RADIAN GROUP INC
Form 10-K
February 29, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K
(Mark One)
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2011
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number 1-11356

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

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

(215) 231-1000
(Registrant's telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $.001 par value per share	New York Stock Exchange
Preferred Stock Purchase Rights	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES o NO x
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES o NO x
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES x NO o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES x NO o
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting

company” in Rule 12b-2 of the Exchange Act. (Check One):

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

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

As of June 30, 2011, the aggregate market value of the registrant’s common stock held by non-affiliates of the registrant was $553,787,209 based on the closing sale price as reported on the New York Stock Exchange. Excluded from this amount is the value of all shares beneficially owned by executive officers and directors of the registrant. These exclusions should not be deemed to constitute a representation or acknowledgment that any such individual is, in fact, an affiliate of the registrant or that there are not other persons or entities who may be deemed to be affiliates of the registrant.

The number of shares of common stock, $.001 par value per share, of the registrant outstanding on February 24, 2012 was 133,290,984 shares.

DOCUMENTS INCORPORATED BY REFERENCE

	Form 10-K Reference Document
Definitive Proxy Statement for the Registrant’s 2012 Annual Meeting of Stockholders	Part III (Items 10 through 14)

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Forward Looking Statements—Safe Harbor Provisions

All statements in this report that address events, developments or results that we expect or anticipate may occur in the future are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, Section 21E of the Securities Exchange Act of 1934 and the United States ("U.S.") Private Securities Litigation Reform Act of 1995. In most cases, forward-looking statements may be identified by words such as "anticipate," "may," "will," "could," "should," "would," "expect," "intend," "plan," "goal," "contemplate," "believe," "estimate," "predict," "project," "potential," "continue," or the negative or other variations on these words and other similar expressions. These statements, which may include, without limitation, projections regarding our future performance and financial condition, are made on the basis of management's current views and assumptions with respect to future events. Any forward-looking statement is not a guarantee of future performance and actual results could differ materially from those contained in the forward-looking statement. The forward-looking statements, as well as our prospects as a whole, are subject to risks and uncertainties that could cause actual results to differ materially from those set forth in the forward-looking statements, including the following:

- changes in general economic and political conditions, including high unemployment rates and continued weakness in the U.S. housing and mortgage credit markets, the U.S. economy reentering a recessionary period, a significant downturn in the global economy, a lack of meaningful liquidity in the capital or credit markets, changes or volatility in interest rates or consumer confidence and changes in credit spreads, each of which may be accelerated or intensified by, among other things, further actual or threatened downgrades of U.S. credit ratings;

- changes in the way customers, investors, regulators or legislators perceive the strength of private mortgage insurers or financial guaranty providers, in particular in light of developments in the private mortgage insurance and financial guaranty industries in which certain of our former competitors have ceased writing new insurance business and have been placed under supervision or receivership by insurance regulators;

- catastrophic events or economic changes in geographic regions, including governments and municipalities, where our mortgage insurance or financial guaranty insurance exposure is more concentrated;

- our ability to maintain sufficient holding company liquidity to meet our short- and long-term liquidity needs, including in particular, repayment of our debt due in February 2013 and additional capital contributions that may be required to support our mortgage insurance business;

- a further reduction in, or prolonged period of depressed levels of, home mortgage originations due to reduced liquidity in the lending market, tighter underwriting standards, general reduced housing demand in the U.S., and potential risk retention requirements established under the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act");

- our ability to maintain an adequate risk-to-capital position and surplus requirements in our mortgage insurance business including, if necessary, our ability to write new mortgage insurance while maintaining a capital position that is in excess of risk-based capital limitations imposed in certain states;

- our ability to continue to effectively mitigate our mortgage insurance and financial guaranty losses;

- the ability of our primary insurance customers in our financial guaranty reinsurance business to provide appropriate surveillance and to mitigate losses adequately with respect to our assumed insurance portfolio;

- a more rapid than expected decrease in the level of insurance rescissions and claim denials from the current elevated levels which have reduced our paid losses and resulted in a significant reduction in our loss reserves, including a decrease resulting from successful challenges to previously rescinded policies or claim denials, or caused by the government-sponsored entities ("GSEs") intervening in mortgage insurers' loss mitigation practices, including settlement;

- the negative impact our insurance rescissions and claim denials may have on our relationships with customers and potential customers, including the potential loss of business and the heightened risk of disputes and litigation;

- the need, in the event that we are unsuccessful in defending our rescissions or denials, to increase our loss reserves for, and reassume risk on, rescinded or denied loans, and to pay additional claims;

- the concentration of our mortgage insurance business among a relatively small number of large customers;
- any disruption in the servicing of mortgages covered by our insurance policies and poor servicer performance;
- adverse changes in severity or frequency of losses associated with certain products that we formerly offered that are riskier than traditional mortgage insurance or financial guaranty insurance policies;
- a decrease in persistency rates of our mortgage insurance policies, which has the effect of reducing our premium income without a corresponding decrease in incurred losses;
- an increase in the risk profile of our existing mortgage insurance portfolio due to the refinancing of existing mortgage loans for only the most qualified borrowers in the current mortgage and housing market;
- changes in the criteria for assigning credit or similar ratings, further downgrades or threatened downgrades of, or other ratings actions with respect to, our credit ratings or the ratings assigned by the major rating agencies to any of our rated insurance subsidiaries at any time, including in particular, the credit ratings of Radian Group Inc. ("Radian Group") and the financial strength ratings assigned to Radian Guaranty Inc. ("Radian Guaranty");
- heightened competition for our mortgage insurance business from others such as the Federal Housing Administration (the "FHA"), the Department of Veterans Affairs and other private mortgage insurers (in particular, the FHA and those private mortgage insurers that have been assigned higher ratings from the major rating agencies, that may have access to greater amounts of capital than we do, or new entrants to the industry that are not burdened by legacy obligations);
- changes in the charters or business practices of, or rules or regulations applicable to, Federal National Mortgage Association ("Fannie Mae") and Freddie Mac, the largest purchasers of mortgage loans that we insure, and our ability to remain an eligible provider to both Fannie Mae and Freddie Mac;
- changes to the current system of housing finance, including the possibility of a new system in which private mortgage insurers are not required or their products are significantly limited in scope;
- the effect of the Dodd-Frank Act on the financial services industry in general, and on our mortgage insurance and financial guaranty businesses in particular, including whether and to what extent loans with mortgage insurance are considered "qualified residential mortgages" for purposes of the Dodd-Frank Act securitization provisions or "qualified mortgages" for purposes of the ability to repay provisions of the Dodd-Frank Act and potential obligations to post collateral on our existing insured derivatives portfolio;
- the application of existing federal or state consumer, lending, insurance, tax, securities and other applicable laws and regulations, or changes in these laws and regulations or the way they are interpreted, including, without limitation: (i) the outcome of existing, or the possibility of additional, lawsuits or investigations; and (ii) legislative and regulatory changes (a) impacting the demand for private mortgage insurance, (b) limiting or restricting our use of (or increasing requirements for) additional capital and the products we may offer, (c) affecting the form in which we execute credit protection, or (d) impacting our existing financial guaranty portfolio;
- the amount and timing of potential payments or adjustments associated with federal or other tax examinations;
- the possibility that we may fail to estimate accurately the likelihood, magnitude and timing of losses in connection with establishing loss reserves for our mortgage insurance or financial guaranty businesses or premium deficiencies for our mortgage insurance business, or to estimate accurately the fair value amounts of derivative instruments in

determining gains and losses on these instruments;

- volatility in our earnings caused by changes in the fair value of our assets and liabilities carried at fair value, including our derivative instruments, and our need to reevaluate the possibility of a premium deficiency in our mortgage insurance business on a quarterly basis;

- our ability to realize the tax benefits associated with our gross deferred tax assets, which will depend on our ability to generate sufficient sustainable taxable income in future periods;

- changes in accounting principles, rules and guidance, or their interpretation, from the Securities and Exchange Commission or the Financial Accounting Standards Board; and

- legal and other limitations on amounts we may receive from our subsidiaries as dividends or through our tax- and expense-sharing arrangements with our subsidiaries.

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

PART I
Item 1. Business.

I. General
Business Overview and Operating Environment. We are a credit enhancement company with a primary strategic focus on domestic, first-lien residential mortgage insurance ("first-lien"). Our business segments are mortgage insurance and financial guaranty. Through our financial guaranty segment, we maintain a sizable financial guaranty insured portfolio, consisting of public finance and structured finance risks. Prior to January 1, 2011, we also had a third segment—financial services.

In recent years, our business has undergone significant changes due to the macroeconomic conditions and specific events that affect the origination environment and credit performance of our underlying insured assets. The ongoing downturn in the housing and related credit markets, characterized by a decrease in mortgage originations, decline in home prices, mortgage servicing and foreclosure delays, deterioration in the credit performance of mortgage and other assets originated prior to 2009, together with current macroeconomic factors such as limited economic growth, the lack of meaningful liquidity in some sectors of the capital markets and continued high unemployment, has had, and we believe will continue to have, a significant negative impact on the operating environment and our results of operations. See Note 1 of Notes to Consolidated Financial Statements. Beginning in 2008, we undertook a number of strategic actions and initiatives to respond to the economic and market conditions, including the following:

- We significantly tightened our mortgage insurance underwriting standards to focus primarily on insuring only high credit quality, first-lien mortgages originated in the U.S., and we ceased writing mortgage insurance on non-traditional and many other inherently riskier products (referred to collectively, as "non-traditional" risk).
- We expanded our claims management and loss mitigation efforts to better manage losses in the weak housing market and high default and claim environment.
- We discontinued writing new financial guaranty business and Radian Group contributed its ownership interest in Radian Asset Assurance Inc. ("Radian Asset Assurance") to Radian Guaranty. Although this structure makes the capital adequacy of our mortgage insurance business dependent, to a significant degree, on the successful run-off of our financial guaranty business, the structure has provided Radian Guaranty with substantial regulatory capital and increased liquidity through dividends from Radian Asset Assurance. Since 2008, Radian Asset Assurance has released financial guaranty contingency reserves of $215.5 million (which has increased Radian Guaranty's statutory surplus by an equal amount) and has paid $329.8 million in dividends to Radian Guaranty.
- We have reduced our legacy mortgage insurance portfolio (primarily, the vintages of 2005 through 2008), non-traditional mortgage insurance risk in force and our financial guaranty portfolio through a series of risk commutations, discounted security purchases, transaction settlements and terminations.
- We have engaged in a broad range of actions and transactions designed to increase our financial flexibility, conserve our holding company liquidity and preserve the risk-based capital position of Radian Guaranty Inc. ("Radian Guaranty"), our primary mortgage insurance subsidiary.

During 2011 and thus far in 2012, our business strategy continues to be primarily focused on: (i) growing our mortgage insurance business by writing high-quality mortgage insurance in the U.S.; (ii) managing losses in our legacy mortgage insurance and financial guaranty portfolios; (iii) reducing our financial guaranty exposure and our exposure to non-traditional insured risks; and (iv) pursuing opportunities for increasing Radian Group's available liquidity and for enhancing Radian Guaranty's statutory capital position. See Note 1 of Notes to Consolidated Financial Statements for additional information.

Our businesses have been significantly impacted by, and our future success may depend upon, legislative and regulatory developments impacting the housing finance industry. Freddie Mac and Federal National Mortgage Association (“Fannie Mae”) are the primary beneficiaries of the majority of our mortgage insurance policies, and the Federal Housing Authority (“FHA”) remains our primary competitor outside of the private mortgage insurance industry (see “Regulation—Federal Regulation—The GSEs and FHA”). Federal and state efforts to support homeowners and the housing market, including through the U.S. Department of the Treasury's Homeowner Affordability and Stability Plan

(“HASP”), have had a positive impact on our business (see “Regulation—Federal Regulation—Homeowner Assistance Programs”). Various regulatory agencies are now in the process of developing new rules under the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) that are expected to have a significant impact on the housing finance industry, and the U.S. Congress is engaged in planning for the reform of the housing finance market, including the future roles of Fannie Mae and Freddie Mac (referred to collectively as, the "Government Sponsored Enterprises" or “GSEs”) (see “Regulation—Federal Regulation—The GSEs and FHA—Housing Finance Reform ar —The Dodd-Frank Act”).

We are subject to comprehensive regulation by the insurance departments in the states where our insurance subsidiaries are licensed to transact business. Under state insurance regulations, Radian Guaranty is required to maintain minimum surplus levels and, in certain states, a minimum amount of statutory capital relative to the level of risk in force, or "risk-to-capital." Sixteen states (the risk-based capital or "RBC States") currently have a statutory or regulatory risk-based capital requirement (a "Statutory RBC Requirement"), the most common of which (imposed by 11 of the RBC States) is a requirement that a mortgage insurer's risk-to-capital ratio may not exceed 25 to 1. Unless an RBC State grants a waiver or other form of relief, if a mortgage insurer is not in compliance with the Statutory RBC Requirement of an RBC state, it may be prohibited from writing new mortgage insurance business in that state. As a result of ongoing incurred losses, Radian Guaranty's risk-to-capital ratio increased to 21.5 to 1 as of December 31, 2011 (after consideration of a recent $100 million contribution from Radian Group). Radian Guaranty's risk-to-capital ratio is expected to continue to increase and, absent any further capital contributions from Radian Group, is expected to exceed 25 to 1 in 2012. In order to maximize our financial flexibility, we have applied for waivers or similar relief for Radian Guaranty in each of the RBC States. In addition, pursuant to approvals we received from the GSEs in February 2012, we intend to write new first-lien mortgage insurance business in Radian Mortgage Assurance Inc. ("Radian Mortgage Assurance"), a wholly-owned subsidiary of Radian Guaranty, in any RBC State that does not permit Radian Guaranty to continue writing insurance while it is out of compliance with Statutory RBC Requirements. See “Regulation—State Regulation—Risk-to-Capital Ratio."

Business Segments. Our business segments are mortgage insurance and financial guaranty.

- Our mortgage insurance segment provides credit-related insurance coverage, principally through private mortgage insurance, and risk management services to mortgage lending institutions. See "Business—Mortgage Insurance."
- Our financial guaranty segment has provided direct insurance and reinsurance on credit-based risks, and has provided credit protection on various asset classes through financial guarantees and credit default swaps ("CDSs"). While we discontinued writing new financial guaranty business in 2008, our financial guaranty business continues to serve as an important source of capital support for Radian Guaranty. See "Business—Financial Guaranty."

Prior to January 1, 2011, we also had a third segment—financial services. See "Business—Financial Services."

A summary of financial information for our current business segments for each of the last three fiscal years, and for our former financial services segment for fiscal years 2009 and 2010, is included in Note 3 of Notes to Consolidated Financial Statements. Radian Group serves as the holding company for our insurance subsidiaries and does not have any significant operations of its own.

Background. Radian Group has been incorporated as a business corporation under the laws of the State of Delaware since 1991. Our principal executive offices are located at 1601 Market Street, Philadelphia, Pennsylvania 19103, and our telephone number is (215) 231-1000.

Additional Information. Our website address is www.radian.biz. Copies of our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, as well as any amendments to those reports, are available free of charge through our website as soon as reasonably practicable after they are electronically filed with, or furnished to, the Securities and Exchange Commission (the “SEC”). In addition, copies of our guidelines of corporate governance, code of business conduct and ethics (which includes the code of ethics applicable to our chief executive officer, principal financial officer and principal accounting officer) and the governing charters for each committee of our board of directors are available free of charge on our website, as well as in print, to any stockholder upon request. Information contained or referenced on our website is not incorporated by reference into and does not form a part of this report.

II. Mortgage Insurance

A. Business

Our mortgage insurance segment provides credit-related insurance coverage, principally through private mortgage insurance, and risk management services to mortgage lending institutions. Private mortgage insurance protects the holders of our insurance from all or a portion of default-related losses on residential mortgage loans made generally 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 these mortgage loans in the secondary mortgage market, most of which are sold to Freddie Mac and Fannie Mae.

1. Traditional Risk and Mortgage Insurance

Traditional types of private mortgage insurance include "primary mortgage insurance" and "pool insurance." In the past, we offered pool insurance on a limited basis.

Primary Mortgage Insurance. Primary mortgage insurance provides protection against mortgage defaults at a specified coverage percentage. When there is a claim under primary mortgage insurance, the coverage percentage is applied to the claim amount, which consists of the unpaid loan principal, plus past due interest (which is capped at a maximum of two years) and certain expenses associated with the default, to determine our maximum liability.

We provide primary mortgage insurance on a flow basis and we have also provided primary mortgage insurance on a “structured” basis (in which we insure a group of individual loans). In flow transactions, mortgages typically are insured as they are originated (or shortly after), while in structured transactions, we typically provide insurance on a group of mortgages after they have been originated. A portion of our structured business has been written in a “second loss” position, meaning that we are not required to make a payment until a certain aggregate amount of losses have already been recognized. Most of our structured mortgage insurance transactions in the past have involved non-prime mortgages (non-prime mortgages include Alternative-A (“Alt-A”), A minus and B/C mortgages, each of which are discussed below under “Mortgage Insurance—Direct Risk in Force—Mortgage Characteristics”) and mortgages with higher than average loan balances. A single structured mortgage insurance transaction may be provided on a primary or pool basis, and some structured transactions include both primary and pool insured mortgages. Included in our primary mortgage insurance in force and risk in force is modified pool insurance, which differs from standard pool insurance in that it includes an exposure limit on each individual loan as well as an aggregate limit of loss for the entire pool of loans.

In 2011, we wrote $15.5 billion of primary mortgage insurance, compared to $11.6 billion of primary mortgage insurance written in 2010. The increase in 2011 compared to 2010, is mainly attributable to an increase in the penetration rate of private mortgage insurance in the overall insured mortgage market, as well as an increase in our market share. All of our primary mortgage insurance written during 2011 and 2010 was written on a “flow” (which is loan-by-loan) basis. Primary insurance on first-lien mortgages made up $30.7 billion or 93.7% of our total first-lien mortgage insurance risk in force at December 31, 2011, compared to $31.5 billion or 92.8% at December 31, 2010.

