. 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 and may not provide an adequate return on increased capital that may be required. As a result, our results of operations and financial condition could be negatively impacted.

Additionally, in accordance with industry practice, 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, our losses can be more severe in periods of high-defaults given that we generally are not permitted to establish reserves in anticipation of such defaults.

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 results of operations.

We establish loss reserves in our mortgage insurance business to provide for the estimated cost of future claims on defaulted loans. Setting our loss reserves requires significant judgment by management with respect to the likelihood, magnitude and timing of each potential loss, including an estimate of the impact of our Loss Mitigation Activities with respect to defaulted loans. 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. Because our reserves represent our best estimate of claims to be paid in the future, claims paid may be substantially different than our loss reserves and these reserves may be insufficient to satisfy the full amount of claims that we ultimately have to pay. Changes to our estimates could adversely impact our results of operations and financial condition.

We have a number of defaulted loans in our Legacy Portfolio that have been in default for an extended period of time. 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 less than our current estimates of Cures for this inventory of defaults. If our estimates are inadequate, we may be required to increase our reserves, which could have a material adverse effect on our results of operations and financial condition.

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

In our mortgage insurance business, we permit lenders to obtain mortgage insurance for residential mortgage loans originated and underwritten by them using Radian’s pre-established underwriting guidelines. Once we accept a lender into our delegated underwriting program, we generally insure a mortgage loan originated by that lender based on our expectation that the lender has followed our specified underwriting guidelines in accordance with the endorsement. 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.

We face risks associated with our contract underwriting business.

We provide third party contract underwriting services for both our mortgage insurance and Services customers. We provide these customers with limited indemnification rights with respect to those loans that we simultaneously underwrite for both secondary market compliance and for potential mortgage insurance eligibility. In addition, in certain limited circumstances, we may also offer limited indemnification when we underwrite a loan only for secondary market compliance. As a consequence, our results of operations could be negatively impacted if we are required to indemnify our customers for material underwriting errors in our contract underwriting services.

Our current insurance financial strength ratings assigned to our mortgage insurance subsidiaries could weaken our competitive position.

The current financial strength ratings for Radian Guaranty are Baa3 by Moody’s and BB+ by S&P. Although Radian Guaranty’s financial strength ratings currently are below the ratings assigned to certain other private mortgage insurers, we have been successful in competing in the private mortgage insurance market, and we do not believe our ratings have had a material adverse effect on our relationships with existing 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. In addition, the current PMIERs do not include a specific ratings requirement, but if this were to change in the future or if the GSEs were to place an emphasis on ratings with respect to considering forms of credit enhancement other than traditional mortgage insurance, we may become subject to a ratings requirement in order to retain our GSE eligibility status or to compete effectively with respect to such other forms of execution.

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 higher 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 financial strength 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.

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

Our investment portfolio is an important source of revenue. Although our investment portfolio consists mostly of highly-rated investments, 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, and as such, we may not achieve our investment objectives. Volatility or lack of liquidity in the markets in which we hold positions has at times 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 results of operations.

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. For the significant portion of our investment portfolio held by our insurance subsidiaries, to receive full capital credit under insurance regulatory requirements and under the PMIERs, we generally are limited to investing in highly rated investments that are unlikely to increase our investment returns. Because we depend on our investments as a source of revenue, 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.

In addition, we structure our investment portfolio to satisfy our expected liabilities, including claim payments in our mortgage insurance business. If we underestimate our liabilities or improperly structure our investments to meet these liabilities, we could have unexpected losses resulting from the forced liquidation of investments before their maturity, which could 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 operating subsidiaries and does not have any significant operations of its own. Radian Group currently holds, either directly or through unregulated subsidiaries, unrestricted cash and liquid investments of approximately $343 million. This amount excludes certain additional cash and liquid investments that have been advanced from our subsidiaries for corporate expenses and interest payments, but includes $89 million that has been deposited with the IRS in connection with our dispute with the IRS related to the Deficiency Amount from the IRS’s examination of our 2000 through 2007 consolidated federal income tax returns. 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.

Radian Group’s principal liquidity demands for the next 12 months are expected to include: (i) the payment of corporate expenses; (ii) interest payments on our outstanding long-term debt; (iii) conversion settlements, repurchases or redemptions of portions of our long-term debt; (iv) potential investments to support our strategy of growing our businesses; (v) potential payments to the U.S. Treasury resulting from our ongoing dispute with the IRS relating to the examination of our 2000 through 2007 consolidated federal income tax returns by the IRS; and (vi) the payment of dividends on our common stock.

Radian Group also could be required to provide capital support for Radian Guaranty and our other mortgage insurance subsidiaries if additional capital is required pursuant to the PMIERs Financial Requirements or insurance laws and regulations, including possible changes resulting from revisions to the NAIC the Model Act.

In addition to longer-dated maturities, we have $195.5 million principal amount of outstanding senior debt due in June 2017 and $52.4 million principal amount of convertible debt due in November 2017. In addition, the holders of our Convertible Senior Notes due 2017 and of our Convertible Senior Notes due 2019 are able to exercise their conversion rights during any quarterly period if our stock price trades at certain prescribed levels in the prior quarterly period. In the event the conversion threshold requirements are met in the future, we may elect, in our sole discretion, to settle any such Convertible Senior Notes due 2019 in the form of cash. In the case of the Convertible Senior Notes due 2017, the principal amount must be settled in cash, with the conversion premium to be settled in cash or stock at our discretion. We cannot predict whether holders of our Convertible Senior Notes will choose to exercise their conversion rights prior to maturity.

As part of our strategy to comply with PMIERs, in the fourth quarter of 2015, Radian Group transferred $325 million of cash and marketable securities to Radian Guaranty in exchange for a surplus note issued by Radian Guaranty. The Surplus Note has a zero percent interest rate and is scheduled to mature on December 31, 2025. Radian Guaranty currently expects to seek to redeem a portion and possibly all of the note in 2016, and any remaining amounts in 2017. Any redemption of the Surplus Note would increase holding company liquidity by the amount of the redemption. However, early redemption of the Surplus Note is subject to (1) approval by the Pennsylvania Insurance Department, which we may not receive or which may be subject to conditions or requirements that we may not be able to satisfy, and (2) certain criteria approved by the GSEs and described elsewhere in this report, see "Item 7. Liquidity and Capitals Resources — Capital Support for Subsidiaries," which we may not be able to satisfy.

Cash flows from our investment portfolio, permitted payments to Radian Group under tax- and expense-sharing arrangements with our subsidiaries, potential dividend payments from Clayton, and potentially amounts redeemed under the Surplus Note discussed above, are Radian Group's principal sources of cash. Radian Group expects to receive from Clayton payments under tax- and expense-sharing arrangements, and potentially additional dividend payments, over the next 12 months from positive cash flows generated by Clayton and these potential dividend payments would be adversely impacted if unanticipated events and circumstances were to result in lower earnings than expected. We do not anticipate that Radian Guaranty will be permitted under applicable insurance laws to issue dividends to Radian Group for the foreseeable future in light of Radian Guaranty's periods of operating losses. 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 sources of liquidity could be insufficient to fund our obligations and could exceed currently available holding company funds. If this were to occur, we may need or otherwise may decide 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 trading securities and short-term investments that require us to adjust their fair market value.

We have significant assets that we carry at fair value, with changes in fair market value recorded on our statements of operations each period. These assets include our trading securities and short-term investments. Because the changes in fair value of these financial instruments are reflected on our statements of operations, they affect our reported earnings and can create earnings volatility. Economic conditions, as well as adverse capital market conditions, including but not limited to, interest rate changes, market volatility and declines in the value of underlying collateral will impact the value of our investments, potentially resulting in unrealized losses that could negatively impact our results of operations.

Our information technology systems may fail or become outmoded, be temporarily interrupted or otherwise cause us to be unable to meet our customers' demands.

Our business is highly dependent on the effective operation of our information technology systems, which 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. Additionally, our ability to meet the needs of our customers depends on our ability to keep pace with technological advances and to invest in new technology as it becomes available or otherwise upgrade our technological capabilities. Participants in the mortgage insurance industry rely on e-commerce and other technologies to provide their products and services, and our customers generally require that we provide an increasing number of our products and services electronically. Accordingly, we may not satisfy our customers' requirements if we fail to invest sufficient resources or are otherwise unable to maintain and upgrade our technological capabilities.

Part 1 Item 1A. Risk Factors

Because we rely on our information technology systems for many critical functions, including connecting with our customers, if such systems were to fail, experience a prolonged interruption, or become outmoded, we may experience a significant disruption in our operations and in the business we receive, which could have a material adverse effect on our business, financial condition and operating results.

In addition, 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 implementation of these technological improvements is complex, expensive, time consuming and, in certain respects, depends on the ability of third parties to perform their obligations in a timely manner. 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 have information security policies and systems in place in order to attempt 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, regulatory scrutiny and action, damage to our reputation and customer relationships and could have a material adverse effect on our business prospects, financial condition and results of operations.

We are subject to the risk of litigation and regulatory proceedings.

We operate in highly regulated industries that are subject to a heightened risk of litigation and regulatory proceedings. We often are a party to material litigation and are subject to regulatory inquiries. Additional lawsuits, regulatory proceedings and other matters may arise in the future. Increased scrutiny in the current regulatory environment could lead to new regulations and practices, new interpretations of existing regulations, as well as additional regulatory proceedings, which could have a material adverse effect on our business prospects, results of operations and financial condition.

Resolution of our dispute with the IRS could adversely affect us.

We are contesting 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. We appealed these proposed adjustments to Appeals and made “qualified deposits” with the U.S. Treasury of approximately $89 million relating to the 2000 through 2007 tax years to avoid the accrual of incremental above-market-rate interest with respect to the proposed adjustments.

On September 4, 2014, we received Notices of Deficiency covering the 2000 through 2007 tax years that assert unpaid taxes and penalties of approximately $157 million. The Deficiency Amount has not been reduced to reflect our NOL carryback ability. As of December 31, 2015, there also would be interest of approximately $125 million related to these matters. Depending on the outcome, additional state income taxes, penalties and interest (estimated in the aggregate to be approximately $32 million as of December 31, 2015) also may become due when a final resolution is reached. The Notices of Deficiency also reflected additional amounts due of approximately $105 million, which are primarily associated with the disallowance of the previously filed carryback of our 2008 NOL to the 2006 and 2007 tax years. We believe that the disallowance of our 2008 NOL carryback is a precautionary position by the IRS and that we will ultimately maintain the benefit of this NOL carryback claim.

