REPORT ON EXAMINATION

OF THE

RADIAN ASSET ASSURANCE INC.

AS OF

DECEMBER 31, 2013

DATE OF REPORT	DECEMBER 3, 2014
EXAMINER	KAREN GARD, AFE

TABLE OF CONTENTS

NEW YORK STATE
DEPARTMENT of
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Benjamin M. Lawsky
Superintendent

December 3, 2014

Honorable Benjamin Lawsky
Superintendent of Financial Services
Albany, New York 12257

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 31060 dated September 25, 2013, attached hereto, I have made an examination into the condition and affairs of Radian Asset Assurance Inc. as of December 31, 2013, and submit the following report thereon.

Wherever the designation "the Company" appears herein without qualification, it should be understood to indicate Radian Asset Assurance Inc.

Wherever the term "Department" appears herein without qualification, it should be understood to mean the New York State Department of Financial Services.

The examination was conducted at the Company's home office located at 335 Madison Avenue, New York, New York 10017.

1. SCOPE OF EXAMINATION

The Department has performed a coordinated group examination of the Company, a multi-state insurer. The previous examination was conducted as of December 31, 2008. This examination covered the five year period from January 1, 2009 through December 31, 2013. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The examination was conducted in conjunction with the Commonwealth of Pennsylvania, which was the coordinating and lead state of the Radian Group Inc. ("Radian Group"). The examination was performed concurrently with the examinations of the following PA-domiciled insurers:

- Radian Guaranty, Inc. ("RGI")
- Radian Insurance Inc. ("RII")
- Radian Mortgage Insurance Inc. ("RMII")
- Radian Mortgage Assurance Inc. ("RMAI")
- Radian Guaranty Reinsurance Inc. ("RGRI")

This examination was conducted in accordance with the National Association of Insurance Commissioners ("NAIC") Financial Condition Examiners Handbook ("Handbook"), which requires that we plan and perform the examination to evaluate the financial condition and to identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. This examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All financially significant accounts and activities of the Company were considered in accordance with the risk-focused examination process. The examiners also relied upon audit work performed by the Company's independent public accountants when appropriate.

This examination report includes a summary of significant findings for the following items as called for in the Handbook:

Significant subsequent events
Company history
Corporate records
Management and control
Fidelity bonds and other insurance
Territory and plan of operation
Loss experience
Reinsurance
Accounts and records
Statutory deposits
Financial statements
Summary of recommendations

A review was also made to ascertain what action was taken by the Company with regard to comments and recommendations contained in the prior report on examination.

This report on examination is confined to financial statements and comments on those matters that involve departures from laws, regulations or rules, or that are deemed to require explanation or description.

2. DESCRIPTION OF COMPANY

The Company was incorporated under the laws of New York on December 30, 1985 as the Vesta American Insurance Company, to serve as the vehicle for the domestication of the United States Branch of Gothaer Insurance Company of Cologne, Germany. On July 1, 1988, the Company changed its name to Vesta American Reinsurance Corporation.

On December 30, 1992, all of the outstanding shares of the Company were purchased by Asset Guaranty Reinsurance Company, a New York insurer. On January 26, 1993, the Company merged with Asset Guaranty Reinsurance Company, with the Company as the surviving entity. Effective the same day, the Company changed its name to Asset Guaranty Insurance Company.

Effective February 28, 2001, the Company's then parent, Enhance Financial Services Group Inc. ("Enhance"), merged with Gold Acquisition Corporation, a wholly-owned subsidiary of Radian Group Inc. ("Radian Group"), with Enhance being the surviving company. As a result of the merger, Radian Group became the Company's ultimate parent. Effective January 1, 2002, the Company changed its name to Radian Asset Assurance Inc.

Effective June 1, 2004, the Company merged with its affiliate, Radian Reinsurance Inc., with the Company as the surviving entity.

On September 18, 2008, all of the outstanding shares of the Company, which were directly owned and controlled by Enhance, were transferred by dividend, in their respective ownership percentage, to Enhance's shareholders: 89.51% to Radian Group and 10.49% to Radian Guaranty Inc. ("RGI"), an affiliated insurance company domiciled in Pennsylvania and 100% owned by Radian Group. Radian Group simultaneously contributed its share of the Company to RGI. Accordingly, the Company became a wholly-owned subsidiary of RGI.