Pool Insurance. We have not written pool insurance since 2008. Prior to that, we wrote pool insurance on a limited basis. Pool insurance differs from primary insurance in that our maximum liability is not limited to a specific coverage percentage on each individual mortgage. Instead, an aggregate exposure limit, or “stop loss, (generally between 1% and 10%), is applied to the initial aggregate loan balance on a group or “pool” of mortgages. In addition to a stop loss, many of our pool policies were written in a second loss position. We believe the stop loss and second loss features have been important in limiting our ultimate liability on individual pool transactions.

We wrote much of our pool insurance in the form of structured transactions, whole loan sales and credit enhancement on residential mortgage loans included in residential mortgage-backed securities (“RMBS”). An insured pool of mortgages may contain mortgages that are already covered by primary mortgage insurance. In these transactions, pool insurance is secondary to any primary mortgage insurance that exists on mortgages within the pool. Generally, the mortgages we have insured with pool insurance have similar characteristics to mortgages insured on a primary basis. Pool insurance made up approximately $2.1 billion or 6.3% of our total first-lien mortgage insurance risk in force at December 31, 2011, as compared to $2.5 billion or 7.2% at December 31, 2010.

2. Non-Traditional Risk

In addition to traditional mortgage insurance, in the past we have provided other forms of credit enhancement on residential mortgage assets. We stopped writing this "non-traditional" business in 2007, other than a small amount of international mortgage insurance, which we discontinued writing in 2008. Since 2007, we have been pursuing opportunities to reduce our legacy, non-traditional mortgage insurance risk in force through a series of commutations, transaction settlements and terminations. Our total amount of non-traditional risk in force was $214 million at December 31, 2011, as compared to $455 million at December 31, 2010.

These products, which we no longer offer, included:

- Second-Lien Mortgages ("Second-Liens"). This product provided insurance on second mortgages. This type of insurance is considered more risky than first-lien business as these loans are subordinate to first-lien mortgages, and therefore, the ability to repay on these loans depends on the ability to satisfy the first-lien mortgage. This second-lien business was largely susceptible to the disruption in the housing market and the subprime mortgage market that began during 2007.

- Credit Enhancement on Net Interest Margin Securities ("NIMS") Bonds. NIMS bonds represent the securitization of a portion of the excess cash flow and prepayment penalties from a mortgage-backed security (“MBS”) comprised mostly of subprime mortgages. The majority of this excess cash flow consists of the spread between the interest rate on the MBS and the interest generated from the underlying mortgage collateral. Historically, issuers of MBS would have earned this excess interest over time as the collateral aged, but market efficiencies enabled these issuers to sell a portion of their residual interests to investors in the form of NIMS bonds, and in the past, we offered credit enhancement that covers any principal and interest shortfalls on the insured NIMS bonds or a portion of the bonds. Like second-liens, NIMS bonds have largely been susceptible to the disruption in the housing market and the subprime mortgage market that began during 2007.
- Domestic and International CDSs. We wrote insurance on domestic and international mortgage-related assets, such as RMBS, in structured CDS transactions through our subsidiary, Radian Insurance Inc. ("Radian Insurance"). In these domestic and international transactions, similar to our financial guaranty insurance business, we insured the timely payment of principal and interest to the holders of debt securities, the payment of which was backed by a pool of residential mortgages. All of these transactions have been terminated and we have no remaining risk.
- International Mortgage Insurance Operations. Radian Insurance also wrote traditional mortgage insurance in Hong Kong and several mortgage reinsurance transactions in Australia. Consistent with our strategic focus on writing domestic mortgage insurance business, and as a result of ratings downgrades of Radian Insurance, we stopped writing new international business and have terminated most of our international mortgage insurance risk, with the exception of our insured portfolio in Hong Kong. While we are no longer writing new business in Hong Kong, we continue to service the existing book of business. Our Hong Kong book of business has experienced a low default rate and is performing consistent with our expectations.

3. Premium Rates

We set our premium rates at origination when coverage is set. Premiums for our mortgage insurance products are set based on performance models that consider a broad range of borrower, loan and property characteristics. We set our premium levels commensurate with anticipated policy performance assumptions, including, without limitation, expectations and assumptions about the following factors: credit loss given default; policy duration; management and policy acquisition costs; taxes; and required capital supporting policy coverage level. Our performance assumptions for claim frequency and policy life are developed based on internally developed data as well as data generated from independent, third-party sources. The components for setting our premiums that relate to policy coverage, expenses and capital are based on data and models that are developed internally. Premium levels are set to achieve an appropriate, risk-adjusted rate of return on capital given net performance expectations. Mortgage insurance premium levels are subject to approval by all state insurance regulators.

Premiums on our mortgage insurance products can be paid either monthly, up-front as a single premium, or as a combination of an up-front premium plus monthly renewal. For monthly paid premiums, we receive a monthly certificate premium payment and provide ongoing loan level coverage. For single premium insurance, we receive a single premium payment that is funded in advance and provides loan level life-of-loan coverage. In addition, we have split coverages for which we receive a single premium payment when the loan is made, plus ongoing monthly renewal premiums. Approximately 51% of our new insurance written ("NIW") in 2011 was written with monthly premiums and 44% was written with single premiums.

Mortgage insurance premiums are financed through a number of methods and can either be paid by the borrower or by the lender. Borrower-paid mortgage insurance ("BPMI") premiums can be funded either through borrower escrow or financed as a component of the mortgage loan amount. Lender paid mortgage insurance ("LPMI") premiums are paid by the lender and are typically passed through to the borrower in the form of additional origination fees or a higher interest rate on the mortgage note.

4. Underwriting

Loans are underwritten to determine whether they are eligible for our mortgage insurance. We perform this function directly or, alternatively, we delegate to our customers the ability to underwrite the loans based on agreed-upon underwriting guidelines.

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Delegated Underwriting. Through our delegated underwriting program, certain customers that have been approved by us are able to underwrite loans based on agreed-upon underwriting guidelines. Our delegated underwriting program currently involves only lenders that are approved by our risk management group. Delegated underwriting allows our customers to commit us to insure loans meeting agreed-upon guidelines. This enables us to meet lenders' demands for immediate insurance coverage. With delegated underwriting, because the underwriting is being performed by third parties, we have additional rights to rescind coverage if an insured breaches any of the representations and warranties pertaining to application of the agreed-upon underwriting guidelines to the insured loan. Additionally, any fraud or misrepresentation would also provide us with rights to rescind coverage. We plan to offer a limited rescission waiver program for our delegated underwriting customers, in which we agree not to rescind or deny coverage due to non-compliance with our agreed-upon underwriting guidelines so long as the borrower makes 36 consecutive payments (commencing with the initial required payment) from his or her own funds. As part of this program, which has been approved by Fannie Mae but remains subject to final approval by Freddie Mac and certain state insurance departments, we may require that some or all of the loans underwritten through the program be run through an approved fraud model as part of the origination process. This program does not restrict our rights to rescind coverage in the event of fraud or misrepresentation in the origination of the loans we insure. As of December 31, 2011, approximately 62% of our total first-lien mortgage insurance in force had been originated on a delegated basis, compared to 59% as of December 31, 2010. See "Risk Factors—Our delegated underwriting program may subject our mortgage insurance business to unanticipated claims."

Non-Delegated Underwriting. Lenders that either do not qualify or choose not to participate in our delegated underwriting program can submit loan files to our Field Service Center for underwriting. In addition, lenders participating in our delegated underwriting program may choose not to use their delegated authority and to submit loans directly to our Field Service Center. For those loans underwritten by us, we generally do not have the remedies for breach of representations or warranties that we do with respect to delegated underwriting. We mitigate the risk of employee underwriting error through quality control sampling and performance monitoring. As of December 31, 2011, approximately 38% of our total first-lien mortgage insurance in force had been originated on a non-delegated basis, compared to 41% as of December 31, 2010.

Contract Underwriting. In our mortgage insurance business, we also have a contract underwriting program through which we provide an outsourced underwriting service to our customers. For a fee, we underwrite our customers' loan files for secondary market compliance (i.e., for sale to the GSEs), and may concurrently assess the file for mortgage insurance. During 2011, loans underwritten through contract underwriting accounted for 8.7% of insurance certificates issued for our flow business. Such loans are included within the non-delegated underwriting percentages above. Typically, we agree that if we make a material error in underwriting a loan, we will provide a remedy to the customer by purchasing the loan, by placing additional mortgage insurance on the loan, or by indemnifying the customer against loss up to a maximum specified amount. During 2011, we paid losses related to these remedies of approximately $7 million. We have limited the recourse available to our contract underwriting customers to apply only to those loans that we are simultaneously underwriting for compliance with secondary market compliance and for potential mortgage insurance. We monitor this risk and negotiate our underwriting fee structure and recourse agreements on a client-by-client basis. We also routinely audit the performance of our contract underwriters.

B. Direct Risk in Force

Our business has traditionally involved taking credit risk in various forms across various asset classes, products and geographies. Credit risk is measured in our mortgage insurance business as risk in force, which approximates the maximum loss exposure that we have at any point in time.

The following table shows the direct risk in force associated with our mortgage insurance segment as of December 31, 2011 and 2010:

	December 31,	
(In millions)	2011	2010
Primary	$30,692	$31,461

Pool	2,068	2,453
Second-lien	131	193
NIMS	19	136
International	64	126
Total Direct Mortgage Insurance Risk in Force	$32,974	$34,369

Risk in force for modified pool loans, which we include in primary insurance risk in force, was $270 million and $289 million as of December 31, 2011 and 2010, respectively.
The following discussion mainly focuses on our primary risk in force, which represents approximately 93.1% of our total mortgage insurance risk in force at December 31, 2011. For additional information regarding our pool and non-traditional mortgage insurance risk in force, see "—Business—Mortgage Insurance—Business—Traditional Risk and Mortgage Insurance" and "—Business—Mortgage Insurance—Business—Non-Traditional Risk."
We analyze our portfolio in a number of ways to identify any concentrations or imbalances in risk dispersion. We believe the performance of our mortgage insurance portfolio is affected significantly by:

- general economic conditions (in particular home prices and unemployment);
- the age of the loans insured;
- the geographic dispersion of the properties securing the insured loans and the condition of the housing market;
- the quality of underwriting decisions at loan origination; and
- the characteristics of the loans insured (including loan-to-value ("LTV"), purpose of the loan, type of loan instrument and type of underlying property securing the loan).

1. Direct Primary Risk in Force by Year of Policy Origination

The following table shows the percentage of our direct primary mortgage insurance risk in force and the associated percentage of our mortgage insurance reserve for losses (by policy origination year) as of December 31, 2011 and 2010:

	December 31,			
	2011		2010	
	Risk in Force	Reserve for Losses	Risk in Force	Reserve for Losses
2005 and prior	22.4 %	32.1 %	25.9 %	32.7 %
2006	10.3	18.6	11.7	20.4
2007	22.7	36.8	25.7	36.5
2008	17.0	11.6	18.9	10.1
2009	8.7	0.8	9.8	0.3
2010	7.3	0.1	8.0	—
2011	11.6	—	—	—
Total	100.0 %	100.0 %	100.0 %	100.0 %

A significant portion of our total mortgage insurance in force (and consequently our premiums earned) is derived from policies written in prior years. Therefore, the amount of policy cancellations and the period of time that our policies remain in force can have a significant impact on our revenues and our results of operations. One measure for assessing the impact of policy cancellations on insurance in force is our persistency rate, defined as the percentage of insurance in force that remains on our books after any 12-month period. Because most of our insurance premiums are earned over time, higher persistency rates enable us to recover more of our policy acquisition costs and generally result in increased profitability. At December 31, 2011, the persistency rate of our primary mortgage insurance was 85.4%, compared to 81.8% at December 31, 2010. Historically, there was a close correlation between low or declining interest rate environments and lower persistency rates, primarily as a result of increased refinance activity. However, in recent years, despite historically low interest rates, our persistency rate has remained high, as many borrowers have been unable to refinance due to home price depreciation, the weak housing market and limited access to mortgage credit.

2. Geographic Dispersion

The following tables show the percentage of our direct primary mortgage insurance risk in force and the associated percentage of our mortgage insurance reserve for losses (by location of property) for the top 10 states and top 15 metropolitan statistical areas ("MSAs") in the U.S. (measured by primary mortgage insurance risk in force as of December 31, 2011) as of December 31, 2011 and 2010:

	December 31,			
	2011		2010	
Top Ten States	Risk in Force	Reserve for Losses	Risk in Force	Reserve for Losses
California	11.8 %	11.8 %	11.4 %	13.0 %
Florida	7.7	18.0	8.3	18.9
Texas	6.1	3.2	6.4	3.4
Illinois	5.4	6.1	5.0	5.7
Georgia	4.6	4.2	4.7	4.3
Ohio	4.2	3.0	4.3	3.0
New York	4.0	5.3	4.1	4.9
New Jersey	3.9	5.2	3.7	4.5
Michigan	3.2	3.2	3.3	3.3
Pennsylvania	3.2	2.5	3.1	2.4
Total	54.1 %	62.5 %	54.3 %	63.4 %

	December 31,			
	2011		2010	
Top Fifteen MSAs	Risk in Force	Reserve for Losses	Risk in Force	Reserve for Losses
Chicago, IL	4.2 %	5.0 %	3.9 %	4.7 %
Atlanta, GA	3.5	3.4	3.5	3.5
Los Angeles—Long Beach, CA	2.3	2.2	2.2	2.5
Washington, DC—MD—VA	2.3	1.6	2.1	1.7
New York, NY	2.3	3.2	2.3	3.0
Phoenix/Mesa, AZ	2.1	2.8	2.2	3.3
Houston, TX	2.0	1.1	2.1	1.2
Riverside—San Bernardino, CA	1.6	2.2	1.7	2.7
Minneapolis—St. Paul, MN—WI	1.5	1.4	1.5	1.3
Dallas, TX	1.4	0.8	1.4	0.8
Denver, CO	1.4	0.8	1.3	0.8
Philadelphia, PA	1.4	0.9	1.2	0.9
Seattle, WA	1.3	1.4	1.2	1.0
Tampa—St. Petersburg—Clearwater, FL	1.3	2.6	1.3	2.6
Nassau Suffolk, NY	1.2	1.9	1.2	1.8
Total	29.8 %	31.3 %	29.1 %	31.8 %

3. Mortgage Characteristics

Although geographic dispersion is an important component of our overall risk diversification, we believe that other factors also contribute significantly to the quality of the risk in force, including product distribution and our risk management and underwriting practices.

LTV. An important indicator of claim incidence in our mortgage insurance business is the relative amount of a borrower's equity that exists in a home. Generally, absent other mitigating factors such as high Fair Isaac and Company ("FICO") scores and other credit factors, loans with higher LTVs at inception (i.e., smaller down payments) are more likely to result in a claim than lower LTV loans. For example, claim incidence on mortgages with LTVs between 90.01% and 95% is significantly higher than the claim incidence on mortgages with LTVs between 85.01% and 90%. In the past, we insured a significant number of loans with LTVs between 95.01% and 100% and a small number of loans having an LTV over 100%. These loans are expected to have a higher claim incidence than mortgages with LTVs of 95% or less. In 2008, we discontinued writing insurance on mortgages with LTVs higher than 95%. In 2010, we resumed writing business on loans with LTV ratios between 95.01% and 97% on a highly selective basis. The average LTV of our primary new insurance written in 2011 was 90.45%, compared to 89.83% and

89.63% in 2010 and 2009, respectively.

Loan Grade. The risk of claim on non-prime loans is significantly higher than that on prime loans. We generally define prime loans as loans where the borrower's FICO score is 620 or higher and the loan file meets "fully documented" standards of our credit guidelines (as compared to Alt-A loans discussed below) and/or the GSE's guidelines for fully documented loans. Prime loans made up substantially all of our primary new insurance written in 2011 and 2010. Prime loans comprised 84.8% of our primary risk in force at December 31, 2011, compared to 82.6% at December 31, 2010. We expect that prime loans will continue to constitute substantially all of our primary new insurance written for the foreseeable future.

We generally define Alt-A loans as loans where the borrower's FICO score is 620 or higher and where the loan documentation has been reduced or eliminated. Because of the reduced documentation, we consider Alt-A loans to be more risky than prime loans, particularly Alt-A loans to borrowers with FICO scores below 660. We have insured Alt-A loans with FICO scores ranging from 620 to 660. Alt-A loans tend to have higher loan balances than other loans that we insure because they are often more heavily concentrated in higher-cost areas.

We generally define A minus loans as loans where the borrower's FICO score ranges from 575 to 619. We also classify loans with certain characteristics originated within the GSE's automated underwriting system as A minus loans, regardless of the FICO score.

We generally define B/C loans as loans where the borrower's FICO score is below 575. In the past, certain structured transactions that we have insured contained a small percentage of B/C loans.

Adjustable Rate Mortgages ("ARMs"); Interest-Only Mortgages. We consider loans to be ARMs if the interest rate for those loans will reset at any point during the life of such loans. Our claim frequency on insured ARMs has been higher than on fixed-rate loans due to monthly payment increases that occur when interest rates rise. It has been our experience that the credit performance of loans subject to reset five years or later from origination perform more like fixed-rate loans, as these loans are less likely to result in a claim than ARMs with shorter fixed periods.

We also have insured ARMs that provide the borrower with a number of different payment options ("Option ARMs"). One of these options is a minimum payment that is below the full amortizing payment, which results in interest being capitalized and added to the loan balance so that the loan balance continually increases. This process is referred to as negative amortization. As of December 31, 2011, Option ARMs represented approximately 2.2% of our primary mortgage insurance risk in force compared to 2.9% at December 31, 2010. We have not written any Option ARMs since 2007.

