RADIAN GROUP INC
Form 10-Q
November 06, 2015
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2015
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number 1-11356

Radian Group Inc.
(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 206,871,768 shares of common stock, $0.001 par value per share, outstanding on November 3, 2015.

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GLOSSARY OF ABBREVIATIONS AND ACRONYMS

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

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

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

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

as of the transfer date

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

Cautionary Note Regarding Forward Looking Statements—Safe Harbor Provisions

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

- changes in general economic and political conditions, including unemployment rates, changes in the U.S. housing and mortgage credit markets, declines in home prices and property values, the performance of the U.S. or global economies, the amount of liquidity in the capital or credit markets, changes or volatility in interest rates or consumer confidence and changes in credit spreads, all of which may be impacted by, among other things, legislative activity or inactivity, actual or threatened downgrades of U.S. government credit ratings, or actual or threatened defaults on U.S. government obligations;
- changes in the way customers, investors, regulators or legislators perceive the strength of private mortgage insurers;
- catastrophic events, increased unemployment, home price depreciation or other negative economic changes in geographic regions where our mortgage insurance exposure is more concentrated;
- Radian Guaranty's ability to remain eligible under applicable requirements imposed by the FHFA and the GSEs to insure loans purchased by the GSEs;
- our ability to maintain sufficient holding company liquidity to meet our short- and long-term liquidity needs. We expect to utilize a portion of our holding company liquidity to support Radian Guaranty's compliance with the PMIERs Financial Requirements, which become effective for existing mortgage insurers on December 31, 2015. Our projections regarding the amount that Radian Guaranty would require to comply with the PMIERs Financial Requirements are based on our estimates of Radian Guaranty's Minimum Required Assets and Available Assets, which may not prove to be accurate, and which could be impacted: (1) by our ability to receive, as expected, approval from the GSEs for the amendments to our existing reinsurance arrangements and receive the PMIERs benefit for these arrangements; (2) by 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; (3) by whether we elect to leverage the use of external reinsurance, which would reduce Radian Guaranty's Minimum Required Assets; and (4) by the level of capital we expect to maintain at our mortgage insurance subsidiaries in excess of the amount required to satisfy the PMIERs Financial Requirements. We are actively considering alternatives to optimize the use of our holding company liquidity to support Radian Guaranty's compliance with the PMIERs Financial Requirements. These alternatives could take the form of direct contributions of cash and securities or the potential use of surplus notes. Contributions of holding company cash and investments from Radian Group will leave less liquidity to satisfy Radian Group's future obligations. Depending on the amount of holding company liquidity that we use, we may be required or may decide to seek additional capital by incurring additional debt, by issuing additional equity, or by selling assets, which we may not be able to do on favorable terms, if at all;
- our ability to maintain an adequate level of capital in our insurance subsidiaries to satisfy existing and future state regulatory requirements, including new capital adequacy standards that currently are being developed by the NAIC

and that could be adopted by states in which we write business;

- changes in the charters or business practices of, or rules or regulations imposed by or applicable to the GSEs, including: (1) the implementation of the final PMIERs (including as updated on June 30, 2015 to increase the amount of Available Assets that must be held against risk in force associated with loans originated on or after January 1, 2016 that are insured under lender-paid mortgage insurance policies not subject to automatic termination under the HPA), which (a) will increase the amount of capital that Radian Guaranty is required to hold, and therefore, reduce our current returns on subsidiary capital, (b) potentially impact the type and volume of business that Radian Guaranty and other private mortgage insurers are willing to write, (c) impose extensive and more stringent operational requirements in areas such as claim processing, loss mitigation, document retention, underwriting, quality control, reporting and monitoring, among others, that may result in additional costs to achieve and maintain compliance, and (d) require the consent of the GSEs for Radian Guaranty to take certain actions such as paying dividends, entering into various inter-company agreements, and commuting or reinsuring risk, among others; (2) other changes that could limit the type and volume of business that Radian Guaranty and other private mortgage insurers are willing to write; (3) changes that could increase the cost of private mortgage insurance, including as compared to the FHA's pricing, or result in the emergence of other forms of credit enhancement; and (4) changes that could require us to alter our business practices and which may result in substantial additional costs;
- our ability to continue to effectively mitigate our mortgage insurance losses, including a decrease in net Rescissions, Claim Denials or Claim Curtailments resulting from an increase in the number of successful challenges to previous Rescissions, Claim Denials or Claim Curtailments (including as part of one or more settlements of disputed Rescissions or Claim Denials), or as a result of the GSEs intervening in or otherwise limiting our loss mitigation practices, including settlements of disputes regarding Loss Mitigation Activities;
- the negative impact that our Loss Mitigation Activities may have on our relationships with our customers and potential customers, including the potential loss of current or future business and the heightened risk of disputes and litigation;
- any disruption in the servicing of mortgages covered by our insurance policies, as well as poor servicer performance;
- a substantial decrease in the Persistency Rates of our mortgage insurance policies, which has the effect of reducing our premium income on our mortgage insurance products paid on a monthly installment basis and could decrease the profitability of our mortgage insurance business;
- heightened competition for our mortgage insurance business from others such as the FHA, the U.S. Department of Veterans Affairs and other private mortgage insurers (including with respect to other private mortgage insurers, those that have been assigned higher ratings than we have, that may have access to greater amounts of capital than we do, or that are new entrants to the industry, and therefore, are not burdened by legacy obligations and may be more willing to aggressively price their mortgage insurance offerings to gain market share from more established mortgage insurers) and the impact such heightened competition may have on our returns and our NIW;
- the increased demand from lenders for customized (reduced) rates on mortgage insurance products, which could further reduce our overall average premium rates and returns and, to the extent we decide to limit certain types of business, could adversely impact our NIW and market share;
- changes to the current system of housing finance, including the possibility of a new system in which private mortgage insurers are not required or their products are significantly limited in effect or scope;
- the effect of the Dodd-Frank Wall Street Reform and Consumer Protection Act on the financial services industry in general, and on our businesses in particular;
- the adoption of new laws and regulations, or changes in existing laws and regulations, or the way they are interpreted or applied, including, without limitation: (1) the resolution of existing, or the possibility of additional, lawsuits, inquiries or investigations (including an inquiry from the Wisconsin OCI to all private mortgage insurers pertaining to customized insurance rates and terms offered to mortgage insurance customers); (2) changes to the Model Act being considered by the NAIC that could include more stringent requirements for Radian Guaranty in states that adopt the new Model Act in the future; and (3) other legislative and regulatory changes (a) impacting the demand for our products, (b) limiting or restricting the products we may offer or increasing the amount of capital we are required to hold, (c) affecting the form in which we execute credit protection, or (d) otherwise impacting our existing businesses or future prospects;

- the amount and timing of potential payments or adjustments associated with federal or other tax examinations, including deficiencies assessed by the IRS resulting from the examination of our 2000 through 2007 tax years, which we are currently contesting;
- the possibility that we may fail to estimate accurately the likelihood, magnitude and timing of losses in connection with establishing loss reserves for our mortgage insurance business;

- volatility in our results of operations caused by changes in the fair value of our assets and liabilities, including a significant portion of our investment portfolio;
- changes in GAAP or SAP rules and guidance, or their interpretation;
- legal and other limitations on amounts we may receive from our subsidiaries as dividends or through our tax- and expense-sharing arrangements with our subsidiaries; and
- the possibility that we may need to impair the estimated fair value of goodwill established in connection with our acquisition of Clayton, the valuation of which requires the use of significant estimates and assumptions with respect to the estimated future economic benefits arising from certain assets acquired in the transaction such as the value of expected future cash flows of Clayton, Clayton’s workforce, expected synergies with our other affiliates and other unidentifiable intangible assets.