On December 3, 2014, we petitioned the U.S. Tax Court to litigate the Deficiency Amount. On September 1, 2015, we received a notice that the case had been scheduled for trial. However, the parties jointly filed, and the U.S. Tax Court approved, motions for continuance in this matter to postpone the trial date. The litigation could take several years to resolve and may result in substantial legal expenses. We can provide no assurance regarding the outcome of any such litigation or whether a compromised settlement with the IRS will ultimately be reached. Radian Group has assumed the obligation to pay RGRI's portion of the liabilities associated with these tax matters by indemnifying RGRI for such liabilities, which may be substantial. 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.

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 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 $1.1 billion as of December 31, 2015) on a timely basis (i.e., to offset operating income as generated) will be adversely affected if we have an "ownership change" within the meaning of 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.

In 2009, we 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"). These steps were taken to protect our ability to utilize our NOLs and other tax assets and to attempt to prevent an "ownership change" under U.S. federal income tax rules by discouraging and in most cases restricting 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 Charter Amendment by our stockholders every three years. We expect to present the Plan and Charter Amendment and recommend their re-approval to our stockholders at the 2016 annual meeting of stockholders. There can be no assurance that our stockholders will re-approve them. If our stockholders do not re-approve these measures at our 2016 annual meeting of stockholders, neither the Charter Amendment nor the Bylaw Amendment will remain effective and the transfer restrictions they impose, as well as the Plan, would terminate on the close of business on the second business day following adjournment of the annual meeting.

Additionally, while we have adopted these tax benefit preservation measures to protect our ability to use our NOLs and other tax assets, these measures would not prevent us from experiencing an ownership change as a result of the issuance of our common stock upon the conversion of our outstanding convertible senior notes. As a result, if a holder of our convertible senior notes were to exercise its conversion rights and we did not have sufficient liquidity to settle our obligations in cash, we may be required to issue shares of our common stock which potentially could cause or contribute to an ownership change. If we experience an ownership change, we may not be able to fully utilize our NOLs and other tax assets, resulting in additional income taxes.

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 impact our businesses.

Our businesses are subject to or may be impacted by many federal and state lending, insurance and consumer laws and regulations and may be affected by changes in these laws and regulations. In particular, our businesses may be significantly impacted by the following:

- Legislation or regulatory action impacting the charters or business practices of the GSEs;

- Legislative reform of the U.S. housing finance system;
- Legislation and regulation impacting the FHA and its competitive position versus private mortgage insurers;
- 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, minimum policyholder positions, reserves (including contingency reserves), surplus, reinsurance and payment of dividends;
- 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 our businesses;
- The amendments to Regulation AB (commonly referred to as Regulation AB II) that were adopted by the SEC in August 2014 to introduce several new requirements related to public offerings of ABS, including public offerings of RMBS for which our Services business traditionally has provided due diligence and servicer surveillance services and new credit rating agency reform rules (the "NRSRO Rules") adopted by the SEC in August 2014, including new requirements applicable to providers of third-party due diligence services, such as our Services business, for both publicly and privately issued ABS;
- The application of the TRID rules requiring enhanced disclosures to consumers in connection with the origination of residential mortgage loans, which may have an adverse effect on the residential mortgage market, including a negative impact on the volume of loans in the market;
- New federal standards and oversight for mortgage insurers, including as a result of the Federal Insurance Office of the U.S. Treasury having 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 "Item 1. Business—Regulation—Other Federal Regulation—The Dodd-Frank Act.";
- The implementation of new regulations under the Dodd-Frank Act. See "Item 1. Business—Regulation—Other Federal Regulation—The Dodd-Frank Act."; and
- The implementation in the U.S. of the Basel II capital adequacy requirements and the Basel III guidelines.

Any of the items discussed above could adversely affect our results of operations, financial condition and business prospects. In addition, our businesses 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 III guidelines may discourage the use of mortgage insurance.

Over the past few decades, the Basel Committee on Banking Supervision has established international benchmarks for assessing banks' capital adequacy requirements. Included within those benchmarks are capital standards related to the residential lending and securitization activity and, importantly for mortgage insurance, the treatment of mortgage insurance on those loans. In July 2013, U.S. federal banking regulators promulgated regulations to implement significant elements of the Basel framework, or Basel III. The current capital regime under Basel III for U.S. banks generally assigns a 50% risk weight to residential mortgage exposures that are prudently underwritten and performing, while all other residential mortgage exposures are assigned a 100% risk weight. U.S. banking regulatory guidance clarifies that LTV ratios can account for credit enhancement such as private MI in determining whether a loan is made in accordance with prudent underwriting standards for purposes of receiving the preferred 50% risk weight.

In December 2015, however, the Basel Committee on Banking Supervision issued another proposal for further revisions to Basel III that would propose adjustments to the risk weights for residential mortgage exposures that take into account LTV, but do not take into consideration any credit enhancement, including MI. The proposal remains open for comment until March 11, 2016. Following consideration of comments received, it is possible that the Basel Committee on Banking Supervision may propose newly revised risk weighting guidelines and the U.S. banking regulators may consider changes to the existing rules. While it remains unclear whether new guidelines will be proposed or finalized, if the federal bank regulators revise their rules to implement Basel III to reduce or eliminate the capital benefit banks receive from insuring low down payment loans with private mortgage insurance, our business and business prospects could be adversely affected.

63

Part 1 Item 1A. Risk Factors

We rely on our management team and our business could be harmed if we are unable to retain qualified personnel or successfully develop and/or recruit their replacements.

Our success depends, in part, on the skills, working relationships and continued services of our management team and other key personnel, any of whom could terminate his or her relationship with us at any time. The unexpected departure of key personnel could adversely affect the conduct of our business. In such event, we would be required to obtain other personnel to manage and operate our business. In addition, we will be required to replace the knowledge and expertise of our workforce as our workers retire. In either case, there can be no assurance that we would be able to develop or recruit suitable replacements for the departing individuals; that replacements could be hired, if necessary, on terms that are favorable to us; or that we can successfully transition such replacements in a timely manner. Failure to effectively implement our succession planning efforts and to ensure effective transfers of knowledge and smooth transitions involving members of our management team and other key personnel could adversely affect our business and results of operations. Without a properly skilled and experienced workforce, our costs, including productivity costs and costs to replace employees may increase, and this could negatively impact our earnings.

We face risks associated with our acquisition of Clayton and we may fail to realize the anticipated benefits of the Clayton acquisition.

As a result of our acquisition of Clayton and our entry into our Services business, we are exposed to certain risks that may negatively affect our financial results, including, among others, the following:

- Our Services revenue is dependent on a limited number of large customers that represent a significant proportion of our Services total revenues. Radian Guaranty also does business with many of these significant customers. In the event of a dispute between a significant customer and either of our business segments, the overall customer relationship for Radian could be negatively impacted. The loss or reduction of business from one or more of these significant customers could adversely affect our revenues and results of operations.
- While Clayton is not a defendant in litigation arising out of the financial crisis involving the issuance of RMBS in connection with which it has provided services, it has been in the past, and may again be in the future, subpoenaed by various parties to provide documents and information related to such litigation, and there can be no assurance that Clayton will not be subject to future claims against it, whether in connection with such litigation or otherwise. It is possible that our exposure to potential liabilities resulting from our Services business, some of which may be material or unknown, could exceed amounts we can recover through indemnification claims.

Our goodwill and other intangible assets were established primarily in connection with our acquisition of Clayton. Goodwill is an asset representing the estimated future economic benefits arising from the assets we have acquired that were not individually identified and separately recognized, and includes the value of expected future cash flows of Clayton, Clayton's workforce, expected synergies with our other affiliates and other unidentifiable intangible assets. Goodwill is deemed to have an indefinite useful life and is subject to review for impairment annually, or more frequently, whenever circumstances indicate potential impairment. The value of goodwill is primarily supported by revenue projections, which is driven primarily by transaction volume. Intangible assets, other than goodwill, primarily consist of customer relationships, technology, trade name and trademarks, client backlog and non-competition agreements. The calculation of the estimated fair value of goodwill and other intangibles requires the use of significant estimates and assumptions that are highly subjective in nature, such as attrition rates, discount rates, future expected cash flows and market conditions. In particular, future expected cash flows include estimated transaction volumes that are not currently contracted, as well as volume projections associated with non-agency RMBS securitizations, for which current market conditions are not favorable. Our estimates are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable. If actual results differ from our assumptions, we may not realize the full value of our goodwill and other intangible assets.

For these and other reasons there can be no assurance that the anticipated benefits from the transaction will be realized fully or at all. If we fail to realize the anticipated benefits of the Clayton acquisition, we may not realize the full value of our goodwill and other intangible assets related to the acquisition, in which case we may be required to write down or write off all such goodwill and other intangible assets. Such an impairment of our goodwill or intangible assets could have a material adverse effect on our results of operations and financial condition.

Item 1B. Unresolved Staff Comments.
None.

Item 2. Properties.
At our corporate headquarters in Philadelphia, Pennsylvania, we currently lease approximately 151,197 square feet of office space and an additional 1,740 square feet of space for data storage under a lease that expires in August 2017. We also lease 23,453 square feet of office space at a separate location, 1500 Market Street in Philadelphia, Pennsylvania, for various operational and IT personnel. We also lease executive office space in New York, New York. On November 3, 2015, we entered into a new 15-year operating lease agreement that will commence on September 1, 2017 when our current lease expires (the “2017 Lease”). The 2017 Lease is for approximately 150,000 square feet of office space at 1500 Market Street in Philadelphia, PA where our new corporate headquarters will be located. When the square footage leased under the 2017 Lease is combined with the office space we currently lease at the 1500 Market Street location, we will have approximately 175,570 square feet of office space for our corporate headquarters. For information regarding the expected obligation for payments under the 2017 Lease, see Note 17 of Notes to Consolidated Financial Statements.
In connection with our mortgage insurance operations, we lease office space in: Worthington, Ohio; Dayton, Ohio; Plano, Texas; St. Louis, Missouri; and Hong Kong. In addition, we lease office space for our Services operations in various cities in Colorado, Connecticut, Florida, Georgia, Pennsylvania and Utah, as well as in Bristol, England.
We currently have a co-location agreement with TierPoint that supports data center space and services. TierPoint serves as a production and disaster recovery location in Audubon, Pennsylvania. This agreement expires in June 2018.
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, reviews and audits, as well as inquiries and investigations by various regulatory entities involving compliance with laws or other regulations, the outcome of which are uncertain. These 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 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 and regulatory matters, we determine whether it is reasonably possible that a potential loss 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 such potential loss, including an estimate or range of loss or a statement that such an estimate cannot be made. On a quarterly basis, we review relevant information with respect to 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 and other proceedings, actual results may differ materially from any amounts that have been accrued.