We also have insured interest-only mortgages, where the borrower pays only the interest charge on a mortgage for a specified period of time, usually five to ten years, after which the loan payment increases to include principal payments. Interest rates on interest-only mortgages may reset, in which case we would consider this to be an ARM, or may be fixed. These loans may have a heightened propensity to default because of possible "payment shocks" after the initial low-payment period expires and because the borrower does not automatically build equity in the underlying property as payments are made. At December 31, 2011, interest-only mortgages represented approximately 6.2% of our primary mortgage insurance risk in force compared to 7.3% at December 31, 2010.

As of December 31, 2011, our exposure to ARMs represented approximately $3.5 billion or 11.3% of our primary risk in force. Approximately 58.6% of the ARMs we insure, including Option ARMs and interest-only ARMs, have already had initial interest rate resets. An additional 13.1%, 9.4% and 4.9% are scheduled to have initial interest rate resets during 2012, 2013 and 2014, respectively.

Loan Size. The average loan size of our primary mortgage insurance in force (by product) as of December 31, 2011 and 2010 was as follows:

	December 31,	
(In thousands)	2011	2010
Prime	$174.2	$170.0
Alt-A	196.3	202.0
A minus and below	131.9	134.2
Total	$172.8	$170.0

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The five states (or districts) with the highest average loan size (measured by primary mortgage insurance in force as of December 31, 2011) and the corresponding average loan size as of the dates indicated were as follows:

	December 31,	
(In thousands)	2011	2010
Hawaii	$319.2	$318.4
District of Columbia	305.3	291.1
California	262.7	265.5
Massachusetts	250.2	247.8
Maryland	245.2	242.1

Property Type. Our risk of loss also is affected by the type of property securing our insured loans, and we have adjusted our underwriting guidelines to limit our exposure to certain property types. For example, we are no longer insuring properties with multiple units.

We believe loans on single-family detached housing are less likely to result in a claim than loans on other types of properties. Conversely, we generally consider loans on attached housing types, particularly condominiums and cooperatives, to be more volatile due to the higher density (and greater supply in some markets) of these properties.

Occupancy Type. We believe that loans on non-owner-occupied homes purchased for investment purposes are more likely to result in a claim and are subject to greater potential declines in value than loans on either primary or second homes and borrowers are more likely to neglect maintenance and repairs on these homes.

It has been our experience that higher-priced properties experience wider fluctuations in value than moderately priced residences and that the incomes of many people who buy higher-priced homes are less stable than those of people with moderate incomes. Therefore, we believe such higher-priced properties are more likely to result in a claim.

The following table shows the percentage of our direct primary mortgage insurance risk in force (as determined on the basis of information available as of the date of mortgage origination) by the categories and dates indicated:

	December 31,			
	2011		2010	
Direct Primary Risk in Force ($ in millions)	$32,760		$31,461	
Product Type:				
Primary	93.7	%	92.8	%
Pool	6.3		7.2	
Total	100.0	%	100.0	%
Lender Concentration:				
Top 10 lenders (by original applicant)	49.7	%	52.6	%
Top 20 lenders (by original applicant)	60.9		64.5	
LTV:				
85.00% and below	9.0	%	8.9	%
85.01% to 90.00%	38.6		38.5	
90.01% to 95.00%	35.0		33.4	
95.01% and above	17.4		19.2	
Total	100.0	%	100.0	%
Loan Grade:				
Prime	84.8	%	82.6	%
Alt-A	9.2		10.6	
A minus and below	6.0		6.8	
Total	100.0	%	100.0	%

	December 31, 2011		2010	
Loan Type:				
Fixed	88.7	%	86.8	%
ARM (fully indexed) (1)				
Less than five years	2.9		3.5	
Five years and longer	6.2		7.0	
ARM (potential negative amortization) (2)				
Less than five years	1.9		2.3	
Five years and longer	0.3		0.4	
Total	100.0	%	100.0	%
FICO Score:				
>=740	42.3	%	37.7	%
680-739	32.6		34.1	
620-679	20.3		22.8	
<=619	4.8		5.4	
Total	100.0	%	100.0	%
Mortgage Term:				
15 years and under	1.5	%	1.3	%
Over 15 years	98.5		98.7	
Total	100.0	%	100.0	%
Property Type:				
Non-condominium (principally single-family detached)	90.7	%	90.8	%
Condominium or cooperative	9.3		9.2	
Total	100.0	%	100.0	%
Occupancy Status:				
Primary residence	94.5	%	94.1	%
Second home	3.4		3.5	
Non-owner-occupied	2.1		2.4	
Total	100.0	%	100.0	%
Mortgage Amount:				
Less than $400,000	90.0	%	90.5	%
$400,000 and over	10.0		9.5	
Total	100.0	%	100.0	%
Loan Purpose:				
Purchase	68.5	%	68.7	%
Rate and term refinance	20.6		19.2	
Cash-out refinance	10.9		12.1	
Total	100.0	%	100.0	%

(1) "Fully Indexed" refers to loans where payment adjustments are equal to mortgage interest-rate adjustments.

(2) Loans with potential negative amortization will have increased principal balances, only if interest rates increase, as compared to loans with scheduled negative amortization, for which an increase in loan balance will occur even if interest rates do not change.

C. Defaults and Claims

Defaults. The default and claim cycle in our mortgage insurance business begins with our receipt of a default notice from the servicer. For financial statement reporting and internal tracking purposes, we do not consider a loan to be in default until the borrower has missed two monthly payments.

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Defaults, whether voluntary or involuntary, can occur due to a variety of factors, including death or illness, divorce or other family problems, unemployment, overall changes in economic conditions, housing value changes that cause the outstanding mortgage amount to exceed the value of a home, or other events. Depending on the type of loan, default rates may be affected by rising interest rates or an accumulation of negative amortization. Involuntary defaults are those that occur due to factors generally outside the control of the borrower (e.g., job loss, unexpected interest rate changes or death). Voluntary defaults are those where the borrower willingly walks away from his or her mortgage obligation despite the ability to continue to pay. These types of defaults often are caused by significant declines in property values where the borrower makes a decision not to continue to support a mortgage balance that exceeds the value of the home. Voluntary defaults may be exacerbated by the fact that many borrowers in the past were not required to pay closing costs or make a significant, if any, down payment on their homes, leaving these borrowers with little incentive to remain in their homes when values have depreciated. In addition, we believe that some borrowers may voluntarily default on their mortgages to take advantage of loan modification programs.

Reserves for losses are established when we are notified that a borrower has missed two monthly payments. We also establish reserves for associated loss adjustment expenses ("LAE"), consisting of the estimated cost of the claims administration process, including legal and other fees and expenses associated with administering the claims process. We maintain an extensive database of claim payment history and use models, based on a variety of loan characteristics, including the status of the loan as reported by its servicer and the type of loan product to determine the likelihood that a default will reach claim status. We also forecast the impact of our loss mitigation efforts in protecting us against fraud, underwriting negligence, breach of representation and warranties, inadequate documentation and other items that may give rise to insurance rescissions and claim denials, to help determine the default to claim rate. Lastly, we project the amount that we will pay if a default becomes a claim (referred to as "claim severity"). Based on these estimates, we arrive at our estimate of loss reserves at a given point in time. A detailed description of our reserve policy and methodology is contained in “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies—Reserve for Losses” and in Notes 2 and 10 of Notes to Consolidated Financial Statements.

The following table shows the number of primary and pool loans that we have insured, the number of loans in default and the percentage of loans in default as of the dates indicated:

	December 31,					
	2011		2010		2009	
Primary Insurance:						
Prime						
Number of insured loans in force	610,438		626,344		667,219	
Number of loans in default	71,546		77,931		85,650	
Percentage of loans in default	11.7	%	12.4	%	12.8	%
Alt-A						
Number of insured loans in force	62,839		71,999		104,231	
Number of loans in default	20,044		24,569		37,472	
Percentage of loans in default	31.9	%	34.1	%	36.0	%
A Minus and below						
Number of insured loans in force	56,361		63,760		73,219	
Number of loans in default	19,271		22,970		28,876	
Percentage of loans in default	34.2	%	36.0	%	39.4	%
Total Primary Insurance						
Number of insured loans in force	729,638		762,103		844,669	
Number of loans in default	110,861		125,470		151,998	
Percentage of loans in default	15.2	%	16.5	%	18.0	%
Pool Insurance:						
Number of loans in default	21,685		32,456		36,397	

The following table shows the number of modified pool loans that we have insured (included within primary insurance), the number of loans in default and the percentage of loans in default as of the dates indicated:

	December 31, 2011		2010		2009	
Modified Pool Insurance:						
Number of insured loans in force	17,468		15,487		42,509	
Number of loans in default	3,461		4,009		12,677	
Percentage of loans in default	19.8	%	25.9	%	29.8	%

The default rate in our mortgage insurance business is subject to seasonality. Historically, our mortgage insurance business experiences a fourth quarter seasonal increase in defaults and a first quarter seasonal decline in defaults. While this historically has been the case, macroeconomic factors in any given period may influence the default rate in our mortgage insurance business more than seasonality.
The following table shows the number and percentage of primary mortgage insurance defaults by policy origination year as of the dates indicated:

	December 31, 2011			2010			2009		
2005 and prior	40,182	36.3	%	43,560	34.7	%	52,524	34.5	%
2006	19,505	17.6		22,876	18.2		30,068	19.8	
2007	35,685	32.2		42,855	34.2		54,105	35.6	
2008	14,210	12.8		15,456	12.3		15,003	9.9	
2009	1,108	1.0		699	0.6		298	0.2	
2010	131	0.1		24	—		—	—	
2011	40	—		—	—		—	—	
Total defaults	110,861	100.0	%	125,470	100.0	%	151,998	100.0	%

The following table shows the trend in our default rates on our primary insured book of business at the end of each quarter following the year of original policy issuance, referred to as a “year of origination.”
Business written in 2005 through 2008 contained a significant number of poorly underwritten and higher risk loans. As a result of this and the economic downturn, which began in 2007, we expect substantially higher ultimate loss ratios for these loans than in previous policy years. In 2008, as a result of the significant downturn in the housing market, we implemented a number of changes to our underwriting guidelines aimed at significantly improving the risk characteristics of the loans we were insuring. As a result of these more restrictive underwriting guidelines, the default rates for vintages beginning in the second half of 2008 have significantly improved, in particular when compared to the 2005 through the first half of 2008 books of business.

Beginning in 2009, our insured vintages consist of loans with significantly improved risk characteristics, including predominantly prime credit quality, with FICO scores of 740 or above and LTV ratios lower than any of our previous policy years.
The following table shows the states with the highest number of primary mortgage insurance defaults (measured as of December 31, 2011) and the corresponding percentage of total defaults as of the dates indicated:

	December 31,								
	2011			2010			2009		
States with highest number of defaults:									
Florida	18,265	16.5	%	20,685	16.5	%	24,108	15.9	%
California	8,457	7.6		10,815	8.6		17,136	11.3	
Illinois	6,869	6.2		7,203	5.7		7,882	5.2	
Georgia	5,418	4.9		6,482	5.2		7,864	5.2	
Ohio	5,277	4.8		5,833	4.7		6,738	4.4	

Although the states of California, Illinois, Georgia and Ohio account for a large portion of our total defaults, their share of total defaults is generally proportional to the size of their insured portfolios. In the state of Florida, however, the number of defaults in Florida compared to total defaults is disproportionately larger relative to the size of Florida's insured portfolio. This disproportionate share of total defaults is the result of Florida having experienced the largest declines in home prices, high levels of unemployment, and a higher level of exposure to riskier products. Given our exposure to these states, our loss experience has been significantly affected and will continue to be negatively affected if in these states, the pace of improvement fails to accelerate or conditions there should deteriorate again.
Claims. Mortgage insurance claim volume is influenced by the circumstances surrounding the default. The rate at which defaults cure, and therefore do not go to claim, depends in large part on a borrower’s financial resources and circumstances, local housing prices and housing supply (i.e., whether borrowers may cure defaults by selling the property in full satisfaction of all amounts due under the mortgage), interest rates and regional economic conditions.
In our first-lien mortgage insurance business, the insured lender is required to complete foreclosure proceedings and obtain title to the property before submitting a claim. It can take anywhere from three months to five years for a lender to acquire title to a property through foreclosure, depending on the state. On average, we do not receive a request for claim payment until approximately 18 months following a default on a first-lien mortgage. This time lag has increased in recent years, as we have observed a slowdown in foreclosures (and consequently, a slowdown in claims submitted to us) largely due to foreclosure moratoriums imposed by various government entities and lenders and increased scrutiny in the general foreclosure process. In our second-lien mortgage insurance business, foreclosure is not required and claims are typically submitted based on a contractual number of days that a borrower is in default. As a result, we typically are required to pay a claim much earlier, within approximately 150 days of a borrower’s missed payment.
Claim activity is not spread evenly throughout the coverage period of a book of business. Historically, relatively few claims on prime business are received during the first two years following issuance of a policy and on non-prime business during the first year. Claim activity on prime loans has historically reached its highest level in the third through fifth years after the year of policy origination, and on non-prime loans, this level historically has been reached in the second through fourth years. Based on these trends, approximately 27.6% and 35.6% of our primary risk in force at December 31, 2011 and 2010, respectively, had not yet reached its highest claim frequency years. All of our pool risk in force at December 31, 2011, had reached its highest expected claim frequency years. Notwithstanding historical trends, the insurance we wrote from 2005 through 2008 has experienced default and claim activity sooner and to a significantly greater extent than has been the case historically for our books of business.

The following table shows cumulative "direct claims" (i.e., claims paid before reinsurance recoveries) paid by us on our primary insured book of business at the end of each successive year after origination, expressed as a percentage of the cumulative premiums written by us in each year of origination:

Direct Claims Paid vs. Premiums Written—Primary Insurance

Year of Origination	End of 1st year	End of 2nd year	End of 3rd year	End of 4th year	End of 5th year	End of 6th year	End of 7th year	End of 8th year	End of 9th year	End of 10th year	End of 11th year
2001	0.4 %	10.7 %	29.5 %	46.9 %	54.2 %	57.8 %	60.0 %	61.5 %	62.5 %	63.5 %	64.1 %
2002	0.5 %	8.5 %	23.4 %	32.3 %	37.0 %	40.7 %	42.8 %	44.1 %	46.3 %	46.8 %	
2003	0.4 %	7.3 %	17.1 %	23.0 %	28.0 %	31.1 %	33.3 %	37.1 %	38.4 %		
2004	0.6 %	6.6 %	15.8 %	28.0 %	38.9 %	45.5 %	53.7 %	56.0 %			
2005	0.3 %	6.0 %	24.7 %	58.9 %	74.0 %	92.3 %	100.9 %				
2006	0.9 %	13.1 %	45.4 %	63.6 %	94.4 %	117.5 %					
2007	0.5 %	9.8 %	33.6 %	81.0 %	124.2 %						
2008	0.2 %	5.0 %	29.2 %	61.2 %							
2009	—	1.3 %	3.9 %								
2010	—	0.4 %									
2011	—										

The following table shows "net claims" (i.e., claims paid after reinsurance recoveries) paid information for primary mortgage insurance for the periods indicated:

	Year Ended December 31,	
(In thousands)	2011	2010
Net claims paid:		
Prime	$796,940	$691,922
Alt-A	257,448	308,113
A minus and below	164,429	180,078
Total primary claims paid	1,218,817	1,180,113
Pool	178,610	147,667
Second-lien and other	11,331	20,630
Subtotal	1,408,758	1,348,410
Impact of first-lien terminations	75,101	223,099
Impact of captive terminations	(1,166)	(324,365)
Impact of second-lien terminations	16,550	10,834
Total net claims paid	$1,499,243	$1,257,978
Average net claim paid (1):		
Prime	$49.6	$44.6
Alt-A	60.7	57.5
A minus and below	40.2	37.6
Total primary average net claim paid	50.0	46.0
Pool	76.2	71.7
Second-lien and other	25.8	35.3
Total average net claim paid	$51.9	$47.7
Average direct primary claim paid (1)	$54.6	$52.5
Average total direct claim paid before reinsurance recoveries (1)	$56.0	$53.6

(1)

Calculated without giving effect to the impact of terminations of captive reinsurance transactions and first-lien and second-lien transactions.

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The following tables show direct claims paid by policy origination year and the states with the highest direct claims paid (measured as of December 31, 2011) as of the periods indicated:

($ in millions)	December 31, 2011		2010		2009	
Direct claims paid by origination year (first-lien):						
2005 and prior	$333	22.7 %	$531	36.1 %	$395	51.4 %
2006	331	22.5	345	23.5	175	22.8
2007	634	43.1	506	34.5	188	24.4
2008	166	11.3	85	5.8	11	1.4
2009	6	0.4	1	0.1	—	—
2010	—	—	—	—	—	—
Total direct claims paid	$1,470	100.0 %	$1,468	100.0 %	$769	100.0 %

(In millions)	Year Ended December 31, 2011	2010	2009
States with highest direct claims paid (first-lien):			
California	$255.7	$344.1	$165.0
Florida	216.2	235.8	98.9
Arizona	139.7	140.7	71.4
Georgia	78.4	85.2	49.9
Nevada	71.3	68.7	47.2

Claims paid in California, Florida and Arizona continue to account for a disproportionate share of total claims paid reflecting the significant home price depreciation in those states and the higher percentage of Alt-A loans, which have had a higher claim frequency, as well as the relatively high proportion of risk in force in those states.

Severity. In addition to claim volume, claim severity is another significant factor affecting losses. The severity of a claim is determined by dividing the claim paid by the original loan amount. The main determinants of the severity of a claim are the size of the loan, the amount of mortgage insurance coverage placed on the loan and the impact of our loss management activities with respect to the loan. Pre-foreclosure sales, acquisitions and other early workout efforts help to reduce overall claim severity as do actions we may take to reduce claim payment for servicer negligence as discussed below in "Claims Management." The average claim severity for loans covered by our primary insurance was 27.2% for 2011, compared to 27.4% in 2010 and 26.6% in 2009. The average claim severity for loans covered by our pool insurance was 45.1% for 2011, compared to 48.1% in 2010 and 33.4% in 2009.