In 2011, the Company's wholly-owned subsidiary, Radian Asset Assurance Limited ("RAAL"), a UK-domiciled insurance company, was liquidated. Additionally, in 2011, the Company purchased Municipal and Infrastructure Assurance Corporation ("MIAC") with the expectation that MIAC would be utilized to reduce financial guaranty exposure. With this endeavor, the Company formed a wholly-owned subsidiary, MAAC Holdings (Bermuda), Ltd. ("MAAC"). In 2012, MIAC was sold and the Company began the dissolution of MAAC.

In 2012, the Company's wholly-owned subsidiary, Asset Recovery Solutions Group Inc., was dissolved.

Capital paid in is $15,000,000 consisting of 100,000 shares of $150 par value per share common stock. The Company has 4,000.08 shares of perpetual preferred stock authorized with a par value of $1,000 per whole share. As of the examination date, these shares have not been issued.

Gross paid in and contributed surplus is $702,660,762. Gross paid in and contributed surplus decreased by $61,690 during the examination period, as follows:

Year	Description	Amount
1/1/2009	Beginning gross paid in and contributed surplus	$702,722,452
2009	Surplus reduction	(61,690)
12/31/2013	Ending gross paid in and contributed surplus	$702,660,762

The 2009 surplus reduction represented the difference in value of previously granted restricted stock of Radian Group between the vesting date and the date of the grant. As of the prior examination, the examiner noted an issue with this accounting practice; the Company has since refrained from reducing surplus in this manner.

A. Management

Pursuant to the Company's by-laws, management of the Company is vested in a board of directors consisting of not less than seven nor more than twenty-one members. During the examination period, the board met at least four times during each calendar year. At December 31, 2013, the board of directors was comprised of the following nine members:

Name and Residence	Principal Business Affiliation
Richard I. Altman Bala Cynwyd, PA	Executive Vice President and Chief Operating Officer, Radian Group Inc.
David J. Beidler Woodstock, NY	President, Radian Asset Assurance Inc.
Derek V. Brummer Katonah, NY	Executive Vice President and Chief Risk Officer, Radian Group Inc.
Bret S. Derman Brooklyn, NY	Senior Vice President and Secretary, Radian Asset Assurance Inc.
Edward Hoffman Wynnewood, PA	General Counsel and Corporate Secretary, Radian Group Inc.
Sanford A. Ibrahim Philadelphia, PA	Chief Executive Officer, Radian Group Inc.

Name and Residence	Principal Business Affiliation
Catherine M. Jackson Doylestown, PA	Senior Vice President and Controller, Radian Group Inc.
Terry L. Latimer West Chester, PA	Senior Vice President and Treasurer, Radian Group Inc.
C. Robert Quint Rydal, PA	Executive Vice President and Chief Financial Officer, Radian Group Inc.

A review of the minutes of the board of directors' meetings held during the examination period indicated that the meetings were generally well attended and each board member had an acceptable record of attendance.

As of December 31, 2013, the principal officers of the Company were as follows:

Name	Title
David J. Beidler	President
Bret S. Derman	Senior Vice President and Secretary
Terry L. Latimer	Senior Vice President and Treasurer
Catherine M. Jackson	Senior Vice President and Controller

B. Territory and Plan of Operation

As of December 31, 2013, the Company was licensed to write business in all states, the District of Columbia, Guam, Puerto Rico, and the U.S. Virgin Islands.

As of the examination date, the Company was authorized to transact the kinds of insurance as defined in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

Paragraph	Line of Business
16(C)(D) (E) (F)	Surety
17(A)	Credit
25	Financial Guaranty

Based on the lines of business for which the Company is licensed and the Company's current capital structure, and pursuant to the requirements of Articles 13, 41 and 69 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of $66,400,000.

The following schedule shows the direct premiums written by the Company both in total and in New York for the period under examination:

Calendar Year	New York State	Total Direct Written Premiums*	Premiums Written in New York State as a Percentage of Total Premium
2009	$42,290,126	$42,838,978	98.72%
2010	$44,402,910	$45,074,695	98.51%
2011	$39,916,261	$40,384,988	98.84%
2012	$25,424,561	$25,842,851	98.38%
2013	$16,734,001	$17,107,526	97.82%

**All direct written premiums are attributable to installment premiums*.

Financial guaranty insurance typically provides an unconditional and irrevocable guaranty to the holder of a financial obligation of full and timely payment of principal and interest when due. Historically, the Company principally offered financial guaranty insurance and reinsurance on public finance (domestic and international) and structured finance obligations.

