

Radian Group Inc.
Notes to Consolidated Financial Statements - (Continued)

Business Conditions

As a seller of credit protection, our results are subject to macroeconomic conditions and specific events that impact the origination environment and the credit performance of our underlying insured assets. The most recent downturn in the housing and related credit markets began in 2007 and had a significant negative impact on the operating environment and results of operations for each of our businesses. This period was characterized by a decrease in mortgage originations, a broad decline in home prices, mortgage servicing and foreclosure delays, and ongoing deterioration in the credit performance of mortgage and other assets originated prior to 2009 together with macroeconomic factors such as limited economic growth and a lack of meaningful liquidity in some sectors of the capital markets. Our results of operations continue to be negatively impacted by the mortgage insurance we wrote during the poor underwriting years of 2005 through 2008 (we refer to this portfolio as our “legacy portfolio”).

In 2012, the operating environment for our businesses improved. Although the housing market remains weak compared to historical standards, home prices appear to be appreciating on a broad basis throughout the United States (“U.S.”), foreclosure activity has decreased and the credit quality of overall mortgage market originations continues to be significantly better than the credit quality of our legacy portfolio. In addition, there are signs of a more permanent recovery in the U.S. economy, including importantly, a reduction in unemployment. As a consequence of these and other factors, in 2012 we experienced improvement in our results of operations, with a 22% decline in new mortgage insurance defaults in 2012 and further stabilization of credit performance in our financial guaranty portfolio. Although uncertainty remains with respect to the ultimate losses we will experience in our legacy portfolio, as we continue to write new, higher quality mortgage insurance, our legacy portfolio progressively becomes a lesser percentage of our total portfolio. We anticipate that by the second quarter of 2013, our legacy portfolio will represent less than 50% of our total mortgage insurance portfolio.

Currently, our business strategy primarily is focused on: (1) growing our mortgage insurance business by writing high-quality mortgage insurance in the U.S.; (2) continuing to manage losses in our legacy mortgage insurance and financial guaranty portfolios; (3) continuing to reduce our financial guaranty exposure; and (4) pursuing opportunities for increasing Radian Group’s available liquidity and for enhancing Radian Guaranty’s capital position.

Capital Preservation and Liquidity Management Initiatives

Since 2008, we have undertaken a number of strategic actions and initiatives in response to the negative economic and market conditions. As a result of these actions and an improving operating environment, we believe we are better positioned to return to operating profitability in the future. These actions include the following:

- We significantly tightened our mortgage insurance underwriting standards to focus primarily on insuring high credit quality, first-liens originated in the U.S. and we ceased writing mortgage insurance on non-traditional and other inherently riskier products.
- We expanded our claims management and loss mitigation efforts to better manage losses in the weak housing market and high default and claim environment.
- We discontinued writing new financial guaranty business and Radian Group contributed its ownership interest in Radian Asset Assurance to Radian Guaranty. Although this structure makes the capital adequacy of our mortgage insurance business dependent, to a significant degree, on the successful run-off of our financial guaranty business, the structure has provided Radian Guaranty with substantial regulatory capital and, through dividends from Radian Asset Assurance, has increased liquidity at Radian Guaranty.
- We reduced our legacy mortgage insurance portfolio (direct primary mortgage insurance RIF originated in 2005 through 2008), non-traditional mortgage insurance RIF and our financial guaranty portfolio through a series of risk commutations, discounted security purchases, transaction settlements and terminations.

During 2012 and to date in 2013, we have continued to execute upon this strategy, including the following:

- In 2012, we wrote \$37.1 billion of primary mortgage insurance. Substantially all of our portfolio of insurance written since 2008 has been of high credit quality and is expected to generate strong returns.
- Through the expanded eligibility criteria under the most recent Home Affordable Refinance Program (“HARP”), an increased number of borrowers have been able to participate in and benefit from the program and, as of December 31, 2012, approximately 9% of our total primary RIF had successfully completed a HARP refinance.
- We continue to diversify and expand our customer base, adding more than 300 new customers during 2012. New customers added since 2009 accounted for 32% of the new insurance written (“NIW”) during 2012.