D. Claims Management

We have significant resources dedicated to our mortgage insurance claims management department in order to effectively manage losses in the weak housing market and high default and claim environment. Claims management pursues opportunities to mitigate losses both before and after claims are received.

In our traditional mortgage insurance business, upon receipt of a valid claim, we generally have the following three settlement options:

(1) pay the maximum liability—determined by multiplying the claim amount (which consists of the unpaid loan principal, plus past due interest (up to a maximum of two years) and certain expenses associated with the default) by the applicable coverage percentage—and allow the insured lender to keep title to the property;

(2) pay the amount of the claim required to make the lender whole, commonly referred to as the “deficiency amount” (not to exceed our maximum liability) following an approved sale; or

(3) pay the full claim amount and acquire title to the property.

In general, we base our selection of a settlement option on the value of the property. In 2011, we settled 83.5% of claims by paying the maximum liability (compared to 85.3% of claims in 2010), 16.5% by paying the deficiency amount following an approved sale (compared to 14.5% of claims in 2010) and less than 1% by paying the full claim amount and acquiring title to the property (also less than 1% in 2010). Declining property values in many regions of the U.S. since 2007 have made our loss management efforts more challenging.

After a claim is received and/or paid, our loss management specialists focus on:

- a review to ensure that program compliance and our policy requirements have been met;
- analysis and prompt processing to ensure that valid claims are paid in an accurate and timely manner;
- responses to real estate owned loss mitigation opportunities presented by the insured;
- aggressive management and disposal of acquired real estate; and
- post-claim payment opportunities for additional recoveries.

When a claim is submitted for payment, we currently review each claim to investigate (i) whether the loan qualified for insurance at the time the certificate of coverage was issued, and (ii) whether the insured has satisfied its obligation in meeting all necessary conditions in order for us to be required to pay a claim. We may deny a claim if the servicer does not produce documents necessary to perfect a claim, including evidence that the insured has acquired title to the property, within the time period specified in the master insurance policy with our lending customers (the "Master Policy"). Most often, a claim denial is the result of the servicer's inability to provide the loan origination file or other servicing documents for review. If, after requests by us, the loan origination file or other servicing documents are not provided to us, we deny the claim. Under the terms of our Master Policy, our insureds must provide to us the necessary documents to perfect a claim within one year after foreclosure.

We have the legal right, under certain conditions, to unilaterally rescind coverage on our mortgage insurance policies. Under the terms of our Master Policy, we have 60 days to pay the claim, subject to various conditions, such as the insured providing additional items necessary for us to complete a review of the claim. If we determine that a loan did not qualify for insurance, as part of our internal procedures, we issue an "intent to rescind" letter that explains the basis of our decision and provides the insured with a period of up to 90 days from the date of the letter to challenge or rebut our decision. We are not contractually obligated under the terms of our Master Policy to provide the insured with this opportunity to rebut our decision to rescind coverage.

Typical events that may give rise to our right to rescind include the following: (i) we insure a loan under our Master Policy in reliance upon an application for insurance that contains a material misstatement, misrepresentation or omission, whether intentional or otherwise, or that was issued as a result of any act of fraud, subject to certain exceptions, or (ii) we find that there was negligence in the origination of a loan that we insured. We also have rights of rescission arising from a breach of the insured's representations and warranties contained in an endorsement to our Master Policy that is required with our delegated underwriting program, and we may in certain circumstances seek to rescind structured transactions for breach of representations and warranties pertaining to the insured loans having been underwritten in accordance with the agreed underwriting guidelines, and in the absence of any fraud or misrepresentation.

If a rebuttal to our decision to rescind is received and the insured provides additional information supporting the continuation (i.e., non-rescission) of coverage, the claim is re-examined internally by a second, independent group of individuals. If the additional information supports the continuation of coverage, the insurance is reinstated and the claim is paid. After completion of this process, if we determine that the loan did not qualify for coverage, the insurance certificate is rescinded (and the premium refunded), and we consider the rescission to be final and resolved. Although we may make a final determination with respect to a rescission, it is possible that a challenge to our decision to rescind coverage may be made for a period of time after we have rescinded coverage. Under our Master Policy, any suit or action arising from any right of the insured under the policy must be commenced within two years after such right first arose and within three years for certain other policies, including certain pool insurance policies.

In addition, we have rights under our Master Policy to adjust, or in some circumstances deny, claims due to servicer negligence. Examples of servicer negligence may include, without limitation, a failure to report information to us on a timely basis as required under our Master Policy, a failure to pursue loss mitigation opportunities presented by borrowers, realtors, and/or any other interested parties, a failure to pursue loan modifications and/or refinancings through programs available to borrowers or an undue delay in presenting claims to us (including as a result of improper handling of foreclosure proceedings), which increases the interest (up to a maximum of two years) or other components of a claim we are required to pay.

Although we could seek post-claim recoveries from the beneficiaries of our policies if we later determine that a claim was not valid, because our loss mitigation process is designed to ensure compliance with our policies prior to payment of claim, we have not sought, nor do we currently expect to seek, recoveries from the beneficiaries of our mortgage insurance policies once a claim payment has been made.

E. Risk Management

Our mortgage insurance business has a comprehensive risk management function, which is responsible for establishing our credit and counterparty risk policies, monitoring compliance with our policies, portfolio management and communication of credit related issues to management and our board of directors.

1. Risk Origination and Servicing

We believe that understanding our business partners and customers is a key component of managing risk. Accordingly, we assign individual risk managers to specific lenders and servicers so that they can more effectively perform ongoing business-level due diligence. This also allows us to better customize our credit and servicing policies to address individual lender-specific and servicer-specific strengths and weaknesses.

2. Portfolio Management

Our Portfolio Management group oversees the allocation of capital within our mortgage insurance business. This group establishes the portfolio limits for product type, loan attributes, geographic concentration and counterparties, and also is responsible for evaluating and negotiating potential transactions for terminating insurance risk and for distributing risk to others through risk transfer mechanisms such as captive reinsurance or the Smart Home arrangements discussed below under “Reinsurance—Ceded.”

Our Surveillance group, within Portfolio Management, monitors and analyzes the performance of various risks in our mortgage insurance portfolio. Our Credit Analytics group then uses this information to develop our mortgage credit risk and counterparty risk policies, and as an input to our proprietary default and prepayment models. Our Valuation group, within Portfolio Management, analyzes the current composition of our mortgage insurance portfolio and monitors for compliance with our internally defined risk parameters. This analysis involves assessing risks to the portfolio from the market (e.g., the effects of changes in home prices and interest rates) and analyzing risks from particular lenders, products and geographic locales.

3. Credit Analytics

Our Credit Analytics group establishes and maintains mortgage-related, credit risk policies regarding our willingness to accept risk and counterparty, portfolio, operational and structured risks involving mortgage collateral. Credit Analytics also establishes risk guidelines for product types and loan attributes. The Credit Analytics group is also responsible for the quality control function by auditing individual loan files to examine underwriting decisions for compliance with agreed-upon underwriting guidelines. These audits are conducted across loans submitted through our delegated and non-delegated underwriting channels.

4. Loss Mitigation

Our Loss Mitigation group, in cooperation with the Risk Origination and Servicing group, works with servicers to identify and pursue loss mitigation opportunities for loans in both our performing and non-performing (defaulted) portfolios. This work includes regular surveillance and benchmarking of servicer performance with respect to default reporting, borrower retention efforts, foreclosure alternatives and foreclosure processing. Through this process, we seek to hold servicers accountable for their performance and communicate to servicers identified best practices for servicer performance. In addition, we continue to participate in the large scale modification programs being led by the U.S. Department of the Treasury and Federal Housing Finance Agency ("FHFA"), several top mortgage servicers and numerous borrower outreach campaigns. See "Regulation—Federal Regulation—Homeowner Assistance Programs" for further discussion of these programs.

5. Reinsurance—Ceded

We have used reinsurance in our mortgage insurance business for purposes of risk and capital management.

Smart Home. In 2004, we developed a program referred to as "Smart Home," for reinsuring risk associated with non-prime mortgages and riskier products. These reinsurance transactions effectively transfer risk from our portfolio to investors in the capital markets. Since August 2004, we have executed four Smart Home reinsurance transactions. Each transaction began with the formation of an unaffiliated, offshore reinsurance company. We then entered into an agreement with the Smart Home reinsurer to cede to the reinsurer a portion of the risk (and premium) associated with a portfolio of loans. The Smart Home reinsurer was funded in the capital markets through the issuance to investors of a series of separate classes of credit-linked notes. Each class of notes relates to the loss coverage levels on the reinsured portfolio and is assigned a rating by one or more of the three major rating agencies.

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Typically, we retained the risk associated with the first-loss coverage levels, and the risk associated with the senior most tranche of coverage. Holders of the Smart Home credit-linked notes bear the risk of loss from losses that would be paid to us under the reinsurance agreement, which consists of the layers of risk in between those that we retain. The Smart Home reinsurer invests the proceeds of the notes in high-quality short-term investments approved by the rating agencies. Income earned on those investments and a portion of the reinsurance premiums that we pay are applied to pay interest on the notes as well as certain of the Smart Home reinsurer's expenses. The rate of principal amortization of the credit-linked notes is intended to approximate the rate of principal amortization of the underlying mortgages.
At December 31, 2011, $0.8 billion, or approximately 2.7% of our primary mortgage insurance risk in force, was included in Smart Home reinsurance transactions, compared to $1.0 billion, or approximately 3.2% at December 31, 2010. In February 2011, we exercised our option to terminate two of our four Smart Home transactions with risk in force of approximately $41 million. The two remaining transactions will mature within the next 18 months (one in November 2012 and one in June 2013), and the ultimate recoverable amounts from these transactions will be dependent upon the amount and timing of paid losses in these transactions through their respective maturity dates.
Captive Reinsurance. In the past, we and other companies in the mortgage insurance industry have participated in reinsurance arrangements with mortgage lenders commonly referred to as "captive reinsurance arrangements." Under captive reinsurance arrangements, a mortgage lender typically establishes a reinsurance company that assumes part of the risk associated with the portfolio of that lender's mortgages insured by us on a flow basis (as compared to mortgages insured in structured transactions, which typically are not eligible for captive reinsurance arrangements). In return for the reinsurance company's assumption of a portion of the risk, we ceded a portion of the mortgage insurance premiums paid to us to the reinsurance company. Captive reinsurance typically was conducted on an "excess of loss" basis, with the captive reinsurer paying losses only after a certain level of losses had been incurred. In addition, we have offered, on a limited basis, "quota share" captive reinsurance arrangements under which the captive reinsurance company assumes a pro rata share of all losses in return for a pro rata share of the premiums collected.
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. During the recent housing and related credit market downturn in which losses have increased significantly, most captive reinsurance arrangements have "attached," meaning that losses have exceeded the threshold so that we are now entitled to cash recoveries from the captive. In all cases, the captive reinsurer establishes a trust to secure our potential cash recoveries. We generally are the sole beneficiary under these trusts, and therefore, have the ability to initiate disbursements under the trusts in accordance with the terms of our captive reinsurance agreements. Ceded losses recoverable related to captives at December 31, 2011, were $90.1 million. We expect that most of the actual cash recoveries from these captives will be received over the next few years.
In some instances, we anticipate that the ultimate recoveries from the captive reinsurers will be greater than the assets currently held by the segregated trusts established for each captive reinsurer. Recorded recoverables, however, are limited to the current trust balances. All of our existing captive reinsurance arrangements are operating on a run-off basis, meaning that no new business is being placed in these captives. In 2010, we terminated a significant portion of our remaining captive reinsurance arrangements on a "cut-off" basis, meaning that the terminated captive arrangements were dissolved and all outstanding liabilities were settled.
As of December 31, 2011, we have received total cash reinsurance recoveries (including recoveries from the termination of captive arrangements) from Smart Home and captive reinsurance arrangements of approximately $786.3 million, since inception of these programs.
GSE Arrangements. We also have entered into risk/revenue-sharing arrangements with the GSEs whereby the primary insurance coverage amount on certain loans is recast into primary and pool insurance and our overall exposure is reduced in return for a payment made to the GSEs. Ceded premiums written and earned for the year ended December 31, 2011, were each $2.7 million under these programs and are expected to decline over time.
Other Reinsurance. Certain states limit the amount of risk a mortgage insurer may retain on a single loan to 25% of the total indebtedness to the insured. Radian Guaranty currently uses reinsurance from affiliated companies to remain in compliance with these insurance regulations. See "Regulation—State Regulation—Reinsurance" below. In addition, Radian Guaranty uses reinsurance with its subsidiary, Radian Insurance, to reduce its net risk in force. In 2010 and

2011, Radian Guaranty entered into three excess of loss reinsurance transactions with Radian Insurance under which Radian Guaranty transferred approximately $7.4 billion of risk in force to Radian Insurance. The pool of loans that have been reinsured by Radian Insurance generally consists of a higher concentration of recently underwritten fixed-rate, prime, high FICO loans.

F. Customers

The principal customers of our mortgage insurance business are mortgage originators such as mortgage bankers, mortgage brokers, commercial banks, savings institutions, credit unions and community banks.

In an effort to diversify our customer base, beginning in 2009, we increased the amount of business we were conducting with credit unions and, in 2010, we increased the amount of business done with community banks that met our underwriting guidelines. In 2011, we added more than 400 new customers and significantly increased the amount of business coming from mid-sized mortgage banks.

As a result of this strategy, our mortgage insurance business in 2011 was dependent to a lesser degree on a small number of large lending customers. Our top 10 mortgage insurance customers, measured by primary new insurance written, represented 34.5% of our primary new insurance written in 2011, compared to 54.4% and 62.3% in 2010 and 2009, respectively. The largest single mortgage insurance customer (including branches and affiliates), measured by primary new insurance written, accounted for 10.1% of new insurance written during 2011, compared to 15.5% and 16.1% in 2010 and 2009, respectively. In 2011 and 2010, the premiums paid to us by each of Bank of America and Wells Fargo, exceeded 10% of our consolidated revenues.

G. Sales and Marketing

Our sales and account management team consists of 64 persons, organized in various geographic regions across the U.S. Our New Business Development group focuses on the creation of new mortgage insurance relationships, while our Account Management group is responsible for supporting all existing mortgage insurance relationships. Mortgage insurance sales and account management personnel are compensated by salary, commissions for new insurance written and the creation or development of customer relationships, and other incentive-based pay tied to the achievement of certain sales goals. These incentive-based awards are reviewed to prevent excessive risk-taking.

H. Competition

We operate in the intensely competitive U.S. mortgage insurance industry. Our competitors include other private mortgage insurers and federal and state governmental and quasi-governmental agencies. We compete directly with five private mortgage insurers, including: CMG Mortgage Insurance Company, Essent Guaranty, Genworth Financial Inc., Mortgage Guaranty Insurance Corporation (“MGIC”), and United Guaranty Corporation. Until the middle of 2011, we also competed against two other private mortgage insurers—PMI Group Inc. ("PMI") and Republic Mortgage Insurance Company ("RMIC"). In the third quarter of 2011, these two longstanding competitors ceased writing new mortgage insurance commitments. In October 2011, RMIC went into runoff and in early 2012, RMIC was placed under the supervision of the insurance department of its domiciliary state. PMI ceased writing new mortgage insurance commitments in August 2011, when it was placed under the supervision, and later under the control of, the insurance department of its domiciliary state. In the fourth quarter of 2011, PMI's parent company filed a voluntary petition for relief under Chapter 11 of the U.S. Bankruptcy Code.

We compete with other private mortgage insurers on the basis of price, customer relationships, reputation, financial strength measures, and service. The service-based component includes effective delivery of products, risk management services, timeliness of claims payments, training, loss mitigation efforts and management and field service organization and expertise. Certain of our competitors are subsidiaries of larger corporations, and therefore, may have significantly greater financial and marketing resources and stronger financial strength ratings than ours.

We also compete with various federal and state governmental and quasi-governmental agencies, principally the FHA, the Veteran's Administration (“VA”) and state-sponsored mortgage insurance funds designed to eliminate the need to purchase private mortgage insurance. Beginning in 2008, the FHA, which historically had not been a significant competitor, substantially increased its market share of the insured mortgage market, and in recent years, the FHA has become the predominant insurer of low down payment mortgages, with a market share as high as 85.4% in both the fourth quarter of 2009 and the first quarter of 2010. During 2010 and 2011, the private mortgage insurance industry has steadily recaptured market share from the FHA, primarily due to increases in the financial strength of certain private mortgage insurers, the development of new products and marketing efforts directed at competing with the FHA, as well as increases in the FHA's pricing. For the fourth quarter of 2011, the FHA's market share was reduced to

65.0% of the insured market. Recent legislative actions that have increased the FHA's maximum loan limits above those allowed for the GSEs and imposed higher guaranty fees for the GSEs could strengthen FHA's competitive position. Despite our recent progress in regaining market share, the FHA's market share remains historically high and could increase in the future See “Risk Factors—Our mortgage insurance business faces intense competition.”

III. Financial Guaranty

A. Business

Our financial guaranty segment has provided direct insurance and reinsurance on credit-based risks through Radian Asset Assurance, a wholly-owned subsidiary of Radian Guaranty. 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. Financial guaranty insurance may be issued at the inception of an insured obligation or may be issued for the benefit of a holder of an obligation in the secondary market.

We have provided financial guaranty credit protection through the issuance of a financial guaranty insurance policy, by insuring the obligations under a CDS or through the reinsurance of such obligations. Both a financial guaranty insurance policy and a CDS provide the purchaser of such credit protection with a guaranty of the timely payment of interest and scheduled principal when due on a covered financial obligation, and in the case of most of our financial guaranty CDSs, credit protection for amounts in excess of specified levels of losses. These forms of credit enhancement each require similar underwriting and surveillance.