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

PART I—FINANCIAL INFORMATION

Radian Group Inc.
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

($ in thousands, except share amounts)	September 30, 2015	December 31, 2014
ASSETS		
Investments (Note 5)		
Fixed-maturities available for sale—at fair value (amortized cost $1,507,522 and $528,660)	$1,496,328	$536,890
Equity securities available for sale—at fair value (cost $573 and $76,900)	985	143,368
Trading securities—at fair value	1,414,757	1,633,584
Short-term investments—at fair value	1,460,918	1,300,872
Other invested assets	3,783	14,585
Total investments	4,376,771	3,629,299
Cash	69,030	30,465
Restricted cash	10,280	14,031
Accounts and notes receivable	65,951	85,792
Deferred income taxes, net (Note 12)	601,893	700,201
Goodwill and other intangible assets, net (Note 6)	287,334	288,240
Other assets (Note 8)	349,657	357,864
Assets held for sale (Note 2)	—	1,736,444
Total assets	$5,760,916	$6,842,336
LIABILITIES AND STOCKHOLDERS' EQUITY		
Unearned premiums	$676,938	$644,504
Reserve for losses and loss adjustment expense ("LAE") (Note 9)	1,098,570	1,560,032
Long-term debt (Note 10)	1,230,246	1,192,299
Other liabilities	311,855	326,743
Liabilities held for sale (Note 2)	—	947,008
Total liabilities	3,317,609	4,670,586
Commitments and Contingencies (Note 15)		
Equity component of currently redeemable convertible senior notes (Note 10)	7,737	74,690
Stockholders' equity		
Common stock: par value $.001 per share; 485,000,000 shares authorized at September 30, 2015 and December 31, 2014, respectively; 224,430,472 and 208,601,020 shares issued at September 30, 2015 and December 31, 2014, respectively; 206,869,775 and 191,053,530 shares outstanding at September 30, 2015 and December 31, 2014, respectively	224	209
Treasury stock, at cost: 17,560,697 and 17,547,490 shares at September 30, 2015 and December 31, 2014, respectively	(893,176)	(892,961)
Additional paid-in capital	2,718,210	2,531,513
Retained earnings	617,731	406,814
Accumulated other comprehensive (loss) income ("AOCI") (Note 11)	(7,419)	51,485
Total stockholders' equity	2,435,570	2,097,060
Total liabilities and stockholders' equity	$5,760,916	$6,842,336

See Notes to Unaudited Condensed Consolidated Financial Statements.

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Radian Group Inc.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands, except per share amounts)	2015	2014	2015	2014
Revenues:				
Net premiums earned—insurance	$227,433	$217,827	$689,465	$620,235
Services revenue	42,189	42,243	116,322	42,243
Net investment income	22,091	17,143	58,704	49,124
Net gains (losses) on investments and other financial instruments	3,868	(6,294)	49,095	62,006
Other income	1,711	1,162	4,785	4,027
Total revenues	297,292	272,081	918,371	777,635
Expenses:				
Provision for losses	64,192	48,942	141,780	163,216
Policy acquisition costs	2,880	4,240	17,593	18,003
Direct cost of services	24,949	23,896	67,722	23,896
Other operating expenses	65,082	51,225	186,587	166,483
Interest expense	21,220	23,989	70,106	66,264
Loss on induced conversion and debt extinguishment (Note 10)	11	—	91,887	—
Amortization and impairment of intangible assets	3,273	3,294	9,577	3,294
Total expenses	181,607	155,586	585,252	441,156
Pretax income from continuing operations	115,685	116,495	333,119	336,479
Income tax provision (benefit)	45,594	(15,536)	126,108	(45,069)
Net income from continuing operations	70,091	132,031	207,011	381,548
Income from discontinued operations, net of tax	—	21,559	5,385	149,634
Net income	$70,091	$153,590	$212,396	$531,182
Net income per share:				
Basic:				
Net income from continuing operations	$0.34	$0.69	$1.05	$2.09
Income from discontinued operations	—	0.11	0.03	0.82
Net income	$0.34	$0.80	$1.08	$2.91
Diluted:				
Net income from continuing operations	$0.29	$0.58	$0.88	$1.73
Income from discontinued operations	—	0.09	0.02	0.64
Net income	$0.29	$0.67	$0.90	$2.37
Weighted-average number of common shares outstanding—basic	207,938	191,050	197,562	182,357
Weighted-average number of common and common equivalent shares outstanding—diluted	250,795	238,067	246,993	230,662
Dividends per share	$0.0025	$0.0025	$0.0075	$0.0075

See Notes to Unaudited Condensed Consolidated Financial Statements.

Radian Group Inc.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2015	2014	2015	2014
Net income	$70,091	$153,590	$212,396	$531,182
Other comprehensive income (loss), net of tax (Note 11):				
Net foreign currency translation adjustments	(120)	(186)	(88)	(186)
Unrealized gains (losses) on investments:				
Unrealized holding gains (losses) arising during the period	4,012	(798)	(11,154)	10,504
Less: Reclassification adjustment for net (losses) gains included in net income	(223)	(418)	44,408	(807)
Net unrealized gains (losses) on investments	4,235	(380)	(55,562)	11,311
Activity related to investments recorded as assets held for sale	—	(1,437)	(3,254)	506
Other comprehensive income (loss), net of tax	4,115	(2,003)	(58,904)	11,631
Comprehensive income	$74,206	$151,587	$153,492	$542,813

See Notes to Unaudited Condensed Consolidated Financial Statements.

Radian Group Inc.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN COMMON STOCKHOLDERS' EQUITY (UNAUDITED)

(In thousands)	Common Stock	Treasury Stock	Additional Paid-in Capital	Retained (Deficit) Earnings	AOCI	Total
BALANCE, JANUARY 1, 2014	$191	$(892,807)	$2,347,104	$(552,226)	$37,383	$939,645
Net income	—	—	—	531,182	—	531,182
Net foreign currency translation adjustment, net of tax	—	—	—	—	(186)	(186)
Net unrealized gain on investments, net of tax	—	—	—	—	11,817	11,817
Repurchases of common stock under incentive plans	—	(154)	—	—	—	(154)
Issuance of common stock - stock offering	18	—	247,170	—	—	247,188
Issuance of common stock under benefit plans	—	—	922	—	—	922
Issuance of common stock under incentive plans	—	—	175	—	—	175
Stock-based compensation expense, net	—	—	5,200	—	—	5,200
Dividends declared	—	—	(1,388)	—	—	(1,388)
BALANCE, SEPTEMBER 30, 2014	$209	$(892,961)	$2,599,183	$(21,044)	$49,014	$1,734,401
BALANCE, JANUARY 1, 2015	$209	$(892,961)	$2,531,513	$406,814	$51,485	$2,097,060
Net income	—	—	—	212,396	—	212,396
Net foreign currency translation adjustment, net of tax	—	—	—	—	(88)	(88)
Net unrealized loss on investments, net of tax	—	—	—	—	(58,816)	(58,816)
Repurchases of common stock under incentive plans	—	(215)	—	—	—	(215)
Issuance of common stock under benefit plans	—	—	1,110	—	—	1,110
Issuance of common stock under incentive plans	1	—	1,284	—	—	1,285
Stock-based compensation expense, net	—	—	13,214	—	—	13,214
Impact of extinguishment of Convertible Senior Notes due 2017 (Note 10)	28	—	349,191	—	—	349,219
Shares repurchased under ASR (Note 16)	(11)	—	(201,989)	—	—	(202,000)
Termination of capped calls (Note 10)	(3)	—	11,976	—	—	11,973
Change in equity component of currently redeemable convertible	—	—	11,911	—	—	11,911

senior notes						
Dividends declared	—	—	—	(1,479)	—	(1,479)
BALANCE, SEPTEMBER 30, 2015	$224	$(893,176)	$2,718,210	$617,731	$(7,419)	$2,435,570

See Notes to Unaudited Condensed Consolidated Financial Statements.

Radian Group Inc.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(In thousands)	Nine Months Ended September 30, 2015	2014
Cash flows from operating activities:		
Net cash used in operating activities, continuing operations	$(5,993)	$(192,271)
Net cash used in operating activities, discontinued operations	(1,759)	(29,891)
Net cash used in operating activities	(7,752)	(222,162)
Cash flows from investing activities:		
Proceeds from sales of fixed-maturity investments available for sale	96,684	17,114
Proceeds from sales of equity securities available for sale	145,550	—
Proceeds from sales and redemptions of trading securities	183,557	548,074
Proceeds from redemptions of fixed-maturity investments available for sale	64,747	3,794
Proceeds from redemptions of fixed-maturity investments held to maturity	—	300
Purchases of fixed-maturity investments available for sale	(1,087,461)	(238,203)
Purchases of equity securities available for sale	(500)	—
Purchases and redemptions of short-term investments, net	(160,874)	(444,070)
Sales and redemptions of other assets, net	13,596	7,690
Proceeds from the sale of investment in affiliate, net of cash transferred	784,866	—
Purchases of property and equipment, net	(19,264)	(12,023)
Acquisitions, net of cash acquired	(6,449)	(295,977)
Net cash provided by (used in) investing activities, continuing operations	14,452	(413,301)
Net cash provided by investing activities, discontinued operations	4,999	161,070
Net cash provided by (used in) investing activities	19,451	(252,231)
Cash flows from financing activities:		
Dividends paid	(1,479)	(1,388)
Issuance of long-term debt, net	343,479	293,809
Purchases and redemptions of long-term debt	(128,486)	(57,223)
Proceeds from termination of capped calls	11,973	—
Issuance of common stock	—	247,188
Purchase of shares under ASR	(202,000)	—
Excess tax benefits from stock-based awards	3,000	106
Net cash provided by financing activities, continuing operations	26,487	482,492
Net cash provided by (used in) financing activities, discontinued operations	—	—
Net cash provided by financing activities	26,487	482,492
Effect of exchange rate changes on cash	(42)	(49)
Increase in cash	38,144	8,050
Cash, beginning of period	30,465	22,880
Less: Change in cash of business held for sale	(421)	439
Cash, end of period	$69,030	$30,491
Supplemental disclosures of cash flow information:		
Income taxes paid	$3,590	$6,738
Interest paid	$34,059	$26,058

See Notes to Unaudited Condensed Consolidated Financial Statements.

