RADIAN GROUP INC
Form 10-K
February 22, 2013

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, 2012
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. x

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	o	Accelerated filer	x
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, 2012, the aggregate market value of the registrant’s common stock held by non-affiliates of the registrant was $443,466,331 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 19, 2013 was 133,739,400 shares.

DOCUMENTS INCORPORATED BY REFERENCE

	Form 10-K Reference Document
Definitive Proxy Statement for the Registrant’s 2013 Annual Meeting of Stockholders	Part III (Items 10 through 14)

TABLE OF CONTENTS

			Page Number
		Forward Looking Statements—Safe Harbor Provisions	3
PART I			
	Item 1	Business	6
		General	6
		Mortgage Insurance	8
		Business	8
		Risk in Force	10
		Defaults and Claims	15
		Claims Management	18
		Risk Management	20
		Customers	23
		Sales and Marketing	23
		Competition	23
		Financial Guaranty	25
		Business	25
		Net Par Outstanding	32
		Defaults and Claims	36
		Risk Management	36
		Customers	39
		Financial Services	39
		Investment Policy and Portfolio	39
		Regulation	43
		Employees	58
	Item 1A	Risk Factors	59
	Item 1B	Unresolved Staff Comments	84
	Item 2	Properties	84
	Item 3	Legal Proceedings	84
	Item 4	Mine Safety Disclosures	87
PART II			
	Item 5	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	88
	Item 6	Selected Financial Data	89
	Item 7	Management's Discussion and Analysis of Financial Condition and Results of Operations	91
	Item 7A	Quantitative and Qualitative Disclosures About Market Risk	157
	Item 8	Financial Statements and Supplementary Data	159
	Item 9	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	266
	Item 9A	Controls and Procedures	266
	Item 9B	Other Information	266
PART III			
	Item 10	Directors, Executive Officers and Corporate Governance	267
	Item 11	Executive Compensation	267
	Item 12	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	267
	Item 13	Certain Relationships and Related Transactions, and Director Independence	268

	Item 14	Principal Accountant Fees and Services	268
PART IV			
	Item 15	Exhibits and Financial Statement Schedules	269
SIGNATURES			270
INDEX TO FINANCIAL STATEMENT SCHEDULES			271
INDEX TO EXHIBITS			272

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 other variations on these words and other similar expressions. These statements, which may include, without limitation, projections regarding our future performance and financial condition, are made on the basis of management's current views and assumptions with respect to future events. Any forward-looking statement is not a guarantee of future performance and actual results could differ materially from those contained in the forward-looking statement. These statements speak only as of the date they were made, and we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. We operate in a changing environment. New risks emerge from time to time and it is not possible for us to predict all risks that may affect us. The forward-looking statements, as well as our prospects as a whole, are subject to risks and uncertainties that could cause actual results to differ materially from those set forth in the forward-looking statements, including the following:

- changes in general economic and political conditions, including high unemployment rates and weakness in the U.S. housing and mortgage credit markets, a significant downturn in the U.S. or global economies, 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, legislative activity or inactivity or 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 certain geographic regions, including those affecting governments and municipalities, where our mortgage insurance exposure is more concentrated or where we have financial guaranty exposure;
- our ability to maintain sufficient holding company liquidity to meet our short- and long-term liquidity needs, including in particular, additional capital contributions that may be required to support our mortgage insurance business and the repayment of our long-term debt;
- a reduction in, or prolonged period of depressed levels of, home mortgage originations due to reduced liquidity in the lending market, tighter underwriting standards, and general reduced housing demand in the U.S., which may be exacerbated by regulations impacting home mortgage originations, including requirements established under the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act");
- the potential adverse impact on the mortgage origination market and on private mortgage insurers due to increased capital requirements for mortgage loans under proposed interagency rules to implement the third Basel Capital Accord, including in particular, the possibility that loans insured by the Federal Housing Administration ("FHA") will receive more favorable regulatory capital treatment than loans with private mortgage insurance;
- our ability to maintain an adequate risk-to-capital position, minimum policyholder position and other surplus requirements for Radian Guaranty Inc. ("Radian Guaranty"), our principal mortgage insurance subsidiary, including, if necessary, our ability to write new mortgage insurance while maintaining a capital position that is not in compliance with risk-based capital requirements imposed in certain states, either through waivers of these limitations or through use of another mortgage insurance subsidiary, and the possibility that state regulators could pursue regulatory actions or proceedings, including possible supervisory or receivership actions, against Radian Guaranty, in the event Radian Guaranty's capital and financial position is not in compliance with levels that are acceptable to such regulators;
- our ability to continue to effectively mitigate our mortgage insurance and financial guaranty losses;

3

- a more rapid than expected decrease in the current elevated levels of mortgage insurance rescissions and claim denials, which have reduced our paid losses and resulted in a significant reduction in our loss reserves, including a decrease in net rescissions or denials resulting from an increase in the number of successful challenges to previously rescinded policies or claim denials, or caused by the government-sponsored entities intervening in mortgage insurers' loss mitigation practices, including settlements of disputes regarding loss mitigation activities;
- the negative impact that our loss mitigation activities may have on our relationships with 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, denials or claim curtailments, to increase our loss reserves for, and reassume risk on, rescinded loans or denied claims, and to pay additional claims, including amounts previously curtailed;
- any disruption in the servicing of mortgages covered by our insurance policies, as well as poor servicer performance;
- adverse changes in the severity or frequency of losses associated with certain products that we formerly offered (and which remain in our insured portfolio) that are riskier than traditional mortgage insurance or financial guaranty insurance policies;
- a decrease in the persistency rates of our mortgage insurance policies, which has the effect of reducing our premium income;
- heightened competition for our mortgage insurance business from others such as the FHA, the U.S. Department of Veterans Affairs and other private mortgage insurers, including in particular, those that have been assigned higher ratings than we have, that may have access to greater amounts of capital than we do, or that are new entrants to the industry and are therefore not burdened by legacy obligations;
- changes in the charters or business practices of, or rules or regulations applicable to, 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 effect or 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 private mortgage insurance may be considered "qualified residential mortgages" for purposes of the Dodd-Frank Act securitization provisions;
- the application of existing federal or state laws and regulations, or changes in these laws and regulations or the way they are interpreted, including, without limitation: (i) the resolution of existing, or the possibility of additional, lawsuits or investigations (including in particular investigations and litigation relating to captive reinsurance arrangements under the Real Estate Settlement Practices Act of 1974); and (ii) legislative and regulatory changes (a) impacting the demand for private mortgage insurance, (b) limiting or restricting the products we may offer or increasing the amount of capital we are required to hold, (c) affecting the form in which we execute credit protection, or (d) otherwise impacting our existing businesses;
- 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 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;

- our ability to realize some or all of 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 generally accepted in the United States of America or statutory accounting principles, rules and guidance, or their interpretation; 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.

PART I

Item 1. Business.

I. General

We are a credit enhancement company with a primary strategic focus on domestic residential mortgage insurance on first-lien loans ("first-lien"). We currently have two operating business segments—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." We conduct our business primarily through Radian Guaranty Inc. ("Radian Guaranty"), our principal mortgage insurance subsidiary. Our financial guaranty segment previously offered direct insurance and reinsurance on credit-based risks, and also offered credit protection on various asset classes through financial guarantees and credit default swaps ("CDS"). While we discontinued writing new financial guaranty business in 2008, we continue to provide financial guaranty insurance on our existing portfolio of public finance and structured finance credits. In addition, our principal financial guaranty subsidiary, Radian Asset Assurance Inc. ("Radian Asset Assurance"), is a wholly-owned subsidiary of Radian Guaranty, which allows our financial guaranty business to serve as an important source of capital support for our mortgage insurance business. 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 year 2010, is included in Note 3 of Notes to Consolidated Financial Statements. Radian Group Inc. ("Radian Group") serves as the holding company for our insurance subsidiaries and does not have any significant operations of its own.

Business Overview and Operating Environment. In recent years, our business has undergone significant changes due to the macroeconomic conditions and specific events that affected the origination environment and the credit performance of our underlying insured assets. The downturn in the housing and related credit markets that began in 2007, as characterized by a decrease in mortgage originations, decline in home prices, mortgage servicing and foreclosure delays, and deterioration in the credit performance of mortgage and other assets originated prior to 2009, together with macroeconomic factors such as limited economic growth and a lack of meaningful liquidity in some sectors of the capital markets, have had a significant negative impact on our operating environment and the results of operations for each of our businesses. We are beginning to see signs of improvement in the United States ("U.S.") economy, including home price appreciation and an increase in mortgage originations, although the U.S. economy and housing market continue to be in a state of recovery and remain relatively weak compared to historical levels. Although improvements in the economic environment have positively impacted our operating environment, there is continued uncertainty about the ultimate losses we will experience in our insured portfolios, particularly our mortgage insurance written during the poor underwriting years of 2005 through 2008 (also sometimes referred to as our "legacy portfolio"). Since 2008, we have undertaken a number of strategic actions and initiatives to respond to negative economic and market conditions, including the following:

- We significantly tightened our mortgage insurance underwriting standards to focus primarily on insuring high credit quality, first-liens originated in the U.S. and we ceased writing mortgage insurance on non-traditional and other inherently riskier products (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 to Radian Guaranty. Although this structure makes the capital adequacy of our mortgage insurance business dependent, to a significant degree, on the successful run-off of our financial guaranty business, the structure has provided Radian Guaranty with substantial regulatory capital and, through dividends from Radian Asset Assurance, has increased liquidity at Radian Guaranty.
- Through a series of risk commutations, discounted security purchases, transaction settlements and terminations, we reduced our direct primary risk in force ("RIF") associated with our portfolio of mortgage loans originated prior to 2009, as well as our non-traditional mortgage insurance RIF and our net par outstanding on our financial guaranty portfolio.

Our current business strategy primarily is focused on: (i) growing our mortgage insurance business by writing high-quality mortgage insurance in the U.S.; (ii) continuing to manage losses in our legacy mortgage insurance and financial guaranty portfolios; (iii) continuing to reduce our financial guaranty exposure; and (iv) pursuing opportunities for increasing Radian Group's available liquidity and for enhancing Radian Guaranty's capital position. During 2012 and to date in 2013, we have continued to execute upon this strategy, including the following:

- In 2012, we wrote $37.1 billion of primary mortgage insurance. Substantially all of our portfolio of insurance written after 2008 is of high credit quality and is expected to generate strong returns.
- Through the expanded eligibility criteria under the most recent Home Affordable Refinance Program ("HARP") (see "Regulation—Federal Regulation—Homeowner Assistance Programs"), more borrowers have been able to participate in and benefit from the program and, as of December 31, 2012, approximately 9% of our total primary RIF had successfully completed a HARP refinance.
- We continue to diversify and expand our customer base, adding more than 300 new customers during 2012. New customers added since 2009 accounted for 32% of our new insurance written ("NIW") during 2012.
- During 2012, we improved the risk-to-capital ratio for Radian Guaranty, ending with a risk-to-capital ratio of 20.8 to 1 at December 31, 2012, due to a number of actions we have taken to preserve and maintain Radian Guaranty's capital position, including: (1) internal and external reinsurance arrangements; (2) reductions and commutations of risk exposure; and (3) realization of statutory investment gains.
- Radian Asset Assurance continued to reduce its financial guaranty portfolio through a series of risk commutations, transaction settlements and terminations of existing insured transactions. Since June 2008, Radian Asset Assurance has reduced its total net par exposure by 70.7% to $33.7 billion. From 2008 through the end of 2012, Radian Asset Assurance has released financial guaranty contingency reserves of $357.0 million (which has increased Radian Guaranty's statutory surplus by an equal amount) and has paid $383.8 million in dividends to Radian Guaranty. In January 2013, an additional $6.7 million of contingency reserves were released, and on February 7, 2013, the New York State Department of Financial Services (the "NYSDFS") approved the release of an additional $61.1 million of contingency reserves of Radian Asset Assurance. See "—Financial Guaranty—Business" for additional information.
- We completed a number of transactions designed to increase our financial flexibility and conserve our holding company liquidity. In February 2012, Radian Group acquired $146.5 million in aggregate principal amount of its outstanding Notes due in 2013 (the "2013 Notes") pursuant to a tender offer, for a price of $900 per $1,000 principal amount of 2013 Notes, which represented 59% of the principal amount of the 2013 Notes outstanding. During the second and third quarters of 2012, Radian Group purchased an additional $24.1 million in aggregate principal amount of the outstanding 2013 Notes. The remaining $79.4 million principal amount of the 2013 Notes was repaid at maturity on February 15, 2013. On January 4, 2013, Radian Group exchanged an aggregate of $195.2 million principal amount of its 5.375% Senior Notes due 2015 (the "Exchange Offer") for the same aggregate principal amount of 9.000% Senior Notes due 2017 and additional aggregate cash consideration of $4.9 million. We have approximately $296.2 million in immediately available unrestricted cash and liquid investments at the holding company after the recent repayment of the 2013 Notes.

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 Fannie Mae are the primary beneficiaries of the majority of our mortgage insurance policies and the Federal Housing Administration ("FHA") is currently 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 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 credit markets in general. Additionally, the U.S. Congress ("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") and the FHA (see "Regulation—Federal Regulation—The GSEs and FHA—Housing Finance Reform and—The Dodd-Frank Act").

7

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 insurance coverage, principally through private mortgage insurance, and risk management services to mortgage lending institutions. Private mortgage insurance protects mortgage lenders from all or a portion of default-related losses on residential mortgage loans made to home buyers who generally make down payments of less than 20% of the home's purchase price. Private mortgage insurance also facilitates the sale of these mortgage loans in the secondary mortgage market, most of which are sold to Freddie Mac and Fannie Mae.

1. Traditional Risk

Traditional types of private mortgage insurance include "primary mortgage insurance" and "pool insurance." We currently offer only primary mortgage insurance. In the past, we also 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 valid claim under primary mortgage insurance, the maximum liability is determined by multiplying 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, by the coverage percentage. Claims may be settled for the maximum liability or for other amounts. See "Mortgage Insurance—Claims Management" below.

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, 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 on a given set of loans. Most of our structured mortgage insurance transactions 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 basis or, as discussed below, on a pool basis; and some structured transactions include both primary and pool insured mortgages. Included in our primary mortgage insurance 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.

We wrote $37.1 billion and $15.5 billion of first-lien primary mortgage insurance in 2012 and 2011, respectively. All of our primary mortgage insurance written during 2012 and 2011 was written on a flow basis. Primary insurance on first-liens made up $34.4 billion or 94.9% of our total direct first-lien insurance RIF at December 31, 2012, compared to $30.7 billion or 93.7% at December 31, 2011.

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 on each loan is not limited to a specific coverage percentage on that 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, including whole loan sales and credit enhancement on 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.

Pool insurance made up approximately $1.8 billion or 5.1% of our total direct first-lien insurance RIF at December 31, 2012, as compared to $2.1 billion or 6.3% at December 31, 2011.

2. Non-Traditional Risk

In addition to traditional mortgage insurance, we also 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 non-traditional mortgage insurance RIF through a series of commutations, transaction settlements and terminations. Our total amount of non-traditional RIF was $148.0 million at December 31, 2012, as compared to $214.0 million at December 31, 2011.

Our non-traditional products have been highly susceptible to the disruption in the housing and subprime mortgage markets and related credit markets that began during 2007. These non-traditional products included:

- Second-Lien Mortgages (“Second-Lien”). This product provided insurance on second-liens. This type of insurance is considered more risky than first-lien business as these loans are subordinate to first-liens, and therefore, the borrower’s ability to repay on these loans depends on the borrower’s ability to satisfy both the first-lien and second-lien.
- 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. We offered credit enhancement that covers any principal and interest shortfalls on the insured NIMS bonds or a portion of the bonds.

In 2008, 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 insure the existing book of business, which has experienced a low default rate.

3. Premium Rates

We set our premium rates at origination when coverage is established. Premiums for our mortgage insurance products are established 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, our expectations and assumptions about the following factors: (1) the likelihood of default; (2) how long the policy will remain in place; (3) the costs of establishing the policy; (4) taxes; and (5) the capital that is required to support the insurance. 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 assumptions used in 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 modeled performance expectations.

Premiums on our mortgage insurance products are paid either on a monthly installment basis (monthly premiums), in a single payment at origination (single premiums), as a combination of up-front premium at origination plus a monthly renewal, or in some cases as an annual or multi-year premium. For monthly paid premiums, we receive a monthly premium payment and provide ongoing loan level coverage, as long as the premiums continue to be paid. For single premium insurance, we receive a single premium payment that is paid at origination and provides coverage for the life of the loan subject to certain conditions. In addition, for our split premium products, we receive a single premium payment when the loan is made, plus ongoing monthly renewal premiums. Approximately 65% of our NIW in 2012 was written with monthly premiums or split premiums, and 35% was written with single premiums.

Mortgage insurance premiums can be financed through a number of methods and can either be paid by the borrower or by the lender. Borrower-paid mortgage insurance premiums can be paid either through separate escrowed amounts or financed as a component of the mortgage loan amount. Lender paid mortgage insurance 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.

9

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.

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 there is a deviation from our agreed-upon underwriting guidelines. Additionally, any fraud or misrepresentation in the loan origination process would provide us with rights to rescind coverage. During the second quarter of 2012, we began offering a limited rescission waiver program for our delegated underwriting customers, in which we agree not to rescind 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, we may require that some or all of the loans underwritten through the program be evaluated under 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, 2012, approximately 79% of our primary first-lien insurance in force had been originated on a delegated basis, compared to 83% as of December 31, 2011. 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 for or choose not to participate in our delegated underwriting program can submit loan files to us and we will perform the underwriting. In addition, lenders participating in our delegated underwriting program may choose not to use their delegated authority, and instead may submit loans directly to us. For those loans underwritten by us, we generally do not have the same rescission 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, 2012, approximately 21% of our total first-lien insurance in force had been originated on a non-delegated basis, compared to 17% as of December 31, 2011.

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 (e.g., for sale to the GSEs), and may concurrently assess the file for mortgage insurance. During 2012, loans underwritten through contract underwriting accounted for 5.0% of insurance certificates issued as part of our flow business. These loans are included within the non-delegated underwriting percentages discussed 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 2012, we paid losses related to these remedies of approximately $8.0 million. Beginning in 2008, we 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 traditionally has involved taking credit risk in various forms across a range of asset classes, products and geographies. Credit risk is measured in our mortgage insurance business as RIF, which approximates the maximum loss exposure that we have at any point in time.