We historically offered the following financial guaranty products:

- Public Finance—Insurance of public finance obligations, including tax-exempt and taxable indebtedness of states, counties, cities, special service districts, other political subdivisions, enterprises such as public and private higher education institutions and health care facilities and infrastructure, project finance and private finance initiative assets in sectors such as airports, education, healthcare and other infrastructure projects;
- Structured Finance—Insurance of structured finance obligations, including collateralized debt obligations ("CDOs") and asset-backed securities ("ABS"), consisting of funded and non-funded (referred to herein as "synthetic") executions that are payable from or tied to the performance of a specific pool of assets or covered reference entities. Examples of the pools of assets that collateralize or underlie structured finance obligations include corporate loans, bonds or other borrowed money, residential and commercial mortgage loans, trust preferred securities ("TruPs"), diversified payment rights ("DPRs"), a variety of consumer loans, equipment receivables, real and personal property leases, or a combination of asset classes or securities backed by one or more of these pools of assets;
- Reinsurance—Reinsurance of domestic and international public finance obligations, including those issued by sovereign and sub-sovereign entities, and structured finance obligations.

In 2008, in light of difficult market conditions and the downgrade of the financial strength ratings of our financial guaranty insurance subsidiaries, we discontinued writing any new financial guaranty business, other than as necessary to commute, restructure, hedge or otherwise mitigate losses or reduce exposure in our existing portfolio. Since 2008, we have significantly reduced our financial guaranty operations and have reduced our financial guaranty exposures through commutations in order to mitigate uncertainty, maximize the ultimate capital available for our mortgage insurance business and accelerate our access to that capital.

In January 2012, Radian Asset Assurance entered into a three-part transaction (the "Assured Transaction") with subsidiaries of Assured Guaranty Ltd. (collectively "Assured") that included the following:

- the commutation of $13.8 billion of financial guaranty net par outstanding that was reinsured by Radian Asset Assurance (the "Assured Commutation");
- the ceding of $1.8 billion of public finance business to Assured (the "Assured Cession"); and
- an agreement to sell to Assured Municipal and Infrastructure Assurance Corporation (the "FG Insurance Shell"), a New York domiciled financial guaranty insurance company with licenses to conduct business in 37 states and the District of Columbia. Radian Asset Assurance acquired the FG Insurance Shell in June 2011 in order to pursue potential strategic alternatives in the public finance market. We expect to complete the sale of the FG Insurance Shell in the first quarter of 2012, subject to regulatory approval.

This three-part transaction with Assured reduced our financial guaranty net par outstanding by approximately 22.5% and is expected to provide a statutory capital benefit to Radian Asset Assurance of approximately $100 million in the first quarter of 2012. Because Radian Asset Assurance is a wholly-owned subsidiary of Radian Guaranty, this transaction will also provide a statutory capital benefit of $100 million to Radian Guaranty. This transaction is consistent with our strategic objectives of accelerating the reduction of our financial guaranty net par outstanding and strengthening the statutory capital positions of Radian Asset Assurance and Radian Guaranty. Following the Assured Transaction, on February 22, 2012, Radian Asset Assurance agreed to terminate its arrangement with the National League of Cities ("NLC") to explore the formation of a new public finance mutual bond insurance company.

1. Public Finance

The vast majority of our public finance business consists of the insurance and reinsurance of a number of types of domestic public finance obligations, including the following:

General Obligation Bonds. General obligation bonds are full faith and credit bonds that are issued by states, their political subdivisions and other municipal issuers. These bonds are supported by the general obligation of the issuer to pay from available funds and are often coupled with a pledge of the issuer to levy taxes based on the value of real estate or personal property in an amount sufficient to provide for the full payment of the bonds or in an amount up to a prescribed limitation.

Other Tax Supported Bonds. Tax supported bonds are obligations that are supported by the issuer from specific and discrete sources of taxation. They include tax-backed revenue bonds, general fund obligations and lease revenue bonds. Tax-backed obligations may be secured by a lien on specific pledged tax revenues, such as a sales tax, gasoline tax or other excise tax, or incrementally from growth in property tax revenue associated with growth in property values. Tax supported bonds also include obligations secured by special assessments levied against property owners and often benefit from issuer covenants to enforce collections of such assessments and to foreclose on delinquent properties. Issuers may be special districts with jurisdiction to tax property within a designated smaller portion of the entire political subdivision; projects financed by bonds are issued for special districts to finance basic infrastructure improvements such as roads, lighting, drainage and utility improvements.

Tax supported bonds also include lease revenue bonds, which typically are general fund obligations of a municipality or other governmental authority that are subject to annual appropriation or abatement; projects financed and subject to such lease payments ordinarily include real estate or equipment serving an essential public purpose. Bonds in this category also include moral obligations of municipalities or governmental authorities.

Healthcare and Long-Term Care Bonds. Healthcare and long-term care bonds are obligations of healthcare facilities, including community based hospitals and systems, as well as of health maintenance organizations and long-term care facilities. This category of bonds also includes long-term care revenue bonds, which are obligations secured by revenues earned by private non-profit owners and operators of continuing care retirement community facilities or systems. Such obligations are also generally secured by mortgages on the real and personal property of the care facility.

Water/Sewer/Electric/Gas and Investor-Owned Utility Bonds. These bonds include municipal utility revenue bonds and investor-owned utility bonds. Municipal utility revenue bonds are obligations of all forms of municipal utilities, including electric, water and sewer utilities and resource recovery revenue bonds. These utilities may be organized in various forms, including municipal enterprise systems, authorities or joint action agencies. Investor-owned utility bonds are obligations primarily backed by investor-owned utilities, first mortgage bond obligations of for-profit electric or water utilities providing retail, industrial and commercial service, and also include sale-leaseback obligation bonds supported by such entities.

Airports/Transportation Bonds. These bonds include a wide variety of revenue-supported bonds, such as bonds for airports, ports, tunnels, municipal parking facilities, toll roads and toll bridges.

Education Bonds. Education bonds are obligations secured by revenue collected by either public or private secondary schools, colleges and universities. Such revenue can encompass all of an institution's revenues, including tuition and fees, or in other cases, can be specifically restricted to certain auxiliary sources of revenue.

Housing Bonds. Housing bonds are obligations relating to both single and multi-family housing, issued by states and localities, supported by the cash flow and, in some cases, insurance from entities such as the FHA or private mortgage insurers.

Other Municipal Bonds. These bonds include other debt issued, guaranteed or otherwise supported by U.S. national or local governmental authorities, as well as student loans, revenue bonds, and obligations of some not-for-profit organizations. Other municipal bonds also include other types of municipal obligations, including human service providers, second-to-pay, international public finance, non-profit institutions and infrastructure bonds (which are obligations issued by a variety of entities engaged in the financing of infrastructure projects, such as roads, airports, ports, social infrastructure and other physical assets delivering essential services supported by long-term concession arrangements with a public sector entity).

2. Structured Finance

Our structured finance business has included ABS and other asset-backed or mortgage-backed obligations, including both funded and synthetic CDOs.

Funded asset-backed obligations usually take the form of a secured interest in a pool of assets, often of uniform credit quality, such as credit card or auto loan receivables, commercial or residential mortgages or life insurance policies. Funded ABS also may be secured by a few specific assets such as utility mortgage bonds and multi-family housing bonds. In addition, we have insured future flow DPRs transactions, where our insured obligations are backed by electronic payment orders intended for third-party beneficiaries (e.g., trade-related payments, individual remittances, and foreign direct investments).

The performance of synthetic asset-backed obligations is tied to the performance of specific pools of assets, but the obligations are not secured by those assets. Most of the synthetic transactions we insure are CDOs. In many of these transactions, primarily our corporate CDOs, we generally are required to make payments to our counterparty above a specified level of subordination upon the occurrence of credit events related to the borrowings or bankruptcy of obligors contained within pools of corporate obligations or, in the case of pools of mortgage or other asset-backed obligations, upon the occurrence of credit events related to the specific obligations in the pool. When we provide synthetic credit protection on a specific credit, our payment obligations to our counterparties are generally the same as those we have when we insure credits through a financial guaranty insurance policy. However, unlike most of our financial guaranty insurance policy obligations, where we have subrogation and other rights and remedies, we generally do not have recourse or other rights and remedies against the issuer and/or any related assets for amounts we may be obligated to pay under these transactions. Even in those cases where we have recourse or any rights and remedies, such recourse, rights and remedies are generally much more limited than the recourse, rights and remedies we generally have in our more traditional financial guaranty transactions, and frequently need to be exercised indirectly through our counterparty.

A CDO pool typically is composed of assets of various credit quality or that possess different characteristics with respect to interest rates, amortization and level of subordination. We primarily have provided credit protection in our CDO portfolio with respect to the following types of collateral: corporate debt obligations, TruPs, commercial mortgage-backed securities (“CMBS”), ABS (which includes RMBS), collateralized loan obligations (“CLOs”) and CDOs containing a combination of such collateral types.

In our corporate CDO transactions, we provide credit protection for certain specified credit events related to the borrowings or bankruptcy of obligors contained within pools of corporate obligations. In our TruPs transactions, we provide credit protection for the timely payment of interest and principal when due on a bond (a “TruPs bond”) representing a senior tranche of a CDO comprised mainly of TruPs. The collateral for TruPs CDOs generally consists of subordinated debt obligations or preferred equity issued by banks, insurance companies, real estate investment trusts and other financial institutions. TruPs are subordinated to substantially all of an issuing institution’s debt obligations, but are senior to payments on equity securities of such issuer (including equity securities purchased by the U.S. government under the Troubled Asset Relief Program (“TARP”)).

In our CDOs of CMBS transactions, we provide credit protection for the timely payment of interest (but only up to the amount of future premium payable to us) and principal when due on these pools of securities. In our senior-most tranche of a CDO of ABS transaction (the "CDO of ABS") and our CLO transactions, we insure the timely payment of current interest and the ultimate payment of principal on a senior class of notes whose payment obligations are secured by pools of ABS, predominantly mezzanine-tranches of RMBS securities and corporate loans or tranches of CLOs, respectively.

In some circumstances, we have provided “second-to-pay” credit protection in which we are not required to pay a claim unless both the underlying obligation defaults and another insurer defaults on its primary insurance obligation to pay a valid claim.

3. Reinsurance

We reinsure direct financial guarantees written by other primary financial guaranty insurers or “ceding companies.” Reinsurance allows a ceding company to write larger single risks and larger aggregate risks while remaining in compliance with the risk limits and capital requirements of applicable state insurance laws, rating agency guidelines and internal limits. State insurance regulators allow a ceding company to reduce the liabilities appearing on its balance sheet to the extent of reinsurance coverage obtained from licensed reinsurers or from unlicensed reinsurers meeting certain solvency and other financial criteria. Similarly, the rating agencies may permit a reduction in both exposures and liabilities ceded under reinsurance agreements, with the amount of reduction permitted dependent on the financial strength rating of the insurer and reinsurer.

As a result of multiple downgrades of the financial strength ratings of our financial guaranty insurance subsidiaries beginning in June 2008, all of our financial guaranty reinsurance treaties have been terminated on a "run-off" basis, which means that none of our ceding companies may cede additional business to us under our reinsurance agreements with them. The business they previously ceded to us under these agreements will remain outstanding (and a part of our risk in force) until such time as the ceding company elects to recapture such business or we mutually agree to a commutation of such risk.

Treaty and Facultative Agreements. The principal forms of reinsurance agreements are treaty and facultative. Under our treaty agreements, the ceding company was obligated to cede to us, and we were obligated to assume, a specified portion of all risks, within ranges, of transactions deemed eligible for reinsurance by the terms of the negotiated treaty. Limitations on transactions deemed eligible for reinsurance typically focused on the size, security and ratings of the insured obligation. Each treaty was entered into for a defined term, generally one year, with renewals upon mutual consent and rights to early termination under certain circumstances.

In treaty reinsurance, there is a risk that the ceding company may select weaker credits or proportionally larger amounts to cede to us. We have attempted to mitigate this risk by requiring the ceding company to retain a portion of each ceded risk, and we included limitations on individual transactions and on aggregate amounts within each type of transaction.

Under a facultative agreement, the ceding company had the option to offer to us, and we had the option to accept, a portion of specific risks, usually in connection with particular obligations. Unlike under a treaty agreement, where we generally relied on the ceding company's credit analysis, under a facultative agreement, we often performed our own underwriting and credit analysis to supplement the ceding company's analysis in order to determine whether to accept the particular risk. The majority of our financial guaranty reinsurance was provided under treaty arrangements.

Ceded Reinsurance. Historically, Radian Asset Assurance has ceded only an immaterial amount of its directly insured portfolio. However, in January 2012, pursuant to the Assured Cession, Radian Asset Assurance ceded approximately $1.8 billion of its direct public finance net par outstanding to Assured. Concurrently with the Assured Cession, Radian Asset Assurance entered into an administrative services agreement with Assured requiring them to provide surveillance, risk management, claims administration and claims payment services in connection with the policies ceded to Assured pursuant to the Assured Cession.

4. Premium Rates

In our financial guaranty business, the issuer of an insured obligation generally pays the premiums for our insurance, either in full at the inception of the policy, which is the case of most public finance transactions, or, in the case of most non-synthetic structured finance transactions, in regular monthly, quarterly, semi-annual or annual installments from the cash flows of the related collateral. Premiums for synthetic CDSs are generally paid in periodic installments (i.e. monthly, quarterly, semi-annually or annually) directly from our counterparty, and such payments are not dependent upon the cash flows of the insured obligation or the collateral supporting the obligation. In such cases, the corporate creditworthiness of our counterparty is a more important factor than the cash flows from the insured collateral in determining whether we will receive payment. In addition, we generally have a right to terminate our synthetic transactions without penalty if our counterparty fails to pay us, or is financially unable to make timely payments to us under the terms of the CDS transactions.

For public finance transactions, premium rates typically represent a percentage of debt service, which includes total principal and interest. For structured finance obligations, premium rates are typically stated as a percentage of the total par outstanding. Premiums are generally non-refundable. Premiums paid in full at inception are recorded initially as unearned premiums and "earned" over the life of the insured obligation (or the coverage period for such obligation, if shorter).

B. Net Par Outstanding

Our business has traditionally involved taking credit risk in various forms across various asset classes, products and geographies. Credit risk is measured in our financial guaranty business as net par outstanding, which represents our proportionate share of the aggregate outstanding principal exposure on insured obligations. We are also responsible for the timely payment of interest on substantially all of our public finance and our non-corporate CDO structured finance insured financial guaranty obligations. For our insured corporate CDOs and CDOs of CMBS, net par outstanding represents the notional amount of credit protection we are providing on a pool of obligations. Our total financial guaranty net par outstanding was $69.2 billion as of December 31, 2011, compared to $78.8 billion as of December 31, 2010. After giving effect to the Assured Transaction and the February 2012 CDO Terminations (as defined below in "—Financial Guaranty Exposure Currently Subject to Recapture or Termination"), our total financial guaranty net par outstanding was $47.8 billion.

The following table shows the distribution of our financial guaranty segment's net par outstanding by type of exposure and as a percentage of financial guaranty's total net par outstanding, as of the dates indicated.

	December 31, 2011			2010		
($ in billions)	Net Par Outstanding (1)	% of Total Net Par Outstanding (1)		Net Par Outstanding (1)	% of Total Net Par Outstanding (1)	
Type of Obligation						
Public finance:						
General obligation and other tax supported	$15.8	22.8	%	$17.5	22.2	%
Healthcare and long-term care	5.4	7.8		6.2	7.9	
Water/sewer/electric gas and investor-owned utilities	3.6	5.2		4.2	5.3	
Airports/transportation	3.3	4.8		3.9	4.9	
Education	2.2	3.2		2.6	3.3	
Escrowed transactions (2)	1.4	2.0		1.9	2.4	
Housing	0.3	0.4		0.3	0.4	
Other municipal (3)	0.9	1.3		1.1	1.4	
Total public finance	32.9	47.5		37.7	47.8	
Structured finance:						
CDO	35.1	50.7		39.6	50.3	
Asset-backed obligations	0.9	1.3		1.1	1.4	
Other structured (4)	0.3	0.5		0.4	0.5	
Total structured finance	36.3	52.5		41.1	52.2	
Total	$69.2	100.0	%	$78.8	100.0	%

(1) Represents our exposure to the aggregate outstanding principal on insured obligations.

(2) Escrowed transactions are legally defeased bond issuances where our financial guaranty policy is not legally extinguished although cash or securities in an amount sufficient to pay remaining obligations under such bonds have been deposited in an escrow account for the benefit of the bond holders. Although we have little to no remaining credit risk on these transactions, they remain legally outstanding for accounting principles generally accepted in the United States of America ("GAAP") purposes.

(3) No bond in this category individually constitutes a material amount of our financial guaranty net par outstanding.

(4) Represents other types of structured finance obligations, including DPRs, collateralized guaranteed investment contracts or letters of credit, foreign commercial assets and life insurance securitizations, none of which individually constitutes a material amount of our financial guaranty net par outstanding.