Radian Group Inc.
Notes to Unaudited Condensed Consolidated Financial Statements

1. Condensed Consolidated Financial Statements—Significant Accounting Policies and Business Overview
Significant Accounting Policies
Basis of Presentation
Our condensed consolidated financial statements include the accounts of Radian Group Inc. and its subsidiaries. We refer to Radian Group Inc. together with its consolidated subsidiaries as “Radian,” the “Company,” “we,” “us” or “our,” unless the context requires otherwise. We generally refer to Radian Group Inc. alone, without its consolidated subsidiaries, as “Radian Group.” Unless otherwise defined in this report, certain terms and acronyms used throughout this report are defined in the Glossary of Abbreviations and Acronyms included as part of this report.
Our condensed consolidated financial statements are prepared in accordance with GAAP and include the accounts of all wholly-owned subsidiaries. All intercompany accounts and transactions, and intercompany profits and losses, have been eliminated. We have condensed or omitted certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with GAAP pursuant to the instructions set forth in Article 10 of Regulation S-X of the SEC.
The financial information presented for interim periods is unaudited; however, such information reflects all adjustments that are, in the opinion of management, necessary for the fair statement of the financial position, results of operations, comprehensive income and cash flows for the interim periods presented. Such adjustments are of a normal recurring nature. The year-end condensed balance sheet data was derived from our audited financial statements, but does not include all disclosures required by GAAP. These interim financial statements should be read in conjunction with the audited financial statements and notes thereto included in our 2014 Form 10-K. The results of operations for interim periods are not necessarily indicative of results to be expected for the full year or for any other period. Certain prior period amounts have been reclassified to conform to current period presentation, including the adoption of an update to the accounting standard for the presentation of debt issuance costs in financial statements, as further described below in Recent Accounting Pronouncements.
In the first quarter of 2015, certain cash flows were incorrectly classified in the Company’s Condensed Consolidated Statements of Cash Flows. The Company has determined that these misclassifications are not material to the financial statements of any period. These amounts (shown below in thousands) will be corrected in the comparative Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2015 that will appear in the Company’s first quarter 2016 Form 10-Q filing. For the three months ended March 31, 2015, the adjustments to the affected categories within the Consolidated Statements of Cash Flows consist of the following: (i) net cash provided by operating activities, continuing operations, reported as $80 will be adjusted to $666; (ii) net cash used in operating activities, discontinued operations, reported as $12,168 will be adjusted to $1,759; (iii) net cash provided by investing activities, discontinued operations, reported as $9,514 will be adjusted to $4,999; (iv) net increase in cash reported as $23,499 will be adjusted to $29,979; and (v) change in cash of business held for sale represented as a decrease of $3,240 will be represented as an increase of $3,240. Cash flow activities for the six months ended June 30, 2015 were correctly presented in the Consolidated Statements of Cash Flows in our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2015.
Use of Estimates
The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of our contingent assets and liabilities at the dates of the financial statements, as well as the reported amounts of revenues and expenses during the reporting periods. While the amounts included in our condensed consolidated financial statements include our best estimates and assumptions, actual results may vary materially.
Other Significant Accounting Policies
During the second quarter of 2015, Radian Group completed a series of transactions to strengthen its capital position, including to reduce its overall cost of capital and to improve the maturity profile of its debt. See 2015

Developments—Debt and Equity Transactions in this Note 1 for more information.

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

June 2015 Purchases of Convertible Debt Prior to Maturity. We accounted for the June 2015 purchases of a portion of our outstanding convertible debt in exchange for cash and shares of Radian Group common stock as an induced conversion of convertible debt in accordance with the accounting standard regarding derecognition of debt with conversion and other options, and the accounting standard regarding debt modifications and extinguishments. The accounting standards require the recognition through earnings of an inducement charge equal to the fair value of the consideration delivered in excess of the consideration issuable under the original conversion terms. The remaining consideration delivered and transaction costs incurred are required to be allocated between the extinguishment of the liability component and the reacquisition of the equity component. Therefore, we recognized as a loss on induced conversion and debt extinguishment the sum of: (i) the inducement charge; (ii) the difference between the fair value and the carrying value of the liability component of the purchased debt; (iii) transaction costs allocated to the debt component; and (iv) unamortized debt issuance costs related to the purchased debt.

Accelerated Share Repurchase. Our ASR program consisted of the combination of the purchase of Radian Group common stock from an investment bank and a forward contract with that investment bank indexed to Radian Group common stock. We accounted for the ASR program in accordance with the provisions of the accounting standards regarding derivatives and hedging for contracts indexed to an entity's own stock, and the accounting standard regarding equity. The up-front payment to the investment bank as part of the ASR program was accounted for as a reduction to stockholders' equity in our consolidated balance sheets in the second quarter of 2015, the period in which the payment was made. The shares of Radian Group common stock received were retired, resulting in a decrease in shares issued and outstanding and a corresponding increase in unissued shares in the periods delivered. We reflect the ASR program as a repurchase of common stock in the periods delivered for purposes of calculating earnings per share and as forward contracts indexed to the company's own common stock. The ASR program met all of the applicable criteria for equity classification, and therefore, was not accounted for as a derivative instrument.

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

Recent Accounting Pronouncements

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

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

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

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

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

In September 2015, the FASB issued an update to the accounting standard for the accounting of business combinations to simplify the accounting for measurement period adjustments. The update requires adjustments to provisional amounts that are identified during the measurement period to be recognized by the acquirer in the reporting period in which the adjustment amounts are determined. In that same reporting period, the acquirer must record in its financial statements the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. Prior to the update to the accounting standard, adjustments to provisional amounts were required to be made retrospectively, with a corresponding adjustment to goodwill. The changes required by this update must be applied prospectively to provisional amount adjustments that are recorded in annual periods beginning after the December 15, 2015 effective date; early application is permitted for financial statements that have not been issued. The significance of this guidance for the Company is dependent on acquisition activity.

Business Overview

We provide mortgage and real estate products and services through two reportable business segments—Mortgage Insurance and Services. On April 1, 2015, Radian Guaranty completed the previously disclosed sale to Assured of 100% of the issued and outstanding shares of Radian Asset Assurance, a financial guaranty insurer, pursuant to the Radian Asset Assurance Stock Purchase Agreement dated as of December 22, 2014. As a result, until the April 1, 2015 sale date, the operating results of Radian Asset Assurance are classified as discontinued operations for all periods presented in our condensed consolidated statements of operations. Prior periods have been revised to conform to the current period presentation for these changes. See Note 2 for additional information related to discontinued operations.

Mortgage Insurance

Our Mortgage Insurance segment provides credit-related insurance coverage, principally through private mortgage insurance, to mortgage lending institutions. We provide our mortgage insurance products mainly through our wholly-owned subsidiary, Radian Guaranty. Private mortgage insurance protects mortgage lenders from all or a portion of default-related losses on residential mortgage loans made to home buyers who generally make down payments of less than 20% of the home’s purchase price. Private mortgage insurance also facilitates the sale of these low-downpayment mortgage loans in the secondary mortgage market, most of which are sold to the GSEs. Our Mortgage Insurance segment currently offers primary mortgage insurance coverage on residential First-liens, and at September 30, 2015, primary insurance on First-liens comprised approximately 97.3% of our $45.6 billion total direct RIF. At September 30, 2015, pool insurance, which we previously offered, represented approximately 2.5% of our total direct RIF.

The GSEs and state insurance regulators impose various capital and financial requirements on our insurance subsidiaries. These include financial requirements, such as Risk-to-capital, other risk-based capital measures and surplus requirements, as well as the PMIERs Financial Requirements discussed below. Failure to comply with applicable financial requirements may limit the amount of insurance that our insurance subsidiaries may write. The GSEs and our state insurance regulators also possess significant discretion with respect to our insurance subsidiaries.

On April 17, 2015, the FHFA issued the final PMIERs, setting forth revised requirements for private mortgage insurers, including Radian Guaranty, to remain eligible insurers of loans purchased by the GSEs. The PMIERs

Financial Requirements require that a mortgage insurer's Available Assets meet or exceed its Minimum Required Assets. Under the final PMIERs, Radian Guaranty's Available Assets and Minimum Required Assets are determined on an aggregate basis, taking into account the assets and insured risk of Radian Guaranty and its affiliated reinsurers. Therefore, developments that impact the assets and insured risk of Radian Guaranty and its affiliated reinsurers individually (such as capital contributions from Radian Group) also will impact the aggregate Available Assets and Minimum Required Assets, and importantly, Radian Guaranty's compliance with the PMIERs Financial Requirements. As a result, references to Radian Guaranty's Available Assets and Minimum Required Assets take into consideration both Radian Guaranty and its affiliated reinsurers.