The following table shows the direct RIF (by form of insurance and loan type), before consideration of reinsurance, associated with our mortgage insurance segment as of December 31, 2012 and 2011:

	December 31,	
(In millions)	2012	2011
Primary:		
Prime	$30,348	$26,011
Alt-A	2,404	2,825
A minus and below	1,620	1,856
Total Primary	34,372	30,692
Pool	1,834	2,068
Second-lien	94	131
NIMS and other	54	83
Total Direct Mortgage Insurance RIF	$36,354	$32,974

The following discussion mainly focuses on our direct primary RIF, which represents approximately 94.5% of our total mortgage insurance RIF at December 31, 2012. For additional information regarding our pool and non-traditional mortgage insurance RIF, see "—Business—Mortgage Insurance—Business—Traditional Risk" 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 RIF by Year of Policy Origination

The following table shows our RIF by year of origination and selected information related to that risk as of December 31, 2012:

	December 31, 2012					
($ in millions)	RIF	Number of Defaults	Delinquency Rate	Percentage of Reserve for Losses	Average FICO (1) at Origination	Original Average LTV
2005 and prior	$5,657	34,542	17.9 %	31.9 %	682	91.1 %
2006	2,735	16,110	23.1	17.9	690	92.1
2007	6,059	28,476	22.3	35.8	702	93.4
2008	4,582	12,299	13.3	12.9	728	91.8
2009	2,021	1,154	2.6	1.1	756	90.4
2010	1,726	273	0.8	0.3	765	91.0
2011	2,956	205	0.4	0.1	762	91.6
2012	8,636	110	0.1	—	761	91.7
Total	$34,372	93,169		100.0 %		

(1) Fair Isaac Corporation ("FICO").

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 on monthly insurance policies enable us to recover more of our policy acquisition costs and generally result in increased profitability. Conversely, assuming all other factors remain constant, higher persistency rates lower overall profitability on single premium business, as the premium revenue for our single premium policies is the same regardless of the actual life of the insurance policy. At December 31, 2012, the persistency rate of our primary mortgage insurance declined to 81.8% from 85.4% at December 31, 2011, primarily due to declining interest rates and increased refinance activity. Historically, there is 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 table shows the percentage of our direct primary mortgage insurance RIF and the associated percentage of our mortgage insurance reserve for losses (by location of property) for the top 10 states in the U.S. (measured by primary mortgage insurance RIF as of December 31, 2012) as of December 31, 2012 and 2011:

	December 31,							
	2012				2011			
Top Ten States	RIF		Reserve for Losses		RIF		Reserve for Losses	
California	12.8	%	10.5	%	11.8	%	11.8	%
Florida	6.8		17.9		7.7		18.0	
Texas	6.3		2.9		6.1		3.2	
Illinois	5.5		6.8		5.4		6.1	
Georgia	4.4		3.8		4.6		4.2	
New Jersey	4.0		6.2		3.9		5.2	
Ohio	3.8		3.2		4.2		3.0	
New York	3.6		5.9		4.0		5.3	
Pennsylvania	3.3		2.9		3.2		2.5	
Arizona	3.2		3.1		3.0		3.9	
Total	53.7	%	63.2	%	53.9	%	63.2	%

The following table shows the percentage of our direct primary mortgage insurance RIF and the associated percentage of our mortgage insurance reserve for losses (by location of property) for the top 15 metropolitan statistical areas ("MSAs") in the U.S. (measured by primary mortgage insurance RIF as of December 31, 2012) as of December 31, 2012 and 2011:

	December 31, 2012		2011	
Top Fifteen MSAs	RIF	Reserve for Losses	RIF	Reserve for Losses
Chicago, IL	4.4 %	5.6 %	4.2 %	5.0 %
Atlanta, GA	3.4	3.0	3.5	3.4
Los Angeles - Long Beach, CA	2.6	2.0	2.3	2.2
Washington, DC-MD-VA	2.6	1.7	2.3	1.6
Phoenix/Mesa, AZ	2.4	2.1	2.1	2.8
New York, NY	2.1	3.5	2.3	3.2
Houston, TX	2.0	1.0	2.0	1.1
Minneapolis-St. Paul, MN-WI	1.7	1.2	1.5	1.4
Denver, CO	1.7	0.6	1.4	0.8
Dallas, TX	1.6	0.7	1.4	0.8
Philadelphia, PA	1.5	1.0	1.4	0.9
Riverside-San Bernardino, CA	1.5	2.0	1.6	2.2
Seattle, WA	1.4	1.5	1.3	1.4
Portland, OR	1.3	0.9	1.2	0.9
San Diego, CA	1.2	0.7	1.0	0.8
Total	31.4 %	27.5 %	29.5 %	28.5 %

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 RIF, 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 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, absent other mitigating factors, claim incidence on mortgages with LTVs between 90.01% and 95% is generally higher than the claim incidence on mortgages with LTVs between 85.01% and 90%. We have insured a significant number of loans with LTVs between 95.01% and 100% and a small number of loans having an LTV over 100%. In 2010, after having discontinued writing insurance on mortgages with LTVs higher than 95% for a period of time, we resumed writing business on loans with LTV ratios between 95.01% and 97% on a limited basis, subject to high credit standards. (See the "Percentage of primary NIW" table in "Part II. Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Mortgage Insurance—NIW, Insurance in Force, RIF" for a breakdown of the composition of our NIW by LTV.) The average LTV of our primary NIW in 2012 was 90.64%, compared to 90.45% and 89.83% in 2011 and 2010, 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 guidelines for fully documented loans. Substantially all of our primary NIW since 2009 has consisted of prime loans. Prime loans comprised 88.3% of our primary RIF at December 31, 2012, compared to 84.8% at December 31, 2011. We expect that prime loans will continue to constitute substantially all of our primary NIW for the foreseeable future.

We generally define Alt-A loans as loans where the borrower's FICO score is 620 or higher and the loan documentation has been reduced. 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 tended to have higher loan balances than other loans that we insure because they were 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 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. Certain structured transactions that we 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. In many cases, the higher propensity to default can be attributed to "payment shocks" after the initial fixed interest rate period expires and the loan becomes subject 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 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, 2012, Option ARMs represented approximately 1.6% of our primary mortgage insurance RIF compared to 2.2% at December 31, 2011. We have not written any insurance on 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, 2012, interest-only mortgages represented approximately 4.6% of our primary mortgage insurance RIF compared to 6.2% at December 31, 2011. We have not written any insurance on interest-only mortgages since early 2011.
As of December 31, 2012, our exposure to ARMs represented approximately $2.9 billion or 8.4% of our primary RIF. Approximately 68.6% of the ARMs we insure, including Option ARMs and interest-only ARMs, have already had initial interest rate resets. An additional 8.5%, 4.5% and 4.7% are scheduled to have initial interest rate resets during 2013, 2014 and 2015, respectively.
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 not currently writing insurance on multiple unit properties with more than two 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 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 than loans on either primary or second homes. We believe that borrowers of non-owner-occupied homes are more likely to neglect or forego maintenance and repairs on these homes, which can cause the value of the house to decline.

Loan Purpose. We also believe that loan purpose impacts our risk of loss. It has been our experience that cash-out refinance loans, where a borrower receives cash in connection with refinancing a loan, are more likely to result in a claim than loans originated with the purchase of a home or loans that are refinanced for rate and term.
Loan Size. It has been our experience that higher-priced properties with larger mortgage loan amounts experience wider fluctuations in value than moderately priced residences and are more likely to result in a claim. The average loan size of our primary mortgage insurance in force (by product) as of December 31, 2012, 2011 and 2010 was as follows:

	December 31,		
(In thousands)	2012	2011	2010
Prime	$184.9	$174.2	$170.0
Alt-A	193.2	196.3	202.0
A minus and below	131.4	131.9	134.2
Total	$182.1	$172.8	$170.0

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 we are notified that the borrower has missed at least two monthly payments.
Defaults 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 a borrower's inability to pay and are 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 is unwilling to pay and chooses to walk away from his or her mortgage obligation despite the ability to continue to pay. Voluntary 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.
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 graph shows the trend of the number of primary defaults by each vintage year as of the end of each quarter following the year of original policy issuance.

Our legacy portfolio of business written in 2005 through 2008 contained a significant number of poorly underwritten and higher risk loans. As a result of these loan characteristics and the economic downturn that began in 2007, we have experienced substantially higher ultimate loss ratios for our legacy portfolio than in previous policy years. In 2008, we implemented a number of changes to our underwriting guidelines aimed at improving the risk characteristics of the loans we insure. As a result of these more restrictive underwriting guidelines, the default rates for RIF originated beginning in the second half of 2008 have significantly improved, in particular when compared to the 2005 through the first half of 2008 portfolios. Beginning in 2009, our mortgage insurance RIF consists 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 insurance defaults (measured as of December 31, 2012) and the corresponding percentage of total defaults as of the dates indicated:

	December 31, 2012			2011			2010		
States with highest number of defaults:									
Florida	15,415	16.5	%	18,265	16.5	%	20,685	16.5	%
California	6,101	6.5		8,457	7.6		10,815	8.6	
Illinois	6,034	6.5		6,869	6.2		7,203	5.7	
Ohio	4,601	4.9		5,277	4.8		5,833	4.7	
New Jersey	4,587	4.9		4,523	4.1		4,340	3.5	

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 insurance business, the insured lender must acquire 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. Historically, on average, we do not receive a request for claim payment until approximately 18 months following a default on a first-lien. 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 within the mortgage servicing industry and foreclosure process. In our second-lien 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.

The following table shows direct claims paid by policy origination year (measured as of December 31, 2012) as of the periods indicated:

($ in millions)	December 31, 2012			2011			2010		
Direct claims paid by origination year (first-lien):									
2005 and prior	$268	26.4	%	$333	22.7	%	$531	36.1	%
2006	194	19.1		331	22.5		345	23.5	
2007	403	39.8		634	43.1		506	34.5	
2008	137	13.5		166	11.3		85	5.8	
2009	11	1.1		6	0.4		1	0.1	
2010	1	0.1		—	—		—	—	
2011	—	—		—	—		—	—	
Total direct claims paid	$1,014	100.0	%	$1,470	100.0	%	$1,468	100.0	%

The following table shows the states with the highest direct claims paid (measured as of December 31, 2012) as of the dates indicated:

	Year Ended December 31,		
(In millions)	2012	2011	2010
States with highest direct claims paid (first-lien):			
California	$168.0	$255.7	$344.1
Florida	138.8	216.2	235.8
Arizona	83.8	139.7	140.7
Georgia	57.1	78.4	85.2
Illinois	56.8	64.8	61.5

Claim 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 due to servicer negligence, as discussed below in "Claims Management." The average claim severity for loans covered by our primary insurance was 25.5% for 2012, compared to 27.2% in 2011 and 27.4% in 2010. The average claim severity for loans covered by our pool insurance was 46.0% for 2012, compared to 45.1% in 2011 and 48.1% in 2010.

Loss Reserves. We do not establish loss reserves upon the origination of any insured loan. Rather, we establish reserves for losses when we are notified that a borrower has missed at least 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. We maintain an extensive database of default and claim payment history and we use models, based on a variety of loan characteristics, including the status of the loan as reported by the entity servicing the loan and the type of loan product, to determine the likelihood that a default will reach claim status (the "default to claim rate"). 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, which is also impacted by claim curtailments. Based on these estimates at a given point in time, we arrive at our estimate of loss reserves as of that time. A detailed description of our reserve policy and methodology is contained in "Part II. Item 7. 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.

D. Claims Management

We have significant resources dedicated to our mortgage insurance claims management department in order to effectively manage losses in a 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 2012, we have observed an increase in the number of short sales, as described further below. A substantial portion of these short sales result in payment of a deficiency amount that is equal to the maximum liability amount, while in other cases, the deficiency amount is less than our maximum liability amount.

Approved sales in which the underlying property has been sold for less than the outstanding loan amount (commonly referred to as "short sales") have become an increasing portion of our total claim payments. Under our master insurance policy, we retain the right to consent prior to the consummation of any short sales. Historically, we have consented to a short sale only after reviewing various factors, including among other items, the sale price relative to market and the ability of the borrower to contribute to the deficiency amount. In 2012, we entered into an agreement with the GSEs, pursuant to which we delegated to the GSEs our prior consent rights with respect to short sales on loans owned by the GSEs, subject to such sales meeting the GSE guidelines and processes for short sales as well as certain other factors set forth in the agreements with the GSEs. As a result, instead of reviewing each individual transaction prior to short sale with respect to GSE loans, we instead perform a post claim quality review of these short sales to ensure that they are meeting the specified requirements. We have the ability to terminate our agreements with the GSEs upon 60 days notice. For those loans that are not owned by the GSEs, we continue to perform an individual analysis of each proposed short sale and to provide our consent for these sales, as we believe appropriate.

After a claim is received, our loss management specialists focus on:

- a review to ensure that program compliance and our policy requirements have been met, including: (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 pay a claim (commonly referred to as "claim perfection");
- 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; and
- aggressive management and disposal of acquired real estate.

Claim Denials. 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 our master insurance 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 insurance policy, our insureds must provide to us the necessary documents to perfect a claim within one year after their acquisition of title to the property through foreclosure or otherwise. If we deny a claim, we continue to allow the insured the ability to perfect the claim during the one-year period specified in our master insurance policy. In those circumstances when the insured successfully perfects the claim within our specified timelines, we will process the claim, including a review of the loan to ensure appropriate underwriting and servicing.

Rescissions. We have the legal right, under certain conditions, to unilaterally rescind coverage on our mortgage insurance policies. Under the terms of our master insurance policy, we have 60 days after a claim is received to pay the claim (assuming it has been perfected), subject to various conditions that may toll this 60 day period, 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 insurance 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 insurance 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 insurance policy that is required with our delegated underwriting program. In certain circumstances, we may 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 internally with respect to a rescission, it is possible that a challenge to our decision to rescind coverage may be brought during a specified period of time after we have rescinded coverage. Under our master insurance 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.

Claim Curtailments. In addition, we have rights under our master insurance policy to curtail, and 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 insurance 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; and
- a failure to initiate and diligently pursue foreclosure or other appropriate proceedings within the timeframe specified in our master insurance policy.

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 employs 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 the credit committee of 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

We manage the allocation of capital within our mortgage insurance business by, among other things, establishing portfolio limits for product type, loan attributes, geographic concentration and counterparties. We also identify, evaluate and negotiate potential transactions for terminating insurance risk and for distributing risk to others through reinsurance arrangements discussed below under “Reinsurance—Ceded.”

As part of our portfolio management function, we monitor and analyze the performance of various risks in our mortgage insurance portfolio. We use this information to develop our mortgage credit risk and counterparty risk policies, and as a component of our default and prepayment analytics.

We have a valuation group that 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

We establish and maintain mortgage-related, credit risk policies that reflect our willingness to accept risk regarding counterparty, portfolio, operational and structured risks involving mortgage collateral. We establish risk guidelines for product types and loan attributes. Quality control is a key element of our credit analytics function, and as part of our quality control program, we audit 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

We have a dedicated loss mitigation group that 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, as part of our loss mitigation efforts, we continue to support and participate in the large scale modification and refinancing 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 statutory capital management.

Excess-of-Loss and Quota Share Reinsurance. Certain states limit the amount of risk a mortgage insurer may retain on a single loan to 25% of the total loan amount. 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 subsidiaries to reduce its net RIF. In order to improve its capital position, in the fourth quarter of 2012, Radian Guaranty entered into an excess-of-loss reinsurance transaction with Radian Mortgage Insurance Inc. ("Radian Mortgage Insurance") under which Radian Guaranty transferred approximately $2.5 billion of RIF to Radian Mortgage Insurance. In 2011 and 2010, Radian Guaranty entered into excess-of-loss reinsurance agreements with Radian Insurance Inc. ("Radian Insurance") under which Radian Guaranty initially transferred a total of approximately $6.1 billion of RIF to Radian Insurance. The pools of loans that have been reinsured by Radian Mortgage Insurance and Radian Insurance generally consist of recently underwritten fixed-rate, prime, loans with high FICO scores. As of December 31, 2012, the remaining RIF under all of these reinsurance agreements was $6.3 billion.

During the second quarter of 2012, Radian Guaranty entered into a quota share reinsurance agreement with a third-party reinsurance provider (the "Initial Quota Share Reinsurance Transaction"). Through the Initial Quota Share Reinsurance Transaction, Radian Guaranty agreed to reinsure to a third party 20% of its NIW beginning with the business written in the fourth quarter of 2011. As of December 31, 2012, RIF ceded under the Initial Quota Share Reinsurance Transaction was $1.5 billion. Radian Guaranty has the ability, at its option, to commute two-thirds of the reinsurance ceded as part of this transaction on December 31, 2014, which would result in Radian Guaranty reassuming the related RIF in exchange for payment of a predefined commutation amount from the reinsurer.

Under the Initial Quota Share Reinsurance Transaction, for the year ended December 31, 2012, ceded premiums written were $52.2 million and ceded premiums earned were $16.1 million.

In the fourth quarter of 2012, Radian Guaranty and the same third-party reinsurance provider agreed to the terms of a second quota share reinsurance agreement (the "Second Quota Share Reinsurance Transaction," and together with the Initial Quota Share Reinsurance Transaction, the "Reinsurance Transactions") that provides for additional ceded risk of $750 million initially, and the parties have the ability to mutually increase the aggregate amount of ceded risk up to a maximum of $2 billion. As of December 31, 2012, the amount ceded pursuant to the Second Quota Share Reinsurance Transaction was $368.4 million of Radian Guaranty's RIF. The agreed upon terms also provide that, effective as of December 31, 2015, Radian Guaranty will have the ability, at its option (the "Commutation Option"), to commute one-half of the reinsurance ceded with respect to conventional GSE loans, which would result in Radian Guaranty reassuming the related RIF in exchange for a payment of a predefined commutation amount from the reinsurer.

Pursuant to the agreed upon terms:

(i) Radian Guaranty will cede to the reinsurer 20% of all premiums and losses incurred with respect to conventional GSE loans and will initially receive a 35% ceding commission; provided, that if we do not exercise our Commutation Option, the ceding commission will be reduced to 30% for the portion of the ceded RIF that was subject to the Commutation Option; and

(ii) Radian Guaranty has the ability to cede 100% of all premiums and losses incurred with respect to non-conventional portfolio loans and will receive a 25% ceding commission. We do not expect the volume of such portfolio loans to be material.

Under the Second Quota Share Reinsurance Transaction, for the year ended December 31, 2012, ceded premiums written were $9.6 million and ceded premiums earned were $0.5 million.

Smart Home. In 2004, we developed a program referred to as "Smart Home" for reinsuring risk associated with non-prime mortgages. These reinsurance transactions used variable interest entity ("VIE") structures to effectively transfer risk from our portfolio to investors in the capital markets. In 2011, we exercised our option to terminate two of our four Smart Home transactions with RIF of approximately $41 million, and in the second quarter of 2012, we terminated one of the remaining Smart Home transactions (which otherwise would have matured in November 2012) with RIF of approximately $243 million. The final remaining Smart Home transaction is scheduled to mature in May 2013. See Note 9 of Notes to Consolidated Financial Statements for more information.

At December 31, 2012, $0.4 billion, or approximately 1.1% of our primary mortgage insurance RIF, was included in the Smart Home reinsurance program, compared to $0.8 billion, or approximately 2.7% at December 31, 2011.

