RADIAN GROUP INC
Form S-4
July 19, 2001

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AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON JULY 19, 2001
REGISTRATION NO. 333-

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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# FORM S-4
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

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

| DELAWARE | 6351 | 23-2691170 |
|---|---|---|
| (STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION) | (PRIMARY STANDARD INDUSTRIAL CLASSIFICATION NUMBER) | (I.R.S. EMPLOYER IDENTIFICATION NUMBER) |

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FRANK P. FILIPPS
CHAIRMAN AND CHIEF EXECUTIVE OFFICER
1601 MARKET STREET
PHILADELPHIA, PENNSYLVANIA 19103
(215) 564-6600
(ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF REGISTRANT'S PRINCIPAL EXECUTIVE OFFICES)

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Copies to:
STEVEN C. ROBBINS, ESQ.
REED SMITH LLP
1650 MARKET STREET
PHILADELPHIA, PENNSYLVANIA 19103
(215) 851-8119

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APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: As soon as practicable after this Registration Statement becomes effective.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. [ ]

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

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CALCULATION OF REGISTRATION FEE

| TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED | AMOUNT TO BE REGISTERED | PROPOSED MAXIMUM OFFERING PRICE PER SECURITY | PROPOSED MAXIMUM AGGREGATE OFFERING PRICE(1) |
|---|---|---|---|
| 7.75% Debentures due 2011...................... | $250,000,000 | 100% | $250,000,00 |

(1) Estimated solely for the purposes of calculating the registration fee in accordance with Rule 457(f)(2) under the Securities Act of 1933, as amended.

(2) Calculated based upon the book value of the securities to be received by the Registrant in the exchange in accordance with Rule 457(f)(2).

(3) Previously paid on April 19, 2001 with respect to the Registrant's Registration Statement on Form S-3, File No. 333-59252, which was subsequently withdrawn prior to effectiveness.

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THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933 OR UNTIL THIS REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE SECURITIES AND EXCHANGE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(a), MAY DETERMINE.

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THIS INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. WE MAY NOT SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION RELATING TO THESE SECURITIES IS EFFECTIVE. THIS PROSPECTUS IN NOT AN OFFER TO SELL THESE SECURITIES AND IT IS NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY JURISDICTION WHERE THE OFFER OR SALE IS NOT PERMITTED.

SUBJECT TO COMPLETION, DATED JULY 19, 2001

PROSPECTUS

$250,000,000

[RADIAN GROUP LOGO]

RADIAN GROUP INC.

OFFER TO EXCHANGE UP TO

$250,000,000 7.75% DEBENTURES DUE 2011

FOR $250,000,000 7.75% DEBENTURES DUE 2011
THAT HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933

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We are offering to exchange new 7.75% debentures due 2011, that we have registered under the Securities Act of 1933, for all of our outstanding 7.75% debentures due 2011, which were previously issued pursuant to an exemption from registration under the Securities Act of 1933. We refer to these registered debentures as the new debentures and the outstanding unregistered debentures as the old debentures.

THE EXCHANGE OFFER

- We will exchange an equal principal amount of new debentures that are freely tradeable for all old debentures that are validly tendered and not validly withdrawn.

- You may withdraw tenders of outstanding old debentures at any time prior to the expiration of the exchange offer.

- The exchange offer is subject to the satisfaction of limited, customary conditions.

- The exchange offer expires at 5:00 p.m., Philadelphia time, on 2001, unless extended.

- The exchange of old debentures for new debentures in the exchange offer generally will not be a taxable event for U. S. federal income tax purposes.

- We will not receive any proceeds from the exchange offer.

THE NEW DEBENTURES

- We are offering the new debentures in order to satisfy our obligations under the registration rights agreement entered into in connection with the private placement of the old debentures.

- The terms of the new debentures to be issued in the exchange offer are substantially identical to the terms of the old debentures, except that the new debentures are registered under the Securities Act and have no transfer restrictions, rights to additional interest or registration rights except in limited circumstances.

SEE "RISK FACTORS" BEGINNING ON PAGE 10 TO READ ABOUT FACTORS YOU SHOULD CONSIDER IN CONNECTION WITH THE EXCHANGE OFFER.

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If you are a broker-dealer that receives new debentures for your own account as a result of market-making or other trading activities, you must acknowledge that you will deliver a prospectus in connection with any resale of the new debentures. The letter of transmittal accompanying this prospectus states that by so acknowledging and by delivering a prospectus, you will not be deemed to admit that you are an "underwriter" within the meaning of the Securities Act. You may use this prospectus, as we may amend or supplement it in the future, for your resales of new debentures. We will make this prospectus available to any broker-dealer for use in connection with any such resale for a period of 180 days after the date of expiration of this exchange offer.

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Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the new debentures or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

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The date of this prospectus is            , 2001.



WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission. You may read and copy any document we file with the Commission at the public reference facilities the Commission maintains at 450 Fifth Street, N.W., Washington, D.C. 20549, and at the Commission's regional offices located at Northwestern Atrium Center, Suite 1400, 500 West Madison Street, Chicago, Illinois 60661 and Seven World Trade Center, 13th Floor, New York, New York 10048. You may also obtain copies of these materials by mail from the Public Reference Section of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549 at prescribed rates. Please call the Commission at 1-800-SEC-0330 for further information on the operation of the public reference rooms. The Commission also maintains a web site, the address of which is http://www.sec.gov. That site contains our annual, quarterly and current reports, proxy statements and other information. You may also read our annual, quarterly and current reports, proxy statements and other documents relating to us at the offices of the New York Stock Exchange at 20 Broad Street, New York, New York 10005.

We have filed this prospectus with the Commission as part of a registration statement on Form S-4 under the Securities Act. This prospectus does not contain all of the information set forth in the registration statement because some parts of the registration statement are omitted in accordance with the rules and regulations of the Commission. The registration statement and its exhibits are available for inspection and copying as set forth above and our security holders may obtain this information from us without charge by writing to us at 1601 Market Street, Philadelphia, PA 19103, or by calling us at (215) 564-6600.

You should rely only on the information contained in this prospectus. We have not authorized any other person to provide you with different or additional information. If anyone provides you with different or additional information, you should not rely on it. The information contained in this prospectus is accurate only as of the date on the front cover of this prospectus. Our business, financial condition, results of operations and prospects may have changed since then. We are not making an offer to sell the new debentures in any jurisdiction where the offer or sale is not permitted.

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NOTE TO READERS

Throughout this prospectus, we present information about us that reflects important adjustments to historical information. We have made these adjustments because we believe that the adjusted information will enable you to better evaluate our business and operations in light of the significant acquisitions and the issuance of the old debentures that we effected since January 1, 2000. The adjustments that we have made are as follows:

- we present certain financial information about our financial position and results of operations on a pro forma basis to reflect the most significant, but not all, of our acquisitions and the issuance of the old debentures during, after or as of the beginning or end of, the applicable periods. We identify this information by referring to it as being pro forma or reflecting these transactions, which we refer to as the pro forma transactions. The basis on which we have prepared this information is described under "Unaudited Pro Forma Condensed Combined Financial Statements;" and

- in describing our business, we generally provide information on a basis that gives effect to completed acquisitions. This information includes the pro forma transactions as well as other transactions that are not part of the pro forma transactions.

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SUMMARY

This summary highlights selected information about us and the exchange offer. This summary is not complete and does not contain all of the information that you should consider before participating in this exchange offer. You should read this entire prospectus carefully, including the section entitled "Risk Factors."

RADIAN GROUP INC.

Radian Group Inc., referred to herein as Radian Group, we or us provides through its wholly owned subsidiaries, Radian Guaranty Inc. (referred to herein as Radian Guaranty) and Amerin Guaranty Corporation referred to herein as Amerin Guaranty private mortgage insurance coverage in the United States on residential mortgage loans. Private mortgage insurance protects mortgage lenders and investors from default related losses on residential first mortgage loans made primarily to home buyers who make down payments of less than 20% of the home's purchase price. Private mortgage insurance also facilitates the sale of such mortgage loans in the secondary mortgage market, principally to Freddie Mac and Fannie Mae. Radian Guaranty and Amerin Guaranty are restricted to providing insurance on residential first mortgage loans only. We currently offer two principal types of private mortgage insurance coverage, primary and pool. At March 31, 2001, primary insurance comprised 94.3% of our risk in force and pool insurance comprised 5.7% of our risk in force. The volume of pool insurance written increased significantly in the past several years, but declined in 2000 and the first quarter of 2001, and is expected to continue to decline in the future due primarily to stringent capital requirements.

In September 2000, we commenced operations in Radian Insurance Inc. (referred to herein as Radian Insurance), a subsidiary which writes credit insurance on non-traditional mortgage related assets, such as second mortgages and manufactured housing, and provides credit enhancement to mortgage related capital market transactions. We intend to take advantage of our expertise in credit underwriting and evaluation of asset performance to write business which we are otherwise precluded from writing through the monoline mortgage guaranty companies, Radian Guaranty and Amerin Guaranty. In 2000, Radian Insurance wrote $1.6 billion of new insurance representing approximately $211 million in risk. During the first quarter of 2001, Radian Insurance wrote approximately $1.1 billion of new insurance representing approximately $187 million in risk. We expect the business written in Radian Insurance to increase significantly in the balance of 2001, mostly consisting of insurance on second mortgages and home equity loans. The insurance structures typically used in Radian Insurance are pool insurance or modified pool insurance which can have a reserve or first loss position in front of Radian Insurance's layer of risk. We have agreed to maintain at least $30 million in capital in Radian Insurance and intend to capitalize Radian Insurance at all times in an amount that would support the existing risk in force.

Additionally, we recently acquired the business of Enhance Financial Services Group Inc. (referred to herein as Enhance Financial Services) pursuant to a merger completed on February 28, 2001. Enhance Financial Services, now our wholly-owned subsidiary, through its operating subsidiaries, insures and reinsures credit-based risks and acquires and services credit-based assets in a variety of domestic and international niche markets. Its businesses are divided into two operating segments, its insurance businesses and its asset-based businesses, with the insurance businesses being by far the larger operating segment. On a pro forma basis, Enhance Financial Services would have accounted for 22.3% of the combined companies' total revenue for the year ended December 31, 2000. See "Unaudited Pro Forma Condensed Combined Financial Information."

Our principal executive offices are located at 1601 Market Street, Philadelphia, Pennsylvania 19103. Our telephone number is (215) 564-6600.





## THE OFFERING

### SUMMARY OF TERMS OF THE EXCHANGE OFFER

| | |
|---|---|
| Background | On May 29, 2001, we completed a private placement of our outstanding, unregistered old debentures. In connection with that private placement, we entered into a registration rights agreement in which we agreed to deliver this prospectus to you and to make an exchange offer. |
| The Exchange Offer | We are offering to exchange up to $250 million aggregate principal amount of our new debentures which have been registered under the Securities Act for up to $250 million aggregate principal amount of our old debentures. You may tender old debentures only in integral multiples of $1,000 principal amount. You should read the discussion under the heading "The Exchange Offer" beginning on page 80 for further information about the exchange offer and resale of the new debentures. |
| Resale of New Debentures | Based on interpretive letters of the SEC staff to third parties, we believe that you may resell and transfer the new debentures issued pursuant to the exchange offer in exchange for old debentures without compliance with the registration and prospectus delivery provisions of the Securities Act, if:<br><br>- you are acquiring the new debentures in the ordinary course of your business;<br><br>- you have no arrangement or understanding with any person to participate in the distribution of the new debentures; and<br><br>- you are not our affiliate as defined under Rule 405 of the Securities Act.<br><br>If you fail to satisfy any of these conditions, you must comply with the registration and prospectus delivery requirements of the Securities Act in connection with a resale of the new debentures.<br><br>Broker-dealers that acquired old debentures directly from us, but not as a result of |

market-making activities or other trading activities, must comply with the registration and prospectus delivery requirements of the Securities Act in connection with a resale of the new debentures.