65

As previously disclosed, we are contesting 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 our investment in a portfolio of non-economic REMIC residual interests and has proposed denying the associated tax benefits of these items. We appealed these proposed adjustments to Appeals and made “qualified deposits” with the U.S. Treasury 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 in order to avoid the accrual of incremental above-market-rate interest with respect to the proposed adjustments.

We attempted to reach a compromised settlement with Appeals, but in September 2014 we received Notices of Deficiency covering the 2000 through 2007 tax years that assert unpaid taxes and penalties of approximately $157 million. The Deficiency Amount has not been reduced to reflect our NOL carryback ability. As of December 31, 2015, there also would be interest of approximately $125 million related to these matters. Depending on the outcome, additional state income taxes, penalties and interest (estimated in the aggregate to be approximately $32 million as of December 31, 2015) also may become due when a final resolution is reached. The Notices of Deficiency also reflected additional amounts due of approximately $105 million, which are primarily associated with the disallowance of the previously filed carryback of our 2008 NOL to the 2006 and 2007 tax years. We currently believe that the disallowance of our 2008 NOL carryback is a precautionary position by the IRS and that we will ultimately maintain the benefit of this NOL carryback claim. On December 3, 2014, we petitioned the U.S. Tax Court to litigate the Deficiency Amount. On September 1, 2015, we received a notice that the case had been scheduled for trial. However, the parties jointly filed, and the U.S. Tax Court approved, motions for continuance in this matter to postpone the trial date. The litigation could take several years to resolve and may result in substantial legal expenses. We can provide no assurance regarding the outcome of any such litigation or whether a compromised settlement with the IRS will ultimately be reached. 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.

We are also involved in litigation that has arisen in the normal course of our business. We are contesting the allegations in each such pending action and management believes, based on current knowledge and after consultation with counsel, that the outcome of such litigation will not have a material adverse effect on our consolidated financial condition. However, the outcome of litigation and other legal and regulatory matters is inherently uncertain, and it is possible that one or more of the matters currently pending or threatened could have an unanticipated adverse effect on our liquidity, financial condition or results of operations for any particular period.

In June 2015, we and other mortgage insurers received a letter from the Wisconsin OCI requesting information pertaining to customized insurance rates and terms offered to mortgage insurance customers. We submitted a response to the Wisconsin OCI in June 2015, as requested. Although we believe we are in compliance with applicable Wisconsin state law requirements for mortgage guaranty insurance, we cannot predict the outcome of this matter or whether additional inquiries, actions or proceedings may be pursued against us by the Wisconsin OCI or other regulators.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Our common stock is listed on the NYSE under the symbol "RDN." At February 24, 2016, there were 197,500,450 shares of our common stock outstanding and approximately 59 holders of record. The following table shows the high and low sales prices of our common stock on the NYSE for the financial quarters indicated:

	2015		2014	
	High	Low	High	Low
1st Quarter	$17.15	$15.19	$16.24	$13.75
2nd Quarter	19.13	16.55	15.58	13.39
3rd Quarter	19.12	15.69	15.14	12.18
4th Quarter	17.00	12.82	17.50	13.96

In 2015 and 2014, we declared quarterly cash dividends on our common stock equal to $0.0025 per share. We presently expect to continue to declare a regular quarterly dividend on our common stock. For information on Radian Group's ability to pay dividends, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources."

Reference is made to the information in Item 12 of this report under the caption "Equity Compensation Plans," which is incorporated herein by this reference.

Issuance of Unregistered Securities

During 2014, no equity securities of the Company were sold that were not registered under the Securities Act. Over the course of two days on June 22, 2015 and June 23, 2015, in connection with, and as partial consideration for, the purchases of an aggregate principal amount of $389.1 million of our Convertible Senior Notes due 2017, we issued an aggregate of 28,403,278 shares of Radian Group common stock to certain holders of these notes. The shares were issued to "qualified institutional buyers" within the meaning of Rule 144A promulgated under the Securities Act and were offered and sold in reliance on the exemption from registration afforded by Section 4(a)(2) of the Securities Act and corresponding provisions of state securities laws. See Notes 11 and 18 of Notes to Consolidated Financial Statements for additional information on the individual transactions.

Issuer Purchases of Equity Securities

During the fourth quarter of 2015, we did not repurchase any of our common stock.

Subsequent to the end of 2015, on January 15, 2016, we announced that our board of directors had approved a share repurchase program that authorized the Company to spend up to an aggregate of $100 million to repurchase Radian Group common stock. The authorization was effective immediately and set to expire on December 31, 2016. Pursuant to this authorization, we purchased approximately 9.4 million shares of Radian Group common stock, representing approximately 3.8% of our diluted shares outstanding as of December 31, 2015, at an average price of $10.62 per share, including commissions. No further purchase authority remains under this share repurchase program. See Note 20 of Notes to Consolidated Financial Statements for more information.

Item 6. Selected Financial Data.

The information in the following table should be read in conjunction with our Consolidated Financial Statements and Notes thereto included in Item 8 and the information included in Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations."

(In millions, except per-share amounts and ratios)	2015	2014	2013	2012	2011
Consolidated Statements of Operations					
Net premiums earned—insurance	$915.9	$844.5	$781.4	$702.4	$680.9
Services revenue (1)	153.8	76.7	—	—	—
Net investment income	81.5	65.7	68.1	72.7	105.3
Net gains (losses) on investments and other financial instruments	35.7	80.0	(106.5)	122.1	152.1
Total revenues	1,193.3	1,072.7	749.9	902.7	943.6
Provision for losses	198.6	246.1	562.7	921.5	1,286.8
Direct cost of services (1)	90.0	43.6	—	—	—
Other operating expenses	246.2	252.3	257.4	167.7	144.5
Interest expense	91.1	90.5	74.6	51.8	61.4
Amortization and impairment of intangible assets	13.0	8.6	—	—	—
Pretax income (loss) from continuing operations	437.8	407.2	(173.3)	(272.4)	(585.0)
Income tax provision (benefit)	156.3	(852.4)	(31.5)	(48.3)	(138.2)
Net income (loss) from continuing operations	281.5	1,259.6	(141.9)	(224.1)	(446.7)
Income (loss) from discontinued operations, net of tax (2)	5.4	(300.1)	(55.1)	(227.4)	748.9
Net income (loss)	286.9	959.5	(197.0)	(451.5)	302.2
Diluted net income (loss) per share from continuing operations (3)	$1.20	$5.44	$(0.85)	$(1.69)	$(3.38)
Diluted net income (loss) per share (3)	$1.22	$4.16	$(1.18)	$(3.41)	$2.28
Cash dividends declared per share	$0.01	$0.01	$0.01	$0.01	$0.01
Average shares outstanding-diluted	246.3	233.9	166.4	132.5	132.4
Consolidated Balance Sheets					
Total investments	$4,298.7	$3,629.3	$3,361.7	$3,417.8	$3,678.4
Total assets held for sale	—	1,736.4	1,768.1	1,965.6	2,403.8
Total assets	5,642.1	6,842.3	5,606.0	5,894.6	6,648.4
Unearned premiums	680.3	644.5	567.1	382.4	233.4
Reserve for losses and LAE	976.4	1,560.0	2,164.4	3,083.6	3,247.9
Long-term debt and other borrowings	1,219.5	1,192.3	914.3	655.0	810.2
Liabilities held for sale	—	947.0	642.6	722.0	851.2
Stockholders' equity	2,496.9	2,097.1	939.6	736.3	1,182.3
Book value per share	$12.07	$10.98	$5.43	$5.51	$8.88

Part II Item 6. Selected Financial Data

(In millions, except per-share amounts and ratios)	2015		2014		2013		2012		2011	
Consolidated Statements of Operations										
Selected Ratios—Mortgage Insurance (4)										
Loss ratio	21.7	%	29.1	%	72.0	%	131.2	%	189.0	%
Expense ratio - NPE basis	23.9	%	29.6	%	36.6	%	28.7	%	26.6	%
Expense ratio - NPW basis	22.6	%	27.0	%	30.1	%	25.0	%	25.3	%
Risk-to-capital-Radian Guaranty only	14.3	:1	17.9:1		19.5:1		20.8:1		21.5:1	
Risk-to-capital-Mortgage Insurance combined	14.6	:1	20.3:1		24.0:1		29.9:1		30.9:1	
Other Data—Mortgage Insurance										
Primary NIW	$41,411		$37,349		$47,255		$37,061		$15,510	
Direct primary IIF	175,584		171,810		161,240		140,363		126,185	
Direct primary RIF	44,627		43,239		40,017		34,372		30,692	
Persistency Rate (12 months ended) (5)	78.8	%	84.2	%	82.1	%	82.9	%	85.4	%
Persistency (quarterly, annualized) (5)	81.8	%	83.3	%	83.5	%	81.5	%	84.7	%

(1) Primarily represents the activity of Clayton, acquired June 30, 2014.

(2) Radian completed the sale of Radian Asset Assurance to Assured on April 1, 2015, pursuant to the Radian Asset Assurance Stock Purchase Agreement dated as of December 22, 2014. Until the April 1, 2015 sale date, the operating results of Radian Asset Assurance were classified as discontinued operations for all periods presented in our condensed consolidated statements of operations. See Note 3 of Notes to Consolidated Financial Statements for additional information.

(3) Diluted net income (loss) per share and average share information in accordance with the accounting standard regarding earnings per share.

(4) Calculated using amounts determined under GAAP, using provision for losses to calculate the loss ratio and policy acquisition costs and other operating expenses to calculate the expense ratio both as a percentage of net premiums earned and net premiums written. Expense ratios include amounts that have been reallocated to the Mortgage Insurance segment that were previously allocated to the financial guaranty segment, but were not reclassified to discontinued operations.