The Assured Transaction significantly reduced our net par outstanding to many types of public finance obligations. The following table shows the distribution of our financial guaranty segment's net par outstanding by type of exposure and as a percentage of financial guaranty's total net par outstanding, after giving effect to the Assured Transaction:

($ in billions)	Net Par Outstanding	% of Total Net Par Outstanding	
Type of Obligation			
Public finance:			
General obligation and other tax supported	$ 6.8	12.7	%
Healthcare and long-term care	4.4	8.2	
	2.0	3.7	

Water/sewer/electric gas and investor-owned utilities			
Airports/transportation	1.1	2.1	
Education	1.9	3.5	
Escrowed transactions	0.8	1.5	
Housing	0.1	0.2	
Other municipal	0.9	1.7	
Total public finance	18.0	33.6	
Structured finance:			
CDO	34.4	64.2	
Asset-backed obligations	0.9	1.7	
Other structured	0.3	0.5	
Total structured finance	35.6	66.4	
Total	$ 53.6	100.0	%

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1. Credit Quality of Insured Portfolio

The following table identifies the internal credit ratings we have assigned to our net par outstanding as of December 31, 2011 and 2010:

($ in billions)	December 31, 2011 Net Par Outstanding	Percent		2010 Net Par Outstanding	Percent	
Internal Credit Rating (1)						
AAA	$31.1	44.9	%	$33.9	43.0	%
AA	9.7	14.0		11.6	14.8	
A	9.1	13.2		10.9	13.8	
BBB	15.2	22.0		17.5	22.2	
Below investment grade ("BIG")	4.1	5.9		4.9	6.2	
Total	$69.2	100.0	%	$78.8	100.0	%

(1) Represents our internal ratings estimates assigned to these credits utilizing our internal rating system. See "Risk Management" below. Each rating within a letter category includes all rating grades within that letter category (e.g., an "A" rating includes "A+," "A" and "A-").

2. Geographic Distribution of Insured Portfolio

The following table shows the geographic distribution of our public finance financial guaranty net par outstanding (as a percentage of our total financial guaranty net par outstanding) as of the dates indicated:

State	December 31, 2011		2010	
Domestic Public Finance by State:				
California	5.7	%	5.5	%
Texas	4.0		4.2	
New York	3.6		3.3	
New Jersey	2.9		2.6	
Pennsylvania	2.6		2.5	
Illinois	2.4		2.2	
Florida	1.7		1.9	
Colorado	1.6		1.6	
Massachusetts	1.5		1.5	
Washington	1.4		1.5	
Other states	13.4		13.7	
Total Domestic Public Finance	40.8		40.5	
Escrowed Public Finance (1)	2.1		2.4	
International Public Finance	4.6		4.8	
Total Public Finance	47.5	%	47.7	%

(1) Geographic breakdown of our Escrowed Public Finance is not included as it is not a meaningful assessment of risk associated with such transactions.

As of December 31, 2011, we have $10.7 billion of net par outstanding in international finance obligations (our “International FG Obligations”), which includes $3.2 billion of net par outstanding related to sovereign and non-sovereign international public finance obligations, compared to $12.7 billion and $3.8 billion, respectively, as of December 31, 2010. The following table shows the distribution of net par outstanding by country of our International FG Obligations (including sovereign debt) and of our sovereign debt, as of the dates indicated:

(In millions)	December 31, 2011 Net Par Outstanding	2010 Net Par Outstanding
Type of Obligation		
International FG Obligations:		
Europe (other than Stressed Eurozone Countries)	$1,383.5	$1,588.4
Stressed Eurozone Countries (1):		
Portugal	7.7	9.0
Italy	30.9	31.0
Ireland	—	—
Greece	30.1	28.9
Spain	50.3	49.1
Total Stressed Eurozone Countries	119.0	118.0
Other International Public Finance	1,706.5	2,130.0
International Structured Finance (2)	7,470.0	$8,817.1
Total International FG Obligations	$10,679.0	$12,653.5
Sovereign Indebtedness:		
Europe (other than Stressed Eurozone Countries)	$72.6	$70.5
Stressed Eurozone Countries:		
Portugal	1.3	1.3
Italy	22.4	22.7
Ireland	—	—
Greece	30.1	28.9
Spain	47.0	45.7
Total Stressed Eurozone Countries	100.8	98.6
Other	322.0	343.0
Total sovereign indebtedness (3)	$495.4	$512.1

(1) The five Eurozone countries whose sovereign obligations have been under stress due to economic uncertainty, potential restructuring and additional ratings downgrades.

(2) Our net par outstanding in international structured finance represents the jurisdiction where the largest portion of the underlying risk is located in the case of CDO transactions, and the jurisdiction where the issuer of our insured obligation is domiciled in the case of other structured finance obligations.

(3) International sovereign obligations represent approximately 0.5% of the collateral in our portfolio of Corporate CDOs, including less than 0.1% to Spain, the only Stressed Eurozone Country included within our Corporate CDO collateral pool. As of December 31, 2011, we had reserves of $4.4 million for losses related to our exposure to Greece.

3. Largest Single Insured Risks

The following table represents our 10 largest public finance single risks by net par outstanding (together representing 4.9% of financial guaranty's aggregate net par outstanding) as of December 31, 2011, along with the internal credit rating assigned as of that date to each credit:

Credit	Internal Credit Rating	Obligation Type	Aggregate Net Par Outstanding as of December 31, 2011 (In millions)
State of California	BBB	General Obligations	$591.8
City of New York, NY	AA	General Obligations	397.1
North Bay Plenary Health Canadian Hospital	AAA	Healthcare	357.6
New Jersey, Transportation Trust Fund Authority	AA	General Obligations	341.6
Metropolitan Transportation Authority NY	A	Transportation	310.8
Los Angeles Unified School District	AA	General Obligations	304.3
State of Washington	AA	General Obligations	282.7
City of Chicago, Illinois	AA	General Obligations	274.2
State of New Jersey	AA	General Obligations	274.1
New Jersey Economic Development Authority School FAC	AA	General Obligations	268.0
			$3,402.2

The following table represents our 10 largest structured finance single risks by net par outstanding (together representing 8.0% of financial guaranty's aggregate net par outstanding) as of December 31, 2011. We have entered into each of these transactions through the issuance of a CDS. These risks include the following exposures:

Credit	Internal Credit Rating	Obligation Type	Scheduled Maturity Date	Aggregate Net Par Outstanding as of December 31, 2011 (In millions)	
10-Yr Static Synthetic Investment-Grade Corporate CDO	AAA	Corporate CDO	2017	$600.0	
10-Yr Static Synthetic Investment-Grade Corporate CDO	AAA	Corporate CDO	2017	600.0	
10-Yr Static Synthetic Investment-Grade Corporate CDO	AAA	Corporate CDO	2017	600.0	
10-Yr Static Synthetic Investment-Grade Corporate CDO	AAA	Corporate CDO	2017	600.0	
10-Yr Static Synthetic Investment-Grade Corporate CDO	AA	Corporate CDO	2017	600.0	
Static Synthetic CDO of CMBS	AAA	CDO of CMBS	2049	598.5	
10-Yr Static Synthetic Investment-Grade Corporate CDO	AAA	Corporate CDO	2017	562.5	
Static Synthetic CDO of ABS	D	CDO of ABS	2046	450.5	
Static Synthetic CDO of CMBS	AAA	CDO of CMBS	2047	450.0	
Static Synthetic Investment-Grade Corporate CDO	AAA	Corporate CDO	2013	450.0	(1)
				$5,511.5	

(1) In addition, as of December 31, 2011, we have insured an additional 20 Static Synthetic Investment-Grade Corporate CDOs ("Corporate CDOs"), each with an aggregate net par outstanding of $450 million. As of December 31, 2011, the internal credit rating for each of these transactions is AAA, with the exception of one transaction that is rated AA-.

For additional information regarding the Static Synthetic CDOs of CMBS and the CDO of ABS transactions included above, see “Directly Insured CDOs of CMBS and ABS” below.

4. Structured Finance Insured CDO Portfolio

The following table shows the distribution of our CDO net par outstanding as of December 31, 2011:

Asset Class	As of December 31, 2011 Total Exposure (Net Par) (In billions)	% of CDO Net Par Outstanding	% of Total Net Par Outstanding
Direct CDOs:			
Corporate CDOs (1)	$29.5	84.1 %	42.6 %
TruPs	1.9	5.4	2.8
CDOs of CMBS	1.8	5.1	2.6
CDOs of CLO (2)	0.5	1.4	0.7
CDOs of ABS (3)	0.5	1.4	0.7
Total Direct CDOs	34.2	97.4	49.4
Assumed CDOs	0.9	2.6	1.3
Total CDOs	$35.1	100.0 %	50.7 %

(1) Includes one CDO comprised of Corporate CDOs with net par outstanding of $0.1 billion. This transaction is the only CDO comprised of other CDOs in our directly insured financial guaranty portfolio.

(2) Consists of two second-to-pay CLOs with net par outstanding of $528.8 million and internal ratings of A+ to BB+ that are both scheduled to mature in 2018, and one directly insured CLO with net par outstanding of $7.8 million that is rated AAA.

(3) Consists of one transaction with predominantly RMBS collateral.

The following table sets forth the internal credit ratings assigned to our CDO exposures as of December 31, 2011:

Internal Credit Rating (1)	As of December 31, 2011 # of CDO Contracts	Net Par Outstanding (In billions)	% of CDO Net Par Outstanding
AAA	306	$28.7	81.7 %
AA	16	1.3	3.7
A	11	1.5	4.3
BBB	13	1.5	4.3
BIG	19	2.1	6.0
Total	365	$35.1	100.0 %

(1) Represents our internal ratings estimates. Each rating within a letter category includes all rating grades within that letter category (e.g., an “A” rating includes “A+,” “A” and “A-”).

Directly Insured Corporate CDO Portfolio

Our aggregate net par outstanding in our directly insured corporate CDO portfolio was $29.5 billion as of December 31, 2011. We only insure the notional amount (and not any interest or other amounts) with respect to all but one of our corporate CDOs. As of December 31, 2011, we directly insured $29.4 billion of such net par outstanding through 73 corporate CDO transactions. We also directly insure one CDO comprised of other CDO transactions with net par outstanding of $0.1 billion. All of our outstanding corporate CDOs are static pools, which means the covered reference entities generally cannot be changed without our consent. Pursuant to the February 2012 CDO Terminations, three counterparties to our corporate CDO transactions terminated 14 Corporate CDOs with an aggregate net par outstanding of $5.8 billion.

The same corporate obligor may exist in a number of our corporate CDO transactions. However, the pool of corporate entities in our directly insured corporate CDO portfolio is well diversified with no individual exposure to any corporate entity exceeding 1.0% of our notional exposure to corporate entities in our directly insured corporate CDOs as of December 31, 2011. As of December 31, 2011, our exposure to the five largest corporate entities represented approximately 4.0% of our total aggregate notional exposure to corporate entities in our directly insured corporate CDO portfolio.

The number of corporate entities in our directly insured corporate CDO transactions range between 76 and 125 per transaction, with the concentrations of each corporate entity averaging 1.1% per transaction. No corporate entity represented more than 2.7% of any one transaction. Our notional exposure to any single corporate entity in any one transaction ranges from $3.3 million to $120.0 million, with an average of $30.9 million per transaction.
The corporate entities for which we provide credit protection in our directly insured corporate CDO transactions are also well diversified by industry. The following table summarizes the five largest industry concentrations (according to Standard & Poor's Rating Service ("S&P")) in our financial guaranty directly insured corporate CDO portfolio as of December 31, 2011:

Industry Classification	% of Total Notional	
Telecommunications	8.9	%
Retail (excluding food and drug)	6.5	
Building and Development	6.3	
Insurance	5.7	
Financial Intermediaries	5.6	
Total of five largest industry concentrations	33.0	%

Because each transaction has a significant level of subordination, credit events would typically have to occur with respect to numerous entities in a collateral pool before we would have a claim payment obligation in respect of any particular transaction, meaning that our risk adjusted exposure to each corporate entity in a CDO pool is significantly less than our notional par exposure. In the unlikely event that all of our five largest corporate obligors were to have defaulted at December 31, 2011, absent any other defaults in the CDOs in which these obligors were included, we would not have incurred any losses due to the significant subordination remaining in each transaction in which these entities were included.
Using our internal ratings, 91.3% of the aggregate net par exposure of our directly insured corporate CDO portfolio had subordination at or above the level of subordination necessary to warrant an internal AAA rating, and only one corporate CDO representing 0.3% of such aggregate net par exposure was internally rated BIG as of December 31, 2011. Our internal ratings for our corporate CDOs differ from those derived using S&P's most recent version of its CDO Evaluator tool. Using the CDO Evaluator, 77.1% of the aggregate net par exposure to our directly insured corporate CDO portfolio continued to have subordination at or above the level of subordination necessary to warrant a AAA rating from S&P.
The following table provides information for our directly insured corporate CDO portfolio as of December 31, 2011, by year of scheduled maturity.

Year of Scheduled Maturity (1)	Number of CDO Contracts/ Policies (2)	Aggregate Net Par Exposure	Initial Average # of Sustainable Credit Events (3)(5)	Current Average # of Sustainable Credit Events (4)(5)	Minimum # of Sustainable Credit Events (5)	Avg. # of Current Remaining Entities in Transaction (6)
		(In billions)				
2012	12	$ 4.3	26.0	20.5	11.0	97
2013	31	13.2	31.2	27.0	13.4	97
2014	15	5.9	28.7	24.6	7.3	97
2017	15	6.0	26.7	24.8	10.3	99
Total	73	$ 29.4				

(1) No directly insured corporate CDO transactions are scheduled to mature in 2015 or 2016. All of our directly insured corporate CDO transactions are scheduled to mature on or before December 31, 2017.
(2) Does not include our one insured corporate CDO of CDOs with a net par outstanding of $0.1 billion, since the payments of principal and interest on this CDO depend on the cash flows actually generated from the CDO's underlying collateral and the likelihood that we would have to pay a claim is not measurable in terms of sustainable

credit events.

(3) The average number of sustainable credit events at the inception of each transaction. Average amounts presented are simple averages.

(4) The average number of sustainable credit events determined as of December 31, 2011. Average amounts presented are simple averages.

(5) The number of sustainable credit events represents the number of credit events on different corporate entities that can occur within a single transaction before we would be obligated to pay a claim. It is calculated using the weighted average exposure per corporate entity and assumes a recovery value of 30% to determine future losses (unless the parties have agreed upon a fixed recovery, then such recovery is used to determine future loss) or in the case of a defaulted reference entity pending settlement, we use market-indicated recovery levels.

(6) The current average number of different corporate entities in each of the transactions.

The following table sets forth the credit ratings of the underlying collateral for our financial guaranty directly insured corporate CDO portfolio as of December 31, 2011:

Credit Ratings (1)	Notional Amount of Underlying Collateral	% of Notional Amount of Underlying Collateral	
($ in billions)			
AAA	$0.5	0.2	%
AA	6.3	2.9	
A	41.4	19.2	
BBB	95.2	44.2	
Total investment-grade collateral	143.4	66.5	
BB	38.2	17.8	
B	19.9	9.3	
CCC and below	6.4	3.0	
Not Rated	7.3	3.4	
Total Non-investment-grade collateral	71.8	33.5	
Total	$215.2	100.0	%

(1) Represents the lower of the ratings of the underlying corporate entities as determined by Moody's Investor Service ("Moody's") and S&P. Each rating within a letter category includes all rating grades within that letter category (e.g., an "A" rating includes "A+" "A" and "A-").

Directly Insured Trust Preferred CDO Portfolio

TruPs are subordinated securities issued by banks and insurance companies, as well as by real estate investment trusts and other financial institutions, to supplement their regulatory capital needs. Generally, TruPs are subordinated to substantially all of an issuer's debt obligations, but rank senior to the equity securities of such issuer (including equity securities issued to the U.S. government under TARP). As of December 31, 2011, we provided credit protection on 15 TruPs CDO bonds. Our credit protection on these TruPs bonds was conducted through 19 separate CDS contracts, meaning that with respect to four of the TruPs bonds we insured at December 31, 2011, we entered into two separate CDS contracts (each with a different counterparty) covering the same TruPs bond. Our total aggregate net par outstanding for our TruPs CDO bond portfolio is $1.9 billion.

As of December 31, 2011, the collateral underlying our insured TruPs bonds included 648 separate issuers, including 549 banking institutions (comprising 75.9% of the total TruPs collateral based on notional amount) and 80 insurance companies (comprising 23.0% of the total TruPs collateral based on notional amount). In addition, the TruPs collateral included a small percentage of middle market loans, real estate investment trusts and other CDO tranches.

The collateral underlying our insured TruPs bonds consists of between 24 and 111 issuers per TruPs bond, with the concentration of each issuer averaging 1.8% per TruPs bond. As of December 31, 2011, our exposure to any one issuer in our insured TruPs bonds ranges from $0.1 million to $42.0 million per bond, with an average exposure of $9.2 million per issuer per bond. No issuer represented more than 9.4% of the total collateral underlying any one TruPs bond.

The following table provides additional detail regarding the scheduled maturity, net par outstanding, remaining principal subordination and interest coverage ratio for each of our insured TruPs bonds as of the dates indicated:

TruPs Bond	CDS Termination Date		TruPs CDO Maturity Date	Net Par Outstanding December 31, 2011 (In millions)	Subordination after defaults (%) December 31, 2011 (1)	Subordination after defaults and deferrals (%) (2) December 31, 2011	Subordination after defaults and deferrals (%) (2) December 31, 2010	Interest Coverage Ratio (3) December 31, 2011	Interest Coverage Ratio (3) December 31, 2010
1	3/2016	(4)(5)	9/2036	$108.6	48.3 %	44.4 %	39.6 %	335.5 %	154.5 %
	9/2036		9/2036	173.8	48.3	44.4	39.6	335.5	154.5
2	7/2016	(4)(5)	7/2036	111.3	33.1	13.9	8.1	139.6	66.1
3	9/2016	(4)(5)	12/2036	76.8	46.7	29.1	14.5	312.9	147.8
4	10/2016	(4)(5)	7/2037	131.9	38.7	24.7	22.8	107.7	157.7
	10/2016	(4)(5)	7/2037	131.9	38.7	24.7	22.8	107.7	157.7
5	11/2016	(4)(5)	9/2037	74.6	45.7	34.5	26.9	251.4	288.6
	11/2016	(4)	9/2037	108.4	45.7	34.5	26.9	251.4	288.6
6	12/2016	(4)	3/2037	120.8	39.0	27.8	18.8	201.2	142.0
7	8/2017	(4)(5)	12/2035	68.2	41.7	27.0	24.2	291.8	290.0
8	12/2017	(4)(5)	6/2036	86.4	40.8	31.7	23.6	456.1	161.0
	6/2036		6/2036	86.4	40.8	31.7	23.6	456.1	161.0
9	1/2033		1/2033	37.5	62.2	55.2	48.6	320.7	280.1
10	9/2033		9/2033	70.7	52.9	41.8	37.3	351.8	368.9
11	12/2033		12/2033	27.5	54.9	43.2	34.1	364.4	345.2
12	10/2034		10/2034	44.5	44.4	30.9	23.2	454.8	307.6
13	12/2036		12/2036	123.1	49.2	43.3	40.3	636.5	370.2
14	12/2037		12/2037	205.3	32.9	16.7	12.3	120.3	108.7
15	10/2040	(6)	10/2040	106.5	59.8	43.8	30.7	74.1	132.6
Total				$1,894.2					

(1) Reflects the amount of principal subordination (expressed as a percentage of the principal of the total collateral pool) remaining beneath our insured TruPs bond, after giving effect to paydowns or redemptions ("amortization") of collateral and actual defaults and assuming no recoveries of principal on the defaulted TruPs. Notwithstanding this principal subordination, it is possible that the remaining performing collateral in these transactions will not generate sufficient cash to pay interest on our insured TruPs bonds. In this event, we may be required to make a claim payment in respect of interest, even on transactions where subordination remains to cover principal payments.