Each broker-dealer that receives new debentures for its own account pursuant to the exchange offer in exchange for old debentures that it acquired as a result of market-making or other trading activities must deliver a prospectus in connection with any resale of the new debentures and provide us with a signed acknowledgement of this obligation.

| | |
|---|---|
| Consequences If You Do Not Exchange Your Old Debentures | Old debentures that are not tendered in the exchange offer or are not accepted for exchange will continue to bear legends restricting their transfer. You will not be able to offer or sell the old debentures unless:<br><br>- an exemption from the requirements of the Securities Act is available to you;<br><br>- we register the resale of the old debentures under the Securities Act; or<br><br>- the transaction requires neither an exemption from nor registration under the requirements of the Securities Act. |

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|---|---|
| | After the completion of the exchange offer, we will no longer have an obligation to register the old debentures, except in limited circumstances. |
| Expiration Date | 5:00 p.m., Philadelphia time, on , 2001, unless we extend the exchange offer. |
| Conditions to the Exchange Offer | The exchange offer is subject to limited, customary conditions, which we may waive. |
| Procedures for Tendering Old Debentures | If you wish to accept the exchange offer, you must deliver to the exchange agent:<br><br>- either a completed and signed letter of transmittal or, for old debentures tendered electronically, an agent's message from The Depository Trust Company, which we refer to as DTC, Euroclear Clearance System, referred to herein as Euroclear, or Banking Societe Annoyme Luxembourg, referred to herein as Clearstream, stating that the tendering participant agrees to be bound by the letter of transmittal and the terms of the exchange offer; |

- your old debentures by timely confirmation of book entry transfer through DTC, Euroclear or Clearstream; and

- all other documents required by the letter of transmittal.

These actions must be completed before the expiration of the exchange offer.

If you hold old debentures through DTC, Euroclear or Clearstream, you must comply with their standard procedures for electronic tenders, by which you will agree to be bound by the letter of transmittal.

By signing, or by agreeing to be bound by the letter of transmittal, you will be representing to us that:

- you will be acquiring the new debentures in the ordinary course of your business;

- you have no arrangement or understanding with any person to participate in the distribution of the new debentures; and

- you are not our affiliate as defined under Rule 405 of the Securities Act.

See "The Exchange Offer--Procedures for Tendering."

Guaranteed Delivery Procedures for Tendering Old Debentures

If you cannot meet the expiration deadline or you cannot deliver your old debentures, the letter of transmittal or any other documentation to comply with the applicable procedures under DTC, Euroclear or Clearstream standard operating procedures for electronic tenders in a timely fashion, you may tender your old debentures according to the guaranteed delivery procedures set forth under "The Exchange Offer--Guaranteed Delivery Procedures."

Special Procedures for Beneficial Holders

If you beneficially own old debentures which are registered in the name of a broker, dealer, commercial bank, trust company or other nominee and you wish to tender in the exchange offer, you should contact that registered holder promptly and instruct that person to tender on your behalf. If you wish to tender in the exchange offer on your own behalf, you must, prior to completing and executing the letter of transmittal and



delivering your old debentures, either arrange to have the old debentures registered in your name or

| | |
|---|---|
| | obtain a properly completed bond power from the registered holder. The transfer of registered ownership may take considerable time. |
| Withdrawal Rights | You may withdraw your tender of old debentures any time before the exchange offer expires. |
| Tax Consequences | The exchange pursuant to the exchange offer generally will not be a taxable event for U. S. federal income tax purposes. See "Summary of United States Federal Tax Consequences." |
| Use of Proceeds | We will not receive any proceeds from the exchange or the issuance of new debentures in connection with the exchange offer. |
| Registration Rights | If we fail to complete the exchange offer and a resale registration statement in respect of the old notes is not declared effective within specified time periods, we may be obligated to pay additional interest to holders of old notes. Please read "The Exchange Offer -- Purpose and Effect of Exchange Offer; Registration Rights" beginning on page 80 for more information regarding your rights as a holder of old notes. |
| Exchange Agent | First Union National Bank (referred to herein as First Union) is serving as exchange agent in connection with the exchange offer. The address and telephone number of the exchange agent are set forth under "The Exchange Offer -- Exchange Agent." |





## SUMMARY DESCRIPTION OF THE NEW DEBENTURES

The form and terms of the new debentures are the same as the form and terms of the old debentures, except that:

- the new debentures will be registered under the Securities Act and will therefore not bear legends restricting their transfer; and

- specified rights under the registration rights agreement, including the provisions providing for registration rights and the payment of additional interest in specified circumstances will be limited or eliminated.

The new debentures will evidence the same debt as the old debentures and will rank equally with the old debentures. The same indenture will govern both the old debentures and the new debentures.

You should read the discussion under the headings "Description of the New Debentures" beginning on page 89 for further information about the new debentures.

### TERMS OF THE NEW DEBENTURES

The specific financial terms of the new debentures are as follows:

- Title: 7.75% Debentures due June 1, 2011

- Issuer: Radian Group Inc.

- Total principal amount being issued: $250,000,000

- Due date for principal: June 1, 2011

- Interest rate: 7.75% annually

- Date interest started accruing: May 29, 2001

- Due dates for interest: every June 1 and December 1

- First due date for interest: December 1, 2001

- Regular record dates for interest: every May 15 and November 15

- Optional Redemption: at any time at our option

- Repayment at option of Holder: none

The covenants contained in the new debentures are identical to the covenants contained in the old debentures and include limits on our ability to:

- merge, consolidate or sell all of our assets;

- to incur liens on the capital stock of certain of our subsidiaries; and

- to sell the capital stock of our subsidiaries.

Likewise, the events of default of the new debentures are identical to the events of default of the old debentures, and include:

- failure to pay interest or principal when due;

- failure to perform covenants;

- failure to pay at maturity or otherwise incur a default on certain indebtedness in excess of $15,000,000; and

- certain events of bankruptcy, insolvency, and reorganization.





## SUMMARY UNAUDITED PRO FORMA COMBINED FINANCIAL AND OTHER DATA

The summary unaudited pro forma combined financial and other data set forth below have been derived from the pro forma combined financial statements included under "Unaudited Pro Forma Condensed Combined Financial Information."

The pro forma operating and balance sheet data as of December 31, 2000, give effect to the acquisition as if it occurred on that date. The pro forma income statement data gives effect to the acquisition as if it occurred on January 1, 2000.

This summary unaudited pro forma condensed combined summary information is provided only for the purposes of illustration, and it does not necessarily indicate what our operating results or financial position would have been if the acquisition of Enhance Financial Services had been completed at the dates indicated. Moreover, this information does not necessarily indicate what the future operating results or financial position of the combined company will be. You should read this unaudited pro forma condensed combined summary financial information in conjunction with the information contained in the section titled "Unaudited Pro Forma Condensed Combined Financial Information." This unaudited pro forma condensed combined summary financial information does not reflect any adjustments to conform to generally accepted accounting principles, or to reflect any cost savings or other synergies anticipated as a result of the acquisition or any future acquisition-related expenses.

| | UNAUDITED PRO FORMA COMBINED FOR THE YEAR ENDED DECEMBER 31, 2000 (IN THOUSANDS, EXCEPT PER SHARE DATA) |
|---|---|
| Premiums earned | $ 631,123 |
| Net investment income | 145,907 |
| Provision for losses | 189,032 |
| Policy acquisition costs | 71,614 |
| Other operating expenses | 141,108 |
| Pretax income | 386,969 |
| Net income | 262,539 |
| Net income per share -- diluted | 5.56 |
| Cash dividends per share | 0.25 |
| | |
| Assets | $3,796,542 |
| Investments | 2,868,914 |
| Reserve for losses | 460,214 |
| Unearned premiums | 434,581 |
| Redeemable preferred stock | 40,000 |
| Common stockholders' equity | 1,944,298 |
| Book value per share | 41.93 |





SUMMARY HISTORICAL FINANCIAL DATA

Our summary historical financial information set forth below is derived from our unaudited consolidated financial statements, except for the unaudited information for the quarters ended March 31, 2001 and 2000, which is derived from our quarterly report on Form 10-Q for the quarter ended March 31, 2001. You should read this financial information in conjunction with our financial statements included elsewhere this prospectus.

| | AT OR FOR THE THREE MONTHS ENDED MARCH 31, | | AT OR FOR THE YEAR ENDED DE | | |
|---|---|---|---|---|---|
| | 2001 | 2000 | 2000 | 1999 | 1998 |
| | (IN THOUSANDS, EXCEPT FOR PER SHARE AMOUNTS) | | | | |
| Premiums earned | $ 155,763 | $127,297 | $ 520,871 | $ 472,635 | $ 405,252 |
| Net investment income | 28,020 | 18,827 | 82,946 | 67,259 | 59,862 |
| Provision for losses | 49,272 | 38,782 | 154,326 | 174,143 | 166,377 |

| | | | | | |
|---|---|---|---|---|---|
| Policy acquisition costs | 17,041 | 13,262 | 51,471 | 58,777 | 58,479 |
| Other operating expenses | 23,958 | 13,451 | 57,167 | 62,659 | 59,720 |
| Merger expenses | 0 | 0 | 0 | 37,766 | 1,098 |
| Pretax income | 112,270 | 82,830 | 352,470 | 219,466 | 197,913 |
| Net income | 80,157 | 58,600 | 248,938 | 148,138 | 142,237 |
| Net income per share -- diluted | 1.91 | 1.53 | 6.44 | 3.83 | 3.67 |
| Cash dividends per share | 0.03 | 0.03 | 0.12 | 0.10 | 0.07 |
| Assets | $3,820,363 | | $2,272,811 | $1,776,712 | $1,513,405 |
| Investments | 2,951,838 | | 1,750,457 | 1,388,677 | 1,175,452 |
| Reserve for losses | 524,898 | | 390,021 | 335,584 | 245,125 |
| Unearned premiums | 450,843 | | 77,241 | 54,925 | 75,538 |
| Redeemable preferred stock | 40,000 | | 40,000 | 40,000 | 40,000 |
| Common stockholders' equity | 2,015,319 | | 1,362,197 | 1,057,256 | 932,199 |
| Book value per share | 43.52 | | 35.94 | 28.34 | 25.30 |





RISK FACTORS

An investment in the new debentures involves certain risks and uncertainties including the following:

IF YOU FAIL TO EXCHANGE YOUR OLD DEBENTURES, THEY WILL CONTINUE TO BE RESTRICTED SECURITIES AND MAY BECOME LESS LIQUID

Old debentures which you do not tender or we do not accept will, following the exchange offer, continue to be restricted securities. You may not offer or sell untendered old debentures except pursuant to an exemption from, or in a transaction not subject to, the Securities Act and applicable state securities laws. We will issue new debentures in exchange for the old debentures pursuant to the exchange offer only following the satisfaction of procedures and conditions described elsewhere in this prospectus. These procedures and conditions include timely receipt by the exchange agent of the old debentures and of a properly completed and duly executed letter of transmittal.