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

On June 30, 2015, the GSEs updated the PMIERs Financial Requirements to increase the amount of Available Assets that must be held by a private mortgage insurer for loans originated on or after January 1, 2016 that are insured under lender-paid mortgage insurance policies not subject to automatic termination under the HPA. Once the PMIERs become effective for existing eligible mortgage insurers on December 31, 2015, the PMIERs Financial Requirements will replace the capital adequacy standards under the current GSE eligibility requirements.
Based on our current estimates of Radian Guaranty's Available Assets and Minimum Required Assets as of December 31, 2015, we expect Radian Guaranty to be positioned to comply with the PMIERs Financial Requirements by utilizing a portion of our holding company liquidity. See Liquidity and Capital Resources—Radian Group—Short-Term Liquidity Needs for additional information.
The implementation of the final PMIERs (as updated on June 30, 2015) will: (1) increase the amount of capital that Radian Guaranty is required to hold, and therefore, reduce our current returns on subsidiary capital; (2) potentially impact the type and volume of business that Radian Guaranty and other private mortgage insurers are willing to write; (3) impose extensive and more stringent operational requirements in areas such as claim processing, loss mitigation, document retention, underwriting, quality control, reporting and monitoring, among others, that may result in additional costs to achieve and maintain compliance; and (4) require the consent of the GSEs for Radian Guaranty to take certain actions such as paying dividends, entering into various intercompany agreements, and commuting or reinsuring risk, among others.
The NAIC is in the process of reviewing the minimum capital and surplus requirements for mortgage insurers and is considering changes to the Model Act. While the outcome of this process is not known, it is possible that among other changes, the NAIC will recommend and adopt more stringent capital requirements than currently exist under the Model Act, which could increase the capital requirements for Radian Guaranty in states that adopt the new Model Act.
Services
Our Services segment provides outsourced services, information-based analytics and specialty consulting for buyers and sellers of, and investors in, mortgage loans and other real estate-related loans and securities as well as other forms of collateral. The primary services of our Services segment include: (1) loan review/due diligence; (2) surveillance; (3) valuation and component services; (4) REO management; and (5) EuroRisk mortgage services in the United Kingdom and Europe. These services and solutions are provided primarily through Clayton and its subsidiaries, including Green River Capital and Red Bell.
During the first quarter of 2015, Clayton expanded its service offerings by acquiring Red Bell, a real estate brokerage company that provides products and services that include automated valuation models; broker price opinions used by investors, lenders and loan servicers; and advanced technology solutions for: (1) monitoring loan portfolio performance; (2) tracking non-performing loans; (3) managing REO assets; and (4) valuing and selling residential real estate through a secure platform. Red Bell is part of the Services segment. See Note 6 for additional information.
2015 Developments
Debt and Equity Transactions
During the second quarter of 2015, Radian Group successfully completed a series of transactions to strengthen its capital position, including to reduce its overall cost of capital and to improve the maturity profile of its debt. This series of transactions had four components:
- the issuance of $350 million aggregate principal amount of Senior Notes due 2020;
- the purchases of approximately $389.1 million aggregate principal amount of Convertible Senior Notes due 2017;
- the termination of a corresponding portion of the capped call transactions related to the purchased Convertible Senior Notes due 2017; and
- the entry into an ASR program to repurchase an aggregate of $202 million of Radian Group common stock.

The purchases of Convertible Senior Notes due 2017 resulted in a pretax charge of approximately $91.9 million during the second quarter of 2015, recorded as loss on induced conversion and debt extinguishment.
See Notes 10 and 16 for additional information.

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

BofA Settlement Agreement
Implementation of the BofA Settlement Agreement commenced on February 1, 2015 for Subject Loans held in portfolio by the Insureds or purchased by the GSEs as of that date. Approximately 12% of the Subject Loans are neither held in portfolio by the Insureds nor owned by the GSEs, and required the consent of certain other investors for these loans to be included in the BofA Settlement Agreement. During the three months ended September 30, 2015, most of such other investors provided consent, and therefore, the associated implementation of the BofA Settlement Agreement has commenced with respect to these loans. Our previous reserve assumptions assumed that these consents would be obtained. See Note 10 of Notes to Consolidated Financial Statements in our 2014 Form 10-K for additional information about the BofA Settlement Agreement.

2. Discontinued Operations
On April 1, 2015, Radian Guaranty completed the sale of 100% of the issued and outstanding shares of Radian Asset Assurance for a purchase price of approximately $810 million, pursuant to the Radian Asset Assurance Stock Purchase Agreement. The divestiture was intended to better position Radian Guaranty to comply with the PMIERs and to support Radian's strategic focus on the mortgage and real estate industries. After closing costs and other adjustments, Radian Guaranty received net proceeds of $789 million. See Note 1 for additional information regarding the PMIERs.
Previously, Radian Asset Assurance comprised substantially all of the financial guaranty segment. Radian Asset Assurance provided direct insurance and reinsurance on credit-based risks. As a result, the assets and liabilities associated with the discontinued operations historically were a source of significant volatility to Radian's results of operations, due to various factors including fluctuations in fair value and credit risk.
Based upon the applicable terms of the Radian Asset Assurance Stock Purchase Agreement, we determined that Radian Asset Assurance met the criteria for held for sale and discontinued operations accounting at December 31, 2014. As a result, we recognized a pretax impairment charge of approximately $468 million for the year ended December 31, 2014 and an additional charge of $14.3 million through April 1, 2015, when the sale was completed. The operating results of Radian Asset Assurance are classified as discontinued operations for all periods presented in our condensed consolidated statements of operations. We recorded net income from discontinued operations of $5.4 million related to this sale in the first six months of 2015, consisting primarily of the recognition of investment gains previously deferred and recorded in accumulated other comprehensive income and recognized as a result of the completion of the sale of Radian Asset Assurance to Assured on April 1, 2015, as well as adjustments to estimated transaction costs and taxes. No general corporate overhead or interest expense was allocated to discontinued operations in 2015 or 2014.
In the tables below we have summarized the major components of the net income from discontinued operations, as well as the assets and liabilities held for sale.

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

The income from discontinued operations, net of tax, consisted of the following components for the periods indicated:

(In thousands)	Three Months Ended September 30, 2015 (1)	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Net premiums earned	$—	$9,329	$1,007	$26,700
Net investment income	—	9,035	9,153	27,020
Net (losses) gains on investments and other financial instruments	—	(563)	21,486	41,596
Change in fair value of derivative instruments	—	19,360	2,625	126,923
Other income	—	9	—	88
Total revenues	—	37,170	34,271	222,327
Provision for losses	—	(6,416)	502	4,311
Policy acquisition costs	—	1,794	(191)	5,066
Other operating expense	—	5,037	4,107	15,239
Total expenses	—	415	4,418	24,616
Equity in net loss of affiliates	—	—	(13)	(13)
Income from operations of businesses held for sale	—	36,755	29,840	197,698
Loss on sale	—	—	(14,280)	—
Income tax provision	—	15,196	10,175	48,064
Income from discontinued operations, net of tax	$—	$21,559	$5,385	$149,634

(1) There was no activity for discontinued operations in the three months ended September 30, 2015.

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

(In thousands)	September 30, 2015	December 31, 2014
Fixed-maturity investments	$—	$224,552
Equity securities	—	3,749
Trading securities	—	689,887
Short-term investments	—	435,413
Other invested assets	—	108,206
Other assets	—	274,637
Total assets held for sale	$—	$1,736,444
Unearned premiums	$—	$158,921
Reserve for losses and LAE	—	31,558
VIE debt	—	85,016
Derivative liabilities	—	183,370
Other liabilities	—	488,143
Total liabilities held for sale	$—	$947,008