(2) Reflects the amount of principal subordination (expressed as a percentage of the principal of the total collateral pool) remaining beneath our insured TruPs bond, after giving effect to deferrals of interest payments on the TruPs collateral, as well as amortization and actual defaults, assuming no recoveries of principal on the defaulted or deferred TruPs.

(3) Internally generated interest coverage ratio for each TruPs bond equal to the gross interest collections on the TruPs collateral minus transaction expenses as a percentage of the sum of hedge payments and interest payable on the TruPs bond and securities senior to, or pari passu with, the TruPs bond.

(4) The transactions with a CDS Termination Date prior to the TruPs CDO Maturity Date provide for automatic annual one-year extensions (absent written notifications from our counterparty) until the TruPs CDO Maturity Date, except in the case of Bond #7, which may only be extended until August 2020.

(5) Pursuant to the terms of our CDS contracts covering these TruPs bonds, we could be required to pay our counterparties the outstanding par on our insured TruPs bond on the scheduled termination date of our CDS contract. For more information regarding this potential liquidity risk, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources."

(6) Although the interest coverage ratio for this TruPs bond is below 100% at December 31, 2011, there was no interest shortfall due to collateral prepayments. As of January 2012, the interest coverage ratio increased to 281.5% primarily as a result of a decrease in hedge payment obligations.

Many of the issuers in our insured TruPs bonds have been negatively affected by the recent U.S. economic recession. Certain of these issuers have defaulted on their obligation to pay interest on their TruPs or have voluntarily chosen to defer interest payments, which is permissible for up to five years. Since we believe there is a significant likelihood that TruPs subject to interest deferrals will ultimately result in a default, we closely monitor deferrals as well as defaults in assessing the subordination remaining beneath our insured TruPs bonds. Recently, however, the cures of previous deferrals of interest payments on the TruPs collateral have outpaced initial defaults and deferrals. Eight of the TruPs bonds that we insure (representing a net par outstanding of $1.0 billion) were internally rated BIG as of December 31, 2011, and the weighted average internal rating for all of our insured TruPs bonds was BB as of December 31, 2011. The fair value liability of our insured TruPs transactions, which are accounted for as derivatives, was $26.4 million as of December 31, 2011.

One of our insured TruPs bonds, with $111.3 million of net par outstanding as of December 31, 2011, experienced interest shortfalls from October 2009 through April 2011, for which we paid an aggregate of $0.7 million in interest shortfall claims. In July 2011, as a result of excess cash flows that became available from underlying bonds prepaying, these interest shortfalls were repaid and this bond became current on interest payments and resumed paying some outstanding principal. We currently do not expect to pay additional interest shortfall claims on this CDS contract.

Based on our most recent projections, we do not expect ultimate net credit losses on any of our insured TruPs bonds. It should be noted, however, that even relatively small changes in TruPs default rates or economic conditions from current projections could have a material impact on the timing and amount of cash available to make interest and principal payments on the underlying TruPs bonds. Therefore, the occurrence, timing and duration of any event of default and the amount of any ultimate principal or interest shortfall payments are uncertain and difficult to predict.

In addition to credit risk, we also potentially face liquidity risk with respect to certain of our TruPs CDOs. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources" for additional information.

Directly Insured CDOs of CMBS and ABS

We have directly insured four CDOs of CMBS transactions, containing 127 CMBS tranches that were issued as part of 88 securitizations. Of the 127 CMBS tranches constituting the collateral for our CDOs of CMBS transactions, 58 of them have been downgraded by Moody's from Aaa to between Aa1 and Caa1, and 76 have been downgraded from AAA to between AA and CCC- by S&P. Since we have a high level of subordination for these deals, even though a significant percentage of the CMBS tranches underlying our CDO of CMBS transactions have been downgraded, we do not currently project principal losses for our insured tranches in these four transactions.

While Radian Asset Assurance insures all principal shortfalls for our CDO of CMBS transactions, the terms of our credit protection limits claims for interest shortfalls to the amount of premiums we would otherwise be entitled to receive from the applicable transaction. As of December 31, 2011, the present value of premiums that we expect to earn for these transactions was $6.2 million in the aggregate.

The following table provides information regarding our directly insured CDOs of CMBS exposure as of December 31, 2011:

Total Size of CDO Collateral Pool	Net Par Outstanding	Radian Attachment/ Detachment Points (1)	Internal Credit Rating	Number of CMBS Tranches in CDO (2)	Size of CMBS Tranches in CDO	Average Remaining Subordination of CMBS Tranches (3)	Total Delinquencies (Average of Securitizations) (4)
(In billions)	(In millions)				(In millions)		
$2.4	$598.5	5.1 %-30%	AAA	30	$80.0	22 %	8.7 %
1.9	450.0	6.8 %-30%	AAA	27	71.7	34	9.3
1.5	352.5	6.5 %-30%	AA	30	50.0	16	7.3
1.0	430.0	7.0 %-50%	BBB	40	25.0	13	10.0
$6.8	$1,831.0			127			

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(1) The “Attachment Point” is the percentage of losses in the collateral pool that must occur before we are obligated to pay claims. The “Detachment Point” is the point where the percentage of losses reaches a level where we cease to have an obligation to pay claims on additional losses. For example, a 7.0% attachment point on a $1 billion collateral pool means that we are not obligated to pay claims until there are $70 million of losses, and a 50% detachment point means that our obligation to pay claims for losses ceases when the transaction reaches an aggregate of $500 million of losses.

(2) Represents the number of CMBS tranches that comprise the collateral pool for the applicable CDOs of CMBS transaction.
(3) The average remaining subordination after giving effect to both amortization of principal and realized losses.
(4) Delinquencies reflect the average percentage (of total notional) of the CMBS collateral that is delinquent.

The total balance of the reference CMBS tranches in these collateral pools is $6.8 billion. The underlying loan collateral pool supporting the CMBS tranches consists of approximately 13,500 loans with a balance of approximately $167 billion. The underlying loan collateral is reasonably well diversified both geographically and by property type. Approximately 33.4%, 32.4% and 14.3% of the underlying loan collateral was for office space, retail space and multi-family property, respectively. Approximately 19.4% of the underlying loans are due within the next 36 months, an additional 46.1% and 31.4% of the underlying loans are due in the years ending December 31, 2015 and 2016, respectively, and the remaining 3.1% are due thereafter. If such underlying loans cannot be refinanced when due and they default, we may be required to pay a principal claim on our insured CDOs of CMBS, subject to applicable subordination, if the amount recovered upon the foreclosure of the underlying property, or otherwise, is insufficient to cover the defaulted loan balance and related expenses.

We have exposure to RMBS, including exposure to subprime RMBS, through one directly insured CDO of ABS with a net par outstanding of $450.6 million as of December 31, 2011. Approximately 50.7% of the collateral for this transaction is RMBS, including 36.7% subprime RMBS; 20.1% is CMBS; 18.5% is CDOs of ABS, including CDOs which contain RMBS and CMBS; 5.0% is CDOs of CDO, and the remaining 5.7% is in other asset classes. This transaction is currently rated D internally, D by S&P and Ca by Moody's. In this transaction, we provide credit protection through a CDS on the senior most tranche of a CDO of ABS transaction. As of December 31, 2011, $376.6 million (or 89.5%) of the collateral pool was rated BIG by at least one rating agency, of which $263.5 million (or 62.6%) of the collateral pool had defaulted. Due to the substantial deterioration of the underlying collateral, this transaction experienced an interest shortfall in November 2011. However, this shortfall was repaid in December 2011 before we were required to pay a claim in respect thereof. We currently expect to begin paying claims related to interest shortfalls on this transaction in 2012. However, due to the structure of this transaction, we do not expect to pay claims related to principal shortfalls until sometime between 2036 and the legal final maturity date for this transaction in 2046. Although losses for this transaction are difficult to estimate, absent a commutation or other successful loss mitigation alternative for this transaction, we currently believe the ultimate claim payments in respect of principal for this transaction will be substantially all of our total principal exposure. We continue to explore loss mitigation alternatives with respect to this CDO of ABS transaction, including the possibility of commuting our remaining risk on this transaction. We can provide no assurance that we will be successful in such loss mitigation efforts. For additional information, see "Risk Factors—Our financial guaranty portfolio has experienced deterioration as a result of general erosion in credit markets and the overall economy and is susceptible to further deterioration which could have a material adverse effect on the capital adequacy of Radian Guaranty."

Directly Insured CLO Exposure

We also have $0.5 billion in exposure as of December 31, 2011, related to three CLO transactions. Two of these transactions are second-to-pay transactions in which we will not be obligated to pay a claim unless both the underlying obligation defaults and another insurer defaults on its primary insurance obligation to pay such claim. These second-to-pay transactions are internally rated A+ and BB+ and are both scheduled to mature in 2018. We are in a first-to-pay position with respect to the remaining CLO transaction (representing $7.8 million of exposure), which is internally rated AAA.

5. Non-CDO ABS Risk

We have an aggregate of $0.9 billion of net par outstanding related to ABS obligations (none of which is exposure to CMBS) outside of our insured CDO portfolio. The following table shows the distribution of such ABS obligations.

Type of Non-CDO ABS	Net Par Outstanding Amount	Percentage of ABS Net Par Outstanding	Percentage of Total Net Par Outstanding
($ in billions)			

Total RMBS	$0.5	58.5	%	0.8	%
Consumer assets	0.1	15.2		0.1	
Commercial and other	0.3	26.3		0.5	
Total ABS	$0.9	100.0	%	1.4	%

We have assumed an aggregate of $150.9 million of net par exposure to 2006 and 2007 vintage RMBS outside our insured CDO portfolio ("2006/2007 Vintage"), all of which has been assumed from our primary insurance customers. We consider this exposure to be particularly high risk RMBS exposure due to the historically high default rates and aggregate losses on RMBS originated in those years. As of December 31, 2011, 45.0% of our total RMBS net par outstanding remains investment-grade (at least BBB), including 55.8% of our 2006/2007 Vintage.

The following table provides additional information regarding our exposure to RMBS in our non-CDO portfolio as of December 31, 2011:

Type of RMBS by Product ($ in millions)	Net Par Outstanding	Net Par Outstanding Direct	Assumed	% 2006/2007 Vintage	% of Net Par Outstanding by Rating (1) AAA	AA	A	BBB	BIG (2)
Subprime	$202.9	$104.0	$98.9	2.5%/10.5%	21.4 %	1.2 %	— %	0.3 %	77.1 %
Alt-A	146.3	58.4	87.9	25.6%/10.6%	0.7	—	—	18.4	80.9
Prime	144.7	112.4	32.3	2.6%/14.5%	65.1	0.9	11.5	15.9	6.6
Second-to-Pay	14.2	—	14.2	0.0%/100.0%	—	17.1	—	—	82.9
Total Domestic RMBS	508.1	274.8	233.3	9.1%/14.2%	27.3 %	1.2 %	3.2 %	10.0 %	58.3 %
Total International RMBS	38.0	—	38.0	49.9%/36.0%	76.1	76.1	—	5.3	11.0
Total RMBS	$546.1	$274.8	$271.3	11.9%/15.7%	25.9 %	6.4 %	3.2 %	9.6 %	55.0 %

(1) Ratings are based on our internal ratings estimate for these transactions.

(2) All of the BIG exposure is on Radian Asset Assurance's Watch List and loss reserves have been established for these as needed. As of December 31, 2011, we have established the following reserves for the RMBS in our non-CDO insured portfolio: $15.4 million for Subprime; $3.4 million for Alt-A; $(1.4) million for Prime; $3.1 million for Second-to-Pay; and $39 thousand for international RMBS. A negative reserve means that we anticipate future recoveries of claims paid to exceed future claim payments.

6. Assumed Reinsurance Exposure

As of December 31, 2011, we had assumed approximately $20.6 billion in net par exposure from our primary reinsurance customers, compared to $23.7 billion as of December 31, 2010. After giving effect to the Assured Commutation, we now have approximately $6.8 billion in net par outstanding assumed from our primary reinsurance customers.

7. Second-to-Pay Exposure

We are obligated to pay claims for our second-to-pay transactions only to the extent that both the underlying obligation defaults and another insurer, who is the primary obligor for such claims, has failed to pay a valid claim. Consequently, if the conservator for an insolvent primary obligor (such as an insurance regulator) rejects payment of all or a portion of a valid claim, we may be required to pay all or a portion of such valid claim. As of December 31, 2011, we had insured approximately $2.4 billion net par outstanding in second-to-pay exposure.

Because many primary obligors of transactions for which we have second-to-pay exposure are currently experiencing significant financial difficulties, the likelihood of our having to pay a claim on our second-to-pay exposures has increased.

The following table summarizes the distribution of our second-to-pay exposure net par outstanding between public finance and structured finance and from investment-grade and below investment-grade primary obligors as of December 31, 2011:

Second-to-Pay Exposure	Public Finance Net Par Outstanding	% of Second-to-Pay		Structured Finance Net Par Outstanding	% of Second-to-Pay		Total Net Par Outstanding	% of Second-to-Pay	
($ in millions)									
Investment-Grade primary obligors	$607.4	25.2	%	$ 86.3	3.6	%	$693.7	28.8	%
BIG primary obligors:									
MBIA Insurance Corporation (“MBIA”)	113.9	4.7		630.8	26.2		744.7	30.9	
Syncora Guaranty Inc. (“Syncora”)	348.3	14.5		154.2	6.4		502.5	20.9	
Ambac Assurance Corporation (“Ambac”)	245.9	10.2		55.9	2.3		301.8	12.5	
Financial Guaranty Insurance Company (“FGIC”)	96.8	4.0		11.0	0.5		107.8	4.5	
Other	58.0	2.4		—	—		58.0	2.4	
Total BIG primary obligors	862.9	35.8		851.9	35.4		1,714.8	71.2	
Total Second-to-Pay	$1,470.3	61.0	%	$ 938.2	39.0	%	$2,408.5	100.0	%

In order for us to be obligated to pay a claim on a second-to-pay exposure, both the underlying obligation and the primary obligor must default. Therefore, those underlying obligations that are below investment-grade are more likely to default and result in claims. The following table summarizes the portion of our second-to-pay exposure net par outstanding with below investment-grade primary obligors where the underlying insured transaction is also rated below investment-grade internally:

BIG Second-to-Pay Exposure	Public Finance Net Par Outstanding	% of BIG		Structured Finance Net Par Outstanding	% of BIG		Total Net Par Outstanding	% of BIG	
($ in millions)									
MBIA	$—	—	%	$ 412.9	60.7	%	$412.9	60.7	%
Syncora	118.6	17.4		44.4	6.6		163.0	24.0	
Ambac	3.7	0.6		5.4	0.8		9.1	1.4	
FGIC	69.4	10.2		11.0	1.6		80.4	11.8	
Other	14.5	2.1		—	—		14.5	2.1	
Total BIG Second-to-Pay	$206.2	30.3	%	$ 473.7	69.7	%	$679.9	100.0	%

In 2010, two of the companies that are the primary obligors on certain of the transactions for which we have provided second-to-pay exposure, Syncora and FGIC, suspended all claims payments following orders by the New York Insurance Department (“NYID”). While the NYID lifted the suspension of payments by Syncora in June 2010, Syncora has subsequently posted additional losses and the NYID may therefore implement the suspension again in the future.

8. Financial Guaranty Exposure Currently Subject to Recapture or Termination

Approximately $52.9 billion of our total net par outstanding as of December 31, 2011, (representing 76.4% of our financial guaranty segment's total net par outstanding) was subject to recapture or termination at the option of our primary reinsurance customers and financial guaranty credit derivative counterparties. In February 2012, three of our CDS counterparties exercised their termination rights with respect to 14 corporate CDOs that we insured (the “February 2012 CDO Terminations”). The February 2012 CDO Terminations reduced our net par outstanding by $5.8 billion. After giving effect to the Assured Transaction and the February 2012 CDO Terminations, approximately $33.3 billion of our total net par outstanding remains subject to recapture or termination at the option of our primary reinsurance customers and financial guaranty credit derivative counterparties.

Our treaties with our primary reinsurance customers do not permit our reinsurance customers to selectively recapture business previously ceded to us under their treaties. However, because we have entered into multiple treaties with each customer, it is possible that a customer may choose to recapture business only under those treaties that it perceives as covering less risky portions of our reinsurance portfolio. If this type of selective recapture occurs, it could potentially leave us with risk that is more concentrated in troubled asset classes.