Because we anticipate that most holders of old debentures will elect to exchange their old debentures, we expect that the liquidity of the market for any old debentures remaining after the completion of the exchange offer may be substantially limited. Any old debenture tendered and exchanged in the exchange offer will reduce the aggregate principal amount of the old debentures outstanding. Following the exchange offer, if you did not tender your old debentures you generally will not have any further registration rights and your old debentures will continue to be subject to transfer restrictions. Accordingly, the liquidity of the market for any old debentures could be adversely affected.

WE ARE A HOLDING COMPANY THAT DEPENDS ON THE ABILITY OF OUR SUBSIDIARIES TO PAY DIVIDENDS TO SERVICE OUR DEBT

Our principal source of cash to make payments on our debt are dividends and other distributions from our subsidiaries, which are limited, among other things, by the level of their liquidity, earnings and cash. Under applicable state insurance law, the amount of cash dividends and other distributions that our insurance subsidiaries may pay is restricted. Moreover, in connection with obtaining approval from the New York Insurance Department for our acquisition of Enhance Financial Services, two of Enhance Financial Services' operating subsidiaries, Enhance Reinsurance Company (referred to herein as Enhance Reinsurance), our financial guaranty reinsurance subsidiary and Asset Guaranty Insurance Company (referred to herein as Asset Guaranty), a direct insurer and reinsurer of financial guaranty and other similar obligations, have agreed not to declare or pay dividends for a period of two years following the acquisition. Our subsidiaries may also be restricted in their ability to pay dividends in order to maintain adequate capital requirements necessary to retain their ratings from applicable rating agencies. A significant deterioration in the subsidiaries' earnings or cash flow, as a result of an economic downturn and a corresponding decrease in credit quality or otherwise, could limit their ability to pay cash dividends to us, which, in turn, would limit our ability to service our debt.

In addition, as a holding company, the rights of creditors, including the holders of the new debentures, to participate in our assets upon any liquidation, receivership or reorganization will be junior and subject to the prior claims of the subsidiaries' creditors, including policyholders.

LOSING THE BUSINESS OF ANY MAJOR CUSTOMER COULD HARM FINANCIAL PERFORMANCE

Since our formation by the merger of Amerin Corporation into CMAC Investment Corporation, Radian Guaranty has been dependent on a small number of lenders for referring a substantial portion of its business risk. Radian Guaranty's top ten lenders were responsible for 42.8% of the direct primary risk in force at December 31, 2000. Direct primary risk in force refers to an aggregate amount equal to the principal amount of each insured loan multiplied by the applicable coverage percentage on that loan. The top ten lenders were also responsible for 43.4% of primary new insurance written in 2000.

The concentration of business with lenders may increase as a result of mergers or other factors. These lenders may reduce the amount of business currently given to Radian Guaranty or cease doing business with it altogether. Radian Guaranty's master policies and related lender agreements do not, and by law cannot,





require its lenders to do business with it. The loss of business from any major lender could materially adversely affect Radian Guaranty's and our business and financial results.

Enhance Reinsurance currently derives substantially all of its reinsurance premium revenues from four primary insurers and 43% of total gross premiums for Enhance Reinsurance and Asset Guaranty. A substantial reduction in the amount of insurance ceded by one or more of these four principal clients could have a material adverse effect on Enhance Reinsurance's gross written premiums and, consequently, our results from operations.

WE MAY FACE NEW COMPETITION FROM FANNIE MAE AND FREDDIE MAC WHICH MAY REDUCE REVENUES

Fannie Mae and Freddie Mac have both announced programs under which less mortgage insurance coverage may be required on loans with down payments of less than 20%. Although there has been minimal business of this kind written to date, if these programs are successful, or if Fannie Mae or Freddie Mac elect to assume more of the credit risks on these loans or use credit enhancements other than mortgage insurance, less mortgage insurance would be used. This would in turn reduce our revenues.

INCREASED CLAIMS AND LOSSES ON POLICIES COULD HARM FINANCIAL PERFORMANCE

The factors identified below affect the private mortgage insurance industry in general and will affect us. Any of these factors could cause claims and losses on the policies issued by us to increase. Any increase in claims and losses may materially adversely affect our financial condition and results of operations.

(1) THE CONCENTRATION OF RISK IN FORCE IN RELATIVELY FEW STATES COULD INCREASE CLAIMS AND LOSSES.

We can be particularly affected by economic downturns in regions where large portions of our business are concentrated. As of December 31, 2000, Radian Guaranty had a relatively high percentage of primary risk in force concentrated in the following ten states:

- California 16.8% of total primary risk in force
- Florida 7.4% of total primary risk in force
- New York 6.1% of total primary risk in force
- Texas 5.3% of total primary risk in force
- Georgia 4.3% of total primary risk in force
- New Jersey 3.9% of total primary risk in force
- Arizona 3.8% of total primary risk in force
- Illinois 3.7% of total primary risk in force
- Pennsylvania 3.7% of total primary risk in force
- Colorado 3.1% of total primary risk in force

Continued and prolonged adverse economic conditions in these states could result in high levels of claims and losses. In addition, refinancing activity, such as that which occurred in 1998, and is occurring in 2001, can have the effect of concentrating insurance in force in economically weaker areas, since loans in areas experiencing property value appreciation are less likely to require mortgage insurance at the time of refinancing than are loans in areas experiencing limited or no property value appreciation.

Enhance Reinsurance and Asset Guaranty also had relatively high percentages of risk in force concentrated in six states (California, New York, Florida, Texas, Pennsylvania and Illinois) which accounted for 40.9% of their insurance in force in 2000.



(2) WE CANNOT CANCEL POLICIES OR ADJUST RENEWAL PREMIUMS TO PROTECT OURSELF FROM UNANTICIPATED CLAIMS OR LOSSES.

Generally, we cannot cancel mortgage insurance coverage we provide. Also, generally, renewal premium rates for the life of the policy are fixed when issued. If the risk underlying a particular product develops more adversely than anticipated or if national and regional economies undergo unanticipated stress, we cannot increase renewal premium rates or cancel coverage to offset against such adverse developments.

(3) A SIGNIFICANT PORTION OF RISK IN FORCE CONSISTS OF LOANS WITH LOAN-TO-VALUE RATIOS IN EXCESS OF 90%, WHICH GENERALLY RESULT IN MORE CLAIMS THAN LOANS WITH LOWER LOAN-TO-VALUE RATIOS.

At December 31, 2000:

- 46.2% of primary risk in force consisted of mortgage loans with loan-to-value ratios greater than 90.01%;

- 39.5% of primary risk in force consisted of mortgage loans with loan-to-value ratios greater than 90.01%, but less than or equal to 95.00%;

- 6.7% of primary risk in force consisted of mortgage loans with loan-to-value ratios greater than 95.00%; and

- 14.0% of primary risk in force consisted of adjustable rate mortgage loans.

Loans with loan-to-value ratios greater than 90% are expected to have claim incidence rates substantially higher than mortgage loans with loan-to-value ratios equal to or less than 90%. In the case of adjustable rate mortgage loans, such loans generally have higher claim incidence rates than fixed rate loans.

(4) PREMIUM RATES MAY GENERATE INSUFFICIENT INCOME TO COVER LOSSES.

Mortgage insurance premium rates are based upon the expected risk of claim on the insured loan, and take into account the loan-to-value ratios, loan type, mortgage term, occupancy status and coverage percentage. In addition, the premium rates take into account persistency, operating expenses and reinsurance costs, as well as profit and capital needs and the prices offered by competitors. However, premiums earned, and the associated investment income, may ultimately prove to be inadequate to compensate for future losses. Some loans are classified as "Alt-A" and "A minus." These loan programs enable borrowers with either less than normal documentation or less than ideal credit histories to obtain mortgages and mortgage insurance and are considered riskier than our general portfolio. At December 31, 2000, Alt-A loans constituted 6.3% and A minus loans constituted 3.4% of our mortgage insurance primary risk in force.

(5) GENERAL ECONOMIC FACTORS MAY ADVERSELY AFFECT LOSS EXPERIENCE.

We believe that our loss experience, and the loss experience of other mortgage insurers, would be materially and adversely affected by extended national or regional economic recessions, falling housing values, rising unemployment rates, interest rate volatility or combinations of such factors. Such economic events could also materially adversely impact the demand for housing and, consequently, mortgage insurance.

(6) LOSS EXPERIENCE TENDS TO INCREASE AS POLICIES AGE.

The majority of claims under private mortgage insurance policies have historically occurred during the third through the sixth years after issuance of the policies. As of December 31, 2000, approximately 72.8% of the primary risk in force was written since January 1, 1998. As a result, loss experience on these loans is expected to significantly increase as policies continue to age. If the claim frequency on such risk in force significantly exceeds the claim frequency that was assumed in setting premium rates, our financial condition, results of operations and cash flows would be materially and adversely affected.

(7) RESERVES MAY BE INSUFFICIENT TO COVER CLAIMS PAID OR LOSS-RELATED EXPENSES INCURRED.

Results of operations would be adversely affected if reserves are insufficient to cover the actual related claims paid and loss-related expenses incurred. We establish loss reserves to recognize the liability for unpaid losses related to insurance in force on mortgage loans which are in default. These loss reserves are based upon the estimated claim rate and related claim amount. These estimates are regularly reviewed and updated using the most current information available. These reserves are necessarily based on estimates and the ultimate claim rate and the resulting aggregate amount of claims may vary from these estimates. Any resulting adjustments, which may be material, are reflected in then current consolidated results of operations. The reserves may not be adequate to cover ultimate loss development on incurred defaults. Generally accepted accounting principles do not permit us to establish loss reserves in respect of estimated potential defaults that may occur in the future.

(8) PAYING A SIGNIFICANT NUMBER OF CLAIMS UNDER CERTAIN INSURANCE PROGRAMS WRITTEN COULD HARM FINANCIAL PERFORMANCE.

We expect to continue offering traditional pool insurance, which is generally considered riskier than primary insurance. Under primary insurance, an insurer's exposure is limited to a specified percentage of any unpaid principal, delinquent interest and related expenses on an individual loan. Under traditional pool insurance, there is an aggregate exposure limit -- a "stop loss" -- on a pool of loans, which amount is generally between 1% and 10% of the initial aggregate loan balance of the entire pool of loans. Under our pool insurance, we could be required to pay the full amount of every loan in the pool that is in default and upon which a claim is made until the stop loss is reached, rather than a percentage of that amount. If we are required to pay a significant number of claims under pool insurance, then our financial condition and results of operations could be materially and adversely affected. We also recently commenced operations in Radian Insurance, which writes credit insurance on non-traditional mortgage related assets. These types of insurance products are generally riskier than our traditional mortgage insurance products and, as a result, may have higher claim payouts. Payment of a significant number of claims by Radian Insurance could materially and adversely affect our financial condition and results of operations.