Captive Reinsurance. We and other companies in the mortgage insurance industry participated in reinsurance arrangements with mortgage lenders commonly referred to as "captive reinsurance arrangements." Under captive reinsurance arrangements, a mortgage lender typically established a reinsurance company that assumed 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 to the reinsurance company a portion of the mortgage insurance premiums that would have been paid to us. 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, on a limited basis, we participated in "quota share" captive reinsurance arrangements under which the captive reinsurance company assumed 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 was an excess layer of aggregate losses that would be penetrated in a situation of adverse loss development. As a result of the housing and related credit market downturn that began in 2007, 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 established 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, 2012 were $82.2 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. For additional information about our captive reinsurance arrangements, see "Legal Proceedings."

As of December 31, 2012, we have received total cash reinsurance recoveries (including recoveries from the termination of captive arrangements) from Smart Home and captive reinsurance arrangements of approximately $835.7 million since inception of these programs, with most of these recoveries coming from captive reinsurance arrangements.

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, 2012, were each $2.6 million under these programs and are expected to decline over time.

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 and 2010, we have increased the amount of business we are conducting with credit unions and community banks. Since 2010, we have added more than 700 new customers and significantly increased the amount of business derived from mid-sized mortgage banks. This has increased our overall level of new insurance writings, as well as reduced our susceptibility to loss of business from any one customer as a result of disputes regarding our loss mitigation practices.

As a result of this strategy to diversify our customer base, our mortgage insurance business in 2012 was dependent to a lesser degree on a small number of large lending customers. Our top 10 mortgage insurance customers, measured by primary NIW, represented 24.8% of our primary NIW in 2012, compared to 34.5% and 54.4% in 2011 and 2010, respectively. The largest single mortgage insurance customer (including branches and affiliates), measured by primary NIW, accounted for 6.2% of NIW during 2012, compared to 10.1% and 15.5% in 2011 and 2010, respectively. In 2012 and 2011, the premiums paid to us by each of Bank of America and Wells Fargo, exceeded 10% of our consolidated revenues. See "Part I. Item 1A. Risk Factors—Our NIW and franchise value could decline if we lose a significant customer."

G. Sales and Marketing

Our sales and account management team is organized in various geographic regions across the U.S. We have a new business development group that is focused on the creation of new mortgage insurance relationships and an account management group that is responsible for supporting our existing mortgage insurance relationships. Mortgage insurance sales and account management personnel are compensated by salary, commissions for NIW and the creation or development of customer relationships and other incentive-based pay, which may be tied to the achievement of certain sales goals or the promotion of certain products.

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 with other private mortgage insurers on the basis of price, customer relationships, reputation, financial strength measures and service. The service-based component includes effective and timely delivery of products, risk management services, timeliness of claims payments, training, loss mitigation efforts and management and field service organization and expertise. We currently compete directly with five private mortgage insurers: CMG Mortgage Insurance Company, Essent Guaranty Inc., Genworth Financial Inc., Mortgage Guaranty Insurance Corporation and United Guaranty Corporation. We expect that a sixth competitor, National Mortgage Insurance Corporation, will begin writing mortgage insurance business during 2013. In February 2013, Arch Capital Group announced its intention to acquire CMG Mortgage Insurance Company and the operating platform and other assets of PMI Insurance Company, which is likely to increase the level of competition in the industry. Certain of our private competitors are subsidiaries of larger corporations or are not burdened by legacy credit risks, including the new entrants to our industry. These competitors may have access to greater amounts of capital and financial resources than we do and may have stronger financial strength ratings than we have.

Until the middle of 2011, we also competed against two other private mortgage insurers—PMI Group Inc. ("PMI") and Republic Mortgage Insurance Company ("RMIC"). Following regulatory actions taken by insurance regulators with respect to PMI and RMIC, each of these mortgage insurers ceased writing new mortgage insurance commitments in the third quarter of 2011.

We also compete with various federal and state governmental and quasi-governmental agencies, principally the FHA, and more recently, the U.S. Department of Veterans Affairs (“VA”). 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. Since 2010, the private mortgage insurance industry steadily has 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 and, in some cases, decreases in the pricing of private mortgage insurance. In January 2013, the FHA announced that it would be increasing its annual insurance premium by ten basis points on new mortgages effective in April 2013. This represents the third FHA premium increase in less than one year. For the third quarter of 2012, the FHA’s market share was reduced to 41.7% of the insured market. Despite our progress in competing with and regaining market share from the FHA, recent legislative actions and proposed regulations and guidelines that may be more favorable to the FHA compared to private mortgage insurers could strengthen the FHA’s competitive position. See “Part I. Item 1A. 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 the 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 in several forms, including through the issuance of a financial guaranty insurance policy, by insuring the obligations under one or more CDS and through the reinsurance of both types of obligations. Both a financial guaranty insurance policy and CDS can 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. In addition, in the case of most of our financial guaranty CDS, we provide credit protection for losses in excess of specified levels. Each of these forms of credit enhancement require similar underwriting and surveillance of the insured risks.

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 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; and
- Reinsurance—Reinsurance of domestic and international public finance obligations, including those issued by sovereign and sub-sovereign entities, and structured finance obligations of the types described above.

In 2008, we ceased writing new financial guaranty business and since then 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 furtherance of these objectives, in 2012 and to date in 2013, we engaged in the following transactions:

Assured Commutation. 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 Radian Asset Assurance reinsured from Assured (the "Assured Commutation");
- the cession of $1.8 billion of direct public finance business to Assured (the "Assured Cession"); and
- the sale of 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 that Radian Asset Assurance had acquired in 2011. The sale of the FG Insurance Shell was completed in the second quarter of 2012.

The Assured Transaction reduced our financial guaranty net par outstanding by approximately 22.5% and provided an aggregate statutory capital benefit to Radian Asset Assurance and Radian Guaranty of $100.7 million as of December 31, 2012.

CDO of ABS and TruPs Commutation. In the second quarter of 2012, Radian Asset Assurance entered into a commutation with one of its derivative counterparties (the "Counterparty") to commute: (1) exposure to a directly insured tranche of an extremely distressed CDO of ABS transaction (the "CDO of ABS transaction"), for which we had expected to pay claims on substantially all of the $450.2 million net par that was outstanding at the time of the commutation; and (2) credit protection through CDS on six directly insured TruPs CDO transactions, representing $699.0 million of net par outstanding at the time of the commutation (the "Terminated TruPs CDOs"). In consideration for these commutations, Radian Asset Assurance paid $210.0 million, a significant portion of which (the "LPV Initial Capital") was deposited with a limited purpose vehicle (an "LPV") to cover the Counterparty's potential future losses on the TruPs bonds underlying the Terminated TruPs CDOs (the "Terminated TruPs Bonds"). The commutations described in this paragraph are referred to herein as the "CDO Commutation Transactions."

Also as part of the CDO Commutation Transactions, the LPV entered into a credit default swap (the "Residual CDS") with the Counterparty to provide for payments to the Counterparty for future losses relating to the Terminated TruPs Bonds. The LPV Initial Capital, together with investment earnings thereon (collectively, the "LPV Capital"), represent the only funds available to pay the Counterparty for amounts due under the Residual CDS. Radian Asset Assurance has no further obligation for claims related to the Terminated TruPs CDOs. The Residual CDS terminates concurrently with the Terminated TruPs Bonds for which we had provided credit protection and provides for payment to the Counterparty, substantially in accordance with the terms of our original CDS protection for the Terminated TruPs Bonds. In addition, pursuant to an agreement with the Counterparty, if any LPV Capital amount is remaining following the maturity of the Residual CDS, Radian Asset Assurance is entitled to these remaining funds.

For statutory accounting purposes, we established an associated salvage recovery related to the LPV Capital that we expect to ultimately receive upon the expiration of the LPV's obligations. This salvage recovery was $76.3 million as of December 31, 2012. The amount of salvage recovery remains at risk, and the actual amount of salvage that we ultimately recover will depend on the future performance of the Terminated TruPs Bonds. If the LPV is required to make payments to the Counterparty pursuant to the terms of the Residual CDS, our projected and actual recovery from the LPV may be materially reduced or eliminated. See Note 6 of Notes to Consolidated Financial Statements for further information regarding the accounting treatment of this transaction under accounting principles generally accepted in the United States of America ("GAAP").

All of the transactions commuted pursuant to the CDO Commutation Transactions were rated below investment grade ("BIG") internally at the time of the transaction, with $1 billion net par outstanding of the commuted transactions rated B or below internally. In the aggregate, the transactions commuted pursuant to the CDO Commutation Transactions represented approximately 51% of our financial guaranty segment's aggregate net par outstanding rated B or below internally at the time of the transaction. Following the CDO Commutation Transactions, we no longer have any exposure to CDO of ABS transactions.

CDO Early Terminations. During 2012, CDS counterparties in our financial guaranty business exercised their termination rights with respect to 35 corporate CDOs, a foreign infrastructure CDS and a CDS of an investor-owned utility bond that we insured (collectively, the "CDO Early Terminations"), which further reduced our financial guaranty net par outstanding by $14.6 billion in the aggregate. There was no material impact on our financial statements as a result of these terminations.

FGIC Commutation. On November 9, 2012, Radian Asset Assurance entered into an agreement with Financial Guaranty Insurance Company ("FGIC") to commute the remaining $822.2 million of outstanding par reinsured by Radian Asset Assurance from FGIC (the "FGIC Commutation"). This transaction, which closed in January 2013, included the commutation of approximately $195.9 million of Radian Asset Assurance's $225.3 million in net par outstanding as of December 31, 2012, related to Jefferson County, Alabama sewer warrants, a large distressed public finance credit. Radian Asset Assurance made a commutation payment of approximately $52.4 million as part of this transaction. The amount of the FGIC Commutation payment was determined primarily based on existing loss reserves and unearned premium reserves, and therefore, did not have a material impact on our consolidated financial statements or Radian Asset Assurance's statutory capital position. See "—Net Par Outstanding—Largest Single Insured Risks" below.

26

Contingency Reserve Release and Dividends. In the second quarter of 2012, Radian Asset Assurance released $54.5 million of contingency reserves, which benefited Radian Guaranty's statutory surplus by an equal amount. In July 2012, Radian Asset Assurance paid an ordinary dividend of $54.0 million to Radian Guaranty. In January 2013, $6.7 million of contingency reserves were released due to the FGIC Commutation, and on February 7, 2013, the NYSDFS approved the release of an additional $61.1 million of contingency reserves of Radian Asset Assurance resulting from the maturity or termination of financial guaranty policies.

1. Public Finance

The vast majority of our public finance business consists of the insurance and reinsurance of various 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 revenues. 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 the power to tax property within a designated smaller portion of the entire political subdivision. Projects financed by these bonds may be used 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.

27

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 certain 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 includes financial guaranty insurance of ABS and other asset-backed or mortgage-backed obligations, including both funded and synthetic CDOs.

Asset-Backed Obligations. 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.

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 obligation, 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 synthetic transactions. Even in those synthetic transactional 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 varied credit quality and 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 (including RMBS), collateralized loan obligations (“CLOs”) and CDOs containing a combination of such collateral types.

Corporate CDOs. 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. We only insure notional amounts for these transactions (and not any interest payments or other amounts). All of our outstanding corporate CDOs are static pools, meaning that the covered reference entities generally cannot be changed without our consent.

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 1.1% of our notional exposure to corporate entities in our directly insured corporate CDOs as of December 31, 2012. As of December 31, 2012, our five largest exposures to corporate entities represented approximately 4.4% 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 77 and 124 per transaction, with the concentrations of each corporate entity averaging 1.1% per transaction, but not exceeding 2.6% in any 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 $32.7 million per transaction.

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, 2012, 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.

TruPs CDOs. 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 securities generally issued by financial services institutions to supplement their regulatory capital needs. Generally, 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).

As of December 31, 2012, the collateral underlying our insured TruPs bonds consisted of securities issued by 503 separate issuers, including 441 banking institutions (comprising 77.2% of the total TruPs collateral based on notional amount) and 61 insurance companies (comprising 22.4% of the total TruPs collateral based on notional amount). In addition, the TruPs collateral included a small percentage of securities issued by real estate investment trusts.

The collateral underlying our insured TruPs bonds consists of between 21 and 106 issuers per TruPs bond, with the concentration of each issuer averaging 1.9% per TruPs bond. As of December 31, 2012, our exposure to any one issuer in our insured TruPs bonds ranges from $0.2 million to $42.0 million per bond, with an average exposure of $9.6 million per issuer per bond. No issuer represented more than 11.1% of the total collateral underlying any one TruPs bond.

Many of the issuers in our insured TruPs bonds were negatively affected by the recent U.S. economic challenges. 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 strong correlation between interest deferrals and ultimate defaults, we closely monitor deferrals as well as defaults in assessing the subordination remaining beneath our insured TruPs bonds. In 2012, the cures of previous deferrals of interest payments on the TruPs collateral have outpaced initial defaults and deferrals, suggesting that the general financial position of the collateral pool has been improving.

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.

CDOs of CMBS. In our CDOs of CMBS transactions, we provide credit protection for the timely payment of interest (limited to the amount of future premium payable to us) and principal when due on these pools of securities.

We have directly insured four CDOs of CMBS transactions, containing 127 CMBS tranches that were issued as part of 88 securitizations. While there has been some deterioration in the underlying CMBS transactions, we have a high level of subordination for these transactions and 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 CDOs 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, 2012, the remaining aggregate contractual premiums that we expect to earn for these transactions is $5.2 million in the aggregate.

29

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 12,700 loans with a balance of approximately $151.0 billion. The underlying loan collateral is reasonably well diversified both geographically and by property type. Approximately 33.6%, 32.6% and 13.6% of the underlying loan collateral was for office space, retail space and multi-family property, respectively. Approximately 14.3% of the underlying loans are due on or before December 31, 2014, and an additional 48.6% and 33.4% of the underlying loans are due in the years ending December 31, 2015 and 2016, respectively, with the remaining 3.7% 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.

RMBS. In our insured RMBS transactions, we provide credit protection for the timely payment of principal and interest when due on one or more tranches of securities backed by pools of residential mortgages of various types (e.g., prime, Alt-A, subprime). Included in our RMBS transactions is an aggregate of $132.2 million of net par exposure to 2006 and 2007 vintage RMBS, 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, 2012, 34.8% of our total RMBS net par outstanding remains investment grade (at least BBB), including 39.7% of our exposure to 2006 and 2007 vintage RMBS.

CLO. We also have $0.5 billion in exposure as of December 31, 2012, related to three direct 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 direct CLO transaction (representing $8.1 million of exposure), which is internally rated AAA. In 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 primarily by pools of corporate loans or tranches of CLOs.

3. Reinsurance

Assumed 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, meaning 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 remains outstanding until such time as the underlying policy terminates, the ceding company elects to recapture such business or we mutually agree to a commutation of such risk. Substantially all of our assumed reinsurance exposure from primary reinsurance customers other than affiliates of Assured and a significant portion of our assumed reinsurance exposure from Assured has been recaptured by or commuted with our primary reinsurance customers.

Our treaties with our primary reinsurance customers do not permit our reinsurance customers to selectively recapture business previously ceded to us under their treaties. While most of our primary reinsurance customers have recaptured or commuted their reinsurance exposure with us, we continue to have multiple treaties with affiliates of Assured. It is possible therefore, that one or more affiliates of Assured 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.

30

As of December 31, 2012, we had assumed approximately $6.3 billion ($5.5 billion after giving effect to the FGIC Commutation) in net par exposure from our primary reinsurance customers, compared to $20.6 billion as of December 31, 2011. Substantially all of the remaining $5.5 billion of assumed reinsurance exposure is from subsidiaries of Assured.

Ceded Reinsurance. Historically, Radian Asset Assurance has ceded very little 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 Assured 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. Second-to-pay Obligations

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 who has the primary obligation to cover losses on its primary insurance obligation. 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. Because many primary obligors of transactions for which we have second-to-pay exposure are currently experiencing significant financial difficulties and are rated BIG, the likelihood of our having to pay a claim on our second-to-pay exposures has increased. As of December 31, 2012, we had insured approximately $2.1 billion net par outstanding in second-to-pay exposure.

In 2009, two of the companies that are the primary obligors on certain of the transactions for which we have provided second-to-pay exposure, Syncora Guaranty Inc. (“Syncora”) and FGIC, suspended all claims payments following orders by the NYSDFS. While the NYSDFS lifted the suspension of payments by Syncora in June 2010, Syncora has subsequently posted additional losses and the NYSDFS could implement the suspension again in the future. A rehabilitation proceeding for FGIC pursuant to Article 74 of the New York Insurance Law is currently pending before the Supreme Court of the State of New York and as a result, FGIC is currently only permitted to pay 25% of the amount of any claims.

We also have second-to-pay exposure to Ambac Assurance Corporation (“Ambac”). In 2010, Ambac placed a portion of its obligations into a segregated account that is under the control of the Wisconsin Office of the Commissioner of Insurance (“WOCI”). We cannot provide any assurance whether or not the WOCI will include any of our second-to-pay obligations where Ambac is the primary insurer in the segregated account or otherwise limit Ambac’s ability to pay claims with respect to such transactions. As of December 31, 2012, Syncora, FGIC and Ambac are the primary insurers on $691.0 million net par outstanding (or 32.2%) of our second-to-pay net par exposure, and $233.3 million (or 33.8%) of our second-to-pay exposure to these three primary insurers is internally rated BIG. The FGIC Commutation did not affect our second-to-pay exposure to FGIC.

5. 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 for 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 CDS 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.

1. Aggregate Financial Guaranty Net Par Outstanding

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,					
	2012			2011		
($ 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	$6.3	18.7	%	$15.8	22.8	%
Healthcare and long-term care	3.2	9.5		5.4	7.8	
Water/sewer/electric gas and investor-owned utilities	1.8	5.3		3.6	5.2	
Education	1.2	3.6		2.2	3.2	
Airports/transportation	1.1	3.2		3.3	4.8	
Escrowed transactions (2)	1.0	3.0		1.4	2.0	
Housing	0.1	0.3		0.3	0.4	
Other municipal (3)	0.6	1.8		0.9	1.3	
Total public finance	15.3	45.4		32.9	47.5	
Structured finance:						
CDO	17.5	51.9		35.1	50.7	
Asset-backed obligations	0.8	2.4		0.9	1.3	
Other structured (4)	0.1	0.3		0.3	0.5	
Total structured finance	18.4	54.6		36.3	52.5	
Total	$33.7	100.0	%	$69.2	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 the remaining obligations under such bonds have been deposited in an escrow account for the benefit of the bond holders. Although we have little remaining credit risk on these transactions, they remain outstanding for GAAP purposes.

(3) Represents other types of municipal obligations, including human service providers, second-to-pay international public finance, non-profit institutions, project finance accommodations and stadiums, none of which 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.

2. Internal Ratings of our Financial Guaranty Net Par Outstanding

The following table identifies the internal credit ratings we have assigned to our net par outstanding as of December 31, 2012 and 2011:

($ in billions)	December 31, 2012 Net Par Outstanding	Percent		2011 Net Par Outstanding	Percent	
Internal Credit Rating (1)						
AAA	$15.2	45.1	%	$31.1	44.9	%
AA	1.6	4.7		9.7	14.0	
A	3.6	10.7		9.1	13.2	
BBB	10.5	31.2		15.2	22.0	
BIG	2.8	8.3		4.1	5.9	
Total	$33.7	100.0	%	$69.2	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-").