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

3. Segment Reporting
We currently have two strategic business units that we manage separately—Mortgage Insurance and, effective with the June 30, 2014 acquisition of Clayton, our Services segment. Adjusted pretax operating income for each segment represents segment results on a standalone basis; therefore, inter-segment eliminations and reclassifications required for consolidated GAAP presentation have not been reflected. The operating results of Radian Asset Assurance are classified as discontinued operations for all periods presented in our condensed consolidated statements of operations. Previously, Radian Asset Assurance had represented substantially all of the financial guaranty segment; therefore, we no longer report a financial guaranty business segment. Certain corporate income and expenses that were previously allocated to the financial guaranty segment but were not reclassified to discontinued operations, such as corporate investment income, interest expense and corporate overhead expenses, have been reallocated to the Mortgage Insurance segment. Prior periods have been revised to conform to the current period presentation for these changes. See Note 2 for additional information related to discontinued operations.
We allocate to our Mortgage Insurance segment: (i) corporate expenses based on an allocated percentage of time spent on the Mortgage Insurance segment; (ii) all interest expense except for interest expense related to the Senior Notes due 2019 that were issued to fund our purchase of Clayton; (iii) for periods prior to the April 1, 2015 sale of Radian Asset Assurance, corporate income and expenses that were previously allocated to our financial guaranty segment and were not allocated to discontinued operations; and (iv) 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) as noted above, all interest expense related to the Senior Notes due 2019. No corporate cash or investments are allocated to the Services segment. We have included Clayton's results of operations from the June 30, 2014 date of acquisition. Inter-segment activities are recorded at market rates for segment reporting and eliminated in consolidation.
Effective with the fourth quarter of 2014, our Services segment undertook the management responsibilities of certain additional loan servicer surveillance functions that were previously considered part of our Mortgage Insurance segment. As a result, these services and activities are now reported in our Services segment for all periods presented.
Adjusted Pretax Operating Income (Loss)
Our senior management, including our Chief Executive Officer (our chief operating decision maker), uses adjusted pretax operating income (loss) as our primary measure to evaluate the fundamental financial performance of each of Radian's business segments and to allocate resources to the segments. Adjusted pretax operating income (loss) is defined as pretax income (loss) from continuing operations excluding the effects of: net gains (losses) on investments and other financial instruments; loss on induced conversion and debt extinguishment; acquisition-related expenses; amortization and impairment of intangible assets; and net impairment losses recognized in earnings.
Although adjusted pretax operating income (loss) excludes certain items that have occurred in the past and are expected to occur in the future, the excluded items represent those that are: (1) not viewed as part of the operating performance of our primary activities; or (2) not expected to result in an economic impact equal to the amount reflected in pretax income (loss) from continuing operations. These adjustments, along with the reasons for their treatment, are described below.

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

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

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

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

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

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

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

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2015	2014	2015	2014
Mortgage Insurance				
Net premiums written—insurance	$242,168	$245,775	$735,158	$680,675
Increase in unearned premiums	(14,735)	(27,948)	(45,693)	(60,440)
Net premiums earned—insurance	227,433	217,827	689,465	620,235
Net investment income (1)	22,091	17,143	58,704	49,124
Other income (1)	1,711	1,037	4,785	3,653
Total	251,235	236,007	752,954	673,012
Provision for losses	64,128	48,942	141,616	163,216
Change in expected economic loss or recovery for consolidated VIEs	—	(190)	—	129
Policy acquisition costs	2,880	4,240	17,593	18,003
Other operating expenses before corporate allocations	36,632	33,679	112,535	107,799
Total (2)	103,640	86,671	271,744	289,147
Adjusted pretax operating income before corporate allocations	147,595	149,336	481,210	383,865
Allocation of corporate operating expenses (1)	14,893	8,520	37,167	41,425
Allocation of interest expense (1)	16,797	19,565	56,820	61,840
Adjusted pretax operating income	$115,905	$121,251	$387,223	$280,600

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

	Three Months Ended September 30,	Nine Months Ended September 30,	
(In thousands)	2014	2015	2014
Net investment income	$1,239	$882	$3,928
Other income	32	26	214
Allocation of corporate operating expenses	1,626	2,074	10,187
Allocation of interest expense	11,629	9,918	42,127

(2) Includes inter-segment expenses as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2015	2014	2015	2014
Inter-segment expenses	$925	$—	$2,919	$—

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2015	2014	2015	2014
Services				
Services revenue	$43,114	$42,243	$119,241	$42,243
Other income	—	125	—	374
Total (1)	43,114	42,368	119,241	42,617
Direct cost of services	25,870	23,896	70,624	23,896
Other operating expenses before corporate allocations	11,533	9,054	31,912	10,555
Total	37,403	32,950	102,536	34,451
Adjusted pretax operating income before corporate allocations	5,711	9,418	16,705	8,166
Allocation of corporate operating expenses	1,567	404	3,855	404
Allocation of interest expense	4,423	4,424	13,286	4,424
Adjusted pretax operating (loss) income	$(279)	$4,590	$(436)	$3,338

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(1) Includes inter-segment revenues as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2015	2014	2015	2014
Inter-segment revenues	$925	$—	$2,919	$—

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

	At September 30, 2015		
(In thousands)	Mortgage Insurance	Services	Total
Total assets	$5,408,200	$352,716	$5,760,916

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

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

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2015	2014	2015	2014
Adjusted pretax operating income (loss):				
Mortgage Insurance (1) (2)	$115,905	$121,251	$387,223	$280,600
Services (2)	(279)	4,590	(436)	3,338
Total adjusted pretax operating income	115,626	125,841	386,787	283,938
Net gains (losses) on investments and other financial instruments (3)	3,868	(6,484)	49,095	62,135
Loss on induced conversion and debt extinguishment	(11)	—	(91,887)	—
Acquisition-related expenses	(525)	432	(1,299)	(6,300)
Amortization and impairment of intangible assets	(3,273)	(3,294)	(9,577)	(3,294)
Consolidated pretax income from continuing operations	$115,685	$116,495	$333,119	$336,479

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

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

(3) The change in expected economic loss or recovery associated with our previously owned VIEs is included in adjusted pretax operating income above, although it represents amounts that are not included in net income. Therefore, for purposes of this reconciliation, net gains (losses) on investments and other financial instruments has been adjusted by income of $0.2 million and a loss of $0.1 million for the three and nine months ended September 30, 2014, respectively, to reverse this item.

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

4. Fair Value of Financial Instruments

Available for sale securities, trading securities and certain other assets are recorded at fair value. All changes in the fair value of trading securities and certain other assets are included in our condensed consolidated statements of operations. All changes in the fair value of available for sale securities are recorded in AOCI. There were no significant changes to our fair value methodologies during the nine months ended September 30, 2015.

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

In accordance with GAAP, we established a three-level valuation hierarchy for disclosure of fair value measurements based on the transparency of inputs to the valuation of an asset or liability as of the measurement date. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level I measurements) and the lowest priority to unobservable inputs (Level III measurements). The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the measurement in its entirety. The three levels of the fair value hierarchy are defined below:

Level I — Unadjusted quoted prices for identical assets or liabilities in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level II — Prices or valuations based on observable inputs other than quoted prices in active markets for identical assets and liabilities; and

Level III — Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable. Level III inputs are used to measure fair value only to the extent that observable inputs are not available.

The level of market activity used to determine the fair value hierarchy is based on the availability of observable inputs market participants would use to price an asset or a liability, including market value price observations. We provide a qualitative description of the valuation techniques and inputs used for Level II recurring and non-recurring fair value measurements in our audited annual financial statements as of December 31, 2014. For a complete understanding of those valuation techniques and inputs used as of September 30, 2015, these unaudited condensed consolidated financial statements should be read in conjunction with the audited annual financial statements and notes thereto included in our 2014 Form 10-K.

The following is a list of those assets that are measured at fair value by hierarchy level as of September 30, 2015:

(In millions)	Level I	Level II	Level III	Total
Assets at Fair Value				
Investment Portfolio:				
U.S. government and agency securities	$729.1	$—	$—	$729.1
State and municipal obligations	—	332.5	—	332.5
Money market instruments	819.7	—	—	819.7
Corporate bonds and notes	—	1,287.7	—	1,287.7
RMBS	—	285.6	—	285.6
CMBS	—	462.4	—	462.4
Other ABS	—	354.3	—	354.3
Foreign government and agency securities	—	35.7	—	35.7
Equity securities	19.0	45.5	0.5	65.0
Other investments (1)	—	1.0	—	1.0
Total Investments at Fair Value (2)	1,567.8	2,804.7	0.5	4,373.0
Total Assets at Fair Value	$1,567.8	$2,804.7	$0.5	$4,373.0

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(1) Comprising short-term certificates of deposit.

(2) Does not include certain other invested assets ($3.8 million), primarily invested in limited partnerships, accounted for as cost-method investments and not measured at fair value.