(5) In 2015, we refined our Persistency Rate calculation to incorporate loan level detail rather than aggregated portfolio data. Prior periods have been recalculated and reflect the current calculation methodology.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following analysis of our financial condition and results of operations should be read in conjunction with our Consolidated Financial Statements and Notes thereto included in Item 8. Some of the information included in this discussion and analysis or included elsewhere in this report, including with respect to our plans and our strategy for our business, includes forward-looking statements that involve risks, uncertainties and assumptions. Our actual results and the timing of events could differ materially from those anticipated by these forward-looking statements as a result of many factors, including those discussed under "Cautionary Note Regarding Forward—Looking Statements—Safe Harbor Provisions" and in the Risk Factors detailed in Item 1A of this Annual Report on Form 10-K.

Index to Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

We provide mortgage insurance on first-lien mortgage loans, and products and services to the real estate and mortgage finance industries. We have two business segments—Mortgage Insurance and Services. Our Mortgage Insurance segment provides credit-related insurance coverage, principally through private mortgage insurance, to mortgage lending institutions nationwide. We provide our mortgage insurance products mainly through our wholly-owned subsidiary, Radian Guaranty. Our Services segment provides outsourced services, information-based analytics and specialty consulting for buyers and sellers of, and investors in, mortgage- and real estate-related loans and securities as well as other ABS. The primary lines of business in our Services segment include: (1) loan review and due diligence; (2) surveillance, including RMBS surveillance, loan servicer oversight, loan-level servicing compliance reviews and operational reviews of mortgage servicers and originators; (3) valuation and component services providing outsourcing and technology solutions for the SFR and residential real estate markets; as well as outsourced solutions for appraisal, title and closing services; (4) REO management services; and (5) services for the United Kingdom and European mortgage markets through our EuroRisk operations. These services and solutions are provided primarily through Clayton and its subsidiaries, including Green River Capital, Red Bell and ValuAmerica.

Operating Environment and Business Strategy. As a seller of mortgage credit protection and mortgage and real estate products and services, our results are subject to macroeconomic conditions and specific events that impact the mortgage origination environment and the credit performance of our underlying insured assets. The operating environment for our businesses has been improving over the past several years as the U.S. economy (unemployment in particular) and housing market have been recovering from the financial crisis that began in 2007.

During this period of economic improvement, mortgage origination volumes have been positively impacted by increased mortgage refinancings as a result of the low interest rate environment, as well as a steady recovery in the home purchase market. New lending laws and regulations were enacted in response to the financial crisis, which when combined with lenders' more restrictive lending guidelines and the absence of a robust securitization market for non-GSE loans, have resulted in more restrictive credit standards for home financing. As a result, post-2008 loan originations have consisted primarily of high credit quality loans with significantly better credit performance than that of the loans in our Legacy Portfolio. While credit quality has been improving, the restrictive credit environment has made it more challenging for many first-time home buyers to finance a home, which has limited the growth of the mortgage industry. See Results of Operations—Mortgage Insurance—NIW, IIF, RIF for additional information regarding our portfolio mix and the mortgage industry.

Since the beginning of 2009, we have written approximately $207 billion of NIW in this improving environment. Our NIW increased 11% for the year ended December 31, 2015, compared to the same period of 2014. As of December 31, 2015, our portfolio of business written since the beginning of 2009, including HARP refinancings, represented approximately 84% of our total primary RIF.

As a result of the improving macroeconomic and credit trends referenced above, throughout 2014 and 2015 our results of operations have improved significantly. The negative impact from losses in our Legacy Portfolio has been reduced and we have continued to write a high volume of insurance on high credit quality loans. The improving environment has contributed to a reduction in our incurred losses and claims submitted and paid in our mortgage insurance business. The number of new primary mortgage insurance defaults, net of defaults that defaulted but were cured within the same period, declined by 13.9% for the year ended December 31, 2015, compared to the same period of 2014. Similarly, our primary default rate of 4.0% at December 31, 2015 declined from 5.2% at December 31, 2014.

While the positive macroeconomic and credit trends have contributed to the improved financial strength of existing private mortgage insurers, these trends also have encouraged newer entrants into the private mortgage insurance industry. The presence of newer entrants in the industry has increased price competition as these companies seek to gain a greater presence in the market and more established industry participants seek to defend their market share and customer relationships. As a result, recent pricing trends have included: (i) the increased use of a spectrum of filed rates to allow for formulaic, risk-based pricing (commonly referred to as "black-box" pricing); (ii) a significant increase in the broad use of customized (often discounted) rates on lender-paid, Single Premium policies, and more recently, on borrower-paid, monthly premium policies; and (iii) overall reductions in standard filed rates on borrower-paid policies. The willingness of mortgage insurers to offer reduced pricing (through filed or customized rates) has been met with an increased demand from certain large lenders for reduced rate products. This has further intensified the pricing environment and has resulted in new pricing levels (whether through filed or customized rates) that private mortgage insurers are expected to meet in order to avoid risking a potential significant loss in NIW.

The heightened pricing competition has occurred in the context of generally higher capital requirements being applied to private mortgage insurers as a result of the PMIERs and more aggressive pricing by the FHA (which is most impactful with respect to high-LTV loans for borrowers with FICO scores below 720). This has produced a marketplace where balancing both targeted returns on new business and an acceptable share of the insured market has become increasingly challenging for all participants. In formulating our strategy in this environment, we have taken a disciplined approach to establishing rates and delivering a mix of business that is expected to produce our targeted level of returns on a blended basis and an acceptable level of NIW. In furtherance of this strategy, we recently: (1) increased our filed rates for lender-paid mortgage insurance; (2) continued to use the authority set forth in our rate filings to provide customized premiums for lender-paid, Single Premium mortgage insurance on a selective and negotiated basis while, importantly, declining to participate in significantly discounted, Single Premium business that has been offered for bid on an aggregated basis (which we estimate represented approximately 5% of the total private mortgage insurance market in 2015); and (3) determined to change our borrower-paid, filed rates in order to remain competitive, which generally will have the effect of decreasing our standard rates on higher FICO business and raising our rates on lower FICO business where the FHA is already very competitive.

As a result of these changes, we believe we remain well positioned to compete for the high-quality business being originated today and to capture a larger share of the generally more profitable, borrower-paid business, while at the same time maintaining attractive projected returns on NIW within our targeted ranges. While our portfolio returns will depend on a number of factors, including the amount and mix of NIW that we are able to write at these new levels and the amount of reinsurance we use in the future, we currently expect our pricing changes will produce returns on new business on an unlevered basis (i.e., after-tax underwriting returns plus projected investment income) of approximately 13% to 14% and approximately 16% to 17% on a levered basis (i.e., after-tax returns taking into consideration a targeted corporate debt to capital ratio of less than 30%). Most importantly, we believe our pricing actions will allow us to compete more effectively.

The GSEs recently revised the PMIERs, effective on December 31, 2015, with the aim of ensuring that the approved insurers will continue to possess the financial and operational capacity to serve as strong counterparties to the GSEs throughout various market conditions. The PMIERs are comprehensive, covering virtually all aspects of the business and operations of a private mortgage insurer, including internal risk management and quality controls, the relationship between the GSEs and the approved insurer and the approved insurer's financial condition. The GSEs have significant discretion under the PMIERs as well as a broad range of consent rights to approve various actions of the approved insurer. Radian Guaranty currently is in compliance with the PMIERs. See "—2015 and Other Recent Developments—Fourth Quarter 2015 Transactions for PMIERs Compliance," below for additional information.

Radian is focused on a number of strategic objectives, as described in "Radian's Long-Term Strategic Objectives" in "Part I, Item 1. Business—General." Our strategy for future growth includes continuing to grow our mortgage insurance business as well as broadening our capabilities to provide mortgage and real estate-related products and services to the real estate and mortgage finance markets. Our capabilities are illustrated by the graphic, "Existing Capabilities within Primary Areas of Mortgage Finance Industry" in "Part I, Item 1. Business, I. General."

Part II Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Our Services segment provides a diverse array of services to participants in multiple facets of the residential real estate and mortgage finance markets. As a result, we believe the Services segment is well-positioned to generate revenue in both healthy and distressed mortgage market conditions. Historically, a significant portion of this revenue was generated from activities related to non-agency RMBS issuance, which has been limited in recent years. We believe that the potential future re-emergence of the non-agency RMBS market may represent a significant long-term growth opportunity for our loan review, due diligence and surveillance services. However, the size and timing for the return of this market are uncertain and will be impacted by factors outside our control, including market demand and regulation. In addition, our Services segment has recently experienced revenue growth from its products serving the SFR market, including SFR securitizations, which is an emerging market that experienced rapid growth in 2014. However, there has been a decline in the pace of home purchases by institutional investors and a slowdown in SFR securitizations, which have negatively impacted our revenue in 2015. This trend is expected to continue in 2016.

2015 and Other Recent Developments

Developments Subsequent to 2015. Subsequent to the end of fiscal year 2015, we announced and completed a new share repurchase program pursuant to which we purchased an aggregate of $100 million of Radian Group common stock at an average price of $10.62 per share, including commissions. As a result of this program, we reduced our diluted shares outstanding by approximately 3.8%. No further purchase authority remains under this share purchase program. See Note 20 of Notes to Consolidated Financial Statements for more information.

In February 2016, in order to manage the mix of business in our portfolio and to continue managing Radian Guaranty’s Minimum Required Assets under the PMIERs in a cost-effective manner, we entered into the Single Premium QSR. The Single Premium QSR (including the amount of the benefit to our Minimum Required Assets under PMIERs) remains subject to GSE approval, and therefore, we have not yet begun to cede any business under this agreement. Assuming we receive GSE approval for the Single Premium QSR, we expect it to reduce the amount of our Minimum Required Assets by between $120 million to $150 million. We can provide no assurance if and when the GSEs may approve the Single Premium QSR, and if it is approved, whether it will be approved in its current form or on alternative terms and conditions that are acceptable to us and the third-party reinsurers. We continue to explore additional alternatives, including commutations and additional external reinsurance, in order to provide financial flexibility while continuing to comply with the PMIERs.

Fourth Quarter 2015 Transactions for PMIERs Compliance. Radian Guaranty currently is in compliance with the PMIERs Financial Requirements, which became effective December 31, 2015. In order to comply with the PMIERs and maximize financial flexibility, Radian Group executed certain fourth-quarter 2015 actions, including:

- the transfer of $325 million of cash and marketable securities to Radian Guaranty in exchange for a Surplus Note issued by Radian Guaranty; and
- a capital contribution of $50 million to an exclusive affiliated reinsurer of Radian Guaranty.