(9) DELEGATED UNDERWRITING MAY CAUSE US TO INSURE, AND PAY CLAIMS RELATED TO, UNACCEPTABLY RISKY LOANS THAT WE WOULD NOT HAVE OTHERWISE INSURED AS UNDERWRITERS.

Radian Guaranty and other mortgage insurers offer programs of delegated underwriting to some of their customers. Amerin Guaranty has written substantially all of its insurance on a delegated underwriting basis. We expect to continue offering delegated underwriting to customers of Radian Guaranty that are currently authorized to use delegated underwriting, and may expand the availability of delegated underwriting to additional customers. The performance of loans insured through programs of delegated underwriting has not been tested over an extended period of time. The performance of such loans has not been tested in a period of adverse economic conditions.

Once a lender is accepted for delegated underwriting, the insurer generally may not refuse to insure, or rescind coverage on, a particular loan originated by such lender even if the insurer reevaluates the loan's risk profile or if the lender fails to follow delegated underwriting criteria. Our ability to take action against a lender will be limited by access to data with which to assess the risk of a lender's insured loans and to assess compliance with applicable criteria. Moreover, we would remain at risk for any loans insured by a lender prior to its curtailing or terminating a lender's delegated underwriting authority. A lender could possibly cause us to insure a material volume of loans with unacceptable risk profiles before that lender's delegated underwriting authority was terminated.

IF CLAIMS-PAYING ABILITY RATINGS ARE DOWNGRADED, THEN LENDERS AND THE SECURITIZATION MARKET MAY NOT PURCHASE MORTGAGES OR SECURITIES INSURED BY US WHICH WOULD HARM OUR FINANCIAL PERFORMANCE

Standard & Poor's Rating Services, referred to herein as S&P, Fitch IBCA Duff & Phelps, referred to herein as Fitch, and Moody's Investors Service, Inc., referred to herein as Moody's, have rated the respective





claims-paying ability and financial strength of Radian Guaranty and Amerin Guaranty, as "AA" (financial strength, S&P and Fitch) and "Aa3" (financial strength, Moody's). Radian Insurance is rated "AA" by S&P (claims-paying) and "Aa3" by Moody's (claims-paying). Enhance Reinsurance has an insurance financial strength rating of "Aa2" by Moody's and a claims-paying ability rating of "AAA" by S&P. Asset Guaranty has a claims-paying ability rating of "AA" by S&P.

The claims-paying ability or financial strength ratings of our subsidiaries may be downgraded by one or more rating agencies in the future. Any downgrading of these ratings below these levels could have a material adverse effect on our results of operations and prospects. Adverse developments in these subsidiaries' financial condition or results of operations, by virtue of underwriting or investment losses or otherwise, or changes in the views of the rating agencies, could cause the rating agencies to lower their ratings. If the financial strength ratings of Radian Guaranty, Radian Insurance or Amerin Guaranty fall below "Aa3" from Moody's or "AA" from S&P and Fitch, then national mortgage lenders, and a large segment of the mortgage securitization market, including Fannie Mae and Freddie Mac, generally will not purchase mortgages or mortgage-backed securities insured by them.

In addition, Enhance Reinsurance and Asset Guaranty are parties to several agreements that grant the primary insurer the right to recapture business ceded to Enhance Reinsurance or Asset Guaranty under these agreements if the financial strength rating or claims-paying ability rating, as applicable, is downgraded below minimum rates established in the agreements. This recapture of business by a primary insurer could have a material adverse effect on deferred premium revenue and recognition of future income from such agreements.

AN INCREASE IN OUR SUBSIDIARIES' RISK TO CAPITAL RATIO AND/OR LEVERAGE RATIO MAY PREVENT THEM FROM WRITING NEW INSURANCE, WHICH WOULD HARM OUR FINANCIAL PERFORMANCE

Moody's, S&P and Fitch regularly monitor Radian Guaranty, Amerin Guaranty, Radian Insurance, Enhance Reinsurance and Asset Guaranty and their respective subsidiaries and the amount of insurance risk that may be written by such subsidiaries in conjunction with the issuance and maintenance of their financial strength and claims-paying ability ratings. Moody's and S&P have also entered into an agreement with Radian Guaranty which obligates Radian Guaranty to maintain at least $30 million of capital in Radian Insurance as a condition of the issuance and maintenance of Radian Insurance's "Aa3" and "AA" financial strength and claims-paying ability rating ratings. We may be required to enter into similar agreements in the future. If so, our subsidiaries have several alternatives available to control their risk to capital ratios or leverage ratios, including obtaining capital contributions from us, purchasing additional quota share or excess of loss reinsurance or reducing the amount of new business written. However, we may not be able to raise additional funds, or do so on a timely basis, in order to make a capital contribution to our subsidiaries. In addition, reinsurance may not be available to the subsidiaries or, if available, may not be available on satisfactory terms. A material reduction in statutory capital, whether resulting from underwriting or investment losses or otherwise or a disproportionate increase in risk in force, could increase the risk to capital ratio or leverage ratio. An increase in the risk to capital ratio or leverage ratio could limit our subsidiaries' ability to write new business, which then could materially adversely affect our results of operations and prospects.

WE COMPETE WITH PRIVATE MORTGAGE INSURERS, GOVERNMENTAL AGENCIES AND OTHERS WHICH MAY REDUCE OUR REVENUES

The mortgage insurance industry is increasingly competitive. This competition may reduce our revenues, which could in turn decrease the value of investments in us. The principal sources of direct and indirect competition are:

- other private mortgage insurers, some of which are subsidiaries of well capitalized, diversified public companies and therefore have higher claims-paying ability ratings and greater access to capital than we do;

- federal and state governmental and quasi-governmental agencies, principally the Federal Housing Administration; and





- mortgage lenders that forego third-party coverage and retain the full risk of loss on their high loan-to-value ratio loans.

The United States private mortgage insurance industry is both highly dynamic and intensely competitive. Many factors bear on the relative position of the private mortgage insurance industry versus the "direct" government and quasi-governmental competition and the "indirect" competition of major lending institutions, including:

- legislative and/or regulatory initiatives which affect the FHA's competitive position; and

- the capital adequacy of, and alternative business opportunities for, lending institutions.

As of March 31, 2001, our market share of the private mortgage insurance market based on new primary insurance written was 17.2%, according to Inside Mortgage Finance. However, our market share of new insurance written may not grow and could decrease in the future.

FAILURE TO SUCCESSFULLY INTEGRATE ENHANCE FINANCIAL SERVICES WITH US COULD ADVERSELY AFFECT OUR FUTURE OPERATIONS

In deciding that the merger of Enhance Financial Services with us was in the best interests of both Enhance Financial Services and our stockholders, our board of directors and the Enhance Financial Services' board of directors considered the potential complementary effects of combining the companies' assets, personnel and operational expertise. Integrating businesses, however, involves a number of special risks, including the possibility that management may be distracted from regular business concerns by the need to integrate operations, unforeseen difficulties in integrating operations and systems, problems concerning assimilating and retaining the employees of the combined company, challenges in retaining customers, and potential adverse short-term or long-term effects on operating results.

Further, the reinsurance business is highly specialized and volatile. Enhance Financial Services' past results were due in large part to the strength and continuity of its management strategies. The success of Enhance Financial Services as our subsidiary will depend in part on our ability to retain key management and to integrate ours and Enhance Financial Services' operations and personnel in a timely and efficient manner. As we were not involved in the financial guaranty reinsurance business prior to its acquisition of Enhance Financial Services, this integration may be difficult. If we and Enhance Financial Services cannot successfully integrate our businesses, the combined companies may not be able to realize the expected benefits of the merger.

WE FACE ADDITIONAL RISKS IN OUR FINANCIAL GUARANTY AND OTHER INSURANCE BUSINESSES RECENTLY ACQUIRED FROM ENHANCE FINANCIAL SERVICES

Our recently acquired subsidiaries, Enhance Reinsurance and Asset Guaranty, maintain reserves in amounts sufficient to pay their estimated ultimate liability for losses and loss adjustment expenses, as required by law. Since none of Enhance Reinsurance, Asset Guaranty or the financial guaranty industry has had an actuarially significant number of losses in its financial guaranty reinsurance activities, we do not believe that traditional actuarial approaches used in the property/casualty industry apply in the determination of loss reserves for financial guaranty insurers. Consequently, we establish reserves in our financial guaranty business either when (1) a primary insurer provides for losses and loss adjustment expenses or (2) in our opinion, a default is probable on an insured risk, and the amount of such reserve is based on an analysis of the individual insured risk. Although we believe the reserves established at our financial guaranty insurance subsidiaries will prove to be adequate, there can be no assurance that such reserves actually will be adequate.

In addition, the demand for financial guaranty insurance and the demand for the primary insurance and reinsurance that Enhance Reinsurance and Asset Guaranty provide depend on many factors that are generally not in our control, including:

- prevailing interest rates;

- investor concern regarding the credit quality of municipalities and corporations;




- investor perception of the strength of financial guaranty providers and the guaranty offered;

- premium rates charged for financial guaranty insurance;

- the availability of other forms of credit enhancement; and

- governmental regulation, including changes in tax laws affecting the municipal, asset-backed and trade credit debt markets.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

We have made forward-looking statements in this prospectus. Forward-looking statements include those regarding our goals, beliefs, plans or current expectations and other statements regarding matters that are not historical facts. For example, when we use words such as "project," "believe," "anticipate," "plan," "expect," "estimate," "intend," "should," "would," "could," or "may," or other words that convey uncertainty of future events or outcome, we are making forward-looking statements. Forward-looking statements include statements concerning:

- the risk that housing demand may decrease as a result of higher-than-expected interest rates, adverse economic conditions, or other reasons;

- the risk that seasonality may be different from the historical pattern;

- the risk that the market share of the segment of the mortgage market served by the mortgage insurance industry may decline as a result of competition from government programs or other substitute products;

- the risk that the business of Enhance Financial Services may not be adequately integrated to maximize the expected benefits of the acquisition;

- the risk that our share of originations having private mortgage insurance may decline as a result of competition or other factors; and

- the risk that the addition of the business of Radian Insurance may not be successful.

Our forward-looking statements are subject to risks and uncertainties. You should note that many important factors, some of which are discussed elsewhere in this prospectus, could affect us in the future and could cause our results to differ materially from those expressed in our forward-looking statements. For a discussion of some of these factors, please read carefully the information under "Risk Factors." We do not undertake any obligation to update forward-looking statements we make.

## USE OF PROCEEDS

We will not receive any proceeds from the exchange offer. In consideration for issuing the new debentures, we will receive old debentures from you in like principal amount. The old debentures surrendered in exchange for the new debentures will be retired and canceled and cannot be reissued. Accordingly, issuance of the new debentures will not result in any change in our indebtedness.