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

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

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

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

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

At December 31, 2014, there were no Level III assets other than those classified as assets held for sale, and total Level III liabilities of $3.8 million accounted for 100% of total liabilities measured at fair value.
There were no transfers between Level I and Level II for the three and nine months ended September 30, 2015 or 2014. There were also no transfers involving Level III assets or liabilities for the three and nine months ended September 30, 2015. For the three and nine months ended September 30, 2014, all of our other ABS securities were transferred from Level III to Level II, as third-party pricing became available.
Other Fair Value Disclosure
The carrying value and estimated fair value of other selected assets and liabilities not carried at fair value on our condensed consolidated balance sheets were as follows as of the dates indicated:

(In millions)	September 30, 2015 Carrying Amount	Estimated Fair Value		December 31, 2014 Carrying Amount	Estimated Fair Value	
Assets:						
Other invested assets	$3.8	$7.6	(1)	$14.6	$20.5	(1)
Liabilities:						
Long-term debt	1,230.2	1,558.7	(1)	1,192.3	1,859.3	(1)

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

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

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

	September 30, 2015			
(In thousands)	Amortized Cost	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
Fixed-maturities available for sale:				
U.S. government and agency securities	$5,764	$5,793	$29	$—
State and municipal obligations	17,581	18,576	995	—
Corporate bonds and notes	614,635	606,260	3,753	12,128
RMBS	208,011	209,028	1,377	360
CMBS	307,216	305,700	1,533	3,049
Other ABS	330,986	328,746	1,088	3,328
Foreign government and agency securities	23,329	22,225	102	1,206
	1,507,522	1,496,328	8,877	20,071
Equity securities available for sale	573	985	412	—
Total debt and equity securities	$1,508,095	$1,497,313	$9,289	$20,071

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

(1) Comprising broadly diversified domestic equity mutual funds ($143.0 million fair value) and a preferred stock investment in Freddie Mac ($0.4 million fair value).

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

The trading securities within our investment portfolio, which are recorded at fair value, consisted of the following as of the dates indicated:

(In thousands)	September 30, 2015	December 31, 2014
Trading securities:		
U.S. government and agency securities	$131,956	$134,530
State and municipal obligations	313,884	343,926
Corporate bonds and notes	632,681	708,361
RMBS	76,536	89,810
CMBS	156,697	188,615
Other ABS	25,559	77,755
Foreign government and agency securities	13,449	18,331
Equity securities	63,995	72,256
Total	$1,414,757	$1,633,584

For trading securities held at September 30, 2015 and December 31, 2014, we had net unrealized losses during the nine months ended September 30, 2015 and net unrealized gains during the year ended December 31, 2014 associated with those securities of $12.7 million and $65.7 million, respectively.

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2015	2014	2015	2014
Net realized gains (losses):				
Fixed-maturities held to maturity	$—	$—	$—	$(9)
Fixed-maturities available for sale	(343)	(540)	(402)	(1,139)
Equities available for sale	—	—	68,723	—
Trading securities	(1)	(52)	(12,860)	(4,444)
Short-term investments	(27)	—	(23)	—
Other invested assets	2,794	—	2,794	—
Other gains	—	291	106	238
Net realized gains (losses) on investments	2,423	(301)	58,338	(5,354)
Unrealized gains (losses) on trading securities	1,810	(6,007)	(9,127)	70,565
Total net gains (losses) on investments	4,233	(6,308)	49,211	65,211
Net (losses) gains on other financial instruments	(365)	14	(116)	(3,205)
Net gains (losses) on investments and other financial instruments	$3,868	$(6,294)	$49,095	$62,006

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

The following tables show the gross unrealized losses and fair value of our securities deemed “available for sale” aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of the dates indicated:

September 30, 2015: ($ in thousands)	Less Than 12 Months			12 Months or Greater			Total		
Description of Securities	# of securities	Fair Value	Unrealized Losses	# of securities	Fair Value	Unrealized Losses	# of securities	Fair Value	Unrealized Losses
Corporate bonds and notes	77	$307,644	$11,689	6	$8,716	$439	83	$316,360	$12,128
RMBS	6	70,121	360	—	—	—	6	70,121	360
CMBS	30	179,673	3,049	—	—	—	30	179,673	3,049
Other ABS	62	205,452	2,038	13	42,127	1,290	75	247,579	3,328
Foreign government and agency securities	14	14,394	971	4	1,536	235	18	15,930	1,206
Total	189	$777,284	$18,107	23	$52,379	$1,964	212	$829,663	$20,071

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

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

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

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

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

	September 30, 2015	
	Available for Sale	
(In thousands)	Amortized Cost	Fair Value
Due in one year or less (1)	$ 2,292	$ 2,299
Due after one year through five years (1)	104,053	104,854
Due after five years through ten years (1)	368,126	363,447
Due after ten years (1)	186,838	182,254
RMBS (2)	208,011	209,028
CMBS (2)	307,216	305,700
Other ABS (2)	330,986	328,746
Total	$ 1,507,522	$ 1,496,328

(1) Actual maturities may differ as a result of calls before scheduled maturity.
(2) RMBS, CMBS and Other ABS are shown separately, as they are not due at a single maturity date.

At September 30, 2015 and December 31, 2014, Radian Guaranty had $210.9 million and $209.3 million, respectively, in a collateral account pursuant to the Freddie Mac Agreement. This collateral account, which contains investments primarily invested in trading securities, is pledged to cover Loss Mitigation Activity on the loans subject to the Freddie Mac Agreement. Subject to certain conditions in the Freddie Mac Agreement, amounts in the collateral account may be released to Radian Guaranty over time to the extent that Loss Mitigation Activity becomes final in accordance with the terms of that agreement. In accordance with these provisions, Radian withdrew approximately $135.9 million from this account in October 2015 related to Loss Mitigation Activity that had become final as of August 31, 2015. Following this withdrawal, if, as of August 29, 2017, the amount of additional Loss Mitigation Activity that has become final in accordance with the Freddie Mac Agreement is less than approximately $74 million, then any shortfall will be paid on that date to Freddie Mac from the funds remaining in the collateral account, subject to certain adjustments designed to allow for any Loss Mitigation Activity that has not become final or any claims evaluation that has not been completed as of that date. Through September 30, 2015, approximately $1 million of additional Loss Mitigation Activity had become final in accordance with the Freddie Mac Agreement and approximately $11 million of additional submitted claims had been rescinded, denied, curtailed or cancelled, but were not yet considered final in accordance with the Freddie Mac Agreement.

6. Goodwill and Other Intangible Assets, Net

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

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

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

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

	As of September 30, 2015		
(In thousands)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Client relationships	$83,033	$(8,983)	$74,050
Technology	10,940	(2,284)	8,656
Trademark	8,300	(1,023)	7,277
Client backlog	6,680	(3,739)	2,941
Non-competition agreements	185	(95)	90
Total	$109,138	$(16,124)	$93,014

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

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

2015	$3,273
2016	12,555
2017	11,913
2018	11,281
2019	10,046
2020	8,494
Thereafter	35,452

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

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2015	2014	2015	2014
Net premiums written-insurance:				
Direct	$253,262	$262,826	$766,708	$730,685
Assumed	7	(219)	62	(668)
Ceded	(11,101)	(16,832)	(31,612)	(49,342)
Net premiums written-insurance	$242,168	$245,775	$735,158	$680,675
Net premiums earned-insurance:				
Direct	$242,260	$235,406	$734,221	$672,453
Assumed	10	11	33	35
Ceded	(14,837)	(17,590)	(44,789)	(52,253)
Net premiums earned-insurance	$227,433	$217,827	$689,465	$620,235

In 2012, Radian Guaranty entered into two separate QSR agreements with a third-party reinsurance provider. As of September 30, 2015, RIF ceded under the Initial QSR Transaction and the Second QSR Transaction was approximately $0.9 billion and $1.4 billion, respectively.

The Second QSR Transaction provides that, effective December 31, 2015, Radian Guaranty will have the ability, at its option, to recapture half of the reinsurance ceded with respect to conventional GSE loans, which would result in Radian Guaranty reassuming the related RIF in exchange for an expected payment of a profit commission amount from the reinsurer. Our results for the three and nine months ended September 30, 2015 include accruals of $0.7 million and $6.5 million, respectively, for this expected profit commission, based on experience to date for the Second QSR Transaction and our current expectation to exercise our option to recapture half of the ceded RIF on December 31, 2015.

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

	Initial QSR Transaction			
	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2015	2014	2015	2014
Ceded premiums written	$3,437	$4,668	$11,326	$15,018
Ceded premiums earned	5,068	6,578	17,510	20,188
Ceding commissions written	745	1,166	2,453	3,754

	Second QSR Transaction			
	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2015	2014	2015	2014
Ceded premiums written	$5,029	$9,082	$11,953	$24,447
Ceded premiums earned	7,135	7,699	18,942	21,481
Ceding commissions written	1,998	3,179	6,437	8,557

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

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

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

(In thousands)	September 30, 2015	December 31, 2014
Deposit with the IRS (Note 12)	$88,557	$88,557
Corporate-owned life insurance	82,598	80,755
Prepaid reinsurance premiums	44,091	57,291
Property and equipment (1)	42,179	27,248
Accrued investment income	22,262	20,022
Deferred policy acquisition costs	13,431	12,003
Reinsurance recoverables	12,025	28,119
Other	44,514	43,869
Total other assets	$349,657	$357,864

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(1) Property and equipment, at cost less accumulated depreciation of $105.1 million and $100.2 million at September 30, 2015 and December 31, 2014, respectively.