In addition, in order to manage Radian Guaranty’s Minimum Required Assets under the PMIERs, Radian Guaranty chose not to exercise its option to recapture a portion of the risk ceded under its existing Second QSR Transaction. As a result, Radian Guaranty received a profit commission of $8.0 million based on performance to date and an $8.5 million prepaid supplemental ceding commission.

See “Liquidity and Capital Resources—Radian Group—Short-Term Liquidity Needs—Capital Support for Subsidiaries” for additional information regarding these transactions, and “Regulation—Direct Federal Regulation—GSE Requirements” for additional information regarding the PMIERs.

The implementation of the final PMIERs has: (1) increased the amount of capital that Radian Guaranty is required to hold, and therefore, may reduce our returns on subsidiary capital; (2) imposed higher capital requirements for certain types of mortgage insurance policies, that may potentially impact the type and volume of business that Radian Guaranty and other private mortgage insurers are willing to write; (3) imposed extensive and more stringent operational requirements in areas such as claim processing, loss mitigation, document retention, underwriting, quality control, reporting and monitoring, among others, that may result in additional costs to maintain compliance; and (4) imposed a requirement for Radian Guaranty to receive the consent of the GSEs prior to taking certain actions such as paying dividends, entering into various intercompany agreements, and commuting or reinsuring risk, among others.

2015 Debt and Equity Transactions. During the second quarter of 2015, Radian Group completed a series of transactions to strengthen its capital position, including reducing its overall cost of capital and improving the maturity profile of its debt. This series of transactions had four components:

- the issuance of $350 million aggregate principal amount of Senior Notes due 2020;

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

In the aggregate, these debt and equity transactions, including the ASR program, resulted in:

- a net increase in available holding company liquidity of approximately $26.0 million;
- a net increase in long-term debt of approximately $16.0 million;
- a net decrease in the equity component of currently redeemable convertible senior notes of approximately $55.0 million; and
- a net increase in stockholders' equity of approximately $90.4 million.

As a result of the combined impact of the purchases of Convertible Senior Notes due 2017 and the issuance of Senior Notes due 2020, Radian expects a net reduction of $38.7 million in interest and amortization expense between the closing date of the purchases and November 15, 2017, the original maturity date of the purchased notes.

The ASR program was implemented to reduce the dilutive impact of the shares issued in connection with our purchases of Convertible Senior Notes due 2017. The capital-strengthening transactions listed above, including the ASR program, resulted in a net increase in diluted shares outstanding of approximately 1.1%. This net impact reflects the fact that a portion of the dilution for the incremental shares issued related to the Convertible Senior Notes due 2017 had been included in the calculations of diluted shares outstanding for prior periods in accordance with GAAP. See Notes 11 and 18 of Notes to Consolidated Financial Statements for additional information on the individual debt and equity transactions.

Sale of Radian Asset Assurance. On April 1, 2015, Radian Guaranty completed the sale of Radian Asset Assurance to Assured, pursuant to the Radian Asset Assurance Stock Purchase Agreement. See Note 3 of Notes to Consolidated Financial Statements for additional information related to discontinued operations.

Clayton's Acquisitions. During the first quarter of 2015, Clayton acquired Red Bell, a real estate brokerage company. In addition, in October 2015, Clayton acquired ValuAmerica, a national title agency and appraisal management company with a technology platform that helps mortgage lenders and their vendors streamline and manage their supply chains and operational workflow. These acquisitions expand Clayton's scope of services and are consistent with our strategy to be positioned to offer products and services throughout the entire mortgage value chain. See Notes 1 and 7 of Notes to Consolidated Financial Statements for additional information regarding these acquisitions.

BofA Settlement Agreement. Implementation of the BofA Settlement Agreement commenced on February 1, 2015 for Subject Loans held in portfolio by the Insureds or purchased by the GSEs as of that date. See Note 10 of Notes to Consolidated Financial Statements for additional information about the BofA Settlement Agreement.

Key Factors Affecting Our Results
Mortgage Insurance
The charts below summarize certain of the key factors affecting revenue, as discussed in the sections which follow.
CUSTOMERS
• Mortgage bankers
• Mortgage brokers
• Commercial banks
• Savings institutions
• Credit unions
• Community banks

REVENUE DRIVERS
• IIF
• Persistency Rate
• Mortgage origination market
• Premium rates
• Penetration percentage of private mortgage insurance
• Radian's market share

ADDITIONAL FUTURE DRIVERS
• Growth in IIF
• Continued diversification of client base
• Improving borrower access to credit may create expanded origination market
• Increasing rate of household formation
• Market demand for low down payment loans
• Participation in GSE efforts to increase credit risk transfer

• NIW. NIW is affected by the overall size of the mortgage origination market, the penetration percentage of private mortgage insurance into the overall mortgage origination market and our market share of the private mortgage insurance market. The overall mortgage origination market is influenced by macroeconomic factors such as household formation, household composition, home affordability, interest rates, housing markets in general, credit availability and the impact of various legislative and regulatory actions that may influence the housing and mortgage finance industries. The penetration percentage of private mortgage insurance is mainly influenced by the competitiveness of private mortgage insurance for GSE conforming loans compared to FHA insurance, and the relative percentage of mortgage originations that are for purchased homes versus refinances.

The following charts provide a historical perspective on certain key market drivers, including:
• the mortgage origination volume from home purchases and refinancings;
• private mortgage insurance penetration as a percentage of the mortgage origination market; and
• the composition of the insured mortgage market between private mortgage insurance and FHA insurance.

Private mortgage insurance penetration in the insurable market tends to be significantly higher on new mortgages for purchased homes than on the refinance of existing mortgages because average LTV ratios are typically higher on home purchases, and therefore, are more likely to require mortgage insurance. Radian Guaranty’s share of the private mortgage insurance market is influenced by competition in that market and our ability to maintain or grow existing levels of NIW. See “Item 1. Business—Mortgage Insurance—Competition.”

- Premiums. The premium rates we charge for our insurance are based on a number of borrower, loan and property characteristics. Premiums on our mortgage insurance products are generally paid as Monthly Premiums or Single Premiums. In addition, premiums may be paid as a combination of an up-front premium at origination plus monthly renewals, or in some cases, as annual or other periodic premiums paid over multiple years.

NIW increases our IIF and our premiums written and earned. Our IIF growth over time, as shown in the chart below, is expected to function as one of our primary drivers of increased future revenue.

An increase or decrease in IIF will generally have a corresponding impact on premiums earned. Cancellations of our insurance policies and other reductions of IIF, such as rescissions of coverage and claims paid, generally have a negative effect on premiums earned. The measure for assessing the impact of policy cancellations on our IIF is our Persistency Rate, defined as the percentage of IIF that remains on our books after any 12-month period. Insurance premiums on our Monthly Premium insurance policies are paid and earned over time; therefore, higher Persistency Rates on Monthly Premium insurance policies enable us to earn more premiums and recover some or all of our policy acquisition costs, which generally would result in increased profitability from these monthly policies. When Single Premium Policies are cancelled by the insured because the loan has been paid off or otherwise, we accelerate the recognition of any remaining unearned premiums. Therefore, assuming all other factors remain constant, profitability increases on our Single Premium business when Persistency Rates are lower. Rescissions, which are discussed in further detail below, result in a full refund of the inception-to-date premiums received, and therefore, premiums earned are negatively affected by any increases in our accrual for estimated Rescission refunds. Additionally, premiums ceded to third-party reinsurance counterparties decrease premiums written and earned.

- Losses. Incurred losses represent the estimated future claim payments on newly defaulted insured loans as well as any change in our claim estimates for existing defaults. Our mortgage insurance incurred losses are driven primarily by new defaults and changes in the estimates we use to determine our losses, including estimates with respect to the likelihood, magnitude and timing of anticipated losses, and our estimate of the rate at which we expect defaults will ultimately result in paid claims. Other factors influencing incurred losses include:
  - The product mix of our total direct RIF (loans with higher risk characteristics generally result in more delinquencies and claims);
  - The average loan size (higher average loan amounts generally result in higher incurred losses);
  - The percentage of coverage on insured loans (higher percentages of insurance coverage generally result in higher incurred losses) and the presence of structural mitigants such as deductibles or stop losses;
  - Changes in housing values (declines in housing values generally make it more difficult for borrowers to sell a home to avoid default or for the property to be sold to mitigate any claim, and also may negatively affect a borrower's willingness to continue to make mortgage payments when the home value is less than the mortgage balance);
  - The distribution of claims over the life cycle of a portfolio (historically, claims are relatively low during the first two years after a loan is originated and then increase over a period of several years before declining; however, several factors can impact and change this cycle, including the economic environment, the quality of the underwriting of the loan, characteristics of the mortgage loan, the credit profile of the borrower, housing prices and unemployment rates);
  - Our ability to mitigate potential losses through Rescissions, Claim Denials, cancellations and Claim Curtailments on claims submitted to us. These actions all reduce our incurred losses. However, if these Loss Mitigation Activities are successfully challenged at rates that are higher than expected or we agree to settle disputes related to our Loss Mitigation Activities at levels above our expected losses, our incurred losses will increase. As our Legacy Portfolio has become a smaller percentage of our overall insured portfolio, there has been a decrease in the amount of Loss Mitigation Activity with respect to the claims we receive, and we expect this trend to continue. As a result, our future Loss Mitigation Activity is not expected to mitigate our losses to the same extent as in prior years;
  - The BofA Settlement Agreement established that Radian will limit Rescissions, Claim Denials or Claim Curtailments on Legacy Loans. See Note 10 of Notes to Consolidated Financial Statements for additional information about the BofA Settlement Agreement; and
  - The Freddie Mac Agreement established certain terms for the treatment of the loans subject to that agreement, including claim payments, Loss Mitigation Activity and insurance coverage, and capped Radian Guaranty's claim exposure on such loans. See Note 10 of Notes to Consolidated Financial Statements for additional information.
- Other Operating Expenses. Our other operating expenses are affected by the level of NIW, as well as the level of RIF. Additionally, in recent periods, our operating expenses have been impacted significantly by compensation expense associated with changes in the estimated fair value of certain of our long-term equity-based incentive awards that are settled in cash. The fair value of these awards, and associated compensation expense, have been dependent, in large part, on our stock price at any given point in time. Substantially all of these awards vested and were paid to grantees in June 2014 and June 2015. Therefore, although these awards had produced significant expense volatility in the past due to their valuation relative to Radian Group's common stock price, the expense volatility from these awards will not continue in the future.