3. 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, 2012		2011	
Domestic Public Finance by State:				
California	6.2	%	5.7	%
New Jersey	3.7		2.9	
Pennsylvania	2.5		2.6	
Colorado	1.9		1.6	
Texas	1.9		4.0	
Illinois	1.6		2.4	
Puerto Rico	1.6		0.9	
New York	1.5		3.6	
South Carolina	1.2		0.9	
Washington	1.1		1.4	
Other states	11.0		14.8	
Total Domestic Public Finance	34.2		40.8	
Escrowed Public Finance (1)	2.8		2.1	
International Public Finance	8.4		4.6	
Total Public Finance	45.4	%	47.5	%

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

The following table shows the distribution of our international financial guaranty net par outstanding (including sovereign debt), as of the dates indicated:

(In millions)	December 31, 2012 Net Par Outstanding	2011 Net Par Outstanding
Type of Obligation		
International Public Finance:		
Non-European International Public Finance	$1,386.9	$1,706.5
Europe (other than “Stressed European Countries” below)	1,360.7	1,358.8
Stressed European Countries (1):		
Spain	47.7	50.3
Italy	28.9	30.9
Hungary	22.5	24.8
Portugal	6.1	7.7
Greece (2)	—	30.1
Ireland	—	—
Total Stressed European Countries	105.2	143.8
International Structured Finance (3)	3,497.2	7,481.6
Total International Financial Guaranty Obligations (4)	$6,350.0	$10,690.7

---

(1) Represents the six countries whose sovereign obligations have been under stress due to economic uncertainty, potential restructuring and ratings downgrades. As of December 31, 2012, all or substantially all of our exposure to Spain ($47.5 million) and Hungary ($22.5 million), the majority of our exposure to Italy ($20.5 million) and a significant portion of our exposure to Portugal ($0.9 million) is sovereign indebtedness.

(2) During the third quarter of 2012, we settled our obligations related to our insured exposure to the sovereign indebtedness of Greece for a claim payment of $23.5 million.

(3) 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.

(4) As of December 31, 2012 and 2011, $171.8 million and $522.5 million, respectively, of our international public finance net par outstanding is sovereign indebtedness.

4. Largest Single Insured Risks

The following table represents our 10 largest public finance single risks by net par outstanding (together representing 8.4% of financial guaranty’s aggregate net par outstanding) as of December 31, 2012 (and adjusted to give effect to the FGIC Commutation in January 2013), 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, 2012	Impact of FGIC Commutation	Aggregate Net Par Outstanding after FGIC Commutation
				(In millions)	
State of California	BBB	General Obligations	$579.2	$ —	$579.2
North Bay Plenary Health Canadian Hospital (AGM Insured)	AAA	Healthcare	361.3	—	361.3
New Jersey, Transportation Trust Fund Authority	A	General Obligations	339.7	—	339.7
State of New Jersey	A	General Obligations	291.6	—	291.6
New Jersey Economic Development Authority School FAC	A	General Obligations	267.6	—	267.6
Jefferson County Water and Sewer Authority	D	Utilities	225.4	195.9	29.5
Commonwealth of Puerto Rico	BBB	General Obligations	213.3	43.1	170.2
Reliance Rail Finance Pty LTD (1)	BB	Transportation	191.0	—	191.0
City of Detroit, Michigan	BB	General Obligations	183.8	175.0	8.8
Puerto Rico Highway and Transit Authority	BBB	Tax-Backed	183.5	6.9	176.6
			$2,836.4	$ 420.9	$2,415.5

(1) All of our net par outstanding to this credit is second-to-pay obligations to Syncora ($120.5 million) and FGIC ($70.5 million).

The following table represents our 10 largest structured finance single risks by net par outstanding (together representing 16.3% of financial guaranty's aggregate net par outstanding) as of December 31, 2012. We have entered into each of these transactions through the issuance of CDS:

Credit	Internal Credit Rating	Obligation Type	Scheduled Maturity Date	Aggregate Net Par Outstanding as of December 31, 2012 (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	AAA	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 CMBS	AAA	CDO of CMBS	2047	450.0	
7-Yr Static Synthetic Investment-Grade Corporate CDO	AA	Corporate CDO	2013	450.0	
7-Yr Static Synthetic Investment-Grade Corporate CDO	AAA	Corporate CDO	2013	450.0	(1)
				$5,511.0	

(1) In addition, as of December 31, 2012, we have insured an additional five Static Synthetic Investment-Grade Corporate CDOs, each with an aggregate net par outstanding of $450 million. As of December 31, 2012, the internal credit rating for each of these additional transactions is AAA.

5. Corporate CDO Portfolio—Industry Concentration

The corporate entities underlying the credit protection in our directly insured corporate CDO transactions are well diversified by industry. The following table summarizes the five largest industry concentrations (according to Standard & Poor's Financial Services LLC ("S&P")) in our financial guaranty directly insured corporate CDO portfolio as of December 31, 2012:

Industry Classification	% of Total Notional	
Telecommunications	8.1	%
Financial Intermediaries	5.9	
Retail (excluding food and drug)	5.8	
Chemical/Plastics	5.7	
Building and Development	5.3	
Total of five largest industry concentrations	30.8	%

C. Defaults and Claims

The claims payment pattern in our financial guaranty business tends 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 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 RMBS 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 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 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 typically are settled net of premiums payable to us, aggregated over all policies ceded to us. For information regarding our financial guaranty segment's claims paid and reserve for losses for the years ended December 31, 2012 and 2011, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Financial Guaranty."

D. Risk Management

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

Transaction underwriting included an analysis of credit and legal aspects of the transaction, 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 the ratings for a transaction by utilizing relevant information available to us, which includes: (1) periodic reports supplied by the issuer, trustee or servicer for the transaction; (2) publicly available information regarding the issuer, the transaction structure, the underlying collateral or asset class of the transaction and/or collateral; (3) communications with the issuer, trustee, collateral manager and servicer for the transaction; and (4) when available, public or private ratings assigned to our insured and reinsured transactions or to other obligations that have substantially similar risk characteristics to our transactions without the benefit of financial guaranty or similar credit insurance. In addition, for our assumed reinsurance transactions, we also utilize information provided by the primary insurer, including the ratings assigned to the transaction by such insurer. We also utilize models and methodologies from the nationally recognized statistical ratings organizations (the "NRSROs") 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 opinion and analysis of the NRSROs. When our analysis of the transaction results in a different view of the risk and loss characteristics of an insured transaction, we may assign a different internal rating than that assigned by the NRSROs. Our internal ratings estimates are subject to revision periodically and may differ from the credit ratings assigned by the NRSROs for the same obligation. Unless otherwise indicated, the ratings of our financial guaranty obligations that are referenced in this report have been developed internally.

The following table describes the ratings scale we utilize for our internal ratings:

Internal Rating (1)	Rating is Assigned When our Analysis Indicates:
AAA	the obligor’s capacity to meet its financial commitment on the obligation is extremely strong and it is subject to the lowest level of credit risk
AA	the obligor’s capacity to meet its financial commitment on the obligation is very strong and it is subject to very low credit risk
A	the obligor’s capacity to meet its financial commitment on the obligation is strong, but it is somewhat more susceptible to adverse changes in circumstances or economic conditions than higher rated obligations and it is subject to low credit risk
BBB	the obligor’s capacity to meet its financial commitment on the obligation is adequate, but adverse changes in circumstances or economic conditions are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation and it is subject to moderate credit risk
BB	the obligation faces significant ongoing uncertainties or exposure to adverse business, financial or economic conditions, which could lead to the obligor’s inadequate capacity to meet its financial commitment on the obligation and it is subject to substantial credit risk
B	adverse business, financial or economic conditions will likely impair the obligor’s capacity or willingness to meet its financial commitment on the obligation even though the obligor currently has the capacity to meet its financial commitments on the obligation and it is subject to high credit risk
CCC	the obligation is currently vulnerable to nonpayment and is dependent upon favorable business, financial and economic conditions for the obligor to meet its financial commitment on the obligation and it is subject to very high credit risk
CC	the obligation is currently highly vulnerable to nonpayment, and absent favorable business, financial and economic conditions, the obligor is highly likely not to have the financial capacity to meet its financial commitment on the obligation and it is subject to extremely high credit risk
C	the obligation is currently extremely vulnerable to nonpayment and payment default is imminent, but the obligation has not yet experienced a payment default
D	there is currently a payment default on the obligation

---

(1) Our internal ratings may be modified by the addition of a “+” or “-” to show the relative standing within a letter category.

When we refer to an obligation as “below investment grade” or “BIG,” it means we believe the obligation has significant speculative characteristics and is subject to at least substantial credit risk. BIG obligations are internally rated in the BB, B, CCC, CC, C or D categories.

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 transactions. 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.

In January 2012, Radian Asset Assurance entered into an administrative services agreement with Assured that requires Assured to provide surveillance, risk management, claims administration and claims payment services in connection with the policies ceded to Assured pursuant to the Assured Cession.

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 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 or assuming new financial guaranty business, other than as may be necessary to commute, restructure, hedge, or otherwise mitigate losses or reduce exposure in our existing portfolio, we are 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 mitigate losses in and maximize the value of our existing insured financial guaranty portfolio.

IV. Financial Services

Our financial services segment existed prior to January 1, 2011, and consisted mainly of our ownership interests in Credit-Based Asset Servicing and Securitization LLC (“C-BASS”), a mortgage investment company that we wrote off completely in 2007, and Sherman Financial Group LLC (“Sherman”), a consumer asset and servicing firm specializing in charged-off and bankruptcy plan consumer assets. 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 as part of C-BASS’s liquidation. On May 3, 2010, Radian Guaranty sold all of its remaining 28.7% equity interest in Sherman for approximately $172.0 million in cash, pursuant to a Securities Purchase Agreement dated as of May 3, 2010, between Radian Guaranty and Sherman.

V. Investment Policy and Portfolio

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 the following:

- At least 75% of our investment portfolio, based on market value, must 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 NRSRO (i.e., “A-” or better by S&P and “A3” or better by Moody’s Investor Service (“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 a 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 a 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 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. The level of our short-term investments is managed to meet 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. (See "Regulation—State Regulation—Risk-to-Capital—Freddie Mac Approval" below.)

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 25% 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, 2012, our investment portfolio had a cost basis of $5,088.3 million and carrying value of $5,152.4 million, including $777.5 million of short-term investments. Our investment portfolio did not include any real estate or whole mortgage loans at December 31, 2012. The portfolio included 77 privately placed, investment grade securities with an aggregate carrying value of $369.8 million at December 31, 2012. At December 31, 2012, 90.3% of our investment portfolio was rated investment grade.

A. Investment Portfolio Diversification

The diversification of our investment portfolio at December 31, 2012 was as follows:

($ in millions)	Fair Value	Percent	
U.S. government and agency securities (1)	$433.8	8.4	%
State and municipal obligations	688.6	13.3	
Money market instruments	638.0	12.4	
Corporate bonds and notes	1,373.6	26.6	
RMBS (2)	663.4	12.9	
CMBS	237.3	4.6	
Other ABS (3)	254.1	4.9	
Foreign government securities	117.7	2.3	
Hybrid securities	211.9	4.1	
Equity securities (4)	265.9	5.1	
Other investments (5)	137.3	2.7	
Short-term investments—U.S. government treasury bills	139.5	2.7	
Total	$5,161.1	100.0	%

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

(2) These RMBS are 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 ($98.9 million fair value) and various preferred and common stocks invested across numerous companies and industries ($167.0 million fair value).

(5) Includes $57.4 million (fair value) of investments not accounted for at fair value that have a carrying value of $48.7 million, which represents amortized cost, as well as a guaranteed investment contract that is accounted for at fair value.

40

B. Investment Portfolio Scheduled Maturity

The weighted average duration of the assets in our investment portfolio as of December 31, 2012 was 4.7 years. The following table shows the scheduled maturities of the securities held in our investment portfolio at December 31, 2012:

($ in millions)	Fair Value	Percent	
Short-term investments	$777.5	15.1	%
Due in one year or less (1)	119.6	2.3	
Due after one year through five years (1)	787.9	15.3	
Due after five years through ten years (1)	1,063.1	20.6	
Due after ten years (1)	934.9	18.1	
RMBS (2)	663.4	12.9	
CMBS (2)	237.3	4.6	
Other ABS (2)	254.1	4.9	
Other investments (3)	323.3	6.2	
Total	$5,161.1	100.0	%

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

C. Investment Portfolio by Rating

The following table shows the ratings of our investment portfolio as of December 31, 2012:

($ in millions)	Fair Value	Percent	
Rating (1)			
AAA (2)	$2,433.8	47.1	%
AA	480.1	9.3	
A	1,057.6	20.5	
BBB	689.5	13.4	
BB and below (3)	134.8	2.6	
Not rated	67.5	1.3	
Equity securities	162.4	3.2	
Other invested assets (4)	135.4	2.6	
Total	$5,161.1	100.0	%

(1) Reflects the highest NRSRO rating assigned to the security as of December 31, 2012.
(2) Includes $433.8 million of AAA-rated U.S. Government and Agency securities, $578.8 million in Ginnie Mae securities, $49.6 million in Freddie Mac securities, and $35.0 million in Fannie Mae securities that have not been rated by a NRSRO as of December 31, 2012.
(3) Securities in this category have been rated non-investment grade by a NRSRO as of December 31, 2012.
(4) Includes Limited Partnership investments and a guaranteed investment contract.

D. Investment Risk Concentration

The following table shows investments in any person and its affiliates that exceed 10% of total stockholders' equity as of December 31, 2012:

	Securities Classifications							
	Market Value			Municipal Securities	Corporate Bonds	US Treasury Money Market	Equity	Other Invested Assets
($ in thousands)	$	%						
Issuer Description								
Northern Institutional Treasury Portfolio	$258,560	5.0	%	$—	$—	$258,560	$—	$—
State of Illinois	138,414	2.7		138,414	—	—	—	—
Citigroup Inc.	134,507	2.6		—	111,092	—	23,415	—
BlackRock Liquidity Funds T-Fund Portfolio Money Market	133,391	2.6		—	—	133,391	—	—
Bank of America Corp	114,424	2.2		—	111,054	—	3,370	—
Vanguard Institutional Index Fund	98,913	1.9		—	—	—	98,913	—
State of California	91,269	1.8		91,269	—	—	—	—
STIT Treasury Portfolio Cash Management Fund	84,018	1.6		—	—	84,018	—	—
Federated Treasury Obligations Fund	81,507	1.6		—	—	81,507	—	—
Wells Fargo & Co	81,463	1.6		—	81,463	—	—	—
Fidelity Institutional Treasury Only Portfolio	80,570	1.5		—	—	80,570	—	—
The Royal Bank of Scotland Group plc	78,006	1.5		—	—	—	—	78,006
Top Investment Portfolio Risk Concentrations	$1,375,042	26.6	%	$229,683	$303,609	$638,046	$125,698	$78,006

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 measures 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 our 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 credit insurance, which includes the authority to write 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 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. Radian Asset Assurance is also licensed under the New York insurance law to write some types of surety insurance and credit insurance.

In addition to New York, Radian Asset Assurance is authorized to write financial guaranty or surety insurance (or in one state where there is no specific authorization for financial guaranty insurance, credit insurance) in each of the other 49 states, the District of Columbia, Guam, the U.S. Virgin Islands and the Commonwealth of Puerto Rico.

Radian Mortgage Assurance Inc. ("RMAI"). RMAI is domiciled and licensed in Pennsylvania as a stock casualty insurance company authorized to carry on the business of credit insurance, which includes the authority to write mortgage guaranty insurance. It is a monoline insurer restricted to writing only residential mortgage guaranty insurance. In addition to Pennsylvania, RMAI 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 states and the District of Columbia, other than Rhode Island where it operates under an industrial insured exemption. However, in light of its limited capital position, RMAI currently is prohibited from writing new business in six states without the addition of new capital.

43

Commonwealth Mortgage Assurance Company of Texas (“CMAC of Texas”). CMAC of Texas is domiciled and licensed in Texas as a mortgage guaranty insurance company authorized to carry on the business of mortgage guaranty insurance. It is a monoline insurer restricted to writing only mortgage guaranty insurance or reinsurance. CMAC of Texas is not licensed or authorized to write direct mortgage guaranty insurance in any state other than Texas.

Radian Insurance. Radian Insurance is domiciled and licensed in Pennsylvania as a stock casualty insurance company authorized to carry on the business of credit insurance, which includes the authority to write mortgage guaranty and financial guaranty insurance. Radian Insurance is also authorized in Hong Kong to carry on the business of credit insurance, suretyship and miscellaneous financial loss (including mortgage guaranty insurance) through its Hong Kong branch office. Radian Insurance is not licensed or authorized to write credit insurance in any locality other than Pennsylvania and Hong Kong.

Radian Mortgage Insurance. Radian Mortgage Insurance is domiciled and licensed in Pennsylvania as a stock casualty insurance company authorized to carry on the business of credit insurance, which includes the authority to write mortgage guaranty insurance. Radian Mortgage Insurance is a monoline insurer restricted to writing only mortgage guaranty insurance or reinsurance. Radian Mortgage Insurance is not licensed or authorized to write direct mortgage guaranty insurance in any states other than Pennsylvania and Arizona.

1. Insurance Holding Company Regulation

Radian Group is an insurance holding company and our insurance subsidiaries belong to an insurance holding company system. All states have enacted legislation regulating insurance holding company systems, including the non-insurer holding company within that system. These laws generally require the insurance holding company to register with the insurance regulatory authority of each state in which its insurance subsidiaries are domiciled and to furnish to the regulators in these states applicable financial statements, statements related to intercompany transactions and other information concerning the holding company and its affiliated companies within the holding company system that may materially affect the operations, management or financial condition of insurers or the holding company system.

We have insurance subsidiaries domiciled in Pennsylvania, Texas and New York. As a result, Radian Group is considered an insurance holding company and the insurance holding company laws of Pennsylvania, Texas and New York regulate, among other things, certain transactions between Radian Group, our insurance subsidiaries and other parties affiliated with us and certain transactions involving Radian Group’s common stock, including transactions that constitute a change of “control” of Radian Group and, consequently, a change of “control” of our insurance subsidiaries. Specifically, no person may, directly or indirectly, seek to acquire “control” of Radian Group unless that person files a statement and other documents with the commissioners of insurance of the states in which our insurance subsidiaries are domiciled and each commissioner’s prior approval is obtained. “Control” generally is defined broadly in these statutes. For example, under Pennsylvania’s insurance statutes, control is “presumed to exist if any person, directly or indirectly, owns, controls, holds with power to vote or holds proxies representing ten percent (10%) or more of the voting securities” of a holding company of a Pennsylvania domestic insurer. The statute further defines “control” as the “possession, direct or indirect, of the power to direct or cause the direction of the management and policies of” an insurance holding company. Similarly, no person may directly or indirectly acquire control of any of our insurance subsidiaries unless that person files a statement and other documents with the commissioner of insurance of the state in which the target insurance subsidiary is domiciled and the commissioner’s prior approval is obtained.