## RATIO OF EARNINGS TO FIXED CHARGES

The following table sets forth our historical ratio of earnings to fixed charges and on a pro forma basis giving effect to the issuance of the old debentures and their replacement by the new debentures. Earnings consist of income (loss) from continuing operations before income taxes, extraordinary items, cumulative effect of accounting changes, equity in net losses of affiliates and fixed charges. Fixed charges consist of interest expense and capitalized interest.



| | THREE MONTHS ENDED MARCH 31, | | YEARS ENDED DECEMBER 31, | | | | |
|---|---|---|---|---|---|---|---|
| | 2001(1) | 2001(2) | 2000(3) | 1999 | 1998 | 1997 | 199 |
| Ratio of earnings to fixed charges.... | 47.3x | 64.1x | 151.1x | 105.1x | 165.8x | 203.0x | 167 |

---------------

(1) On a pro forma basis, giving effect to the issuance of the old debentures and the new debentures as if issued as of February 28, 2001.

(2) Actual.

(3) Does not include any adjustments to show the effect of the acquisition of Enhance Financial Services on February 28, 2001. On a stand-alone basis, as of December 31, 2000, Enhance Financial Services had a ratio of earnings to fixed charges of (0.2)x and a deficit of earnings to fixed charges of $21,439,000.





CAPITALIZATION

The following table sets forth our consolidated short-term debt and capitalization, as of March 31, 2001, on an actual basis, and on an as adjusted basis to reflect the issuance and sale of the old debentures and the new debentures and the actual and anticipated use of proceeds, including the repayment of short-term debt at maturity on May 29, 2001. Issuance of the new debentures will not affect our capitalization.

| | MARCH 31, 2001 | |
|---|---|---|
| | ACTUAL | AS ADJUSTED |
| | (IN THOUSANDS, EXCEPT SHARE DATA) | |
| Short-term Debt | $ 173,724 | $ 0 |
| Long-term Debt, net of current portion | $ 75,000 | $ 325,000 |
| Preferred Stock, par value $0.001 per share; 20,000,000 authorized, 800,000 shares designated, issued and outstanding as $4.125 Preferred Stock, actual and as adjusted, 150,000 shares designated as Series A Preferred Stock, none issued and outstanding, actual and as adjusted | 40,000 | 40,000 |
| Common Stock, par value $0.001 per share; 80,000,000 shares authorized, 46,404,000 issued and outstanding, actual and adjusted | 46 | 46 |
| Additional Paid-In Capital | 1,126,490 | 1,126,490 |
| Retained Earnings | 868,025 | 868,025 |
| Accumulated Other Comprehensive Income | 22,917 | 22,917 |
| Treasury Stock | (2,159) | (2,159) |
| Total Capitalization | $2,130,319 | $2,380,319 |





UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

The following unaudited pro forma condensed combined financial information should be read in conjunction with our historical consolidated financial statements, including the notes thereto, and those of Enhance Financial Services appearing elsewhere in the prospectus. The unaudited pro forma condensed combined information is not presented in connection with the exchange offer, it is presented for illustration purposes only. It is presented in accordance with the assumptions set forth below, and is not necessarily indicative of the operating results or financial position that would have occurred if the merger had been completed. Nor is it necessarily indicative of future operating results or the financial position of the combined enterprise.

The unaudited pro forma condensed combined balance sheet has been prepared assuming the acquisition took place as of December 31, 2000, and allocates the total estimated purchase price to the fair value of assets and liabilities of Enhance Financial Services.

The unaudited pro forma condensed combined statements of income combine our's and Enhance Financial Services' historical statements of income and give effect to the acquisition as if it occurred on January 1, 2000, the beginning of the earliest period presented.





UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET
AT DECEMBER 31, 2000

| | HISTORICAL RADIAN GROUP | HISTORICAL ENHANCE FINANCIAL SERVICES | PRO FORMA ADJUSTMENTS | PRO FORMA COMBINED |
|---|---|---|---|---|
| | | (DOLLARS IN THOUSANDS) | | |
| ASSETS | | | | |
| Investments | $1,750,457 | $1,118,457 | | $2,868,914 |
| Cash | 2,424 | 3,072 | | 5,496 |
| Investment in affiliates | 0 | 139,384 | | 139,384 |
| Deferred policy acquisition costs | 70,049 | 125,197 | (59,152)(1) | 136,094 |
| Prepaid and deferred federal income taxes | 270,250 | 77,390 | 3,884(1) | 351,524 |
| Other assets | 179,631 | 115,499 | | 295,130 |
| TOTAL ASSETS | $2,272,811 | $1,578,999 | $ (55,268) | $3,796,542 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | |
| Liabilities | | | | |
| Unearned premiums | $ 77,241 | $ 357,340 | | $ 434,581 |
| Reserve for losses | 390,021 | 70,193 | | 460,214 |
| Short-term debt | 0 | 173,724 | | 173,724 |
| Long-term debt | 0 | 75,000 | | 75,000 |
| Deferred federal income taxes | 291,294 | 0 | 36,773(1) | 328,067 |
| Other liabilities | 112,058 | 65,520 | 31,550(1)(2) | 209,128 |
| TOTAL LIABILITIES | 870,614 | 741,777 | 68,323 | 1,680,714 |
| Deferred Credit | | | | |
| Deferred credit | 0 | 131,530 | | 131,530 |
| Preferred Stockholder's Equity | | | | |
| Redeemable preferred stock | 40,000 | 0 | | 40,000 |

| | | | | |
|---|---|---|---|---|
| Common Stockholder's Equity | | | | |
| Common stock........................ | 38 | 4,016 | (4,008)(1) | 46 |
| Additional paid-in capital.......... | 549,154 | 253,215 | 328,877(1)(2) | 1,131,246 |
| Retained earnings................... | 789,831 | 461,435 | (461,435)(1) | 789,831 |
| Accumulated other comprehensive income........................... | 25,333 | 15,542 | (15,542)(1) | 25,333 |
| Treasury stock...................... | (2,159) | (28,516) | 28,516(1) | (2,159) |
| TOTAL COMMON STOCKHOLDERS' EQUITY.................... | 1,362,197 | 705,692 | (123,591) | 1,944,298 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY....... | $2,272,811 | $1,578,999 | $ (55,268) | $3,796,542 |

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UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2000

| | HISTORICAL RADIAN GROUP | HISTORICAL ENHANCE FINANCIAL SERVICES | PRO FORMA ADJUSTMENTS | PRO F COMBI |
|---|---|---|---|---|
| | (IN THOUSANDS, EXCEPT PER-SHARE AMOUNTS) | | | |
| REVENUES | | | | |
| Premiums earned......................... | $520,871 | $110,252 | | $631, |
| Net investment income................... | 82,946 | 62,961 | | 145, |
| Equity in net income of affiliates....... | 0 | 13,117 | | 13, |
| Other net income........................ | 11,617 | 3,855 | | 15, |
| Total revenues.................. | 615,434 | 190,185 | 0 | 805, |
| EXPENSES | | | | |
| Provision for losses.................... | 154,326 | 34,706 | | 189, |
| Policy acquisition costs................ | 51,471 | 42,757 | (22,614)(3) | 71, |
| Other operating expenses................ | 57,167 | 106,679 | (22,738)(5) | 141, |
| Interest expense........................ | 0 | 16,896 | | 16, |
| Total expenses.................. | 262,964 | 201,038 | (45,352) | 418, |
| Pretax income (loss).................... | 352,470 | (10,853) | 45,352 | 386, |
| Provision (benefit) for income taxes..... | 103,532 | (1,444) | 22,342(3)(4)(5) | 124, |
| Net income (loss)................ | 248,938 | (9,409) | 23,010 | 262, |
| Net income (loss) per common share -- basic.......................... | 6.53 | (0.25) | | 5 |
| Net income (loss) per common share -- diluted........................ | 6.44 | (0.24) | | 5 |
| Average number of common shares outstanding -- basic.................... | 37,634 | 38,179 | (29,780)(1) | 46, |

| | | | | |
|---|---|---|---|---|
| Average number of common and common equivalent shares outstanding -- diluted | 38,149 | 38,645 | (30,143)(1) | 46, |
| | ======== | ======== | ======= | ===== |





NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

The unaudited pro forma condensed combined balance sheet has been prepared assuming the acquisition took place as of December 31, 2000, and allocates the total estimated purchase price to the fair value of assets and liabilities of Enhance Financial Services.

The unaudited pro forma condensed combined statements of income combine our's and Enhance Financial Services' historical statements of income and give effect to the acquisition as if it occurred on January 1, 2000, the beginning of the earliest period presented.

The total estimated purchase price of Enhance Financial Services has been allocated to assets and liabilities based on our management's estimates of their fair values with the excess of net assets acquired over costs allocated to the present value of future insurance profits.

(1) Adjustment to reflect the issuance of our common stock and related direct acquisition expenses as the total purchase price for the net assets of Enhance Financial Services, based on the conversion of each of the Enhance Financial Services common shares into 0.22 of each of our common shares, the elimination of Enhance Financial Services stockholders' equity and the write-down of Enhance Financial Services' deferred policy acquisition asset, offset by the recognition of the present value of future insurance profits.

| | IN THOUSANDS | |
|---|---|---|
| Current income tax benefit | $ 3,884 | |
| Enhance Financial Services common stock | 4,016 | |
| Enhance Financial Services additional paid in capital | 253,215 | |
| Enhance Financial Services retained earnings | 461,435 | |
| Enhance Financial Services accumulated other comprehensive income | 15,542 | |
| Enhance Financial Services deferred policy acquisition asset | | $ 59,152 |
| Deferred income tax liability | | 36,773 |
| Enhance Financial Services treasury stock | | 28,516 |
| Radian Group common stock | | 8 |
| Radian Group additional paid in capital | | 582,247 |
| Accrued acquisition costs | | 31,396 |
| | -------- | -------- |
| Totals | $738,092 | $738,092 |
| | ======== | ======== |

The following chart indicates the components of the estimated purchase price of the acquisition inherent in the adjusting entry:

| | IN THOUSANDS |
|---|---|
| Radian Group common stock | $556,776 |
| Issuance of Radian Group options | 25,479 |
| Direct acquisition costs, net of tax | 27,512 |
| Total purchase price | $609,767 |

The purchase price was issued in exchange for the net assets of Enhance Financial Services on February 28, 2001, the closing date of the merger.

The purchase price of Enhance Financial Services reflects the issuance of 8,459,964 shares of our common stock at $65.813 per share which is the average closing price of our common stock for the three trading days preceding and the three days following the announcement of the acquisition. Under the terms of the merger agreement, we have also issued 1,332,120 options to replace Enhance Financial Services options, 938,126 of which are already vested. The value of the assumed option grant is based on a Black-Scholes valuation model assuming an average life of 2.3 years, a risk-free interest rate of 6.75%, volatility of 39.3% and a dividend yield of 0.18%.





NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

The following table provides the allocation of the purchase price inherent in the adjusting entry:

| | IN THOUSANDS |
|---|---|
| Net assets of Enhance Financial Services: | |
| Cash and investments | $1,121,529 |
| Investment in affiliates | 139,384 |
| Deferred policy acquisition asset | 66,045 |
| Other assets, net | 90,596 |
| Unearned premiums | (357,340) |
| Reserve for losses | (70,193) |
| External debt financing | (248,724) |
| Deferred credit | (131,530) |
| Total purchase price | $ 609,767 |

(2) Adjustment to accrue the cost of registering our shares to be issued for Enhance Financial Services of $154,000.

| | IN THOUSANDS | |
|---|---|---|
| Additional paid in capital | $154 | |
| Accrued liabilities | | $154 |

(3) Adjustment to reflect the change in amortization expense and the related income tax expense associated with the write-down of Enhance Financial Services' deferred policy acquisition asset, offset by an increase in amortization expense and the related income tax benefit associated with the estimated present value of future insurance profits recognized at January 1, 2000.

| For the year ended December 31, 2000: | |
|---|---|
| Decrease in deferred policy acquisition amortization...... | $(22,614) |
| Increase in federal income tax expense.................... | 7,915 |

(4) Adjustment to reflect the reversal of an income tax benefit relating to income tax reductions produced by an investment in a portfolio of approximately 500 residential mortgage backed securities consisting of residual interests in real estate mortgage investment conduits ("REMIC") owned by Enhance Financial Services. These deductions were treated by Enhance Financial Services as permanent tax differences due to a partnership exit strategy that will not be executed by us. Therefore, the tax deductions from the REMIC residuals will be treated as a timing difference which eliminates the income tax benefit for GAAP purposes.

| For or at the year ended December 31, 2000: | |
|---|---|
| Increase in deferred federal income taxes payable......... | $ 6,469 |
| Increase in federal income tax expense.................... | 6,469 |

(5) Reflects the adjustments and related income tax expense required to eliminate the amortization of goodwill that was created as a result of prior acquisitions of Enhance Financial Services.

| For the year ended December 31, 2000: | |
|---|---|
| Decrease in goodwill amortization......................... | $ (22,738) |
| Increase in federal income tax expense.................... | 7,958 |





## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND FINANCIAL POSITION

### OUR BUSINESS

We provide through our subsidiaries, Radian Guaranty and Amerin Guaranty, private mortgage insurance coverage in the United States on residential mortgage loans. Private mortgage insurance protects mortgage lenders and investors from default related losses on residential first mortgage loans made primarily to home buyers who make down payments of less than 20% of the home's purchase price. Private mortgage insurance also facilitates the sale of such mortgage loans in the secondary mortgage market, principally to Freddie Mac and Fannie Mae. Radian Guaranty and Amerin Guaranty are restricted to providing insurance on residential first mortgage loans only.

In September 2000, we commenced operations in Radian Insurance Inc., referred to herein as Radian Insurance, a subsidiary which writes credit insurance on non-traditional mortgage related assets, such as second mortgages and manufactured housing, and provides credit enhancement to mortgage related capital market transactions.

Additionally, as a result of the acquisition of the business of Enhance Financial Services and its operating subsidiaries, we insure and reinsure credit-based risks and acquire and service credit-based assets in a variety of domestic and international niche markets. This business is divided into two operating segments, the insurance business and the asset-based businesses, with the insurance business being by far the larger operating segment.

THREE MONTH PERIOD ENDED MARCH 31, 2001 COMPARED TO THREE MONTH PERIOD ENDED MARCH 31, 2000

Results of Consolidated Operations

Our consolidated net income for the first quarter of 2001 was $80.2 million, a 36.8% increase compared to $58.6 million for the same quarter of 2000. This improvement was a result of growth in premiums earned and net investment income and the inclusion of equity in net income of affiliates, offset by an increase in provision for losses, policy acquisition costs and other operating expenses. As a result of our acquisition of Enhance Financial Services on February 28, 2001, net income for the first quarter of 2001 included the results from operations for March 2001 for Enhance Financial Services, which contributed $14.4 million to net income. Consolidated earned premiums increased $28.5 million or 22.4% from $127.3 million to $155.8 million, with the inclusion of Enhance Financial Services contributing $11.2 million of the increase. Net consolidated investment income increased from $18.8 million for the first quarter of 2000 to $28.0 million in the same period of 2001, a 48.8% increase with Enhance Financial Services contributing $4.9 million of the increase. Equity in net income of affiliates for the quarter was $12.0 million. Consolidated provision for losses increased $10.5 million for the first quarter of 2001 from $38.8 million in the first quarter of 2000 to $49.3 million for the same period of 2001, an increase of 27.0% with the inclusion of Enhance Financial Services accounting for $2.8 million of the increase. Policy acquisition and other operating expenses also increased from the first quarter of 2000 by 53.5% from $26.7 million to $41.0 for the first quarter of 2001 and Enhance Financial Services accounted for $4.2 million of the increase. Diluted net income per share increased 25.2% from $1.53 per share in the first quarter of 2000 to $1.91 per share for the same period in 2001. The weighted average shares for the quarter included one month of outstanding shares issued in connection with the Enhance Financial Services acquisition.

Mortgage Insurance and Related Services -- Results of Operations

Our net income for the first quarter of 2001 was $65.7 million, a 12.2% increase compared to $58.6 million for the first quarter of 2000. This improvement was a result of significant growth in premiums earned, net investment income and other income, offset by a higher provision for losses and an increase in policy acquisition costs and other operating expenses.





New primary insurance written during the first quarter of 2001 was $8.6 billion, a 68.9% increase compared to $5.1 billion for the first quarter of 2000. This increase in our primary new insurance written volume for the first quarter of 2001 was primarily due to a 52.8% increase in new insurance written volume in the private mortgage insurance industry for the first quarter of 2001 as compared to the first quarter of 2000. In addition, our market share of the industry increased to 17.2% in the first quarter of 2001, compared to 15.5% for the same period of 2000. We believe the market share increase was due in part to an increase in our share of new insurance written under bulk transactions which are included in industry new insurance written figures. During the first quarter of 2001, we wrote $1.3 billion of such transactions as compared to none in the same quarter of 2000. Our participation in the bulk transaction market is likely to vary significantly from quarter to quarter. In the first quarter of 2001, we wrote $33.1 million of pool insurance risk as compared to $90.3 million in the first quarter of 2000. Most of this pool insurance volume relates to a group of structured transactions composed primarily of Fannie Mae- and Freddie Mac-eligible conforming mortgage loans, known as the GSE Pool. This business contains loans with loan-to-value ratios above 80% which have primary insurance that places the pool insurance in a secondary loss position and loans with loan-to-value ratios of 80% and below for which the pool coverage is in a first loss position. The performance of this business written in prior years has been better than anticipated although the business is relatively young and the historical performance might not be an indication of future performance.

Our volume in the first three months of 2001 was positively impacted by relatively lower interest rates that affected the entire mortgage industry. The trend toward lower interest rates, which began in the fourth quarter of 2000, caused refinancing activity at the beginning of 2001 to increase significantly and contributed to the increase in the industry-wide new insurance volume for the first quarter of 2001. Our refinancing activity as a percentage of primary new insurance written was 36.0% for the first quarter of 2001 as compared to 13.0% for the same period in 2000. The persistency rate, which is defined as the percentage of insurance in force that is renewed in any given year, was 76.9% for the twelve months ended March 31, 2001 as compared to 78.2% for the twelve months ended March 31, 2000. This decrease was consistent with the increasing level of refinancing activity during the last quarter of 2000, which caused the cancellation rate to increase. The expectation for the second quarter of 2001 is strong industry volume and lower persistency rates, influenced by low interest rates.

We insure non-traditional loans, specifically Alternative A and A minus loans. Alternative A borrowers have an equal or better credit profile than our typical insured borrowers, but these loans are underwritten with reduced documentation and verification of information. We typically charge a higher premium rate for this business due to the reduced documentation, but do not consider this business to be significantly more risky than our prime business. The A minus loan programs typically have non-traditional credit standards which are less stringent than standard credit guidelines. To compensate for this additional risk, we receive a higher premium for insuring this product that we believe is commensurate with the additional default risk. During the first quarter of 2001, this business accounted for $2.8 billion or 31.5% of our new primary insurance written as compared to $852.2 million or 16.8% for the same period in 2000. Excluding bulk new insurance written, this business, also known as our non-prime business, accounted for 19.8% of new primary insurance written in the first quarter of 2001.

In the third quarter of 2000, we began to insure mortgage-related assets in Radian Insurance, a Pennsylvania domiciled insurer. Radian Insurance was formed to write credit insurance and financial guaranty insurance on mortgage-related assets that are not permitted to be insured by monoline mortgage guaranty insurers. These assets include second mortgages, manufactured housing loans, home equity loans and mortgages with loan-to-value ratios above 100%. During the first quarter of 2001, Radian Insurance wrote $1.1 billion of insurance which represented $187.0 million of risk. This business is written under varying structures and thus premium rates and commensurate risk levels will vary on a deal by deal basis.

Net premiums earned in the first quarter of 2001 were $144.6 million, a 13.6% increase compared to $127.3 million for the first quarter of 2000. This increase, which was greater than the increase in insurance in force, reflected the premiums earned in Radian Insurance of $5.5 million and the change in the mix of new insurance written volume originated by us during the second half of 2000 and through the first quarter of 2001, combined with the increase in new insurance volume. This change in mix included a higher percentage of non-





prime business. This type of business has higher premium rates, which are commensurate with the increased level of risk associated with the insurance. The insurance in force growth resulting from strong new insurance volume in the first quarter of 2001 was offset slightly by the decrease in persistency levels. There was an increase in direct primary insurance in force for the quarter of 2.6%, from $100.9 billion at December 31, 2000 to $103.4 billion at March 31, 2001. GSE Pool risk in force also grew to $1.2 billion at March 31, 2001 from $1.1 billion at the end of 2000, an increase of 2.8% for the quarter.

We and others in our industry, have entered into risk-sharing arrangements with various customers that are designed to allow the customer to participate in the risks and rewards of the mortgage insurance business. One such product is captive reinsurance, in which a mortgage lender sets up a mortgage reinsurance company that assumes part of the risk associated with that lender's insured book of business. In most cases, the risk assumed by the reinsurance company is an excess layer of aggregate losses that would be penetrated only in a situation of adverse loss development. For the first quarter of 2001, premiums ceded under captive reinsurance arrangements were $12.0 million, or 8.0% of total premiums earned during the period, as compared to $8.1 million, or 5.8% of total premiums earned for the same period of 2000. New primary insurance written under captive reinsurance arrangements was $2.8 billion, or 33.1% of total new primary insurance written for the first quarter of 2001 as compared to $1.7 billion, or 33.3% for the same period in 2000.

Net investment income for the first quarter of 2001 was $23.1 million, a 22.9% increase compared to $18.8 million for the same period of 2000. This increase was a result of continued growth in invested assets primarily due to positive operating cash flows of $115.8 million during the first quarter of 2001. We have continued to invest some of our new operating cash flow in tax-advantaged securities, primarily municipal bonds, although we did modify our investment policy to allow the purchase of various other asset classes, including common stock and convertible securities, beginning in the second quarter of 1998 and some of our cash flows have been used to purchase these classes of securities. Our intent is to target the common equity exposure at a maximum of 5% of the investment portfolio's market value while the convertible securities and mortgage-backed securities exposures are targeted not to exceed 10% each.