Certain corporate income and expenses that were previously allocated to the financial guaranty segment but were not reclassified to discontinued operations, such as investment income, interest expense and corporate overhead expenses, have been reallocated to the Mortgage Insurance segment for those periods in which discontinued operations are presented.

- Third-Party Reinsurance. We use third-party reinsurance in our mortgage insurance business to manage capital and risk. When we enter into a reinsurance agreement, the reinsurer receives a premium and, in exchange, agrees to insure an agreed upon portion of incurred losses. This arrangement has the impact of reducing our earned premiums but also reduces our net RIF, which provides capital relief to the insurance subsidiary ceding the RIF and reduces our incurred losses by any incurred losses ceded in accordance with the reinsurance agreement. In addition, we often receive ceding commissions from the reinsurer as part of the transaction, which reduces our operating expenses. In the past, we also had entered into capital markets-based reinsurance transactions designed to transfer all or a portion of the risk associated with certain higher risk mortgage insurance products. See Note 8 of Notes to Consolidated Financial Statements for more information about our reinsurance arrangements.

Services

On June 30, 2014, we acquired Clayton, which is a leading provider of services and solutions to the real estate and mortgage finance industries, providing outsourced services, information-based analytics and specialty consulting for buyers and sellers of, and investors in, mortgage- and real estate-related loans and securities as well as other ABS. See Note 1 of Notes to Consolidated Financial Statements and "Item 1. Business—Mortgage and Real Estate Services ("Services")—Business" for additional information regarding the Services segment's business.

Clayton's principal customers include a wide range of financial institutions, the GSEs, securitization trusts, investors, regulators and other mortgage-related service providers, including mortgage originators, mortgage purchasers, MBS issuers, MBS investors and mortgage servicers. See "Item 1. Business—Mortgage and Real Estate Services ("Services")—Customers" for additional information regarding the Services segment's customers.

The results of Clayton's operations have been included in our financial statements in the Services segment from the June 30, 2014 date of acquisition. The Services segment's results primarily reflect the operations and offerings of Clayton, along with other services and activities we offer that are complementary to our mortgage insurance business. In contrast to the Mortgage Insurance segment, the Services segment is a fee-for-service business without significant balance sheet risk.

Key factors impacting results include:

- Services Revenue. Our Services revenue is primarily derived from: (i) loan review and due diligence services; (ii) surveillance services, including RMBS surveillance, loan servicer oversight, loan-level servicing compliance reviews and operational reviews of mortgage servicers and originators; (iii) valuation and component services, providing outsourcing solutions primarily for the SFR and real estate markets, as well as outsourced solutions for appraisal, title and closing services; and (iv) REO management services. See "Mortgage and Real Estate Services—Business—Mortgage and Real Estate Services Revenue Drivers" for additional information regarding current and expected future revenue drivers.

Potential sales volume in our Services business depends in part on the overall activity in the mortgage finance market and the health of related industries. We believe the diversity of the services offered by our Services segment, which is intended to cover all phases of the mortgage value chain, will help produce fee income from the Services segment throughout various mortgage finance environments. For example, the demand for due diligence services may decrease in unfavorable economic conditions due to lower mortgage origination and securitization volumes, whereas the demand for REO management services may tend to increase in such an environment. In addition, while the size of the mortgage finance market may be adversely impacted by increased regulatory requirements, these increased requirements may increase the demand for certain of our services, including services related to compliance with the CFPB mortgage servicing standards and the regulatory requirements for third-party review of loans in ABS.

Our valuation and component services business provides services to the SFR market, including SFR securitizations, which is an emerging market that experienced rapid growth in 2014. However, there has been a decline in the pace of home purchases by institutional investors and a slowdown in SFR securitizations, which have negatively impacted our revenue in 2015. This trend is expected to continue in 2016. In addition, we believe that the potential future re-emergence of the non-agency RMBS market, which has been limited in recent years, represents a potentially significant long-term growth opportunity for loan review, due diligence and surveillance services. However, the size and timing for the return of this market are uncertain and will be impacted by factors outside of our control, including market demand and regulation.

The Services segment is dependent on a limited number of large customers that represented a significant portion of its revenues. Access to Radian Guaranty’s mortgage insurance customer base may provide additional opportunities to expand the segment’s existing customers. However, an unexpected loss of a major customer could significantly impact the level of Services revenue. Generally, our contracts do not contain volume commitments and may be terminated by clients at any time. Revenue for the Services segment also includes inter-segment revenues from services performed for our Mortgage Insurance segment. See Note 4 of Notes to Consolidated Financial Statements for additional information.

In our Services segment, we generate revenue under three basic types of contracts:

- Fixed-Price Contracts. Under a fixed-price contract, we agree to perform the specified work for a pre-determined per-unit or per-file price. To the extent our actual direct and allocated indirect costs decrease or increase from the estimates upon which the price was negotiated, we will generate more or less profit, respectively, or could incur a loss. We use fixed-price contracts in our valuation and component services, as well as in our loan review and due diligence services. These contracts are also used in our surveillance business for our servicer oversight services and RMBS surveillance services, as well as in our REO management business.
- Time-and-Expense Contracts. Under a time-and-expense contract, we are paid a fixed hourly rate, and we are reimbursed for billable out-of-pocket expenses as work is performed. To the extent our actual direct labor costs decrease or increase in relation to the fixed hourly billing rates provided in the contract, we may generate more or less profit, respectively. However, since these contracts are generally short-term in nature, the risk is limited to the periods covered by the contracts. These contracts are used in our loan review, due diligence and EuroRisk services offerings, as well as in the consulting services that we offer as part of our surveillance business.
- Percentage-of-Sale Contracts. A portion of REO management services are provided under percentage-of-sale contracts, in which we are paid a contractual percentage of the sale proceeds upon the sale of each property. To the extent the sale of a property is delayed or not consummated, or the sales proceeds are significantly less than originally estimated, we may generate less profit than anticipated, or could incur a loss. These contracts are only used for our REO management services.

- Direct Cost of Services. Our direct cost of services is primarily affected by our level of services revenue. Our direct cost of services primarily consists of employee compensation and related payroll benefits, including the cost of billable labor assigned to revenue-generating activities and, to a lesser extent, other direct costs of providing services such as travel and related expenses incurred in providing client services and costs paid to outside vendors. The level of these costs may fluctuate if market rates of compensation change, or if there is decreased availability or a loss of qualified employees.
- Operating Expenses. Our operating expenses primarily consist of salaries and benefits not classified as direct cost of services because they are related to employees, such as sales and corporate employees, that are not directly involved in providing client services. Operating expenses also include other selling, general and administrative expenses, depreciation, as well as allocations of corporate general and administrative expenses.

Financial Guaranty and Discontinued Operations

- Radian Asset Assurance Stock Purchase Agreement. Radian completed the sale of Radian Asset Assurance to Assured on April 1, 2015, pursuant to the Radian Asset Assurance Stock Purchase Agreement dated as of December 22, 2014. Until the April 1, 2015 sale date, the operating results of Radian Asset Assurance were classified as discontinued operations for all periods presented in our consolidated statements of operations. Previously, Radian Asset Assurance had represented substantially all of the financial guaranty segment; therefore, as a result of the sale, we no longer report a financial guaranty business segment.

Radian Asset Assurance provided direct insurance and reinsurance on credit-based structured finance and public finance risks. The assets and liabilities associated with the discontinued operations were historically a source of significant volatility to Radian’s results of operations, due to various factors including fluctuations in fair value and credit risk. For additional information related to discontinued operations, see Note 3 of Notes to Consolidated Financial Statements.

Other Factors Affecting Consolidated Results

- Investment Income. Investment income is determined primarily by the investment balances held and the average yield on our overall investment portfolio.
- Net Gains (Losses) on Investments. The recognition of realized investment gains or losses can vary significantly across periods as the activity is highly discretionary based on such factors as market opportunities, our tax and capital profile and overall market cycles that impact the timing of the sales of securities. Unrealized investment gains and losses arise primarily from changes in the market value of our investments that are classified as trading and these unrealized gains and losses are generally the result of changes in interest rates or credit spreads and may not necessarily result in economic gains or losses.
- Amortization and Impairment of Intangible Assets. Amortization of intangible assets represents the periodic expense required to amortize the cost of intangible assets over their estimated useful lives. The periodic review of intangible assets for potential impairment may also impact consolidated results. Our intangible assets primarily relate to the acquisition of Clayton, and their valuation is based on management's assumptions, which are inherently subject to risks and uncertainties. See Note 7 of Notes to Consolidated Financial Statements for additional information.

Results of Operations—Consolidated

Radian Group serves as the holding company for our operating subsidiaries and does not have any operations of its own. Our consolidated operating results for 2015 primarily reflect the financial results and performance of our two business segments—Mortgage Insurance and Services. See "—Results of Operations—Mortgage Insurance," and "—Results o Operations—Services" for the operating results of these business segments.

In addition to the results of our operating segments, pretax income (loss) is also affected by "Other Factors Affecting Consolidated Results" described above. See "—Use of Non-GAAP Financial Measure" below for more information regarding items that are excluded from the operating results of our operating segments.

We allocate to our Mortgage Insurance segment: (i) corporate expenses based on an allocated percentage of time spent on the Mortgage Insurance segment; (ii) all interest expense except for interest expense related to the Senior Notes due 2019 that were issued to fund our purchase of Clayton; and (iii) all corporate cash and investments.

We allocate to our Services segment: (i) corporate expenses based on an allocated percentage of time spent on the Services segment; and (ii) all interest expense related to the Senior Notes due 2019, the proceeds of which were used to fund our acquisition of Clayton. No corporate cash or investments are allocated to the Services segment. We have included Clayton's results of operations from the June 30, 2014 date of acquisition.