In addition, material transactions between us or our affiliates and our insurance subsidiaries or among our insurance subsidiaries are subject to certain conditions, including that they be “fair and reasonable.” These conditions generally apply to all persons controlling, or who are under common control with, us or our insurance subsidiaries. Certain transactions between us or our affiliates and our insurance subsidiaries may not be entered into unless the applicable commissioner of insurance is given 30 days’ prior notification and does not disapprove the transaction during that 30-day period.

2. Dividends

Radian Guaranty, Radian Insurance, RMAI and Radian Mortgage Insurance. Under Pennsylvania’s insurance laws, dividends and other distributions may only be paid out of an insurer’s positive unassigned surplus, measured as of the end of the prior fiscal year, unless the Pennsylvania Insurance Commissioner approves the payment of dividends or other distributions from another source. Radian Guaranty, Radian Insurance, RMAI and Radian Mortgage Insurance each had negative unassigned surplus at December 31, 2012, of $685.1 million, $317.3 million, $160.5 million and $85.4 million, respectively; therefore, no dividends or other distributions can be paid from these subsidiaries in 2013 without approval from the Pennsylvania Insurance Commissioner.

While all proposed dividends and distributions to shareholders must be filed with the Pennsylvania Insurance Department prior to payment, if a Pennsylvania domiciled insurer had positive unassigned surplus as of the end of the prior fiscal year, then without the prior approval of the Pennsylvania Insurance Commissioner, such insurer could only pay dividends or other distributions during any 12-month period in an aggregate amount less than or equal to the greater of: (i) 10% of the preceding year-end statutory policyholders' surplus; or (ii) the preceding year's statutory net income. Neither Radian Guaranty, Radian Insurance, RMAI nor Radian Mortgage Insurance paid any dividends in 2012.

Radian Asset Assurance. Under New York insurance laws, Radian Asset Assurance may only pay dividends from statutory earned surplus. While all proposed dividends and distributions to shareholders must be filed with the NYSDFS prior to payment, Radian Asset Assurance may pay "ordinary dividends" without prior approval of the NYSDFS when the total of all other dividends declared or distributed by it during the preceding 12 months, is the lesser of 10% of its statutory surplus to policyholders, as shown on its last statement on file with the NYSDFS, or 100% of statutory adjusted net investment income. In the third quarter of 2012, Radian Asset Assurance paid an ordinary dividend of $54.0 million to Radian Guaranty. We expect that Radian Asset Assurance will next have the capacity to pay an ordinary dividend, of approximately $35 million, to Radian Guaranty in the third quarter of 2013.

CMAC of Texas. Under Texas insurance laws, dividends and other distributions to shareholders may only be paid out of an insurer's surplus profits arising from its insurance business. While all proposed dividends and distributions to shareholders must be filed with the Texas Insurance Department prior to payment, the approval of the Texas Insurance Department is required for any proposed dividends or distributions within any 12-month period that exceed the greater of: (i) 10% of policyholder surplus as of the immediately prior December 31; or (ii) the insurer's net income as stated in its immediately prior annual statutory statement. No dividends were paid by CMAC of Texas in 2012 and we do not expect CMAC of Texas to pay any dividends in 2013.

3. Risk-to-Capital

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 net RIF, or "risk-to-capital." Sixteen states (the "RBC States") currently impose a statutory or regulatory risk-based capital requirement (the "Statutory RBC Requirement"). The most common Statutory RBC Requirement is that a mortgage insurer's risk-to-capital ratio not exceed 25 to 1. In some of the RBC States, the Statutory RBC Requirement is that Radian Guaranty must maintain a minimum policyholder position, which is based on both risk and surplus levels (the "MPP Requirement"). 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 such RBC State, it may be prohibited from writing new mortgage insurance business in that state. Radian Guaranty's domiciliary state, Pennsylvania, is not one of the RBC States. In 2012 and 2011, the RBC States accounted for approximately 54.3% and 50.5%, respectively, of Radian Guaranty's total primary NIW.

As of December 31, 2012, Radian Guaranty's risk-to-capital ratio was to 20.8 to 1. We intend to maintain Radian Guaranty's risk-to-capital below 25 to 1 throughout 2013, including if necessary, by making contributions to Radian Guaranty from Radian Group's remaining available liquidity. Based on our current projections, in the absence of these contributions or other risk-to-capital support, we anticipate that Radian Guaranty will exceed the 25 to 1 risk-to-capital ratio requirement during 2013. As of December 31, 2012, Radian Guaranty was operating under waivers in two RBC States with MPP Requirements for which Radian Guaranty's minimum policyholder position was below the applicable requirements. Each of these RBC States has issued to Radian Guaranty a waiver of its MPP requirement that allows Radian Guaranty to continue writing new business in these states regardless of whether the MPP Requirement has been met. One of these waivers has no specified expiration date and the other expires on December 31, 2013.

In order to maximize our financial flexibility in the event Radian Guaranty is unable to comply with applicable Statutory RBC Requirements, we have applied for waivers or similar relief for Radian Guaranty in each of the RBC States. Of the 16 RBC States, New York does not possess the regulatory authority to grant waivers and Iowa, Kansas and Ohio have declined to grant waivers to Radian Guaranty. In addition, we have an application for a waiver pending in Idaho, and Oregon has indicated that it will not consider a waiver application until such time that Radian Guaranty has exceeded its Statutory RBC Requirement. Currently, Radian Guaranty has waivers or similar relief from the following RBC States: Kentucky, Wisconsin, Arizona, Missouri, North Carolina, California and Texas. Waivers that were previously granted to Radian Guaranty from Illinois, New Jersey and Florida expired at the end of 2012 and we currently are pursuing a renewal of the waivers from these states. Certain of the existing waivers contain conditions, including requirements that Radian Guaranty's risk-to-capital ratio may not exceed a revised maximum ratio, ranging from 30 to 1 up to 35 to 1. There can be no assurance that: (1) Radian Guaranty will be granted a waiver in Idaho or Oregon or a renewal of the waivers that have expired in Illinois, New Jersey and Florida; (2) for any waiver granted, such regulator will not revoke or terminate the waiver, which the regulator generally has the authority to do at any time; (3) for any waiver granted, it will be renewed or extended after its original expiration date; or (4) additional requirements will not be imposed as a condition to such waivers or their renewal or extension and, if so, whether we will be able to comply with such requirements.

In addition to filing for waivers in the RBC States, if necessary, we intend to write new first-lien insurance business in RMAI in any RBC State that does not permit Radian Guaranty to continue writing insurance while it is out of compliance with applicable Statutory RBC Requirements. As described further below, RMAI received approvals from the GSEs to write new mortgage insurance business in those RBC States where Radian Guaranty has been unable to obtain a waiver or other similar relief from applicable Statutory RBC Requirements, and therefore, would be prohibited from writing new business if it were not in compliance with these requirements. These approvals are conditioned upon our compliance with a broad range of conditions and restrictions, as discussed below.

Freddie Mac Approval. On February 28, 2012, Freddie Mac approved Radian Guaranty's use of RMAI as a special purpose mortgage insurer (a "Limited Insurer") to write mortgage insurance in those RBC States in which Radian Guaranty is not in compliance with (or is not expected to be in compliance with) the Statutory RBC Requirements and has not been granted a waiver or other similar relief after trying in good faith to obtain such relief. On December 20, 2012, Freddie Mac amended its approval to, among other things, extend the term for an additional one-year period that will expire on December 31, 2013 (as amended, the "Freddie Mac Approval"). The Freddie Mac Approval includes the following terms and conditions:

1. Subject to the terms and conditions of the approval, RMAI currently is eligible to write business in New York, Ohio, Iowa, Kansas, Oregon and Idaho.
2. Radian Group is required to make contributions to Radian Guaranty as may be necessary so that the "Liquid Assets" of Radian Guaranty are at least $700 million. "Liquid Assets" are the sum of: (i) aggregate cash and cash equivalents; and (ii) fair market value of the following investments: (a) RMBS guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae; (b) securities rated single A or higher by either Moody's, S&P, or Fitch Ratings with a remaining maturity of five years or less; and (c) U.S. Treasury securities with maturities not to exceed ten years; provided however, that U.S. Treasury securities with remaining maturities in excess of five years may not exceed ten percent of the Liquid Assets. As of December 31, 2012, Radian Guaranty's Liquid Assets under the Freddie Mac Approval were approximately $868.9 million.
3. The Freddie Mac Approval required Radian Group to contribute $100 million in cash to Radian Guaranty, which was completed in February 2012.
4. Radian Group must contribute $50 million of capital to RMAI immediately upon Radian Guaranty's breaching the Statutory RBC Requirement of an RBC State such that the use of RMAI would be required because Radian Guaranty has not been able to obtain a waiver or other relief.

5. Without the prior written consent of Freddie Mac, Radian Guaranty and RMAI shall not:

- Declare or pay any dividend, return of capital, capital distribution or other similar arrangement, including without limitation, repayment of any outstanding principal on any surplus notes, debentures or similar securities;
- Amend certain agreements, including the cross guaranty agreement between Radian Guaranty and RMAI, any reinsurance agreement, tax allocation agreement or expense sharing agreement or enter into any such new agreement;
- Transfer, issue or sell any assets or securities to another person, including an affiliate, except for certain transfers in the ordinary course of business that are explicitly set forth in the Freddie Mac Approval;
- Enter into any risk novation or commutation transaction; and
- Transfer Radian Guaranty's or RMAI's issuance of new insurance to any other affiliate.

In addition, RMAI must remain a wholly-owned subsidiary of Radian Guaranty and there may be no change in the ownership or direct or indirect control of RMAI without the prior written consent of Freddie Mac.

6. While RMAI is writing new insurance business, it may not exceed a risk-to-capital ratio of 20 to 1, and Radian Guaranty may not contribute capital to RMAI unless the contribution is specifically approved by Freddie Mac.
7. Expenses paid by RMAI may not exceed expenses incurred by Radian Guaranty for management and administrative services performed by Radian Guaranty and allocated to RMAI in accordance with applicable statutory accounting standards and our procedures for determining an allocation between affiliated entities.
8. If permitted by the applicable regulatory authorities, Radian Guaranty must: (i) subsume all risk written by, and the related premium payable to, RMAI in any state that waives or modifies its Statutory RBC Requirement to allow Radian Guaranty to begin writing new business after RMAI has started writing business in that state and Radian Guaranty must repatriate the capital supporting that risk; or (ii) enter into a 100% quota share reinsurance transaction with RMAI by the end of the quarter following the quarter in which Radian Guaranty again became eligible to write business in the state.
9. If permitted by applicable regulatory authorities, once Radian Guaranty has satisfied the applicable Statutory RBC Requirement in an RBC State for three consecutive calendar quarters, all risk of RMAI written in that state must be subsumed by, and the capital supporting that risk must be repatriated to, Radian Guaranty by the end of the following quarter.
10. If either Radian Guaranty or RMAI becomes subject to an adverse action by Freddie Mac, both Radian Guaranty and RMAI will be subject to the same adverse action, at Freddie Mac's sole discretion.
11. The Freddie Mac Approval also includes a condition specifying the time frame by which Radian Guaranty will evaluate and resolve claims.
12. The approval to use RMAI as a Limited Insurer expires on December 31, 2013. Freddie Mac, in its sole discretion, may modify the terms and conditions of the Freddie Mac Approval or withdraw it.

Fannie Mae Approval. On February 27, 2012, Radian Group, Radian Guaranty and RMAI entered into an agreement with Fannie Mae (the "Fannie Mae Approval") that provides for the approval of RMAI as a direct issuer of mortgage guaranty insurance in certain RBC States. The Fannie Mae Approval includes, among others, the following terms and conditions:

1. The approval of RMAI is limited to only those RBC States in which Radian Guaranty has not been granted relief from the Statutory RBC Requirement. If Radian Guaranty is prohibited from writing new business in any state for a reason other than a failure to meet applicable Statutory RBC Requirements, Fannie Mae's approval will not apply for such state.
2. Radian Group was required to contribute $100 million in cash or cash equivalents to Radian Guaranty within 30 days of the effective date of the approval, which was completed in February 2012.
3. Radian Group shall contribute an additional $50 million to Radian Guaranty (which would then be contributed to RMAI) after the end of the quarter in which it is determined that Radian Guaranty's risk-to-capital ratio exceeded applicable Statutory RBC Requirements. In addition, Radian Group shall contribute to Radian Guaranty the amount of any future interest expense payment made by Radian Guaranty or RMAI to Radian Group pursuant to the terms of the interest expense sharing arrangements among these entities.
4. Following this contribution, Fannie Mae and Radian Guaranty may review the risk-to-capital ratios of Radian Guaranty and RMAI to determine if additional capital contributions to RMAI are required. Once Radian Guaranty has contributed cash or cash equivalent assets to RMAI, then neither Radian Guaranty nor RMAI may take any of the following actions without obtaining the prior written consent of Fannie Mae:

- Alter, amend or modify any reinsurance, capital support or similar agreement with any affiliate;
- Except as specifically provided for in the Fannie Mae Approval, declare, pay or make any provision for the payment of any dividend, return of capital, capital or other distribution, including without limitation, repayment of any outstanding principal, interest or other amounts on any surplus notes, debentures or similar securities; provided, however, that Radian Guaranty and RMAI are permitted to make interest expense payments to Radian Group in accordance with the terms of the expense sharing arrangements among these entities, subject to Radian Group's reimbursing Radian Guaranty for such amounts as discussed above;
- Except as specifically provided for in the Fannie Mae Approval, sell or make any other arrangement to transfer or distribute any securities of Radian Guaranty or RMAI to another person or entity;
- Alter, amend or modify the underwriting guidelines for Radian Guaranty or RMAI beyond what is eligible under Fannie Mae's guidelines;
- Transfer or shift Radian Guaranty's or RMAI's issuance of new mortgage insurance to another affiliate; and
- Enter into any risk novation or commutation transaction by RMAI.

5. The approval of RMAI will be automatically revoked for any RBC State 30 days after Radian Guaranty is permitted to resume writing new business in that state.
6. After Radian Guaranty has, for a period of 12 consecutive months, met or exceeded the Statutory RBC Requirement of a state in which Radian Guaranty had not obtained a waiver or other relief, then, within 90 days, RMAI shall transfer to Radian Guaranty any and all mortgage guaranty insurance written by RMAI in that state, together with the capital supporting that risk, on terms and conditions approved by Fannie Mae and as permitted by applicable regulatory authorities.
7. The conditional approval of RMAI terminates on December 31, 2013. Fannie Mae may revoke the approval at any time prior to its termination.

See "Risk Factors—Losses in our mortgage insurance and financial guaranty businesses have reduced Radian Guaranty's statutory surplus and increased Radian Guaranty's risk-to-capital ratio; additional losses in these businesses, without a corresponding increase in new capital or capital relief, would further negatively impact this ratio, which could limit Radian Guaranty's ability to write new insurance and increase restrictions and requirements placed on Radian Guaranty."

4. Contingency Reserves

For statutory reporting, mortgage insurance companies are required annually to provide for additions to their contingency reserve in an amount equal to 50% of earned premiums. Such amounts cannot be released into surplus for a period of 10 years, except when loss ratios exceed 35%, in which case the amount above 35% can be released under certain circumstances. The contingency reserve, which is designed to be a reserve against catastrophic losses, essentially restricts dividends and other distributions by mortgage insurance companies. We classify the contingency reserve as a statutory liability. At December 31, 2012, Radian Guaranty had no contingency reserves remaining and Radian Insurance had $20.6 million of contingency reserves.

Our financial guaranty business also is required to establish contingency reserves. The contingency reserve on direct financial guaranty business written is established net of reinsurance, in an amount equal to the greater of 50% of premiums written or a stated percentage (based on the type of obligation insured or reinsured) of the net amount of principal guaranteed, ratably over 15 to 20 years, depending on the category of obligation insured. The contingency reserve may be released with regulatory approval to the extent that losses in any calendar year exceed a pre-determined percentage of earned premiums for such year, with the percentage threshold dependent upon the category of obligation insured. Such reserves may also be released, subject to regulatory approval in certain instances, upon demonstration that the reserve amount is excessive in relation to the outstanding obligation.

In 2010, 2011 and 2012, we received approval from the NYSDFS to release approximately $42.1 million, $30.4 million and $54.5 million, respectively, from the contingency reserves of Radian Asset Assurance to statutory surplus as a result of certain policies that matured and other insurance coverage that was terminated. An additional $87.0 million of contingency reserves were released as a result of the Assured Transaction in the first quarter of 2012.

At December 31, 2012, Radian Asset Assurance had a contingency reserve of $300.1 million. In January 2013, $6.7 million of contingency reserves were released due to the FGIC Commutation, and on February 7, 2013, the NYSDFS approved the release of an additional $61.1 million of contingency reserves of Radian Asset Assurance resulting from the maturity or termination of financial guaranty policies.

5. Reinsurance

Certain states limit the amount of risk a mortgage insurer may retain on a single loan to 25% of the total loan amount. Coverage in excess of 25% (i.e., deep coverage) must be reinsured. Radian Guaranty currently uses reinsurance from affiliated companies to remain in compliance with these insurance regulations. Radian Guaranty currently reinsures coverage in excess of 25% with CMAC of Texas, Radian Insurance and Radian Mortgage Insurance to remain in compliance with these insurance regulations.

B. Federal Regulation

1. Real Estate Settlement Practices Act of 1974 ("RESPA")

The origination or refinance of a federally regulated mortgage loan is subject to RESPA. In December 1992, regulations were issued stating that mortgage insurance also is a settlement service, and therefore, subject to RESPA. As a result, mortgage insurers are subject to the anti-referral fee provisions of Section 8(a) of RESPA, which generally provide, among other things, that mortgage insurers are prohibited from paying any thing of value to a mortgage lender or any settlement service provider in consideration of the lender's referral of business to the mortgage insurer. Many states have similar provisions that prohibit mortgage insurers from giving rebates. RESPA has been interpreted to cover many non-fee services as well.

We and other mortgage insurers have faced and are currently facing private lawsuits alleging, among other things, that our captive reinsurance arrangements, as well as pool insurance and contract underwriting services, constitute unlawful payments to mortgage lenders under RESPA. See "Legal Proceedings."

The insurance law provisions of many states, including New York, also prohibit paying for the referral of insurance business and provide various mechanisms to enforce this provision. In February 1999, the NYSDFS issued Circular Letter No. 2 that discusses its position concerning various transactions between mortgage guaranty insurance companies licensed in New York and mortgage lenders. The letter confirms that captive reinsurance transactions are permissible if they "constitute a legitimate transfer of risk" and "are fair and equitable to the parties." The letter also states that "supernotes/performance notes," "dollar pool" insurance, and "un-captive captives" violate New York insurance law.