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

(In thousands)	September 30, 2015	December 31, 2014
Reserve for losses by category:		
Prime	$519,572	$700,174
Alt-A	234,772	292,293
A minus and below	137,441	179,103
IBNR and other	107,179	223,114
LAE	41,464	56,164
Reinsurance recoverable (1)	11,071	26,665
Total primary reserve	1,051,499	1,477,513
Pool	43,234	75,785
IBNR and other	949	1,775
LAE	1,983	3,542
Total pool reserve	46,166	81,102
Total First-lien reserve	1,097,665	1,558,615
Second-lien and other (2)	905	1,417
Total reserve for losses	$1,098,570	$1,560,032

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

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The following table presents information relating to our reserve for losses, including our IBNR reserve and LAE but excluding Second-lien PDR, for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2015	2014	2015	2014
Balance at beginning of period	$1,204,792	$1,714,681	$1,560,032	$2,164,353
Less reinsurance recoverables (1)	11,677	22,458	26,665	38,363
Balance at beginning of period, net of reinsurance recoverables	1,193,115	1,692,223	1,533,367	2,125,990
Add losses and LAE incurred in respect of default notices reported and unreported in:				
Current year (2) (3)	50,436	72,408	184,490	256,729
Prior years (3)	13,037	(23,851)	(42,158)	(94,747)
Total incurred	63,473	48,557	142,332	161,982
Deduct paid claims and LAE related to:				
Current year (2)	2,841	4,784	3,417	5,587
Prior years	166,248	169,066	584,783	715,455
Total paid	169,089	173,850	588,200	721,042
Balance at end of period, net of reinsurance recoverables	1,087,499	1,566,930	1,087,499	1,566,930
Add reinsurance recoverables (1)	11,071	21,201	11,071	21,201
Balance at end of period	$1,098,570	$1,588,131	$1,098,570	$1,588,131

(1) Related to ceded losses on captive reinsurance transactions and the QSR Transactions. See Note 7 for additional information.

(2) Related to underlying defaulted loans with a most recent default notice dated in the year indicated. For example, if a loan had defaulted in a prior year, but then subsequently cured and later re-defaulted in the current year, that default would be considered a current year default.

(3) Amounts previously reported for losses and LAE incurred in respect of default notices reported and unreported in current year and prior years have been reclassified to correct an error. There was no net change to total incurred losses in any period as a result of these reclassifications. For the three and nine months ended September 30, 2014, the amounts previously reported for losses and LAE incurred in respect of default notices reported and unreported in current year have been revised downward by approximately $34.5 million and $82.8 million, respectively, with an equal and offsetting adjustment to the amount previously reported for default notices reported and unreported in prior years. For the years ended December 31, 2014, 2013 and 2012, the amounts previously reported related to losses and LAE incurred from current year default notices should have been lower by approximately $71.8 million, $65.0 million and $75.7 million, respectively, with equal and offsetting adjustments to the incurred loss amounts related to prior years' default notices.

Our loss reserve declined for the three and nine months ended September 30, 2015, primarily as a result of the aggregate amount of paid claims, Cures, Rescissions and Claim Denials exceeding the loss reserves established for new default notices received. Reserves established for new default notices were the primary driver of our total incurred loss for the first nine months of 2015. For the nine months ended September 30, 2015, the impact to incurred losses from default notices reported in 2015 was partially mitigated by favorable reserve development on prior year defaults, which was driven primarily by a reduction in certain Default to Claim Rate assumptions based on observed trends of higher Cures than were previously estimated. During the first nine months of 2014, we experienced similar favorable reserve development in our estimates of future losses related to incurred losses as a result of higher Cures and lower Claim Severity rates than had previously been estimated. The overall favorable reserve development in 2015 was partially offset by adverse reserve development on prior year defaults for the three months ended September

30, 2015, which was primarily affected by a decrease in our assumption for future rescissions and denials. Our results for the nine months ended September 30, 2015 also include the impact of the BofA Settlement Agreement, as described below.

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

Total paid claims decreased for the three months ended September 30, 2015 compared to the same period in 2014, primarily due to the overall decline in defaulted loans and the ongoing reduction in pending claims. Claims paid for the nine months ended September 30, 2015 include $236.6 million related to the implementation of the BofA Settlement Agreement.

Our aggregate weighted average Default to Claim Rate assumption (net of Claim Denials and Rescissions) used in estimating our primary reserve for losses declined to 49% (45% excluding pending claims) at September 30, 2015, compared to 52% at December 31, 2014. The change in our Default to Claim Rate resulted primarily from a decrease in the proportion of pending claims, which have higher Default to Claim Rates, and a decrease in the assumed Default to Claim Rate for new defaults, as described below. We develop our Default to Claim Rate estimates on defaulted loans based on models that use a variety of loan characteristics to determine the likelihood that a default will reach claim status. Our Default to Claim Rate estimates on defaulted loans are mainly developed based on the Stage of Default and Time in Default of the underlying defaulted loans, as measured by the progress toward foreclosure sale and the number of months in default. During the nine months ended September 30, 2015, we reduced our gross Default to Claim Rate assumption for new primary defaults from 16% to 14% due to continued improvement in actual claim development trends. As of September 30, 2015, our gross Default to Claim Rates on our primary portfolio ranged from 14% for new defaults, up to approximately 65% for certain defaults not in Foreclosure Stage, and 81% for Foreclosure Stage Defaults. Our estimate of expected Rescissions and Claim Denials (net of expected Reinstatements) embedded in our Default to Claim Rate is generally based on our recent experience; as of September 30, 2015, we refined this assumption to give more weight to our experience in the most recent nine months. Consideration is also given for differences in characteristics between those rescinded policies and denied claims and the loans remaining in our defaulted inventory, as well as the estimated impact of the BofA Settlement Agreement.

The implementation of the BofA Settlement Agreement resulted in Reinstatements exceeding Rescissions and Claim Denials for First-lien claims during the three and nine months ended September 30, 2015. Reinstatements, net of Rescissions and Claim Denials, for primary loans (excluding loans subject to the Freddie Mac Agreement) totaled $2.9 million for the three months ended September 30, 2015 and $57.7 million for the nine months ended September 30, 2015. Rescissions and Claim Denials, net of Reinstatements totaled $53.5 million for the three months ended September 30, 2014 and $93.3 million for the nine months ended September 30, 2014.

Although our estimates of future Rescissions and Claim Denials have been declining, they remain elevated compared to levels experienced before 2009. The elevated levels of our rate of Rescissions and Claim Denials have reduced our paid losses and have resulted in a reduction in our loss reserve. Our estimate of net future Rescissions and Claim Denials reduced our loss reserve as of September 30, 2015 and December 31, 2014 by approximately $87 million and $125 million, respectively. The amount of estimated Rescissions and Claim Denials incorporated into our reserve analysis at any point in time is affected by a number of factors, including not only our estimated rate of Rescissions and Claim Denials on future claims, but also the volume and attributes of our defaulted insured loans, our estimated Default to Claim Rate and our estimated Claim Severity, among other assumptions. As of September 30, 2015, these assumptions also reflect the estimated impact of the BofA Settlement Agreement, as further discussed below.

As our Legacy Portfolio has become a smaller percentage of our overall insured portfolio, we have undertaken a reduced 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 paid losses to the same extent as in recent years.

Our reported Rescission and Claim Denial activity in any given period is subject to challenge by our lender and servicer customers. We expect that a portion of previous Rescissions will be reinstated and previous Claim Denials will be resubmitted with the required documentation and ultimately paid; therefore, we have incorporated this expectation into our IBNR reserve estimate. Our IBNR reserve estimate was $50.4 million and $163.6 million at September 30, 2015 and December 31, 2014, respectively. As of September 30, 2015, the IBNR reserve estimate of $50.4 million included approximately $29.1 million for loans subject to the BofA Settlement Agreement. This amount compares to approximately $133.0 million in IBNR reserves for loans subject to the BofA Settlement Agreement as of

December 31, 2014. The significant decrease in our IBNR reserve estimate at September 30, 2015 as compared to December 31, 2014, reflects the implementation of the BofA Settlement Agreement that commenced on February 1, 2015, including the reinstatement and payment during the period of certain previous Rescissions and Claim Denials. The remaining IBNR reserve estimate as of September 30, 2015 included an estimate of future Reinstatements of previous Claim Denials, Rescissions and Claim Curtailments of $11.8 million, $0.3 million, and $1.8 million, respectively. These reserves relate to approximately $50.6 million of claims that were denied within the preceding 12 months, approximately $52.1 million of policies rescinded within the preceding 24 months, and approximately $25.7 million of Claim Curtailments within the preceding 24 months.

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We also accrue for the premiums that we expect to refund to our lender customers in connection with our estimated Rescission activity. Our accrued liability for such refunds, which is included within other liabilities on our condensed consolidated balance sheets, was $3.2 million and $9.0 million as of September 30, 2015 and December 31, 2014, respectively.