The following table highlights selected information related to our consolidated results of operations for the years ended December 31, 2015, 2014 and 2013:

	Year Ended December 31,			$ Change Favorable (Unfavorable)	
($ in millions, except per-share amounts)	2015	2014	2013	2015 vs. 2014	2014 vs. 2013
Net income (loss) from continuing operations	$281.5	$1,259.6	$(141.9)	$(978.1)	$1,401.5
Income (loss) from discontinued operations, net of tax	5.4	(300.1)	(55.1)	305.5	(245.0)
Net income (loss)	286.9	959.5	(197.0)	(672.6)	1,156.5
Diluted net income (loss) per share	1.22	4.16	(1.18)	(2.94)	5.34
Book value per share at December 31,	12.07	10.98	5.43	1.09	5.55
Net premiums earned-insurance	$915.9	$844.5	$781.4	$71.4	$63.1
Services revenue	153.8	76.7	—	77.1	76.7
Net investment income	81.5	65.7	68.1	15.8	(2.4)
Net gains (losses) on investments and other financial instruments	35.7	80.0	(106.5)	(44.3)	186.5
Provision for losses	198.6	246.1	562.7	47.5	316.6
Policy acquisition costs	22.4	24.4	28.5	2.0	4.1
Direct cost of services	90.0	43.6	—	(46.4)	(43.6)
Other operating expenses	246.2	252.3	257.4	6.1	5.1
Interest expense	91.1	90.5	74.6	(0.6)	(15.9)
Loss on induced conversion and debt extinguishment	94.2	—	—	(94.2)	—
Amortization and impairment of intangible assets	13.0	8.6	—	(4.4)	(8.6)
Income tax provision (benefit)	156.3	(852.4)	(31.5)	(1,008.7)	820.9
Adjusted pretax operating income (loss) (1)	510.9	342.4	(67.4)	168.5	409.8

____
(1) See "—Use of Non-GAAP Financial Measure" below.

Net Income (Loss) from Continuing Operations. As discussed in more detail below, our results for 2015 compared to 2014 reflect: (i) an income tax provision in 2015, in contrast to a significant income tax benefit in 2014 that resulted primarily from the reversal of substantially all of our deferred tax valuation allowance in 2014; (ii) a loss on induced conversion and debt extinguishment; and (iii) lower net gains on investments and other financial instruments. These items were partially offset by: (x) an increase in net premiums earned on insurance; and (y) a reduction in the provision for losses.

Our results for 2014 compared to 2013 reflect: (i) the significant tax benefit associated with the reversal of substantially all of our deferred tax valuation allowance; (ii) a significant reduction in the provision for losses; (iii) net gains on investments and other financial instruments in 2014, as compared to net losses in 2013; and (iv) an increase in net premiums earned. See "—Results of Operations—Mortgage Insurance" for more information on our net premiums earned-insurance, net investment income, provision for losses, and operating expenses.

Income (Loss) from Discontinued Operations, Net of Tax. Upon completion of the sale of Radian Asset Assurance in 2015, we recorded an additional pre-tax impairment charge of $14.3 million. In 2015, we recorded total net income from discontinued operations of $5.4 million, consisting primarily of the recognition of investment gains previously

deferred and recorded in accumulated other comprehensive income and recognized as a result of the completion of the sale of Radian Asset Assurance to Assured, as well as adjustments to estimated transaction costs and taxes.
Based upon the Radian Asset Assurance Stock Purchase Agreement, Radian Asset Assurance met the criteria to be accounted for as held for sale and discontinued operations at December 31, 2014. As a result, in 2014, we recognized a $467.5 million pre-tax impairment charge reported as loss from discontinued operations. We have also reclassified the related operating results as discontinued operations for all periods presented in our consolidated statements of operations. No general corporate overhead or interest expense was allocated to discontinued operations in 2015 or 2014.

The loss from discontinued operations consists of three components: (i) loss on classification as held for sale for the year ended December 31, 2014; (ii) income or loss from operations of businesses held for sale; and (iii) income tax provision. The divestiture of our financial guaranty business was part of Radian's strategy to focus its business on the real estate and mortgage finance markets and accelerated its ability to comply with the PMIERs.
For additional information related to discontinued operations, see Note 3 of Notes to Consolidated Financial Statements.
Services Revenue and Direct Cost of Services. In 2015 and 2014, services revenue and direct cost of services all relate to our Services segment. See "—Results of Operations—Services" for more information.
Net Gains (Losses) on Investments and Other Financial Instruments. The components of the net gains (losses) on investments and other financial instruments for the periods indicated are as follows:

	Year Ended December 31,		
(In millions)	2015	2014	2013
Net unrealized (losses) gains related to change in fair value of trading securities and other investments	$(27.0)	$92.2	$(117.2)
Net realized gains (losses) on sales	62.1	(8.3)	18.3
Net gains (losses) on other financial instruments	0.6	(3.9)	(7.6)
Net gains (losses) on investments and other financial instruments	$35.7	$80.0	$(106.5)

Other Operating Expenses. Among other items, our other operating expenses include compensation expense associated with changes in the estimated fair value of certain cash-settled long-term incentive awards that are valued, in large part, based on the stock price of Radian Group's common stock. During 2015, our expense related to these awards was approximately $22.6 million compared to approximately $43.9 million for 2014 and $96.9 million for 2013. Substantially all of these awards vested in June 2014 and June 2015. Therefore, although these awards had produced significant expense volatility in the past due to their valuation relative to Radian Group's common stock price, the expense volatility from these awards will not continue in the future. The decrease in other operating expenses in 2015 was also partially due to the settlement expenses that we incurred in 2014 on remedies related to contract underwriting services provided on legacy business for which we incurred no similar expenses in 2015. The decrease in other operating expenses in 2015 as compared to 2014 was partially offset by a full year of other operating expenses for Clayton in 2015 compared to six months in 2014. The decrease in 2014 as compared to 2013 for the expenses related to cash-settled long-term incentive awards was partially offset by an increase in other compensation costs, and contract underwriting expenses (See Results of Operations—Mortgage Insurance—Other Operating Expenses). Offsetting operating expenses in all three years were ceding commissions earned related to the QSR Transactions. See "—Results of Operations—Mortgage Insurance—Net Premiums Written and Earned" for information regarding the QSR Transactions.
Interest Expense. These amounts reflect interest on our long-term debt. In June 2015, we issued $350 million aggregate principal amount of 5.250% Senior Notes due 2020. In May 2014, we issued $300 million principal amount of 5.500% Senior Notes due June 2019. The increase in interest expense in 2015 was primarily due to the debt issuances in 2014 and 2015, offset by a decrease in interest expense primarily due to the purchases in 2015 of approximately $389.1 million aggregate principal amount of our Convertible Senior Notes due 2017. The debt issuance in 2014 was the primary reason for the increase in interest expense in 2014 as compared to 2013. See Note 11 of Notes to Consolidated Financial Statements for additional information.
Loss on induced conversion and debt extinguishment. The loss on induced conversion and debt extinguishment of approximately $94.2 million for the year ended December 31, 2015 was primarily related to the purchases in the second quarter of 2015 of Convertible Senior Notes due 2017, as noted in "Overview—2015 Debt and Equity Transactions" above. See Note 11 of Notes to Consolidated Financial Statements for information on long-term debt outstanding.

Amortization and Impairment of Intangible Assets. The amortization and impairment of intangible assets for 2015 and 2014 primarily reflects the amortization of intangible assets acquired as part of the Clayton acquisition. In 2014, we also recorded a $2.1 million impairment of a portion of our goodwill related to a small subsidiary within our Services segment, which had been acquired in 2013. See Note 7 of Notes to Consolidated Financial Statements for additional information.

Income Tax Provision (Benefit). The effective tax rate from continuing operations was 35.7% for 2015 compared to (209.4)% for 2014 and 18.2% for 2013. For 2015, the additional expense related to the accounting for uncertainty of income taxes and the impact of state and local income taxes was substantially offset by the tax benefit from the deductible portion of the premium associated with the purchases of Convertible Senior Notes due 2017. The change from our statutory tax rate of 35% for 2014 was primarily due to the reversal of substantially all of our valuation allowance. The change from our statutory tax rate of 35% for 2013 was primarily due to changes in our overall valuation allowance against our DTA and the accounting for uncertainty of income taxes. See Note 13 of Notes to Consolidated Financial Statements for more information regarding our valuation allowance and the accounting for uncertainty of income taxes.

Use of Non-GAAP Financial Measure. In addition to the traditional GAAP financial measures, we have presented a non-GAAP financial measure for the consolidated company, “adjusted pretax operating income (loss),” among our key performance indicators to evaluate our fundamental financial performance. This non-GAAP financial measure aligns with the way the Company’s business performance is evaluated by both management and the Board. This measure has been established in order to increase transparency for the purposes of evaluating our core operating trends and enabling more meaningful comparisons with our peers. Although on a consolidated basis “adjusted pretax operating income (loss)” is a non-GAAP financial measure, we believe this measure aids in understanding the underlying performance of our operations. Our senior management, including our Chief Executive Officer (the Company’s chief operating decision maker), uses adjusted pretax operating income (loss) as our primary measure to evaluate the fundamental financial performance of the Company’s business segments and to allocate resources to the segments. Management’s use of this measure as its primary measure to evaluate segment performance began with the quarter ended March 31, 2014. Accordingly, for comparison purposes, we also present the applicable measures from the corresponding periods of 2013 on a basis consistent with this presentation.

Adjusted pretax operating income (loss) is defined as pretax income (loss) from continuing operations excluding the effects of: net gains (losses) on investments and other financial instruments; loss on induced conversion and debt extinguishment; acquisition-related expenses; amortization and impairment of intangible assets; and net impairment losses recognized in earnings.

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

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

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

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

items are excluded from our calculation of adjusted pretax operating income (loss).

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

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

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

Total adjusted pretax operating income (loss) is not a measure of total profitability, and therefore should not be viewed as a substitute for GAAP pretax income (loss) from continuing operations. Our definition of adjusted pretax operating income (loss) may not be comparable to similarly-named measures reported by other companies.

The following table provides a reconciliation of our non-GAAP financial measure for the consolidated company, adjusted pretax operating income (loss), to the most comparable GAAP measure, pretax income (loss) from continuing operations:

Reconciliation of Consolidated Non-GAAP Financial Measure

	Year Ended December 31,		
(In thousands)	2015	2014	2013
Adjusted pretax operating income (loss):			
Mortgage insurance	$513,127	$336,936	$(67,435)
Services	(2,233)	5,446	—
Total adjusted pretax operating income (loss)	510,894	342,382	(67,435)
Net gains (losses) on investments and other financial instruments (1)	35,693	80,102	(105,911)
Loss on induced conversion and debt extinguishment	(94,207)	—	—
Acquisition-related expenses	(1,565)	(6,680)	—
Amortization and impairment of intangible assets	(12,986)	(8,648)	—
Consolidated pretax income (loss) from continuing operations	$437,829	$407,156	$(173,346)

---

(1) The change in expected economic loss or recovery associated with our previously owned VIEs is included in adjusted pretax operating income (loss) above for the years ended December 31, 2014 and 2013, although it represents amounts that are not included in net income. Therefore, for purposes of this reconciliation, net gains (losses) on investments and other financial instruments has been adjusted by income of $0.1 million and $0.6 million for the years ended December 31, 2014 and 2013, respectively, to reverse this item.