C. Defaults and Claims

The patterns of claim payments in our financial guaranty business tend to fluctuate and may be low in frequency and high in severity. Generally, in the event of default, principal payments under a typical financial guaranty insurance policy that we provide or reinsure may not be accelerated without our or the ceding company's approval. Without such approval, the policyholder is entitled to receive payments of principal and interest from us or the ceding company on their regularly scheduled dates as if no default had occurred. In certain of the MBS we insure, we may become obligated to pay claims to the extent the outstanding principal balance of the insured obligation exceeds the value of the collateral underlying such obligations for a specified number of reporting periods. We or the ceding company often have remedies against other parties to the transaction, which may be exercised both before and after making any required default payments.

In our synthetic corporate CDO transactions, losses arise upon the occurrence of a credit event (e.g., bankruptcy, a failure to pay or certain restructuring of debt) set forth in our agreement with respect to a covered corporate entity or money borrowed by such defaulting entity. For a synthetic corporate CDO transaction, a loss is an amount equal to the decrease in market value below the outstanding notional amount we have agreed to insure of a corporate bond meeting agreed upon criteria, but only to the extent that the aggregate of all such loss amounts exceeds an agreed upon amount of subordination.

We establish reserves (on our non-derivative financial guaranty contracts), or fair value liabilities (for our insurance contracts accounted for as derivatives or variable interest entities ("VIEs")) to provide for losses and the estimated costs of settling claims in our financial guaranty business. Setting loss reserves involves significant use of estimates with regard to the likelihood, magnitude and timing of a loss. We have determined that the setting of loss reserves in our financial guaranty business constitutes a critical accounting policy. Accordingly, a detailed description of our policies is contained in "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies—Reserve for Losses" and Notes 2, 4, 6 and 10 of Notes to Consolidated Financial Statements.

In our financial guaranty reinsurance business, claim payments due to the ceding companies are typically settled net of premiums payable to us. For information on our financial guaranty segment's claims paid and reserve for losses for the years ended December 31, 2011 and 2010, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Financial Guaranty—Financial Guaranty General Claims and Reserve For Losses."

D. Risk Management

We employ a comprehensive risk management system in our financial guaranty segment. This system incorporates and integrates company-wide risk management policies and processes as well as the prevailing practices of the financial guaranty industry. All transactions were subject to an underwriting analysis and risk committee decision process at the time of origination.

Transaction underwriting included an analysis of all credit and legal aspects as well as any specific risks that may be inherent in the transaction. Further, we utilized our proprietary internal economic capital model for risk analysis, valuation, and as the basis for calculating our risk-adjusted returns on our capital for our financial guaranty business. All directly insured transactions and reinsurance business assumed on a facultative basis were subject to a risk committee decision process embedded in the financial guaranty business.

Our risk management department uses internal ratings in monitoring our insured transactions. We determine our internal ratings for a transaction by utilizing relevant information available to us, including: periodic reports supplied by the issuer, trustee or servicer for the transaction; publicly available information regarding the issuer, the transaction, the underlying collateral or asset class of the transaction and/or collateral; communications with the issuer, trustee, collateral manager and servicer for the transaction; and when available, public or private ratings assigned to our insured transactions or to other obligations that have substantially similar risk characteristics to our transactions without the benefit of financial guaranty or similar credit insurance. When we deem it appropriate, we also utilize nationally recognized rating agency models and methodologies to assist in such analysis. We use this information to develop an independent judgment regarding the risk and loss characteristics for our insured transactions. If public or private ratings have been used, our risk management analysts express a view regarding the rating agency opinion and analysis. When our analysis of the transaction results in a materially different view of the risk and loss characteristics of an insured transaction, we will assign a different internal rating than that assigned by the rating agency. Our internal ratings estimates are subject to revision at any time and may differ from the credit ratings assigned by the rating agencies.

The risk management function in our financial guaranty business is responsible for the identification, analysis, measurement and surveillance of credit, market, legal and operational risk associated with our financial guaranty insurance contracts. Risk management is also primarily responsible for claims prevention and loss mitigation strategies. This discipline is applied during the ongoing monitoring and surveillance of each exposure in the portfolio, as well as at origination of a transaction.
Additional information regarding financial guaranty risk management is contained in Notes 2 and 12 of Notes to Consolidated Financial Statements and in "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies—Reserve for Losses—Financial Guaranty."

E. Customers

We have historically conducted our structured finance business with many of the major global financial institutions that structure, underwrite or trade securities issued in structured finance transactions. These institutions typically are large commercial or investment banks that focus on high-quality deals in the public finance and structured finance markets. While our public finance customers have historically included many of the same financial institutions as our structured finance business, our public finance customers have also included regional financial institutions and issuers that may focus on lower investment-grade obligors or obligations. Our financial guaranty ceding companies have consisted mainly of the largest primary insurance companies licensed to write financial guaranty insurance and their foreign-based affiliates.
Since we have discontinued writing new financial guaranty business, including accepting new financial guaranty reinsurance, other than as may be necessary to commute, restructure, hedge, or otherwise mitigate losses or reduce exposure in our existing portfolio, we are currently not seeking new financial guaranty customers and we have terminated all or a substantial portion of our reinsurance relationships with many of the primary financial guaranty insurers with whom we have historically conducted business. However, we continue to maintain relationships with many of the financial institutions that participate in the public finance and structured finance transactions, which we believe will assist us as we explore ways to maximize the value of our existing insured financial guaranty portfolio. See "Financial Guaranty—Business."

IV. Financial Services

Our financial services segment consisted mainly of our ownership interest in Credit-Based Asset Servicing and Securitization LLC ("C-BASS"), a mortgage investment company that we wrote off completely in 2007. C-BASS filed for Chapter 11 bankruptcy protection on November 12, 2010, and was subsequently liquidated. Our equity interest in C-BASS, and a related note receivable from C-BASS that had also been previously written off, were extinguished pursuant to the Plan of Liquidation that was confirmed on April 25, 2011.

1. C-BASS

Historically, C-BASS operated as a mortgage investment and servicing company specializing in the credit risk of subprime single-family residential mortgages. As a result of the disruption in the subprime mortgage market during 2007, C-BASS ceased purchasing mortgages and mortgage securities and its securitization activities in the third quarter of 2007 and sold its loan-servicing platform in the fourth quarter of 2007. We recorded a full write-off of our equity interest in C-BASS in the third quarter of 2007 and wrote off a $50.0 million credit facility with C-BASS in the fourth quarter of 2007.
As a consequence of the complete write-off of our investment in C-BASS in 2007, we had no continuing interest of value in C-BASS. The effect of C-BASS on our financial position and results of operations as of and for the years ended December 31, 2010 and 2009, respectively, was negligible. We have no contractual obligations to C-BASS or its creditors to fund C-BASS's shareholders' deficit or any other of its obligations. The likelihood that we will recover any of our investment is extremely remote. Accordingly, we believe it is extremely unlikely that our investment in C-BASS will have anything more than a negligible impact on our financial position, results of operation or cash flows at any time in the future.

2. Sherman Financial Group LLC ("Sherman")

On May 3, 2010, Radian Guaranty sold to Sherman, a consumer asset and servicing firm specializing in charged-off and bankruptcy plan consumer assets, all of its remaining 28.7% equity interest in Sherman for approximately $172.0 million in cash, pursuant to a Securities Purchase Agreement (the “Sherman Purchase Agreement”) dated as of May 3, 2010, between Radian Guaranty and Sherman. As a result of the sale, in the second quarter of 2010, we recorded a pre-tax gain of approximately $34.8 million, net of transaction related expenses of $1.3 million, and a pre-tax decrease in accumulated comprehensive income of $29.7 million.

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V. Investment Policy and Portfolio

Income from our investment portfolio is one of our primary sources of cash flow to support our operations and claim payments.

We follow an investment policy that, at a minimum, requires:

- At least 75% of our investment portfolio, based on market value, to consist of investment securities and instruments that are assigned a “1” rating designating the highest quality ranking by the National Association of Insurance Commissioners (“NAIC”) or equivalent ratings by a Nationally Recognized Statistical Rating Organization (“NRSRO”) (i.e., “A-” or better by S&P and “A3” or better by Moody’s);
- A maximum of 15% of our investment portfolio, based on market value, may consist of investment securities and instruments that are assigned a “2” rating designating a high quality ranking by the NAIC or equivalent ratings by an NRSRO (i.e., “BBB+” to “BBB-” by S&P and “Baa1” to “Baa3” by Moody’s); and
- A maximum of 10% of our investment portfolio, based on market value, may consist of investment securities and instruments that are assigned a “3 or below” rating designating lower quality debt and equity rankings by the NAIC or equivalent ratings by an NRSRO (i.e., “BB+” and below by S&P and “Ba1” and below by Moody’s).

Under our investment policy, which is applied on a consolidated risk and asset allocation basis, we are permitted to invest in equity securities (including convertible debt and convertible preferred stock), provided our equity component does not exceed 20% of our total investment portfolio and at least 90% of the market value of the portfolio is investment grade. We manage our investment portfolio to minimize volatility through active portfolio management and intensive monitoring of investments to seek an optimal mix of the types of securities held and to stagger the maturities of fixed-income securities. Our investment policy focuses on the generation of optimal returns, stable tax-efficient current returns, and the preservation and growth of capital. Our short-term investments correspond with our expected short-term cash requirements.

Our investment policies and strategies are subject to change depending on regulatory, economic and market conditions and our then-existing or anticipated financial condition and operating requirements, including our tax position. The investments held at our insurance subsidiaries are also subject to insurance regulatory requirements applicable to such insurance subsidiaries and are highly liquid.

Oversight responsibility of our investment portfolio rests with management—allocations are set by periodic asset allocation studies, calibrated by risk and return and after-tax considerations, and are approved by the Investment and Finance Committee of our board of directors (the “Investment Committee”). Selection of our external portfolio managers, monitoring, reporting and accounting (including valuation) of all assets are performed by management. We manage over 40% of the portfolio—the portion of the portfolio largely consisting of municipal bonds and short-term investments—internally, with the remainder managed by 10 external managers. External managers are selected by management based primarily upon the allocations approved by the Investment Committee as well as factors such as historical returns and stability of their management teams. Management’s selections are presented to and approved by the Investment Committee.

At December 31, 2011, our investment portfolio had a cost basis of $5,661.9 million and carrying value of $5,783.5 million, including $1,261.7 million of short-term investments. Our investment portfolio did not include any real estate or whole mortgage loans at December 31, 2011. The portfolio included 46 privately placed, investment-grade securities with an aggregate carrying value of $162.3 million at December 31, 2011. At December 31, 2011, 90.3% of our investment portfolio was rated investment-grade.

A. Investment Portfolio Diversification

The diversification of our investment portfolio at December 31, 2011, was as follows:

($ in millions)	Fair Value	Percent	
U.S. government and agency securities (1)	$723.6	12.5	%
State and municipal obligations	1,050.2	18.2	
Money market instruments	723.2	12.5	
Corporate bonds and notes	700.5	12.1	
RMBS (2)	930.2	16.1	
CMBS	225.8	3.9	
CDO	5.5	0.1	
Other ABS (3)	99.9	1.7	
Foreign government securities	102.9	1.8	
Hybrid securities	346.3	6.0	
Equity securities (4)	269.2	4.6	
Other investments (5)	69.7	1.2	
Short-term investments—U.S. government treasury bills	538.5	9.3	
Total	$5,785.5	100.0	%

(1) Substantially all of these securities are backed by the full faith and credit of the U.S. government.

(2) Includes $881.7 million guaranteed by Fannie Mae, Freddie Mac or Government National Mortgage Association (“Ginnie Mae”).

(3) Primarily comprised of AAA-rated corporate obligations.

(4) Comprised of broadly diversified domestic equity mutual funds ($116.0 million fair value) and various preferred and common stocks invested across numerous companies and industries ($153.2 million fair value).

(5) Includes $62.8 million (fair value) of investments not accounted for at fair value, which have a carrying value of $61.0 million.

B. Investment Portfolio Scheduled Maturity

The weighted average duration of the assets in our investment portfolio as of December 31, 2011, was 4.6 years. The following table shows the scheduled maturities of the securities held in our investment portfolio at December 31, 2011:

($ in millions)	Fair Value	Percent	
Short-term investments	$1,261.7	21.8	%
Due in one year or less (1)	406.4	7.0	
Due after one year through five years (1)	559.5	9.7	
Due after five years through ten years (1)	696.5	12.0	
Due after ten years (1)	1,268.0	22.0	
RMBS (2)	930.2	16.1	
CMBS (2)	225.8	3.9	
CDO (2)	5.5	0.1	
Other ABS (2)	99.9	1.7	
Other investments (3)	332.0	5.7	
Total	$5,785.5	100.0	%

(1) Actual maturities may differ as a result of calls before scheduled maturity.
(2) RMBS, CMBS, CDO and other ABS are shown separately, as they are not due at a single maturity date.
(3) No stated maturity date.

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C. Investment Portfolio by Rating

The following table shows the ratings of our investment portfolio as of December 31, 2011:

($ in millions)	Fair Value	Percent	
Rating (1)			
AAA (2) (5)	$3,255.9	56.3	%
AA	686.3	11.9	
A	714.5	12.3	
BBB	568.4	9.8	
BB and below (3)	216.3	3.7	
Not rated	103.7	1.8	
Equity securities	177.6	3.1	
Other invested assets (4)	62.8	1.1	
Total	$5,785.5	100.0	%

(1) As assigned by an NRSRO as of December 31, 2011.

(2) Includes $1,057.2 million of AAA-rated U.S. Government and Agency securities, $769.1 million in Ginnie Mae securities, $57.0 million in Freddie Mac securities, and $54.5 million in Fannie Mae securities that have not been rated by an NRSRO as of December 31, 2011.

(3) Securities in this category have been rated non-investment grade by an NRSRO as of December 31, 2011.

(4) Includes Limited Partnership investments.

(5) Includes short-term investments held in the Committed Preferred Custodial Trust Securities ("CPS") Market Street Trust accounts in the amount of $150.0 million.

D. Investment Risk Concentration

The following table shows our top ten investment portfolio risk concentrations as of December 31, 2011:

($ in thousands)	Securities Classifications						
	Market Value			U.S. Government Agency & GSE Securities		Municipal Securities	U.S. Treasury Money Market
Issuer Description	$	%		MBS	Notes/Bills		
U.S. Treasury Bond/Note	$1,071,640	19.6	%	$—	$ 1,071,640	$—	$—
Ginnie Mae	769,134	14.0		769,134	—	—	—
BlackRock Liquidity Funds T-Fund Portfolio	173,378	3.2		—	—	—	173,378
Fidelity Institutional Treasury Only Portfolio	167,631	3.1		—	—	—	167,631
Federated Treasury Obligations Fund	139,000	2.5		—	—	—	139,000
State of California (1)	130,109	2.4		—	—	130,109	—
State of Illinois	129,672	2.4		—	—	129,672	—
Invesco Ltd.	129,000	2.4		—	—	—	129,000
Vanguard Institutional Index Fund	115,941	2.1		—	—	—	115,941
Northern Institutional Treasury Portfolio	114,184	2.1		—	—	—	114,184
Top Investment Portfolio Risk Concentrations	$2,939,689	53.8	%	$ 769,134	$ 1,071,640	$259,781	$839,134

(1) Includes securities with indirect and/or historical state funding support.

VI. Regulation

A. State Regulation

We and our insurance subsidiaries are subject to comprehensive regulation principally designed for the protection of policyholders, rather than for the benefit of investors, by the insurance departments in the various states where our insurance subsidiaries are licensed to transact business. Insurance laws vary from state to state, but generally grant broad supervisory powers to agencies or officials to examine insurance companies and enforce rules or exercise discretion affecting almost every significant aspect of the insurance business.

Insurance regulations address, among other things, the licensing of companies to transact business, claims handling, reinsurance requirements, premium rates and policy forms offered to customers, financial statements, periodic reporting, permissible investments and adherence to financial standards relating to surplus, dividends and other criteria of solvency intended to assure the satisfaction of obligations to policyholders.

Our insurance subsidiaries' premium rates and policy forms are generally subject to regulation in every state in which our insurers are licensed to transact business. These regulations are intended to protect policyholders against the adverse effects of excessive, inadequate or unfairly discriminatory rates and to encourage competition in the insurance marketplace. In most states where the insurance subsidiaries are licensed, premium rates and policy forms must be filed with the state insurance regulatory authority and, in some states, must be approved, before their use. Changes in premium rates may be subject to actuarial justification, generally on the basis of the insurer's loss experience, expenses and future projections. In addition, states may consider general default experience in the mortgage insurance industry in assessing the premium rates charged by mortgage insurers.

Each insurance subsidiary is required by the insurance regulatory authority of its state of domicile, and the insurance regulatory authority of each other jurisdiction in which it is licensed to transact business, to make various filings with those insurance regulatory authorities and with the NAIC, including quarterly and annual financial statements prepared in accordance with statutory accounting principles. In addition, our insurance subsidiaries are subject to examination by the insurance regulatory authorities of each of the states in which they are licensed to transact business.

Given the significant losses incurred by many mortgage and financial guaranty insurers in the recent past, our insurance subsidiaries have been subject to heightened scrutiny by insurance regulators, and in particular, the insurance regulatory authorities of the states in which our subsidiaries are domiciled.

Radian Guaranty. Radian Guaranty is domiciled and licensed in Pennsylvania as a stock casualty insurance company authorized to carry on the business of mortgage guaranty insurance. It is a monoline insurer, restricted to writing only residential mortgage guaranty insurance. In addition to Pennsylvania, Radian Guaranty is authorized to write mortgage guaranty insurance (or in states where there is no specific authorization for mortgage guaranty insurance, the applicable line of insurance under which mortgage guaranty insurance is regulated) in each of the other 49 United States, the District of Columbia and Guam.

Radian Asset Assurance. Radian Asset Assurance is domiciled and licensed in New York as a monoline financial guaranty insurer. Radia