In 2005, the Company placed its trade credit and surety reinsurance line of business into runoff. In 2008, following downgrades of its insurance financial strength rating and facing difficult market conditions stemming from the 2007 credit crisis, the Company discontinued writing business and has since been actively engaged in performing the functions of surveillance of outstanding exposure, insured portfolio management, loss mitigation and prevention, and risk analytics. Since 2008, the Company's net par outstanding has been reduced by approximately 79% as of year-end 2013.

C. Reinsurance

Historically, the Company ceded very little of its direct business.

Effective January 1, 2012, the Company entered into a Quota Share Reinsurance Agreement with an authorized non-affiliated reinsurer, whereby the reinsurer agreed to assume one hundred percent (100%) of the actual or alleged liability and other obligations of the Company as the liabilities relate to specified “Covered Policies”, including all losses and loss adjustment expenses, but not losses paid prior to the effective day of the agreement. The agreement remains in force until the extinguishment of all liabilities under the Covered Policies, or may be terminated upon notice due to certain defined events. The agreement was reviewed and found to contain the required clauses, including an insolvency clause, meeting the requirements of Section 1308 of the New York Insurance Law. The agreement was accounted for utilizing reinsurance accounting as set forth in SSAP No. 62R.

Management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in SSAP No. 62R. Representations were supported by an attestation from the Company's Chief Executive Officer and Chief Financial Officer pursuant to the NAIC Annual Statement Instructions. Additionally, examination review indicated that the Company was not a party to any finite reinsurance agreements.

D. Holding Company System

The Company is a member of the Radian Group. The Company is wholly-owned by RGI, a Pennsylvania corporation, which is ultimately controlled by Radian Group Inc.

A review of the Holding Company Registration Statements filed with this Department indicated that such filings were complete and were filed in a timely manner pursuant to Article 15 of the New York Insurance Law and Department Regulation 52.

The following is an abridged chart of the holding company system at December 31, 2013:

At December 31, 2013, the Company was party to the following agreements with other members of its holding company system:

Expense Allocation and Services Agreements

Effective May 17, 2003, and amended January 1, 2009, the Company entered into an agreement with Radian Group, whereby Radian Group provides services that are reasonably required by the Company for the operation of its business including, but not limited to: accounting; record keeping; tax; information services and data processing; treasury, investment and management services, internal auditing; and administrative services. Additionally the agreement provides for expenses incurred by Radian Group on behalf of the Company to be allocated to the Company. The Company reimburses Radian Group on a cost basis. This agreement was filed with the Department pursuant to Section 1505 of the New York Insurance Law.

Effective July 19, 2010, the Company entered into an agreement with Radian Guaranty Inc. (RGI), whereby RGI provides services that are reasonably required by the Company (and not otherwise provided by Radian Group) for the operation of its business including, but not limited to: accounting; record keeping; management services; administrative services. The Company reimburses RGI on a cost basis. This agreement was filed with the Department pursuant to Section 1505 of the New York Insurance Law.

Service Agreement

Effective October 1, 2005, the Company entered into an agreement with Van-American Insurance Agency, Inc. (“VAIA”), whereby VAIA provides services related to the Company’s surety bond business. The agreement was filed with this Department pursuant to Section 1505 of the New York Insurance Law.

Tax Allocation Agreement

Effective January 1, 2002, and amended numerous times to include/remove affiliates, the Company is party to a tax allocation agreement with Radian Group Inc., its ultimate parent. Under the terms of the agreement, the Company files a consolidated federal income tax return with its ultimate parent and various affiliates. This agreement was filed with the Department pursuant to Section 1505 of the New York Insurance Law.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2013, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	1%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	21%
Premiums in course of collection to surplus as regards policyholders	0%

All of the above ratios fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners. The unusually low ratios related to Net premiums written to surplus as regards policyholders and to Premiums in course of collection to surplus as regards policyholders reflect the fact that the Company is no longer writing business.

The underwriting ratios presented below are on an earned/incurred basis and encompass the five-year period covered by this examination:

	Amounts	Ratios
Losses and loss adjustment expenses incurred	$364,419,829	64.79%
Other underwriting expenses incurred	236,411,370	42.03
Net underwriting loss	(38,365,768)	(6.82)
Premiums earned	$562,465,431	100.00%

3. FINANCIAL STATEMENTS

A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2013 as determined by this examination and as reported by the Company:

Assets	Assets	Assets Not Admitted	Net Admitted Assets
Bonds	$ 932,295,776	-	$ 932,295,776
Preferred stocks	15,785,300	-	15,785,300
Common stocks	1,652,626	-	1,652,626
Cash, cash equivalents and short-term investments	494,248,573	-	494,248,573
Derivatives	10,318,872	-	10,318,872
Other invested assets	26,515,753	-	26,515,753
Investment income due and accrued	6,761,766	-	6,761,766
Uncollected premiums and agents' balances in the course of collection	3,514,179	-	3,514,179
Funds held by or deposited with reinsured companies	305,080	91,290	213,790
Current federal income tax recoverable	956,092		956,092
Net deferred tax asset	112,697,850	103,785,130	8,912,720
Electronic data processing equipment and software	10,702	-	10,702
Furniture and equipment	8,672	8,672	0
Aggregate write-ins	783,802	518,766	265,036
Total assets	$1,605,855,043	$104,403,858	$1,501,451,185

Liabilities, Surplus and Other Funds

Liabilities		
Losses and loss adjustment expenses		$(180,168,205)
Contingency reserve		263,963,242
Unearned premiums		195,303,373
Reinsurance payable on paid losses and loss adjustment expenses		19,627
Other expenses (excluding taxes, licenses and fees)		21,739,889
Taxes, licenses and fees (excluding federal and foreign income taxes)		272,281
Ceded reinsurance premiums payable (net of ceding commissions)		24,086
Payable to parent, subsidiaries and affiliates		2,263,127
Total liabilities		$ 303,417,421
Surplus and Other Funds		
Common capital stock	$ 15,000,000	
Gross paid in and contributed surplus	702,660,762	
Unassigned funds (surplus)	480,373,001	
Surplus as regards policyholders		1,198,033,764
Total liabilities, surplus and other funds		$1,501,451,185

Note: The Internal Revenue Service has not yet closed its audit of the Company's consolidated federal income tax returns of tax years 2000 – 2007. The examiner is unaware of any potential exposure of the Company to any tax assessment and no liability has been established herein relative to such contingency.

B. Statement of Income

Surplus as regards policyholders increased $232,651,455 during the five-year examination period January 1, 2009 through December 31, 2013, detailed as follows:

Underwriting Income		
Premiums earned		$562,465,431
Deductions:		
Losses and loss adjustment expenses incurred	$364,419,829	
Other underwriting expenses incurred	236,411,370	
Total underwriting deductions		600,831,199
Net underwriting gain or (loss)		$(38,365,768)
Investment Income		
Net investment income earned	$261,274,599	
Net realized capital gain	200,640,192	
Net investment gain or (loss)		$461,914,791
Other Income		
Net gain or (loss) from agents' or premium balances charged off	$ (61,620)	
Interest expense	(148,929,100)	
Aggregate write-ins for miscellaneous income	906,513	
Total other income		$(148,084,207)
Net income before federal and foreign income taxes		$ 275,464,816
Federal and foreign income taxes incurred		(22,502,559)
Net Income		$ 297,967,375

C. Capital and Surplus Account

	Gains in Surplus	Losses in Surplus	
Surplus as regards policyholders per report on examination as of December 31, 2008			$ 965,382,310
Net income	$297,967,378		
Net unrealized capital gains or (losses)		$ 29,169,682	
Change in net deferred income tax		108,029,454	
Change in nonadmitted assets	105,345,673		
Change in provision for reinsurance	1,084		
Cumulative effect of changes in accounting principles	27,838,770		
Surplus adjustments paid in		61,690	
Dividends to stockholders		312,300,000	
Change in contingency reserves	251,059,376	0	
Total gains and losses	$682,212,281	$449,560,826	
Net increase (decrease) in surplus			$ 232,651,455
Surplus as regards policyholders per report on examination as of December 31, 2013			$1,198,033,765

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability of $(180,168,205) is the same amount as reported by the Company in its 2013 annual statement. The Company establishes a case basis reserve for insured transactions when a payment default on the insured obligation has occurred.

Case reserves for financial guaranty insurance companies differ from those of traditional property and casualty insurance companies. The primary difference is that traditional property and casualty case reserves include only claims that have been incurred and reported to the insurance company. Unlike traditional property and casualty claims, financial guaranty losses arise from the extension of credit protection and occur as the result of the credit deterioration of the issuer or underlying assets of the insured obligations over the lives of those insured obligations. A case reserve is determined using cash flow or similar models that represent the

Company's estimate of the net present value of the anticipated shortfall between (a) scheduled payments on the insured obligation plus anticipated loss adjustment expenses and (b) anticipated cash flow from and proceeds to be received on sales of any collateral supporting the obligation and other anticipated recoveries. The Company uses assumptions, which represent current and forward looking perspectives of the underlying risks and market conditions. However, the Company is only able to forecast assumptions using data available at the time of the analysis.