49

We and other mortgage insurers have been subject to multiple inquiries from the Minnesota Department of Commerce relating to our captive reinsurance and contract underwriting arrangements, and in the past, we received a subpoena from the Office of the Inspector General of the U.S. Department of Housing and Urban Development ("HUD"), requesting information relating to captive reinsurance. The Dodd-Frank Act amended RESPA and transferred the authority to implement and enforce the statute from HUD to the Consumer Financial Protection Bureau (the "CFPB"). In January 2012, we and other mortgage insurers received a request for information and documents from the CFPB relating to captive reinsurance arrangements, and in June 2012, we and other mortgage insurers received a Civil Investigative Demand ("CID") from the CFPB as part of its investigation to determine whether mortgage lenders and private mortgage insurance providers engaged in acts or practices in violation of the Dodd-Frank Act, RESPA and the Consumer Financial Protection Act. On December 7, 2012, we filed a petition with the CFPB to set aside or modify the CID, which has not yet been ruled upon by the CFPB. We are cooperating with the CFPB in its investigation and are in active discussions with the CFPB with respect to our response to the CID, including various alternatives for resolving this investigation. Various regulators, including the CFPB, state insurance commissioners or state attorneys general may bring actions or proceedings regarding our compliance with RESPA or other laws applicable to our mortgage insurance business. Although we believe that all of our captive reinsurance and contract underwriting arrangements comply with applicable legal requirements in all material respects, we cannot be certain that we will be able to successfully defend against alleged violations of RESPA or other laws. See "Risk Factors—Legislation and regulatory changes and interpretations could harm our mortgage insurance business" and "We face risks associated with our contract underwriting business."

2. SAFE Mortgage Licensing Act (the "SAFE Act")

The SAFE Act requires mortgage loan originators to be licensed and/or registered with the Nationwide Mortgage Licensing System and Registry (the "Registry"). The Registry is a database established by the Conference of State Bank Supervisors and the American Association of Residential Mortgage Regulators. Among other things, the database was established to support the licensing of mortgage loan originators by each state. As part of this licensing and registration process, loan originators who are employees of institutions other than depository institutions or certain of their subsidiaries, in each case, that are regulated by a Federal banking agency, must generally be licensed under the SAFE Act guidelines enacted by each state in which they engage in loan originator activities and registered with the Registry. Otherwise, the SAFE Act generally prohibits employees of a depository institution (including certain of their subsidiaries that, in each case, are regulated by a Federal banking agency) from originating residential mortgage loans without first registering with the Registry and maintaining that registration. If the SAFE Act is interpreted to apply to our contract underwriters and we are unable to achieve compliance with the SAFE Act in all applicable states, we may be required to cease or limit our contract underwriting services in some or all states and could be subject to fines or other penalties.

3. Home Mortgage Disclosure Act of 1975 ("HMDA")

Most originators of mortgage loans are required to collect and report data relating to a mortgage loan applicant's race, nationality, gender, marital status and census tract to HUD or the Federal Reserve under the HMDA. The purpose of the HMDA is to detect possible discrimination in home lending and, through disclosure, to discourage this discrimination. Mortgage insurers are not required pursuant to any law or regulation to report HMDA data. However, mortgage insurers have, through the industry trade group Mortgage Insurance Companies of America, voluntarily agreed to report the same data on loans submitted for insurance as is required for most mortgage lenders under HMDA.

4. Mortgage Insurance Cancellation

The Homeowners Protection Act of 1998 ("HPA") imposes certain cancellation and termination requirements for borrower-paid private mortgage insurance and requires certain disclosures to borrowers regarding their rights under the law. The HPA also requires certain disclosures for loans covered by lender-paid private mortgage insurance. Specifically, the HPA provides that private mortgage insurance on most loans originated on or after July 29, 1999 may be canceled at the request of the borrower once the LTV reaches 80% of the original unpaid principal balance, provided that certain conditions are satisfied. Private mortgage insurance must be canceled automatically once the LTV reaches 78% of the unpaid principal balance (or, if the loan is not current on that date, on the date that the loan becomes current).

The HPA establishes special rules for the termination of private mortgage insurance in connection with loans that are “high risk.” The HPA does not define “high risk” loans, but leaves that determination to the GSEs for loans up to the GSE conforming loan limits and to lenders for any other loan. For “high risk” loans above the GSE conforming loan limits, private mortgage insurance must be terminated on the date that the LTV is first scheduled to reach 77% of the unpaid principal balance. In no case, however, may private mortgage insurance be required beyond the midpoint of the amortization period of the loan if the borrower is current on the payments required by the terms of the mortgage.

5. The Fair Credit Reporting Act.

The Fair Credit Reporting Act of 1970 (“FCRA”), as amended, imposes restrictions on the permissible use of credit report information. FCRA has been interpreted by some Federal Trade Commission staff to require mortgage insurance companies to provide “adverse action” notices to consumers in the event an application for mortgage insurance is declined on the basis of a review of the consumer’s credit.

6. The GSEs and FHA

As the largest purchasers of conventional mortgage loans, and therefore, the main beneficiaries of private mortgage insurance, the GSEs impose requirements on private mortgage insurers that wish to insure loans sold to the GSEs. In order to be eligible to insure loans purchased by the GSEs, mortgage insurers must meet the GSE eligibility requirements. The current eligibility requirements impose limitations on the type of risk insured, standards for the geographic and customer diversification of risk, procedures for claims handling, standards for acceptable underwriting practices, standards for certain reinsurance cessions and financial requirements that generally mirror state insurance regulatory requirements. In order to maintain the highest level of eligibility with the GSEs, mortgage insurers historically had to maintain an insurance financial strength rating of AA- or Aa3 from at least two of the three rating agencies by which they are customarily rated. Although our ratings have been downgraded substantially below these required ratings, the GSEs have allowed Radian Guaranty to operate under business and financial remediation plans and retain its eligibility status. In addition, in February 2012, the GSEs approved RMAI (the “GSE Approvals”) to operate as an eligible insurer on a limited basis in certain RBC States to the extent Radian Guaranty is unable to comply with applicable Statutory RBC Requirements and is unable to continue to write new mortgage insurance in such states. See “Risk Factors—Losses in our mortgage insurance and financial guaranty businesses have reduced Radian Guaranty’s statutory surplus and increased Radian Guaranty’s risk-to-capital ratio; additional losses in these businesses, without a corresponding increase in new capital or capital relief, would further negatively impact this ratio, which could limit Radian Guaranty’s ability to write new insurance and increase restrictions and requirements placed on Radian Guaranty.” If the GSEs believe that our remediation plans will not provide the capital required by our mortgage insurance business, or otherwise are not satisfied, or if we fail to comply with the terms of the GSE Approvals, we could lose our eligibility with the GSEs. See “Risk Factors—We could lose our eligibility status with the GSEs, causing Freddie Mac and Fannie Mae to decide not to purchase mortgages insured by us, which would significantly impair our mortgage insurance franchise.”

Some of the more recent programs of the GSEs require less insurance coverage than they historically have required, and they have the ability to further reduce coverage requirements. The GSEs also have the ability, among other things to:

- implement new eligibility requirements for mortgage insurers and alter or liberalize underwriting standards on low-down-payment mortgages they purchase;
- alter the terms on which mortgage insurance coverage may be canceled before reaching the cancellation thresholds established by law;
- establish the terms to be included in mortgage insurance policies for loans that they purchase. The GSEs recently have informed mortgage insurers that their master insurance policies must include a series of specific items relating to, among other things, loss mitigation, claims processing and the GSEs’ rights under the policy. We currently are in discussions with the GSEs regarding these proposed items, which are expected to be effective for loans insured beginning in 2014;
- require private mortgage insurers to perform activities intended to avoid or mitigate loss on insured mortgages that are in default;
- establish the amount of guarantee fees (which result in higher cost to borrowers) that the GSEs charge on loans that require private mortgage insurance. In December 2011, Congress passed a law to increase the GSE guarantee fee, and in November 2012, the FHFA directed the GSEs to increase their guarantee fees again, thus making some privately-insured loans purchased by the GSEs more costly than FHA-insured loans;
- intervene in mortgage insurers’ rescission practices or rescission settlement practices with lenders;
- influence a mortgage lender’s selection of the mortgage insurer providing coverage; and
-

establish capital requirements as a condition of eligibility that could be more stringent than those that are currently in effect.

We have participated in "affordable housing" programs for low- and moderate-income borrowers. These programs have included mortgages with LTV ratios between 90.01% to 95%, 95.01% to 97%, and 97.01% to 100% and liberalized underwriting guidelines to achieve the programs' objectives. Although our default experience on loans that we have insured through these programs has been worse than on non-"affordable housing" loans, the percentage of our RIF currently attributable to these programs is not material.

In July 2008, an overhaul of regulatory oversight of the GSEs was enacted. The new provisions, contained within the Housing and Economic Recovery Act of 2008 ("HERA"), encompass substantially all of the GSE operations. This new law abolished the former regulator for the GSEs, the Office of Federal Housing Enterprise Oversight, and created a new regulator, the FHFA, in addition to other oversight reforms.

In September 2008, the FHFA was appointed as the conservator of the GSEs to ensure that the GSEs operate in a safe and sound manner. Since its inception, FHFA has undertaken actions to scale back the GSEs' presence in the mortgage market, strengthen their financial positions, and help struggling borrowers, including expanding the HARP eligibility requirements. Despite these actions, many policymakers have encouraged FHFA to take further action with respect to the GSEs to help facilitate a broader and more robust recovery of the housing market. In response, FHFA released a strategic plan for the next phase of the conservatorship, which would build a single platform infrastructure for the mortgage market going forward and reduce the role of the GSEs, while increasing private sector participation and helping borrowers to avoid foreclosure. See "—Housing Finance Reform" below for further discussion.

Under the Emergency Economic Stimulus Act of 2008 ("EESA") and the American Recovery and Reinvestment Act of 2009, the loan limits for FHA-insured loans and the loan limits on GSE conforming loans in certain areas, were temporarily increased to a maximum of $729,750. The Continuing Appropriations and Surface Transportation Extensions Act of 2011, which was enacted into law in December 2010, extended these increased loan limits through September 2011. The increase in the loan limits for FHA-insured loans and GSE conforming loans was intended to increase the size of the secondary market for purchasing and securitizing home loans and to encourage the GSEs to continue to provide liquidity to the residential mortgage market, particularly in higher-priced areas, at a time when many banks and similar institutions had significantly curtailed their activities due to the subprime lending crisis that developed during 2007. On October 1, 2011, the higher FHA and GSE loan limits expired and those limits decreased from $729,750 to $625,500. However, in November 2011, Congress raised FHA's loan limits for high cost areas back to $729,750, while keeping the GSE limits for high-cost areas at $625,500. As a result, for the first time in history, loan limits for FHA-insured loans are currently higher than loan limits for privately-insured loans. This effectively enables FHA to insure a broader range of loans than private mortgage insurers.

HERA contains provisions intended to provide the FHA with greater flexibility in establishing new products. HERA also authorized the FHA to refinance distressed mortgages for eligible borrowers in return for lenders and investors agreeing to write down the amount of the original mortgage and the borrower sharing in the future appreciation with the FHA.

In November 2011, HUD released its annual report to Congress on the financial condition of the FHA Mutual Mortgage Insurance Fund, which found that the FHA's single family mortgage and reverse mortgage insurance programs fell below the statutorily-required capital ratio. The FHA has announced plans to take a series of steps in an effort to avoid a bailout of its insurance fund, including, among others:

- raising its annual insurance premium on new mortgages by 10 basis points in April 2013 (representing the third FHA premium increase in less than one year);
- providing new relief for troubled borrowers with a streamlined short sale program and a reversal of a past policy that cancels premiums for new borrowers as they pay off their loan.

As a result of the FHA's financial condition, Congress is now considering FHA reform in addition to GSE reform. Given that FHA and GSE reform have significant impacts on each other, as well as on borrower access to credit and the housing market more broadly, we believe policymakers may consider both GSE reform and FHA reform together. It is unclear whether these reforms ultimately will be adopted, what form they may take and the impact on the private mortgage insurance industry.

7. Housing Finance Reform

On February 11, 2011, the U.S. Presidential Administration (the “Administration”) released its proposal to reform the U.S. housing finance market. In its proposal, the Administration seeks to gradually reduce the federal government’s role in housing finance, including the ultimate wind-down of the GSEs, and to increase the role of private capital.

With respect to long-term reform, the Administration has proposed the following three options, each of which differs in both the structure and scale of the federal government's future role in the housing finance system:

- Option 1: Privatized system of housing finance with the federal government's role limited to providing assistance for narrowly targeted groups of borrowers, leaving the vast majority of the mortgage market to the private sector;
- Option 2: Similar to Option 1, but with ability for the federal government to scale up to a larger share of the market if private capital withdraws in times of financial stress; and
- Option 3: Similar to Option 2, but with assistance to low- and moderate-income borrowers and with the federal government providing catastrophic reinsurance behind private capital for securities of a targeted range of mortgages.

The Administration's proposal is intended to shape the debate in Congress as the Senate Banking Committee and the House Financial Services Committee consider legislation reforming the housing finance market. It is possible that the Administration may release an updated housing finance reform proposal to further stimulate the debate around housing finance reform. It is unclear whether housing finance reform legislation will be adopted and, if so, what form it will ultimately take.

FHFA Acting Director Edward J. DeMarco sent a proposal to Congress outlining a strategic plan for the next phase of the conservatorship of the GSEs in February 2012 and updated this plan in May and October 2012. The plan identifies three strategic goals for this next phase: (1) build a single infrastructure to support the mortgage credit business, including mortgage servicing agreements and requirements placed on companies that service mortgages; (2) reduce the GSE presence in the market and replace them with private sector participation; and (3) maintain foreclosure prevention activities and credit availability for new and refinanced mortgages. We believe the most significant components of this plan are: (i) the FHFA's recommendations regarding shifting mortgage credit risk to the private sector through increasing the GSE guarantee fee pricing; (ii) establishing loss-sharing arrangements that require private investors to bear most or potentially all of the risk; and (iii) expanding reliance on mortgage insurance by requiring deeper mortgage insurance coverage on individual loans or through pool-level insurance policies to insure a portion of the mortgage credit risk currently retained by the GSEs. At this time, it is not possible to estimate the impact of the FHFA's proposed strategic plan on our business.

While Congress may preserve a role for private mortgage insurance as it considers housing finance reform legislation, there is a possibility that new federal legislation could change the role of private mortgage insurance going forward by, among other items, changing the combined LTV ratio for which private mortgage insurance is required, changing the role of the GSEs in the secondary mortgage market, eliminating the requirement for private mortgage insurance, or continuing to change the GSE guarantee fees and FHA premium pricing. See "Risk Factors—Because most of the mortgage loans that we insure are sold to Freddie Mac and Fannie Mae, changes in their charters or business practices could significantly impact our mortgage insurance business" and "—Our mortgage insurance business faces intense competition." We cannot predict whether any of the existing proposals will be adopted or how any new laws, regulations or initiatives that may be proposed will impact our business.

Despite their various proposals, neither the FHFA, the Administration, or Congress has taken significant actions to wind down the GSEs. In the second quarter of 2012, both Fannie Mae and Freddie Mac reported profits for the first time since the fourth quarter of 2006. Also, the second quarter of 2012 was the first time that neither GSE had to request financial support from the Treasury. This development may slow or delay progress on reform of the GSEs and the housing finance system in the U.S.

8. The Dodd-Frank Act

The Dodd-Frank Act contains many new requirements and mandates significant rulemaking by several regulatory agencies to implement its provisions. While several of those rules have been finalized, the full scope of the Dodd-Frank Act and its impact on our mortgage insurance and financial guaranty businesses remain uncertain at this time.

The Dodd-Frank Act requires the issuance of regulations providing that securitizers retain an economic interest in a portion of the credit risk for any asset that securitizers transfer, sell, or convey to a third party, referred to as the risk retention requirements. The Dodd-Frank Act also contains an exemption from these risk retention requirements for mortgages that meet the definition of a "qualified residential mortgage" ("QRM"). The Dodd-Frank Act requires the Federal Reserve, Office of the Comptroller of the Currency, Federal Deposit Insurance Corporation ("FDIC"), SEC, HUD, and FHFA to jointly define the term "QRM," taking into consideration underwriting product features that historical loan performance data indicate result in a lower risk of default, such as "mortgage guarantee insurance or other types of insurance or credit enhancement obtained at the time of origination, to the extent such insurance or credit enhancement reduces the risk of default." In March 2011, federal regulators issued the proposed risk retention rule that includes a definition of QRM. Among other requirements, the proposed rule would exclude loans with non-traditional features, such as negative amortization, and would require adherence to strict, objective underwriting standards, including maximum debt-to-income ratios and borrower credit history restrictions. Most notably, the proposed rule required a maximum LTV of 80% on a home purchase transaction, regardless of whether the loan was insured by private mortgage insurance. The proposed rule was subject to a public comment period that ended August 1, 2011. The regulators sought comments on virtually all aspects of the QRM definition, including: (1) a request for historical loan data that the regulators may use to assess whether loans with mortgage insurance are less likely to default than loans without mortgage insurance; (2) if the QRM definition included mortgage insurance, what financial eligibility standards should be incorporated for mortgage insurance providers and how might those standards be monitored and enforced; and (3) the potential benefits and costs of the alternative QRM definition that would give credit to mortgage insurance. There was also a specific request for comment on an alternative QRM definition that, if approved by regulators, would take mortgage insurance into account in determining whether the borrower met a 90% LTV requirement.

We believe that loans that meet the definition of a QRM are likely to be favored in the market place because of their exemption from these risk retention requirements. While regulators are granted the discretion to determine whether loans with private mortgage insurance are QRMs that are exempted from the Dodd-Frank Act's risk retention requirements, the Dodd-Frank Act provides that loans with FHA, VA or U.S. Department of Agriculture ("USDA") insurance will automatically be exempted, which could disadvantage private mortgage insurers if private mortgage insurance is not included in the QRM definition on an equivalent basis. Currently, under the proposed rule, loans purchased and securitized by the GSEs while they are in conservatorship would be exempt from the risk retention requirements. Regulators have not yet issued a final rule and it is not known when final QRM regulations will become effective or what the ultimate requirements may be. Some legislators and policymakers have expressed support for a QRM definition that is equivalent to the Qualified Mortgage final rule, which was released in January 2013, as further discussed below.

The Dodd-Frank Act also authorizes the CFPB to issue regulations prohibiting a creditor from making a residential mortgage loan unless the creditor makes a reasonable and good faith determination based on verified and documented information that, at the time the loan is consummated, the consumer has a reasonable ability to repay the loan according to its terms, as well as applicable taxes, insurance (including mortgage guaranty insurance) and assessments. The Dodd-Frank Act provides that a creditor may presume that a borrower will be able to repay a loan (i.e., has satisfied the "ability to repay" analysis above) if the loan has certain low-risk characteristics that meet the definition of a "qualified mortgage" ("QM"). A QM means, among other things, any residential mortgage loan: (i) the regular period payments for which do not result in an increase of the principal balance or allow the consumer to defer payment of principal; and (ii) for which the total points and fees payable in connection with the loan do not exceed 3% of the total loan amount.