Results of Operations—Mortgage Insurance

During 2015, we continued our strategy of growing our mortgage insurance portfolio by writing insurance on mortgages with strong credit characteristics. At December 31, 2015, we had approximately $176 billion in IIF compared to approximately $172 billion in IIF at December 31, 2014. We also continued to focus on managing losses in our Legacy Portfolio, reducing the size of our Legacy Portfolio and effectively managing our capital and liquidity positions in order to achieve compliance with the PMIERs. See “Liquidity and Capital Resources—Radian Group—Short-Term Liquidity Needs—Capital Support for Subsidiaries” and Note 1 of Notes to Consolidated Financial Statements for additional information.

The following table summarizes our Mortgage Insurance segment’s results of operations for the years ended December 31, 2015, 2014 and 2013:

	Year Ended December 31,			$ Change Favorable (Unfavorable)	
(In millions)	2015	2014	2013	2015 vs. 2014	2014 vs. 2013
Adjusted pretax operating income (loss) (1)	$513.1	$336.9	$(67.4)	$176.2	$404.3
Net premiums written—insurance	968.5	925.2	951.0	43.3	(25.8)
Net premiums earned—insurance	915.9	844.5	781.4	71.4	63.1
Net investment income	81.5	65.7	68.1	15.8	(2.4)
Provision for losses	198.4	246.9	562.7	48.5	315.8
Other operating expenses	196.4	225.5	257.4	29.1	31.9
Interest expense	73.4	81.6	74.6	8.2	(7.0)

(1) Our senior management uses adjusted pretax operating income (loss) as our primary measure to evaluate the fundamental financial performance of the Company’s business segments.

Adjusted Pretax Operating Income (Loss). Our Mortgage Insurance segment’s adjusted pretax operating income for 2015 was $513.1 million, compared to $336.9 million for 2014 and an adjusted pretax operating loss of $67.4 million in 2013. Our results for 2015 compared to 2014 and 2013 primarily reflect: (i) an increase in net premiums earned; (ii) a reduction in the provision for losses; and (iii) a reduction in other operating expenses.

NIW, IIF, RIF

A key component of our current business strategy is to grow our mortgage insurance business by writing insurance on high credit quality mortgages in the U.S. Consistent with this objective, we wrote $41.4 billion of primary new mortgage insurance in 2015 compared to $37.3 billion in 2014.

The increase in NIW of approximately 11% for 2015 compared to 2014 is primarily attributable to increases both in mortgage originations overall and in the penetration rate of private mortgage insurance for home purchases, partially offset by the impact to our market share from heightened competition among private mortgage insurers. During this time period, recovery in wage and job growth supported increased home purchase mortgage volume, and low interest rates continued to support refinance activity at higher levels than in 2014. At the same time, the penetration rates of both private mortgage insurers and the FHA in the overall insured mortgage market increased, resulting in a mortgage insurance market that was larger for 2015 than for 2014. While the overall mortgage insurance market increased during 2015, the FHA’s market share increased relative to the aggregate market share of private mortgage insurers. In January 2015, the FHA reduced its annual mortgage insurance premium by 50 basis points to approximately 85 basis points per year. The FHA reduction on annual premiums has impacted our ability to compete with the FHA on certain high-LTV loans to borrowers with FICO scores below 720.

The presence of newer entrants in the mortgage insurance industry has intensified price competition among private mortgage insurers, including increased usage of programs that offer customized rates. See “Item 1. Business—Mortgage Insurance—Competition” for more information about the current competitive environment and our pricing strategies.

86

Since 2009, virtually all of our new mortgage insurance business production has been prime business. FICO scores for the borrowers of these insured mortgages are higher, and there are fewer loans with LTVs greater than 95%, as compared to mortgages in our Legacy Portfolio. Our portfolio of business written since the beginning of 2009 has been steadily increasing in proportion to our total primary RIF. The loans from our 2009 and later origination years possess significantly improved credit characteristics compared to our Legacy Portfolio. In addition, refinancings under the HARP programs (discussed below) have had a positive impact on the overall credit quality and composition of our mortgage insurance portfolio because the refinancing generally results in terms under which a borrower has a greater ability to pay and more financial flexibility to cover the loan obligations. As shown in the chart below, the sum of our 2009 through 2015 portfolios and our HARP refinancings accounted for approximately 84% of our total primary RIF at December 31, 2015, compared to 79% at December 31, 2014.
The growth of our portfolio written since the beginning of 2009, together with continued improvement in the portfolio as a result of HARP refinancings (discussed below), among other things, has contributed to the significant improvement in the credit quality of our overall mortgage insurance portfolio. The table below illustrates the improved composition of our mortgage insurance portfolio RIF, based on origination vintages.

---

(1) In 2009, the GSEs began offering HARP, which allows a borrower who is not delinquent to refinance a mortgage if the borrower has been unable to take advantage of lower interest rates because the borrower's home has decreased in value. As of December 31, 2015, approximately 9.1% of our total primary RIF had successfully completed a HARP refinance. The HARP programs are scheduled to terminate on December 31, 2016. We exclude HARP loans from our NIW for the period in which the refinance occurs. During 2015, new HARP loans accounted for $0.7 billion of newly refinanced loans that were not included in Radian Guaranty's NIW for the period, compared to $1.7 billion for 2014.

The table below provides information on the characteristics of our direct primary mortgage insurance NIW at origination from January 1, 2000 to December 31, 2015, by origination vintage ranges.

As shown above, our 2009 and later NIW has a more favorable risk profile than previous vintages, based on:
•100% prime risk grade;
•100% full documentation;
•94% with FICO scores greater than 680; and
•98% with LTVs equal to 95% or less.
Because our expected future losses on our mortgage insurance portfolio written since the beginning of 2009 and our HARP refinancings are significantly lower than those experienced on our Legacy Portfolio, the strengthening composition of our overall mortgage insurance portfolio has led to improvement in our Mortgage Insurance segment’s operating profitability.

The charts and table below show the growth in RIF written in 2009 and later, as well as the improved performance of our mortgage insurance portfolios written since 2009.
The following charts illustrate the improved trends of our cumulative incurred loss ratios by year of origination and development year.

The following tables provide selected information as of and for the periods indicated related to mortgage insurance NIW, RIF and IIF. Policy years represent the original policy years, and have not been adjusted to reflect subsequent HARP refinancing activity. Primary RIF and IIF amounts at December 31, 2015 include $346 million and $1.38 billion, respectively, related to loans that are subject to the Freddie Mac Agreement. Although we no longer have future claim liability on these loans, we continue to receive premiums on the related loans and the insurance remains in force, and therefore these loans are included in our primary RIF and IIF.

	Year Ended December 31,								
($ in millions)	2015			2014			2013		
Total primary NIW by FICO score									
>=740	$25,683	62.0	%	$23,043	61.7	%	$33,466	70.8	%
680-739	12,954	31.3		11,737	31.4		11,971	25.3	
620-679	2,774	6.7		2,569	6.9		1,818	3.9	
Total primary NIW	$41,411	100.0	%	$37,349	100.0	%	$47,255	100.0	%

	Year Ended December 31,					
($ in millions)	2015		2014		2013	
Percentage of primary NIW						
Monthly and Other premiums	69	%	72	%	68	%
Single premiums	31	%	28	%	32	%
Refinances	21	%	17	%	30	%
LTV						
95.01% and above	3.0	%	0.4	%	2.6	%
90.01% to 95.00%	49.8	%	52.9	%	45.4	%
85.01% to 90.00%	34.0	%	33.8	%	37.3	%
80.01% to 85.00%	13.2	%	12.9	%	14.7	%
ARMs						
Less than five years	<1%		<1%		<1%	
Five years and longer	1.9	%	3.5	%	2.0	%
Primary risk written	$10,435		$9,448		$11,737	

	December 31,					
($ in millions)	2015		2014		2013	
Primary IIF						
Monthly and Other premiums	69	%	71	%	73	%
Single premiums	31	%	29	%	27	%
Total primary IIF	$175,584		$171,810		$161,240	
Persistency Rate (12 months ended) (1)	78.8	%(2)	84.2	%	82.1	%
Persistency Rate (quarterly, annualized) (1)	81.8	%(3)	83.3	%	83.5	%

(1) Effective March 31, 2015, we refined our Persistency Rate calculation to incorporate loan level detail rather than aggregated portfolio data. Prior periods have been recalculated and reflect the current calculation methodology.

(2)

The Persistency Rate for the 12 months ended December 31, 2015 decreased from 2014 primarily due to increased refinancing activity and the cancellations of Single Premium Policies due to prepayments that servicers had not previously reported to Radian. See "—Net Premiums Written and Earned," below.

(3) The Persistency Rate annualized based on the quarter ended December 31, 2015 decreased from 2014 due to increased refinancing activity in the fourth quarter of 2015 as compared to the same quarter in 2014.

The charts below provide the composition of our total $44.6 billion in primary RIF by product, FICO score and LTV, as of December 31, 2015. Throughout this report, unless otherwise noted, RIF includes the amounts ceded through reinsurance.

	December 31,								
($ in millions)	2015			2014			2013		
Primary RIF by Product									
Flow	$42,771	95.8	%	$41,071	95.0	%	$37,792	94.4	%
Structured	1,856	4.2		2,168	5.0		2,225	5.6	
Total primary RIF	$44,627	100.0	%	$43,239	100.0	%	$40,017	100.0	%
Primary RIF by Risk Grade									
Prime	$42,170	94.5	%	$40,326	93.3	%	$36,613	91.5	%
Alt-A	1,427	3.2		1,720	4.0		2,017	5.0	
A minus and below	1,030	2.3		1,193	2.7		1,387	3.5	
Total primary RIF	$44,627	100.0	%	$43,239	100.0	%	$40,017	100.0	%

	December 31,		
($ in millions)	2015	2014	2013
Total primary RIF by FICO score			
>=740	$25,467		