The provision for losses was $46.4 million for the first three months of 2001, an increase of 19.8% compared to $38.8 million for the first three months of 2000. This increase reflected an increase in the number of delinquent loans as a result of the maturation of our book of business over the past several years combined with an increase in defaults on the non-prime book of business. Claim activity is not spread evenly throughout the coverage period of a book of business. Relatively few claims are received during the first two years following issuance of the policy. Historically, claim activity has reached its highest level in the third through fifth years after the year of loan origination. Approximately 69.1% of our primary risk in force and almost all of our pool risk in force at March 31, 2001 had not yet reached its anticipated highest claim frequency years. Our overall default rate at March 31, 2001 was 1.7% as compared to 1.6% at December 31, 2000, while the default rate on the primary business was 2.5% at March 31, 2001 as compared to 2.3% at December 31, 2000. The increase in our overall default rate could be a result of the slowing economy. A strong economy generally results in better loss experience and a decrease in the overall level of losses. A continued weakening of the economy could negatively impact our overall default rates, which would result in an increase in the provision for losses. The number of defaults rose from 26,520 at December 31, 2000 to 28,572 at March 31, 2001 and the average loss reserve per default declined from $14,707 at the end of 2000 to $14,354 at March 31, 2001. The default rate in California was 1.7% (including pool) at March 31, 2001 as compared to 1.5% at December 31, 2000 and claims paid in California during the first quarter of 2001 were $1.9 million, representing approximately 8.3% of total claims as compared to 20.8% in 2000. California represented approximately 16.6% of primary risk in force at March 31, 2001 as compared to 16.8% at December 31, 2000. The default rate in Florida was 3.3% (including pool) at March 31, 2001 as compared to 2.7% at December 31, 2000 and claims paid in Florida during the first quarter of 2001 were $2.4 million, representing approximately 10.6% of total claims as compared to 16.5% in 2000. Florida represented approximately 7.4% of primary risk in force at March 31, 2001 and December 31, 2000. We have reported an increased number of defaults on non-prime business insured beginning in 1997. Although the default rate for this business is higher than on our normal books of business, it is within the expected range for this type of business, and the higher premium rates charged are expected to compensate for the increased level of risk. The number of non-prime





loans in default at March 31, 2001 was 3,609 which represented 16.3% of the total number of primary loans in default as compared to 2,690 at December 31, 2000 which represented 13.1% of the primary loans in default. The default rate on this business rose from 4.1% at December 31, 2000 to 4.4% at March 31, 2001 as compared to the primary default rate on our prime business at March 31, 2001 and December 31, 2000 of 2.3%. Direct losses paid in the first quarter of 2001 declined to $21.8 million as compared to $23.3 million for the same quarter of 2000. The severity of loss payments has declined due to property value appreciation, but any negative impact on future property values would most likely increase the loss severity.

Underwriting and other operating expenses were $36.8 million for the first three months of 2001, an increase of 37.6% compared to $26.7 million for the same period of 2000. These expenses consisted of policy acquisition expenses, which relate directly to the acquisition of new business, and other operating expenses, which primarily represent contract underwriting expenses, overhead and administrative costs.

Policy acquisition costs were $15.1 million in the first quarter of 2001, an increase of 14.1% compared to $13.3 million in the first quarter of 2000. This reflects an increase in expenses to support the higher new insurance written volume during the first quarter of 2001 as compared to the same period of 2000. In addition, we have continued development of our marketing infrastructure needed to support a focus on larger, national mortgage lenders in order to take advantage of the widespread consolidation and centralized decision making occurring in the mortgage lending industry. Other operating expenses for the first quarter of 2001 were $21.6 million, an increase of 60.9% compared to $13.5 million for the first quarter of 2000. This reflects an increase in expenses associated with contract underwriting services combined with an increase in expenses associated with our administrative and support functions. Contract underwriting expenses for the first quarter of 2001 included in other operating expenses were $8.0 million as compared to $3.4 million for the same period in 2000, an increase of 135.2%. This $4.6 million increase in contract underwriting expenses during the first quarter of 2001 reflected the increasing demand for contract underwriting services as mortgage origination volume has increased. Consistent with the increase in contract underwriting expenses, other income related to contract underwriting services increased 148.9% to $3.3

million for the first quarter of 2001 as compared to $1.3 million for the same period in 2000. During the first three months of 2001, loans underwritten via contract underwriting accounted for 33.1% of applications, 29.7% of insurance commitments, and 21.3% of certificates issued by us as compared to 27.5% of applications, 23.6% of commitments and 16.8% of certificates in the first three months of 2000.

The effective tax rate for the quarter ended March 31, 2001 was 28.7% as compared to 29.3% for the first quarter of 2000. Operating income accounted for 72.9% of pretax net income in the first quarter of 2001 as compared to 76.2% in the first quarter of 2000, thus resulting in the decrease in effective tax rate for the first quarter of 2001 as the tax advantaged investment income represented a larger share of pretax net income.

Financial Guaranty Insurance -- Results of Operations

The financial guaranty insurance operations are conducted through Enhance Financial Services and primarily involve the reinsurance and direct underwriting of financial guaranties of municipal and asset-backed debt obligations. Reinsurance is assumed primarily from four monoline financial guaranty insurers. In addition, another insurance subsidiary, Van-American Insurance Company, is engaged on a run-off basis in reclamation bonds for the coal mining industry and surety bonds covering closure and post-closure obligations of landfill operators. Such business is not expected to be material to our financial results. Our consolidated results of operations include only one month of operating results from Enhance Financial Services and prior periods include no Enhance Financial Services results so prior period comparisons are not contained herein.

During the month of March 2001, net written premiums were $9.6 million and net earned premiums were $11.2 million, of which refundings constituted $1.2 million. Net written premiums were composed of $4.4 million of assumed reinsurance, $1.9 million in direct financial guaranty, and $3.3 million of trade credit insurance and reinsurance. The breakdown of net earned premiums included $5.2 million in assumed reinsurance, $3.3 million in direct financial guaranty, and $2.7 million in trade credit. Net investment income was $4.9 million and other income of $0.4 million resulted from several relatively small sources and is not anticipated to present a recurring or meaningful component on an ongoing basis.





Incurred losses and loss adjustment expenses were $2.8 million or 25.3% of earned premium. Policy acquisition costs were $1.9 million, other insurance expenses totaled $1.7 million and profit commissions were $0.1 million. Together these expenses resulted in an insurance expense ratio of 33.5% and, combined with the loss ratio of 25.3%, the combined ratio was 58.8% for March 2001. Interest expense of $1.4 million represented interest on the $75.0 million long-term public debt of Enhance Financial Services and $173.7 million of short-term bank debt. The effective tax rate for the quarter ended March 31, 2001 was 28.0%.

Asset-Based Businesses -- Results of Operations

Enhance Financial Services' asset-based businesses are conducted primarily through its minority owned subsidiaries, Sherman Financial Group LLC and Credit-Based Asset Servicing and Securitization LLC, referred to herein as C-BASS. C-BASS is engaged in the origination, servicing and/or securitization of special assets, including sub-performing/non-performing and seller-financed residential mortgages, real estate and subordinated residential mortgage-based securities. Sherman Financial Group conducts a business that focuses on purchasing and servicing delinquent unsecured consumer assets. In addition, two wholly owned subsidiaries, Singer Asset Finance Company, L.L.C. and Enhance Consumer Services LLC, which had been engaged in the origination, purchase, servicing, and securitization of assets including state lottery awards, structured settlement payments, and viatical settlements, are currently operating on a run-off basis, primarily servicing prior originations, and the results of these subsidiaries are not expected to be material to our financial results. An unusually strong month from C-BASS led to equity in net income from affiliates of $12.0 million for March 2001. This amount is expected to be lower in future periods, and is likely to vary from period to period. C-BASS accounted for $11.6 million or 96.7% of the total income from affiliates.

TWELVE-MONTH PERIOD ENDED DECEMBER 31, 2000 COMPARED TO TWELVE-MONTH PERIOD ENDED DECEMBER 31, 1999

Our net income for 2000 was $248.9 million, a 68.0% increase compared to $148.1 million for 1999. However, net income for 1999 included merger expenses (net of tax) of $34.4 million and without these merger expenses, net income for 1999 was $182.6 million. This represents an increase of 36.4% or $66.3 million from 1999 to 2000. This improvement in net income, excluding merger expenses, was a result of growth in premiums earned and net investment income combined with a lower provision for losses and a reduction in policy acquisition costs and other operating expenses. The merger expenses were incurred in connection with the formation of our company from the merger of Amerin Corporation into our predecessor, CMAC Investment Corporation.

New primary insurance written during 2000 was $24.9 billion, a 25.0% decrease compared to $33.3 billion for 1999. This decrease in our primary new insurance written volume in 2000 was partially due to a 14.0% decrease in new insurance written volume in the private mortgage insurance industry compared to 1999. In addition, our market share of the industry decreased to 15.2% for the year ended December 31, 2000 as compared to 17.5% for the same period of 1999. We believe the market share decline was due in part to the reduction in business provided by a few of the largest national accounts, which rebalanced their mortgage insurance allocation after the merger. In addition, we believe that we had a relatively low market share of certain large bulk transactions which are included in industry new insurance written figures. For the year ended December 31, 2000, we wrote $1.2 billion of such bulk transactions. In 2000, we reduced the volume of pool insurance we wrote to $187.9 million of risk written as compared to $421.2 million in 1999. Most of this pool insurance volume relates to GSE Pool loans that are geographically well dispersed throughout the United States and have lower average loan-to-value ratios than our primary business. This business contains loans with loan-to-value ratios above 80% which have primary insurance that places the pool insurance in a secondary loss position and loans with loan-to-value ratios of 80% and below for which the pool coverage is in a first loss position. The performance of this business written in prior years has been better than anticipated although the business is relatively young and the historical performance might not be an indication of future performance. Under a pool insurance transaction, our exposure on each individual loan is uncapped; however, the aggregate stop-loss percentage (typically 1.0% to 1.5% of the aggregate original loan balance in the Fannie Mae/Freddie Mac transactions) is the maximum that can be paid out in losses before the insurer's exposure





terminates. We expect our pool insurance activity to continue at the current reduced levels during 2001. Premium rates on pool insurance are significantly lower than on primary insurance loans due to the low stop-loss levels, which limit the overall risk exposure to us, and the focus of such product on high-quality primary insurance customers. S&P, Moody's and Fitch have determined that the capital requirements to support such pool insurance will be significantly more stringent than on primary insurance due to the low premium rates and low stop-loss levels which increase expected losses as a percentage of risk outstanding.

Mortgage insurance industry volume in 2000 was negatively impacted by relatively higher interest rates which affected the entire mortgage industry for most of the year. The trend toward higher interest rates, which began in the third quarter of 1999, caused refinancing activity during 2000 to decline to normal levels and contributed to the decrease in the mortgage insurance industry new insurance written volume for 2000. Our refinancing activity as a percentage of primary new insurance written was 14.0% for 2000 as compared to 27.0% for 1999. However, a decrease in interest rates during the fourth quarter of 2000 resulted in an increase in refinancing activity for us during the quarter to 17.0% of primary new insurance written as compared to 12.0% for the third quarter of 2000. The persistency rate was 78.2% for 2000 as compared to 75.0% for 1999. This increase was consistent with the declining level of refinancing activity during most of 2000, which caused the cancellation rate to decrease. The expectation for 2001 is a higher industry volume and lower persistency rates, influenced by lower interest rates.