In January 2013, the CFPB published the final Ability-to-Repay and Qualified Mortgage Standards under the Truth in Lending Act final rule (the "QM final rule"). Under the QM final rule, the general QM definition contains a 43% debt-to-income ratio limitation. However, the CFPB acknowledged that it may take time for the non-QM market to establish, and therefore, the QM final rule includes a temporary alternative definition of QM that includes loans for borrowers with debt-to-income ratios above 43% as long the loan meets the following conditions: (1) it is eligible to be purchased, guaranteed, or insured by the GSEs, FHA, VA, USDA or Rural Housing Service ("RHS"); and (2) it satisfies the QM final rule's requirements with regard to avoiding risky loan features (e.g., negative amortization and interest only features) and the limitation on points and fees discussed below. This means that loans insured by private mortgage insurance will qualify as QM loans as long as this temporary alternative definition is in effect and the loans meet the specified conditions. In the case of the FHA, VA, USDA or RHS, the temporary definition of QM will expire at the earlier of seven years or when those government entities adopt their own QM rule. The temporary alternative definition of QM for loans eligible to be purchased by the GSEs will expire at the earlier of seven years or at such time as the GSEs are no longer under conservatorship or receivership.

To qualify as a QM under the QM final rule (including under the temporary alternative definition of QM for government-backed loans), the points and fees payable in connection with the loan may not exceed 3% of the total loan amount. As it relates to private mortgage insurance, any premium charges payable after closing (e.g., monthly premiums) are excluded from the points and fees calculation. With regard to up-front private mortgage insurance premiums (premium charges payable at or before closing), the portion of the premium that is not in excess of the up-front FHA premium at the time of the loan's origination is also excluded from the points and fees calculation, as long as the private mortgage insurance up-front premium is required to be refundable on a pro-rated basis and the refund is automatically issued upon notification of the satisfaction of the underlying mortgage. Any private mortgage insurance up-front premium that is in excess of the current FHA up-front premium is included in the calculation of the limitation on points and fees. The CFPB has clarified that only the portion of the private mortgage insurance up-front premium that exceeds the FHA up-front premium must be included in points and fees.

While the final rule does not explicitly address the treatment of up-front premiums that are financed over the life of the loan, the CFPB's guidance regarding the application of the points and fees calculation to private mortgage insurance appears to suggest that any part of the up-front premium in excess of the FHA premium that is financed into the monthly payments that are paid after the loan closing are excluded from the points and fees calculation.

Unlike with private mortgage insurance, all mortgage insurance premiums or mortgage guarantees charged by FHA, VA, USDA, or the Rural Housing Service are excluded from the calculation of points and fees. This includes both up-front and monthly premiums. We are continuing to evaluate the impact, if any, that the new QM definition may have on the structure, marketability and pricing of our mortgage insurance products.

The Dodd-Frank Act establishes a Financial Stability Oversight Council ("FSOC"), which is authorized to subject non-bank financial companies deemed systemically important financial institutions to more rigorous prudential standards and other requirements and to subject such companies to a special liquidation process outside the federal bankruptcy code, administered by the FDIC (although insurance company subsidiaries would remain subject to liquidation and rehabilitation proceedings under state law). In its 2012 Annual Report, the FSOC recommended that FSOC member agencies, HUD, and Congress develop a long-term housing finance reform framework that supports the central role of private capital and the emphasis on consumer and investor protections in any future housing finance system. It is unclear whether the FSOC will take any additional steps to address housing finance reform.

In addition, the Dodd-Frank Act establishes a Federal Insurance Office within the U.S. Department of the Treasury. While not having a general supervisory or regulatory authority over the business of insurance, the director of this office will perform various functions with respect to insurance, including serving as a non-voting member of the FSOC and making recommendations to the FSOC regarding insurers to be designated for more stringent regulation. The director is also required to conduct a study on how to modernize and improve the system of insurance regulation in the U.S., including by increased national uniformity through either a federal charter or effective action by the states. See "Risk Factors—The Dodd-Frank Act may have a material effect on our mortgage insurance and financial guaranty businesses."

9. Homeowner Assistance Programs

EESA included provisions that require the U.S. Secretary of the Treasury ("Treasury Secretary") to encourage further use of the Hope for Homeowners program. Under EESA, the Treasury Secretary is required to "maximize assistance to homeowners and encourage mortgage servicers to take advantage of available programs (including the Hope for Homeowners program) to minimize foreclosures." In 2008, the U.S. Department of the Treasury announced the Homeowner Affordability and Stability Plan to restructure or refinance mortgages to avoid foreclosures through: (i) refinancing mortgage loans through HARP; (ii) modifying first and second mortgage loans through the Homeowner Affordable Modification Program ("HAMP") and the Second Lien Modification Program; and (iii) offering other alternatives to foreclosure through the Home Affordable Foreclosure Alternatives Program ("HAFA"). Details of these programs are as follows:

- In 2009, the GSEs began offering the HARP program that allows a borrower who is not delinquent to refinance his or her mortgage to a more stable or affordable loan if such borrower has been unable to take advantage of lower interest rates because his or her home has decreased in value. To be eligible, a borrower must meet certain conditions, including that the borrower must be current on the mortgage at the time of the refinance, with no late payment in the past six months and no more than one late payment in the past 12 months. In November 2011, FHFA made enhancements to the HARP program ("HARP 2") to increase the number of borrowers who can qualify for refinancing. Under HARP 2, among other changes, the FHFA: (i) removed the 125 percent LTV ceiling for fixed-rate mortgages backed by the GSEs, which had prevented some borrowers whose home values had declined significantly from participating; (ii) eliminated certain risk-based fees for borrowers who refinance into shorter-term mortgages; (iii) waived certain representations and warranties; and (iv) extended the program through 2013. Importantly, the FHFA reached an agreement with private mortgage insurers to facilitate the transfer of mortgage insurance on loans to be refinanced without regard to LTV. While legislation is not required to make changes to HARP because FHFA has the authority to make changes to the program on its own, legislation was introduced in May 2012 that would require FHFA to further expand the HARP eligibility requirements to help even more homeowners with GSE-backed loans to refinance into lower rates. The CFPB also has proposed that if the HARP program is extended beyond 2013, those loans may receive an exemption from the Ability-to-Repay requirements under the CFPB's January 2013 rule, described above.
- In February 2009, the U.S. Department of the Treasury established HAMP as a program to modify certain loans to make them more affordable to borrowers, with the goal of reducing the number of foreclosures. Under HAMP, an eligible borrower's monthly payments may be lowered by lowering interest rates, extending the term of the mortgage or deferring principal. To be eligible, a borrower must meet certain conditions, including conditions relating to the borrower's current income and non-mortgage debt obligations. In January 2012, the U.S. Department of the Treasury proposed enhancements to HAMP. These proposed enhancements are designed to expand the program for homeowners by, among other things, increasing incentive payments for principal reduction and modifying certain conditions relating to the borrower's current income and non-mortgage debt obligations. In June 2012, the HAMP program extended the population of eligible homeowners to (i) homeowners applying for a modification on a home that is not their primary residence, but the property is currently rented or the homeowner intends to rent it; (ii) homeowners who were previously ineligible because their debt-to-income ratio was 31% or lower; (iii) homeowners who previously received a HAMP trial period plan, but defaulted in their trial payments; and (iv) homeowners who previously received a HAMP permanent modification, but defaulted in their payments, therefore losing good standing. Program enrollment in the HAMP program ends December 31, 2013.
- HAFA, which became effective in April 2010, is intended to provide additional alternatives to foreclosures by providing incentives to encourage a borrower and servicer to agree that: (i) a borrower can sell his or her home for less than the full amount due on the mortgage and fully satisfy the mortgage; or (ii) a borrower can voluntarily transfer ownership of his or her home to the servicer in full satisfaction of the mortgage.
- The U.S. Department of the Treasury also has developed uniform guidance for loan modifications to be used by participating servicers in the private sector. The GSEs have incorporated material aspects of these guidelines for loans that they own and loans backing securities that they guaranty.

See “Risk Factors—Loan modification, refinancing and other similar programs may not provide us with a material benefit.”

Beginning in 2008, certain mortgage industry participants have implemented their own programs to modify troubled residential mortgages. For example, Bank of America and Countrywide Financial Corporation entered into a settlement with various states' Attorneys General that requires the creation of a proactive home retention program that is intended to systematically modify troubled mortgages to allow for up to $8.4 billion in interest rate and principal reductions for nearly 400,000 Countrywide customers. In addition, the FDIC, initially in its role as conservator for IndyMac Bank, also implemented broad modification procedures for institutions acquiring failed institutions under loss-share agreements.

In 2010, the Administration announced $7.6 billion of funding under EESA to 18 states and the District of Columbia where the average price for homes had fallen by more than 20% from its peak price and to states with the highest concentration of their populations living in counties with unemployment rates greater than 12 percent or unemployment rates that were at or above the national average. These funds, under the "Hardest Hit Fund" Program, have been made available to eligible states and local housing finance agencies to assist borrowers, including unemployed borrowers, borrowers that owe more than the current value of their home, and borrowers with home equity loans or second-liens. The U.S. Department of the Treasury has provided guidelines for funding and other eligibility requirements under the Hardest Hit Fund Program and homeowners in participating states can apply for the Hardest Hit Fund through 2017 or until all program funds are allocated for homeowner assistance.

In February 2012, the U.S. Department of Justice, HUD and 49 state attorneys general (excluding Oklahoma) announced a $25 billion global settlement with Ally Financial Inc., Bank of America Corporation, Citibank, JPMorgan Chase Bank, N.A. and Wells Fargo Bank N.A. According to the announcement, the settlement resolves many of the potential state and federal civil charges about allegations of improper foreclosure practices, including "robosigning." Consumer relief payments in the form of, among other things, permanent principal reductions on eligible delinquent loans are to comprise $17 billion of the settlement. The settlement also includes $3 billion to facilitate refinancing for eligible borrowers who are not delinquent and are underwater on their mortgages. An additional $5 billion will be paid in cash to the U.S. government and the participating state governments, of which $1.5 billion is to be used for eligible borrowers who have lost their homes to foreclosure between 2008 and 2011. In addition, the participating banks have agreed to implement a detailed set of national servicing standards.

The impact of the settlement agreement on the housing market is unclear at this time as the effectiveness of the settlement is largely dependent on the banks' implementation of it. The banks have been given three years to distribute the aid and the settlement relief is not available to those homeowners whose mortgages have been sold to the GSEs, which represent nearly half of outstanding mortgages in the U.S.

10. Mortgage Insurance Tax Deduction

In 2006, Congress enacted the private mortgage insurance tax deduction in order to foster homeownership. The deduction was enacted on a temporary basis and it expired at the end of 2011. In January 2013, Congress passed the American Taxpayer Relief Act, which extended the private mortgage insurance tax deduction retroactively for one year and prospectively for one year through 2013. In 2012, legislation was also introduced that would make the private mortgage insurance deduction permanent. The proposed legislation is likely to be reintroduced in the 113th Congress and considered as a part of the comprehensive tax reform debate. We cannot predict whether the tax deduction will be made permanent and if not, whether it will be further extended after 2013.

C. Basel II and Basel III Capital Accords

The Basel II Capital Accord ("Basel II") represents a proposal by the Basel Committee on Banking Supervision ("BCBS"), consisting of bank supervisors and central bankers from 13 countries, to revise the international standards for measuring the adequacy of a bank's capital. The implementation of Basel II is intended to promote a more forward-looking approach to capital supervision and to ensure greater consistency in the way banks and banking regulators approach risk management around the world. The implementation of Basel II may affect the demand for and capital treatment provided to mortgage insurance and the capital available to large domestic and internationally active banking institutions for their mortgage origination and securitization activities.

Our primary mortgage insurance business and opportunities may be significantly impacted by the implementation of Basel II in the U.S. due to the adoption of jurisdiction specific prudential standards that may lead to change in demand for and acceptance of mortgage insurance by large domestic and internationally active banking institutions. The implementation of Basel II and adoption of standards is subject to the views and discretion of the local banking supervisors and its implementation is expected to vary across national jurisdictions.

Basel II was implemented by many banks in the U.S. and many other countries in 2009 and 2010. The Basel II provisions related to residential mortgages and mortgage insurance may provide incentives to certain of our bank customers not to insure mortgages having a lower risk of claim and to insure mortgages having a higher risk of claim. In September 2010, the BCBS released the third Basel Capital Accord ("Basel III") guidelines, which will increase the capital requirements of certain banking organizations. Implementation of Basel III requires formal regulations, and in December 2010, the BCBS released a new bank capital framework ("Basel III capital adequacy guidelines") that is intended to significantly raise minimum capital requirements for banks. Implementation of the Basel III capital adequacy guidelines in the U.S. requires the three federal banking regulators to issue legally binding rules. In June 2012, the agencies released Basel III proposed rules. The proposed Basel III rules would, among other things, assign risk-weightings based on a residential mortgage's LTV ratio. However, the proposed rules do not recognize private mortgage insurance as a factor that reduces risk for high LTV loans because of the "varying degree of financial strength" of private mortgage insurers. Therefore, a loan with a 5% down payment that is insured by private mortgage insurance would be considered as having a 95% LTV for minimum capital requirement purposes. Additionally, while private mortgage insurance is not recognized, FHA-insured loans retain a risk weighting of zero, which could make FHA-insured loans more attractive than privately-insured loans for those loans held for investment. The deadline for comments on the proposed rules ended in October 2012. Several mortgage insurance industry participants, as well as other housing market participants, have submitted comments to the regulators suggesting that, instead of refusing to recognize private mortgage insurance in determining risk-weightings altogether, regulators should work with the private mortgage insurance industry to design a method to test the financial strength and claims paying adequacy of individual private mortgage insurance companies. The federal banking regulators have not yet finalized the rules. While the timing for the final rulemaking is unclear, currently it is expected to be finalized in the first half of 2013. The new rules are likely to significantly increase the capital requirements for mortgages, and thus could have a restraining impact on the recovery of the housing market. Until the rules are finalized, we will not be able to evaluate the potential effects of the Basel III guidelines on the housing market or our business.

See "Risk Factors—The implementation of the Basel II capital adequacy requirements and the Basel III guidelines may discourage the use of mortgage insurance."

D. Foreign Regulation

By reason of Radian Insurance's authorization, in September 2006, to conduct insurance business through a branch in Hong Kong, we are subject to regulation by the Hong Kong Insurance Authority ("HKIA"). The HKIA's principal purpose is to supervise and regulate the insurance industry, primarily for the protection of policyholders and the stability of the industry. Hong Kong insurers are required by the Insurance Companies Ordinance to maintain minimum capital as well as an excess of assets over liabilities of not less than a required solvency margin, which is determined on the basis of a statutory formula. Foreign-owned insurers are also required to maintain assets in Hong Kong in an amount sufficient to ensure that assets will be available in Hong Kong to meet the claims of Hong Kong policyholders if the insurer should become insolvent. The HKIA also reviews the backgrounds and qualifications of insurance companies' directors and key local management to ensure that these "controllers" are "fit and proper" to hold their positions and has the authority to approve or disapprove key appointments.

VII. Employees

At December 31, 2012, we had 696 employees, with 121 individuals employed by Radian Group, and 535 and 40 individuals employed in our mortgage insurance and financial guaranty businesses, respectively. Management considers employee relations to be good.

Item 1A. Risk Factors.
Losses in our mortgage insurance and financial guaranty businesses have reduced Radian Guaranty's statutory surplus and increased Radian Guaranty's risk-to-capital ratio; additional losses in these businesses, without a corresponding increase in new capital or capital relief, would further negatively impact this ratio, which could limit Radian Guaranty's ability to write new insurance and increase restrictions and requirements placed on Radian Guaranty.
We and our insurance subsidiaries are subject to comprehensive, detailed regulation by the insurance departments in the states where our insurance subsidiaries are licensed to transact business. These regulations are principally designed for the protection of our policyholders rather than for the benefit of investors. Insurance laws vary from state to state, but generally grant broad supervisory powers to state agencies or officials to examine insurance companies and enforce rules or exercise discretion affecting almost every significant aspect of the insurance business, including the power to revoke or restrict an insurance company's ability to write new business.
The GSEs and state insurance regulators impose various capital requirements on our insurance subsidiaries. These include risk-to-capital ratios, other risk-based capital measures and surplus requirements that potentially may limit the amount of insurance that each of our insurance subsidiaries may write. The GSEs and our state insurance regulators also possess significant discretion with respect to our insurance subsidiaries. Our failure to maintain adequate levels of capital, among other things, could lead to intervention by the various insurance regulatory authorities or the GSEs, which could materially and adversely affect our business, business prospects and financial condition.
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 net RIF, or "risk-to-capital." Sixteen states (the "RBC States") currently impose a statutory or regulatory risk-based capital requirement (the "Statutory RBC Requirement"). The most common Statutory RBC Requirement is that a mortgage insurer's risk-to-capital ratio not exceed 25 to 1. In some of the RBC States, the Statutory RBC Requirement is that Radian Guaranty must maintain a minimum policyholder position, which is based on both risk and surplus levels (the "MPP Requirement"). 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 such RBC State, it may be prohibited from writing new mortgage insurance business in that state. Radian Guaranty's domiciliary state, Pennsylvania, is not one of the RBC States. In 2012 and 2011, the RBC States accounted for approximately 54.3% and 50.5%, respectively, of Radian Guaranty's total primary NIW.
As of December 31, 2012, Radian Guaranty's risk-to-capital ratio was 20.8 to 1. Radian Guaranty's risk-to-capital ratio has been negatively impacted in recent years by operating losses. The ultimate amount and timing of future losses will depend, in part, on general economic conditions and other factors, including the health of credit markets, home prices and unemployment rates, all of which are difficult to predict and beyond our control. We intend to maintain Radian Guaranty's risk-to-capital ratio below 25 to 1 throughout 2013, including if necessary, by making contributions to Radian Guaranty from Radian Group's remaining available liquidity. Based on our current projections, in the absence of these contributions or other risk-to-capital support, we anticipate that Radian Guaranty will exceed the 25 to 1 risk-to-capital ratio requirement during 2013. As of December 31, 2012, Radian Guaranty was operating under waivers in two RBC States with MPP Requirements for which Radian Guaranty's minimum policyholder position was below the applicable requirements. Each of these RBC States has issued to Radian Guaranty a waiver of its MPP requirement that allows Radian Guaranty to continue writing new business in these states regardless of whether the MPP Requirement has been met. One of these waivers has no specified expiration date and the other expires on December 31, 2013.
Our mortgage insurance incurred losses are driven primarily by new mortgage insurance defaults and adverse developments in the assumptions used to determine our loss reserves. Establishing loss reserves in our businesses requires significant judgment by management with respect to the likelihood, magnitude and timing of anticipated losses. This judgment has been made more difficult in the current period of prolonged economic uncertainty. Our estimate of the default to claim rate is a significant assumption in our reserving methodology. Our assumed aggregate weighted average default to claim rate (which incorporates the expected impact of rescissions and denials) was approximately 47% and 43% for the years ended December 31, 2012 and 2011, respectively. Assuming all other factors remain constant, for each one percentage point increase in our aggregate weighted average default to claim rate as of December 31, 2012, incurred losses would increase by approximately $55 million. Radian Guaranty's statutory capital would be reduced by the after-tax impact of these incurred losses. Our level of incurred losses is also

dependent on our estimate of anticipated rescissions and denials, including our estimate of the likely number of successful challenges to previously rescinded policies or claim denials, among other assumptions. If the actual losses we ultimately realize are in excess of the loss estimates we use in establishing loss reserves, we may be required to take unexpected charges to income, which could adversely affect Radian Guaranty’s statutory capital position.