Loss and loss adjustment expense reserves were negative as a result of expected salvage. The reserves were reduced by approximately $218,347,000 for expected salvage recoveries. A significant amount of this salvage relates to certain accounting practices adopted by the Company. The Department was informed of these practices and indicated that it did not disapprove of them.

A review of the Company's case reserve modeling and assumptions was performed by the Department's Capital Markets Bureau. This included an examination of the Company's surveillance of potential loss exposures. The review did not indicate any basis for rejecting or amending the Company's 2013 case reserves. The review determined the Company's practices to be reasonable and consistent with market practices.

In addition to case reserves, the Company is required to establish and maintain contingency reserves for the protection of policyholders and claimants against the effect of excessive losses occurring during adverse economic cycles. The amounts required for these reserves are determined in accordance with Section 6903(a) of the New York Insurance Law. As of December 31, 2013 the Company reported a contingency reserve of $263,963,242.

Additionally the Company maintains an unearned premium reserve in accordance with Section 6903(c) of the New York Insurance Law. Unearned premiums represent the portion of premiums which are applicable to the unexpired risk on policies in force. As of December 31, 2013 the Company reported an unearned premium reserve of $195,303,373.

5. SUBSEQUENT EVENTS

On December 23, 2014, RGI announced an agreement to sell 100% of the issued and outstanding shares of Radian Asset Assurance Inc. to Assured Guaranty Corp. in an all cash transaction. The sale of the Company is in line with RGI's commitment of aligning its strategy towards the mortgage and real estate markets, and facilitates RGI's anticipated compliance with the Federal Housing Finance Agency's proposed Private Mortgage Insurer Eligibility Requirements. The Stock Purchase Agreement allows for a complete transfer of the Company's net par outstanding of $19.4 billion as of September 30, 2014, for a purchase price of approximately $810 million. This sale is subject to Department approval.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained seven recommendations as follows (page numbers refer to the prior report):

ITEM		PAGE NO.
A.	Gross Paid in and Contributed Surplus	
i.	It is recommended that the Company refrain from reducing its gross paid in and contributed surplus account for transactions other than those permitted by statute.	5
	The Company has complied with this recommendation.	
B.	Management	
i.	It is recommended that board members who are unable or unwilling to attend meetings consistently should resign or be replaced.	6
	The Company has complied with this recommendation.	
ii.	It is recommended that the Company exercise due care in obtaining and maintaining annual signed acknowledgements of its "Code of Conduct" as it relates to conflicts of interest of its directors and employees.	7
	The Company has complied with this recommendation.	

ITEM			PAGE NO.
C.		Holding Company	
	i.	It is recommended that the Company comply with Section 1505(d)(3) of the New York Insurance Law and submit an agreement to the Department for the services rendered by Radian Guaranty, Inc. The Company has complied with this recommendation.	12
	ii.	It is recommended that the Company file any amendments to its tax allocation agreement within 30 days as required by Department Circular Letter No. 33 (1979). The Company has complied with this recommendation.	13
D.		Accounts and Records	
	i.	It is recommended that the Company properly account for impaired investments in accordance with SSAP No. 26. The Company has complied with this recommendation.	14
	ii.	It is recommended that the Company correctly report and disclose its cash deposits per the annual statement instructions. The Company has complied with this recommendation.	14

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

This report contains no comments or recommendations.

Respectfully submitted,

____
Karen Gard, AFE
Associate Insurance Examiner

STATE OF NEW YORK)
)ss:
COUNTY OF NEW YORK)

Karen Gard, being duly sworn, deposes and says that the foregoing report, subscribed by her, is true to the best of her knowledge and belief.

____
Karen Gard

Subscribed and sworn to before me

this__________ day of ___________________, 2014.

APPOINTMENT NO. ***31060***

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

*I, **BENJAMIN M. LAWSKY**, Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:*

Karen Gard

as a proper person to examine the affairs of the

Radian Asset Assurance Inc.

and to make a report to me in writing of the condition of said

COMPANY

with such other information as he shall deem requisite.

In Witness Whereof, I have hereunto subscribed by name and affixed the official Seal of the Department at the City of New York

this 25th day of September, 2013

BENJAMIN M. LAWSKY
Superintendent of Financial Services

By:

Jean Marie Cho
Deputy Superintendent

NEW YORK STATE ★ DEPARTMENT OF FINANCIAL SERVICES ★ EXCELSIOR