We insure non-traditional loans, specifically Alternative A and A minus loans. Alternative A borrowers have an equal or better credit profile than our typical insured borrowers, but these loans are underwritten with reduced documentation and verification of information. We typically charge a higher premium rate for this business due to the reduced documentation, but do not consider this business to be significantly more risky than our normal primary business. The A minus loan programs typically have non-traditional credit standards that are less stringent than standard credit guidelines. To compensate for this additional risk, we receive a higher premium for insuring this product that we believe is commensurate with the additional default risk. During 2000, this business accounted for $5.4 billion or 21.5% of our new primary insurance written as compared to $3.5 billion or 9.7% for the same period in 1999.

In the third quarter of 2000, we began to insure mortgage-related assets in Radian Insurance. Radian Insurance is rated AA by S&P and Aa3 by Moody's and was formed to write credit insurance and financial guaranty insurance on assets that are not permitted to be insured by monoline mortgage guaranty insurers. These assets include manufactured housing loans, second mortgages, home equity loans and mortgages with loan-to-value ratios above 100%. During 2000, Radian Insurance wrote $1.6 billion of insurance which represented $211.0 million of risk. Such business is similar to mortgage guaranty insurance, however, the structures can vary and thus premium rates and commensurate risk levels will be variable.

Net premiums earned in 2000 were $520.9 million, a 10.2% increase compared to $472.6 million for 1999. This increase, which was greater than the increase in insurance in force, reflected the change in the mix of new insurance written volume originated by us during the second half of 1999 and throughout 2000. This change in mix included a higher percentage of loans with loan-to-value ratios of 95% or higher and Alternative A and A minus business. These types of business have higher premium rates, which are commensurate with the increased level of risk associated with the insurance. Our higher loan-to-value activity was 45.0% for 2000 as compared to 41.0% for 1999 and the Alternative A and A minus business accounted for 21.5% of our new primary insurance written in 2000 as compared to 9.7% for 1999. The reduced level of refinancing activity and the resulting increase in persistency led to an increase in direct primary insurance in force during 2000 of 3.9%, from $97.1 billion at December 31, 1999 to $100.9 billion at December 31, 2000. GSE Pool risk in force also grew to $1.1 billion at December 31, 2000, an increase of 4.2% for the year. We and others in our industry have entered into risk-sharing arrangements with various customers that are designed to allow the customer to participate in the risks and rewards of the mortgage insurance business. One such product is captive reinsurance, in which a mortgage lender sets up a mortgage reinsurance company that assumes part of the risk associated with that lender's insured book of business. In most cases, the risk assumed by the reinsurance company is an excess layer of aggregate losses that would be penetrated only in a situation of adverse loss development. For 2000, premiums ceded under captive reinsurance arrangements were $39.5 million, or 7.6% of total premiums earned during 2000, as compared to $27.5 million, or 5.8% of total premiums earned for the





same period of 1999. New primary insurance written under captive reinsurance arrangements was $8.1 billion, or 32.6% of total new primary insurance written in 2000 as compared to $13.7 billion, or 41.3% of total new primary insurance written in 1999.

Net investment income for 2000 was $82.9 million, a 23.3% increase compared to $67.3 million in 1999. This increase was a result of continued growth in invested assets primarily due to positive operating cash flows of $280.0 million during 2000. We have continued to invest some of our new operating cash flows in tax-advantaged securities, primarily municipal bonds, although we did modify our investment policy to allow the purchase of various other asset classes, including common stock and convertible securities, beginning in the second quarter of 1998 and some of our cash flows have been used to purchase these classes of securities. Our intent is to target the common equity exposure at a maximum of 5% of the investment portfolio's market value while the convertible securities and mortgage-backed securities exposures are targeted not to exceed 10% each. We expect no material long-term impact on total investment returns as a result of this investment asset diversification.

The provision for losses was $154.3 million in 2000, a decrease of 11.4% compared to $174.1 million in 1999. This decrease was due to a reduction from 1999 to 2000 in the percentage of delinquencies on higher loan-to-value loans which have higher loss reserves per default and a decrease in loss severity due to strong property value appreciation. Claim activity is not evenly spread throughout the coverage period of a book of business. Relatively few claims are received during the first two years following issuance of the policy. Historically, claim activity has reached its highest level in the third through fifth years after the year of loan origination. Approximately 76.0% of our primary risk in force and almost all of our pool risk in force at December 31, 2000 had not yet reached its anticipated highest claim frequency years. Due to the high cancellation rates and strong new insurance volume in 1998 and the first half of 1999, this percentage of newer risk in force is significantly higher than normal levels. Our overall default rate at December 31, 2000 was 1.6% as compared to 1.5% at December 31, 1999, while the default rate on the primary business was 2.3% at December 31, 2000 as compared to 2.2% at December 31, 1999. The increase in our overall default rate could be a result of the slowing economy. A strong economy generally results in better loss experience and a decrease in the overall level of losses. A continued weakening of the economy could negatively impact our overall default rates, which would result in an increase in the provision for losses. The number of defaults rose from 22,151 at December 31, 1999 to 26,520 at December 31, 2000 and the average loss reserve per default declined from $15,071 at the end of 1999 to $14,707 at December 31, 2000. The decrease in average loss reserve per default was primarily the result of a decline in our percentage of higher loan-to-value loans in default which results in a lower overall reserve per default as lower loan-to-value loans are perceived as having a lower risk of claim incidence. The percentage of loans in default with loan-to-value ratios of 90.01% or higher decreased to 45.2% as of December 31, 2000 as compared to 47.9% as of December 31, 1999. The default rate in California was 1.5% (including pool) at December 31, 2000 as compared to 1.8% at December 31, 1999 and claims paid in California during 2000 were $15.8 million, representing approximately 16.1% of total claims as compared to 26.8%

in 1999. California represented approximately 16.8% of primary risk in force at December 31, 2000 as compared to 17.2% at December 31, 1999. The default rate in Florida was 2.7% (including pool) at December 31, 2000 as compared to 3.1% at December 31, 1999 and claims paid in Florida during 2000 were $13.3 million, representing approximately 13.6% of total claims as compared to 13.4% in 1999. Florida represented 7.4% of primary risk in force at December 31, 2000 and 1999. We have reported an increased number of defaults on the non-prime business insured beginning in 1997. Although the default rate for this business is higher than on our normal books of business, it is within the expected range for this type of business, and the higher premium rates charged are expected to compensate for the increased level of risk. The number of non-prime loans in default at December 31, 2000 was 2,690, which represented 13.1% of the total number of primary loans in default and the default rate on this business was 4.1% as of December 31, 2000 as compared to the primary default rate on our prime business of 2.3% at the end of 2000. Direct loss-es paid in 2000 were $93.3 million as compared to direct losses paid during 1999 of $88.2 million, an increase of 5.8%. The severity of loss payments has declined due to property value appreciation, but any negative impact on future property values would most likely increase the loss severity.





Underwriting and other operating expenses were $108.6 million for 2000, a decrease of 10.5% compared to $121.4 million for 1999. These expenses consisted of policy acquisition expenses, which relate directly to the acquisition of new business, and other operating expenses, which primarily represent contract underwriting expenses, overhead, and administrative costs.

Policy acquisition costs were $51.5 million in 2000, a decrease of 12.4% compared to $58.8 million in 1999. This decrease reflects the synergies achieved as a result of the merger and the decrease in the level of new insurance written for 2000, as compared to 1999. Other operating expenses for 2000 were $57.2 million, a decrease of 8.8% compared to $62.7 million for 1999. This reflects a decrease in expenses associated with contract underwriting services offset by an increase in expenses associated with our administrative and support functions. Contract underwriting expenses for 2000 included in other operating expenses were $20.3 million as compared to $32.4 million for 1999, a decrease of 37.5%. However, contract underwriting expenses were $6.8 million for the fourth quarter of 2000, as compared to $6.9 million for the same period in 1999. This $12.1 million decrease in contract underwriting expenses during 2000 reflected the decreased demand for contract underwriting services throughout the first nine months of 2000, as mortgage origination volume declined; however, the increase in expenses for the fourth quarter of 2000 reflected the increasing demand for contract underwriting services as more lenders took advantage of the integration of the contract underwriting process with Freddie Mac's Loan Prospector and Fannie Mae's Desktop Underwriter origination systems to eliminate back offices origination functions, combined with the decrease in interest rates toward the end of 2000 which resulted in an increase in the level of refinanced mortgage origination volume. Consistent with the decline in contract underwriting expenses, other income decreased 34.5% to $7.4 million in 2000, as compared to $11.3 million in 1999. During 2000, loans underwritten via contract underwriting accounted for 30.1% of applications, 26.2% of insurance commitments, and 19.4% of certificates issued by us as compared to 22.2% of applications, 18.8% of commitments, and 15.6% of certificates in 1999. In 2001, these percentages are expected to decrease if there is a continued increase in the level of refinancing as refinanced loans tend to have lower loan-to-value ratios and therefore contain a relatively low percentage of loans that require mortgage insurance.

During 1999, we incurred merger-related expenses of $37.8 million. We incurred no additional merger-related expenses in 2000, and do not expect to incur any additional expenses related to this merger in 2001 or beyond.

The effective tax rate for 2000 was 29.4% and, excluding merger costs (net of tax) of $34.4 million, the effective tax rate for the same period in 1999 was 29.0%. Eliminating the merger expenses of $37.8 million in 1999, operating income accounted for 73.2% of net income in 1999, as compared to 75.3% for the same period in 2000, thus resulting in an increase in effective tax rates for 2000.

TWELVE-MONTH PERIOD ENDED DECEMBER 31, 1999 COMPARED TO TWELVE-MONTH PERIOD ENDED DECEMBER 31, 1998

Net income for 1999 was $148.1 million, a 4.1% increase compared to $142.2 million for 1998. However, net income for 1999 included merger expenses (net of tax) of $34.4 million as compared to merger expenses (net of tax) of $714,000 in 1998. Without these merger expenses, net income for 1999 was $182.6 million as compared to $143.0 million for 1998, an increase of 27.7% or $39.6 million. This improvement in net income, excluding merger expenses, was a result of significant growth in premiums earned and net investment income, partially offset by a higher provision for losses, an increase in policy acquisition costs and other operating expenses, and a reduction in other income.

New primary insurance written during 1999 was $33.3 billion, a 10.3% decrease compared to $37.1 billion for 1998. This decrease in our primary new insurance written volume in 1999, was primarily due to a decline in our market share of the industry volume, which fell to 17.5% for the year ended December 31, 1999, as compared to 19.3% for the same period of 1998. This decrease in market share was slightly offset by an increase in primary new insurance written volume in the private mortgage insurance industry for 1999, as compared to 1998 of $775.0 million or 0.4%. We believe the market share decline was primarily due to the reduction in business provided by a few of the largest national accounts, which rebalanced their mortgage

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insurance allocation after the merger. In 1999, we wrote a smaller amount of pool insurance, which represented an addition to risk written of $421.2 million as compared to $475.0 million in 1998. Most of this pool insurance volume related to GSE Pool business.

Our volume in 1999 was positively impacted by relatively lower interest rates that affected the entire mortgage industry for most of the year. The trend toward lower interest rates, which began in the third quarter of 1997, c