BofA Settlement Agreement

On September 16, 2014, Radian Guaranty entered into a Confidential Settlement Agreement and Release (the “BofA Settlement Agreement”) with Countrywide Home Loans, Inc. and Bank of America, N.A. (together, the “Insureds”), as a successor to BofA Home Loan Servicing f/k/a Countrywide Home Loans Servicing LP, in order to resolve various actual and potential claims or disputes related to the parties’ respective rights and duties as to mortgage insurance coverage on certain Subject Loans.

Implementation of the BofA Settlement Agreement commenced on February 1, 2015 for Subject Loans held in portfolio by the Insureds or purchased by the GSEs as of that date. Approximately 12% of the Subject Loans are neither held in portfolio by the Insureds nor owned by the GSEs, and required the consent of certain other investors for these loans to be included in the BofA Settlement Agreement. During the three months ended September 30, 2015, most of such other investors provided consent, and therefore, the associated implementation of the BofA Settlement Agreement has commenced with respect to these loans. Our previous reserve assumptions assumed that these consents would be obtained. See Note 10 of Notes to Consolidated Financial Statements in our 2014 Form 10-K for additional information about the BofA Settlement Agreement.

10. Long-Term Debt

As described in Note 1, as of June 30, 2015, we early adopted the accounting update related to the presentation of debt issuance costs in financial statements. We believe that presenting long-term debt net of debt issuance costs is preferable as it is consistent with our presentation of debt discounts and premiums. The change in accounting principle has been applied retrospectively to prior periods. As a result, a reclassification of approximately $17.6 million of remaining debt issuance costs was made on our December 31, 2014 consolidated balance sheet, resulting in a reduction in other assets and a reduction in long-term debt; there was no impact on our results of operations or retained earnings.

The following illustrates the impact of the reclassification:

		December 31, 2014		
(In thousands)		As Previously Reported	Adjustment	As Adjusted
9.000%	Senior Notes due 2017	$192,605	$(2,360)	$190,245
3.000%	Convertible Senior Notes due 2017	375,310	(3,974)	371,336
2.250%	Convertible Senior Notes due 2019	342,011	(5,878)	336,133
5.500%	Senior Notes due 2019	300,000	(5,415)	294,585
	Total long-term debt	$1,209,926	$(17,627)	$1,192,299

The carrying value of our long-term debt at September 30, 2015 and December 31, 2014 was as follows:

(In thousands)		September 30, 2015	December 31, 2014
9.000%	Senior Notes due 2017	$191,752	$190,245
3.000%	Convertible Senior Notes due 2017	52,754	371,336
2.250%	Convertible Senior Notes due 2019	346,443	336,133
5.500%	Senior Notes due 2019	295,472	294,585
5.250%	Senior Notes due 2020	343,825	—
	Total long-term debt	$1,230,246	$1,192,299

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Senior Notes due 2020
In June 2015, we issued $350 million aggregate principal amount of Senior Notes due 2020 and received net proceeds of approximately $343.5 million. These notes mature on June 15, 2020 and bear interest at a rate of 5.250% per annum, payable semi-annually on June 15 and December 15 of each year, commencing on December 15, 2015. We have the option to redeem these notes, in whole or in part, at any time or from time to time prior to maturity at a redemption price equal to the greater of: (i) 100% of the aggregate principal amount of the notes to be redeemed; or (ii) the make-whole amount, which is the present value of the notes discounted at the applicable treasury rate plus 50 basis points, plus, in each case, accrued interest thereon to the redemption date.
The Senior Notes due 2020 have covenants customary for securities of this nature, including covenants related to the payments of the notes, reports, compliance certificates and modification of the covenants. Additionally, the indenture governing the Senior Notes due 2020 includes covenants restricting us from encumbering the capital stock of a designated subsidiary (as defined in the indenture for the notes) or disposing of any capital stock of any designated subsidiary unless either all of the stock is disposed of or we retain more than 80% of the stock.
Convertible Senior Notes due 2017 and 2019
Following the pricing of our Senior Notes due 2020, in June 2015, we entered into privately negotiated agreements with certain holders of our Convertible Senior Notes due 2017 to purchase an aggregate principal amount of $389.1 million of our outstanding Convertible Senior Notes due 2017 for a combination of cash and shares of Radian Group common stock. We funded the purchases with $126.8 million in cash (plus accrued and unpaid interest due on the purchased notes) and by issuing to the sellers approximately 28.4 million shares of Radian Group common stock. Our purchases of Convertible Senior Notes due 2017 resulted in a pretax charge of approximately $91.9 million related to these transactions. This charge represents:

- the $35.5 million market premium representing the consideration paid to the sellers of the Convertible Senior Notes due 2017 in excess of the conversion value of the purchased Convertible Senior Notes due 2017;
- the $52.3 million difference between the fair value and the carrying value of the liability component of the purchased Convertible Senior Notes due 2017; and
- the $4.1 million net impact of transaction costs and unamortized debt issuance costs on the purchased Convertible Senior Notes due 2017.

In connection with our June 2015 purchases of Convertible Senior Notes due 2017, we terminated a corresponding portion of the capped call transactions we had entered into in 2010 related to the initial issuance of the Convertible Senior Notes due 2017. As a result of this termination, we received total consideration of approximately $54.9 million, consisting of 2.3 million shares of Radian Group common stock and $12.0 million in cash. In accordance with the accounting standards regarding equity and contracts in an entity’s own equity, the total consideration received was recorded as an increase to additional paid-in capital. The shares of Radian Group common stock received were retired, resulting in a decrease in shares issued and outstanding and a corresponding increase in unissued shares.
During the three-month period ended September 30, 2015, our closing stock price exceeded the thresholds required for the holders of our Convertible Senior Notes due 2017 and our Convertible Senior Notes due 2019 to be able to exercise their conversion rights during the three-month period ending December 31, 2015. In any period when holders of the Convertible Senior Notes due 2017 are eligible to exercise their conversion option, the equity component related to these instruments is classified as mezzanine (temporary) equity, because we are required to settle the aggregate principal amount of the notes in cash. If in any future period the conversion threshold requirements of our Convertible Senior Notes due 2017 are not met, then the difference between (1) the amount of cash deliverable upon conversion (i.e., par value of debt) and (2) the carrying value of the debt component will be reclassified from mezzanine equity to permanent equity, and will continue to be reported as permanent equity for any period in which the debt is not currently convertible. Our conversion obligation for the Convertible Senior Notes due 2019 may be satisfied by paying or delivering, as the case may be, cash, shares of Radian Group common stock or a combination of cash and shares of Radian Group common stock, at our election.

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Issuance and transaction costs incurred at the time of the issuance of the convertible notes are allocated to the liability and equity components in proportion to the allocation of proceeds and are accounted for as debt issuance costs and equity issuance costs, respectively. The convertible notes are reflected on our condensed consolidated balance sheets as follows:

(In thousands)	Convertible Senior Notes due 2017 September 30, 2015	Convertible Senior Notes due 2017 December 31, 2014	Convertible Senior Notes due 2019 September 30, 2015	Convertible Senior Notes due 2019 December 31, 2014
Liability component:				
Principal	$60,899	$450,000	$399,992	$400,000
Debt discount, net (1)	(7,737)	(74,690)	(48,647)	(57,989)
Debt issuance costs (1)	(408)	(3,974)	(4,902)	(5,878)
Net carrying amount	$52,754	$371,336	$346,443	$336,133
Equity component of currently redeemable convertible senior notes	$7,737	$74,690	$—	$—

(1) Included within long-term debt and is being amortized over the life of the convertible notes.

The following tables set forth total interest expense recognized related to the convertible notes for the periods indicated:

	Convertible Senior Notes due 2017			
	Three Months Ended September 30,		Nine Months Ended September 30,	
($ in thousands)	2015	2014	2015	2014
Contractual interest expense	$456	$3,375	$6,953	$10,125
Amortization of debt issuance costs	43	308	659	912
Amortization of debt discount	808	5,441	11,910	15,939
Total interest expense	$1,307	$9,124	$19,522	$26,976

	Convertible Senior Notes due 2019			
	Three Months Ended September 30,		Nine Months Ended September 30,	
($ in thousands)	2015	2014	2015	2014
Contractual interest expense	$2,250	$2,250	$6,750	$6,750
Amortization of debt issuance costs	317	322	975	957
Amortization of debt discount	3,146	2,980	9,342	8,803
Total interest expense	$5,713	$5,552	$17,067	$16,510

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11. Accumulated Other Comprehensive (Loss) Income

The following table shows the rollforward of AOCI as of the periods indicated. During the nine months ended September 30, 2015, we sold equity securities in our portfolio and reinvested the proceeds in assets that qualify as PMIERs-compliant Available Assets, recognizing pretax gains of $68.7 million.

	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2015
(In thousands)		