If Radian Guaranty is not in compliance with a state's applicable Statutory RBC Requirement, it may be prohibited from writing new business in that state until it is back in compliance or it receives a waiver of, or similar relief from, the requirement, as discussed in more detail below. In those states that do not have a Statutory RBC Requirement, it is not clear what actions the applicable state regulators would take if a mortgage insurer fails to meet the Statutory RBC Requirement established by another state. Accordingly, if Radian Guaranty fails to meet the Statutory RBC Requirement in one or more states, it could be required to suspend writing business in some or all of the states in which it does business. In addition, the GSEs and our mortgage lending customers may decide not to conduct new business with Radian Guaranty (or may reduce current business levels) or impose restrictions on Radian Guaranty while its capital position remained at such levels. The franchise value of our mortgage insurance business would likely be significantly diminished if we were prohibited from writing new business or restricted in the amount of new business we could write in one or more states.

Radian Guaranty's capital position also is dependent on the performance of our financial guaranty portfolio. During the third quarter of 2008, we contributed our ownership interest in Radian Asset Assurance to Radian Guaranty. While this reorganization provided Radian Guaranty with substantial regulatory capital and dividends, it also makes the capital adequacy of our mortgage insurance business dependent, to a significant degree, on the successful run-off of our financial guaranty business. As of December 31, 2012, Radian Guaranty's statutory surplus was $926.0 million, which included Radian Asset Assurance's statutory surplus of $1.1 billion as of the same date. Any decrease in the statutory capital in our financial guaranty business would therefore have a negative impact on Radian Guaranty's capital position and its ability to remain in compliance with the Statutory RBC Requirements. If our financial guaranty portfolio performs worse than anticipated, including if we are required to establish (or increase) statutory reserves on defaulted obligations that we have insured, or if we make net commutation payments to terminate insured financial guaranty obligations in excess of the then established statutory reserves for such obligations, the statutory capital of Radian Guaranty also would be negatively impacted. See "Deterioration in our financial guaranty portfolio could reduce Radian Asset Assurance's statutory surplus and negatively impact its ability to pay dividends to Radian Guaranty."

We actively manage Radian Guaranty's capital position in various ways, including: (1) through internal and external reinsurance arrangements; (2) by seeking opportunities to reduce our risk exposure through commutations or other negotiated transactions; (3) by contributing additional capital from Radian Group to our mortgage insurance subsidiaries; and (4) by realizing gains in our investment portfolio through open market sales of securities. Radian Group had unrestricted cash and liquid investments of $375.6 million as of December 31, 2012, which amount includes approximately $39.4 million of future expected corporate expenses and interest payments that have been accrued for and paid by certain subsidiaries to Radian Group as of that date. Of these funds, $79.4 million was used to repay the remaining principal amount outstanding on our 2013 Notes that matured on February 15, 2013. Radian Group currently has outstanding $54.8 million of debt due in 2015, $195.2 million of debt due in June 2017 and an additional $450 million of convertible debt due in November 2017. Depending on the extent of our future statutory incurred losses in our mortgage insurance subsidiaries and in Radian Asset Assurance, as well as the level of NIW and other factors, the amount of capital contributions required for Radian Guaranty to remain in compliance with the Statutory RBC Requirements could be substantial and could exceed amounts available at Radian Group.

We use reinsurance from affiliated companies to support Radian Guaranty's risk-to-capital ratio. In order to improve its capital position, in the fourth quarter of 2012, Radian Guaranty entered into an excess-of-loss reinsurance transaction with Radian Mortgage Insurance under which Radian Guaranty transferred approximately $2.5 billion of RIF to Radian Mortgage Insurance. In 2011 and 2010, Radian Guaranty entered into excess-of-loss reinsurance agreements with Radian Insurance under which Radian Guaranty initially transferred a total of approximately $6.1 billion of RIF to Radian Insurance. Our ability to continue to reduce Radian Guaranty's risk through similar affiliated reinsurance arrangements may be limited. These arrangements are subject to regulation by state insurance regulators who could decide to limit, or require the termination of, such arrangements.

Certain of these affiliated reinsurance companies currently are operating at or near minimum capital levels and have required, and may continue to require, additional capital contributions from Radian Group in the future. Radian Mortgage Insurance and Radian Insurance are each required to maintain a minimum statutory surplus of $20 million to remain authorized reinsurers, and in 2012, Radian Guaranty made a capital contribution to Radian Mortgage

Insurance totaling approximately $60 million. CMAC of Texas, which provides reinsurance to Radian Guaranty for coverage in excess of 25% of certain loans insured by Radian Guaranty, is a sister company of Radian Guaranty, and therefore, any contributions to this insurer would not be consolidated with Radian Guaranty's capital for purposes of calculating Radian Guaranty's risk-to-capital position. In addition, we must obtain prior approval from one or both of the GSEs to enter into new, or to modify existing, reinsurance arrangements. If we are limited in, or prohibited from, using reinsurance arrangements to reduce Radian Guaranty's risk, it would adversely affect Radian Guaranty's risk-to-capital position.

In order to maximize our financial flexibility in the event Radian Guaranty is unable to comply with applicable Statutory RBC Requirements, we have applied for waivers or similar relief for Radian Guaranty in each of the RBC States. Of the 16 RBC States, New York does not possess the regulatory authority to grant waivers and Iowa, Kansas and Ohio have declined to grant waivers to Radian Guaranty. In addition, we have an application for a waiver pending in Idaho, and Oregon has indicated that it will not consider a waiver application until such time that Radian Guaranty has exceeded its Statutory RBC Requirement. Currently, Radian Guaranty has waivers or similar relief from the following RBC States: Kentucky, Wisconsin, Arizona, Missouri, North Carolina, California and Texas. Waivers that were previously granted to Radian Guaranty from Illinois, New Jersey and Florida expired at the end of 2012 and we currently are pursuing a renewal of the waivers from these states. Certain of the existing waivers contain conditions, including requirements that Radian Guaranty's risk-to-capital ratio may not exceed a revised maximum ratio, ranging from 30 to 1 up to 35 to 1. There can be no assurance that: (1) Radian Guaranty will be granted a waiver in Idaho or Oregon or a renewal of the waivers that have expired in Illinois, New Jersey and Florida; (2) for any waiver granted, such regulator will not revoke or terminate the waiver, which the regulator generally has the authority to do at any time; (3) for any waiver granted, it will be renewed or extended after its original expiration date; or (4) additional requirements will not be imposed as a condition to such waivers or their renewal or extension and, if so, whether we will be able to comply with such requirements.

In addition to filing for waivers in the RBC States, if necessary, we intend to write new first-lien insurance business in RMAI in any RBC State that does not permit Radian Guaranty to continue writing insurance while it is out of compliance with applicable Statutory RBC Requirements. RMAI is a wholly-owned subsidiary of Radian Guaranty and is licensed to write mortgage insurance in each of the fifty states and the District of Columbia. Fannie Mae has approved RMAI to write new mortgage insurance business in any RBC State where Radian Guaranty would be prohibited from writing new business if it were not in compliance with the state's Statutory RBC Requirement, without a waiver or other similar relief. The Fannie Mae Approval expires on December 31, 2013. Freddie Mac also has approved RMAI as a limited mortgage insurer to write business in those RBC States for which we are unable to obtain a waiver. On December 20, 2012, Freddie Mac amended its approval to extend it for an additional one-year period that will expire on December 31, 2013. Pursuant to the Freddie Mac Approval, RMAI currently is eligible to write business in New York, Ohio, Iowa, Kansas and, subject to certain conditions, Oregon and Idaho.

The GSE Approvals are temporary and are conditioned upon our compliance with a broad range of conditions and restrictions, including without limitation, minimum capital and liquidity requirements, a maximum risk-to-capital ratio of 20 to 1 for RMAI, restrictions on the payment of dividends and restrictions on affiliate transactions involving Radian Guaranty or RMAI. Under the GSE Approvals, Radian Group is required to contribute $50 million of additional capital to Radian Guaranty (which would then be contributed to RMAI) if Radian Guaranty exceeds a 25 to 1 risk-to-capital ratio, or if it fails to satisfy an MPP requirement in a state where it has not obtained a waiver or other similar relief. The Freddie Mac Approval also includes a condition specifying the time frame by which Radian Guaranty will evaluate and resolve claims. There can be no assurance that: (1) we will be able to comply with the conditions imposed by the GSE Approvals; (2) the GSEs will not revoke or terminate their approvals, which they generally have the authority to do at any time; (3) the GSE Approvals will be renewed or extended after their expiration dates; or (4) additional requirements will not be imposed as a condition to such on-going approvals, including their renewal or extension.

The GSE Approvals are limited to the RBC States. It is possible that if Radian Guaranty were not able to comply with the Statutory RBC Requirements of one or more states, the insurance regulatory authorities in states other than the RBC States could prevent Radian Guaranty from continuing to write new business in such states. If this were to occur, we would need to seek approval from the GSEs to expand the scope of their approvals to allow RMAI to write business in states other than the RBC States.

Our existing capital resources may not be sufficient to successfully manage Radian Guaranty's capital position. Our ability to utilize waivers and RMAI to continue to write business if Radian Guaranty's capital position is not in compliance with the Statutory RBC Requirements is subject to conditions that we may be unable to satisfy. As a result, even if we are successful in implementing this strategy, additional capital contributions or other risk-to-capital support or relief could be necessary, which we may not have the ability to provide. Further, regardless of the waivers and the GSE Approvals of RMAI, we may choose to use our existing capital at Radian Group to maintain compliance with the Statutory RBC Requirements, including for periods after 2013. Depending on the extent of our future incurred losses along with other factors, the amount of capital contributions that may be required to maintain compliance with the Statutory RBC Requirements could be significant and could exceed all of our remaining available capital. In the event we contribute a significant amount of Radian Group’s available capital to Radian Guaranty and RMAI, our financial flexibility would be significantly reduced, making it more difficult for Radian Group to meet its obligations in the future, including future principal payments on our outstanding debt.

We have incurred significant losses on our insured products as a result of the economic downturn that began in 2007 and we expect to incur additional losses in the future.

As a seller of credit protection, our results are subject to macroeconomic conditions and specific events that impact the credit performance of our underlying insured assets. Many of these conditions are beyond our control, including national and regional economic conditions, housing prices, unemployment levels, interest rate changes, the availability of credit and other factors. The economic downturn in the U.S. housing and related credit markets that began in 2007 had a significant negative impact on the operating environment and results of operations for our businesses. Since 2007, we have experienced high levels of defaults and claims in our mortgage insurance business and our results of operations continue to be negatively impacted by the mortgage insurance we wrote during the poor underwriting years of 2005 through 2008 (we refer to the mortgage insurance that we wrote during these years as our “legacy portfolio”). Although there has been some stabilization of the U.S. economy and improvement in the operating environment for our businesses in 2012, the U.S. economy and housing market remain in a state of recovery and, in many respects, are weak compared to historical standards. As a result, it is difficult to predict with any degree of certainty if and when a full recovery of the economy will occur, including a meaningful reduction in unemployment and a broad and lasting recovery in the housing market. In light of this, there remains a great deal of uncertainty regarding our ultimate loss performance, which we expect will depend largely on the performance of our legacy portfolio. While we expect to experience marginal operating profitability in our mortgage insurance business in 2013, this projection is based, among other significant factors, on our assumption that incurred losses will continue to improve significantly in 2013 as the economy and housing market continue to strengthen. These assumptions are based on factors that are beyond our control, and therefore, we can provide no assurance whether our projections will prove to be accurate or if and when we may return to profitability.

In addition to the impact of housing and credit market deterioration, our results of operations and financial condition could be negatively impacted by natural disasters or other catastrophic events, acts of terrorism, war or other severe conflicts, event-specific economic depressions or other harmful events in the regions, including in foreign countries, where we do business.

Our financial guaranty portfolio has also been, and continues to be, negatively impacted by deterioration in the credit markets and the overall economy. See “Our financial guaranty portfolio has experienced losses as a result of the most recent economic downturn and is susceptible to further deterioration, which could have a material adverse effect on the capital adequacy of Radian Guaranty.”

Our loss mitigation strategies are less effective in markets where housing values fail to appreciate or continue to decline.

The amount of mortgage insurance loss we suffer depends in part on the extent to which the home of a borrower who has defaulted on a mortgage can be sold for an amount that will cover the unpaid principal and interest on the mortgage and the expenses of the sale. In the event of a claim under our standard mortgage insurance policy, we generally have the option of paying the entire loss amount and taking title to a mortgaged property or paying our coverage percentage. In the past, we were able to take title to properties underlying certain defaulted loans and sell the properties quickly at prices that allowed us to recover some or all of our losses. In the current housing market, our ability to mitigate our losses in this manner has been significantly reduced. Further, in certain cases and subject to certain conditions, we consent to a sale of the property by the borrower for less than the amount needed to cover the borrower’s mortgage obligation (a “short sale”), which has the effect of reducing our ultimate claim payment obligation. If housing values decline further on either a broad geographic basis or in the regions where our business is concentrated, the frequency of defaulted loans resulting in claims under our policies could increase and our ability to mitigate our losses on defaulted mortgages through short sales or through the resale of properties we acquire may be reduced, which could have a material adverse effect on our business, financial condition and results of operations.

A portion of our mortgage insurance RIF consists of higher risk loans, such as high LTV and non-prime loans, as well as pool mortgage insurance.

High-LTV Mortgages. We provide mortgage insurance on residential mortgage loans made mostly to home buyers who make down payments of less than 20% of the home's purchase price. As a result, we typically insure loans where borrowers have less equity at risk at origination than borrowers who make larger down payments; therefore, with respect to this loan characteristic, the loans we insure have a higher propensity to default relative to the total mortgage market. In addition, of the mortgage loans that we have insured, 13.5% of our total primary mortgage insurance RIF at December 31, 2012 consisted of insurance on mortgage loans with LTVs at origination of greater than 95%. We believe mortgage loans with LTVs greater than 95%, absent other mitigating factors such as high FICO scores, default substantially more often than those with lower LTVs. In addition, when we are required to pay a claim on a higher LTV loan, it is generally more difficult to recover our costs from the underlying property, especially in areas with declining property values. Beginning in 2008, we altered our underwriting criteria to significantly reduce the number of new loans we are insuring with LTVs greater than 95% and we have adopted more stringent guidelines for loans with LTVs greater than 90%. While we believe these changes have improved the overall risk profile of our new business written, it is likely that our results of operations and financial condition will continue to be negatively impacted by the performance of our existing insured loans with high-LTVs, especially those loans originated in 2005 through 2008.

Non-Prime Loans. A large percentage of the mortgage insurance we wrote in years 2005 through 2008 is related to non-prime loans. At December 31, 2012, our non-prime mortgage insurance RIF, including Alt-A, was 11.7% of our total primary insurance RIF. Historically, non-prime loans are more likely to result in claims than prime loans. In addition, our non-prime business, in particular Alt-A loans, tends to have larger loan balances relative to other loans, which often results in larger claims. We have experienced a significant number of loan defaults related to Alt-A loans originated in 2005 through 2008. These losses have occurred more rapidly and well in excess of historical loss patterns and have contributed in large part to our elevated losses since 2007. If defaults and claim rates on our insured portfolio of non-prime loans remain elevated or continue to increase, our results of operations and financial condition will continue to be negatively affected.

Pool Mortgage Insurance. We wrote pool mortgage insurance, which exposes us to an increased risk of greater loss severity on individual loans compared to primary mortgage insurance. Our pool mortgage insurance products generally cover all losses in a pool of loans up to our stop loss, which generally is between 1% and 10% of the initial aggregate loan balance of the entire pool of loans. Under pool mortgage insurance, we could be required to pay the full claim amount of every loan in the pool up to our stop losses, rather than a percentage of each defaulted loan, as is the case with traditional primary mortgage insurance. At December 31, 2012, approximately 5.0% of our total mortgage insurance RIF was attributable to pool mortgage insurance. Under most of our pool mortgage insurance policies, the property underlying a defaulted loan must be sold before a claim may be submitted to us. Therefore, in a weak housing market, we expect to pay higher pool mortgage insurance claims when homes are sold after a prolonged period of home price depreciation, in particular when homes remain unsold for extended periods of time as is currently the case in many markets. Further declines in housing values could result in increases in the average claim size of our pool insured loans. Pool mortgage claims may continue to adversely affect our results of operations and could negatively impact our financial condition.

We insure adjustable rate loans that have resulted in significant losses and are expected to result in further losses.

At December 31, 2012, approximately 8.4% of our primary mortgage insurance RIF consisted of ARMs, which include loans with negative amortization features, such as pay option ARMs. Our claim frequency on ARMs has been higher than on fixed-rate loans due to monthly payment increases that occur when interest rates rise or when the "teaser rate" (an initial interest rate that does not fully reflect the index, which determines subsequent rates) expires. We consider a loan to be an ARM if the interest rate for that loan will reset at any point during the life of the loan. However, it has been our experience that ARMs with resets within five years from origination are more likely to result in a claim than longer-term ARMs. ARMs with resets within five years from origination represented approximately 3.5% of our total primary RIF as of December 31, 2012. Approximately 8.5% of the ARMs that we insure are scheduled to have initial interest rate resets in 2013.

At December 31, 2012, approximately 4.6% of our primary mortgage insurance RIF consisted of interest-only mortgages (including approximately 1.6% of our primary mortgage insurance RIF where the interest-only mortgages are ARMs), where the borrower pays only the interest on a mortgage for a specified period of time, usually five to ten years, after which the loan payment increases to include principal payments. We believe that, like ARMs, these loans are more likely to default because of possible “payment shocks” after the initial low payment period expires and because the borrower does not build equity as payments are made.

During the recent economic downturn, reduced liquidity in the mortgage market, tighter underwriting standards and declining home prices in many regions in the U.S. have combined to make it more difficult for many borrowers with ARMs and interest-only mortgages to refinance their mortgages into fixed-rate products. As a result, without available alternatives, many borrowers have defaulted when their interest rates reset to a higher rate or when principal becomes payable. Although there can be no assurance, the historically low level of interest rates in the current mortgage market may help to reduce the size of interest payment increases (and in some cases eliminate any increase) for loans resetting in the near future, but these loans will remain more vulnerable to payment shocks if and when interest rates rise in the future.

In the long term, absent a change in the current lending environment or a positive impact from federal and private measures aimed at reducing defaults from adjustable rate resets, defaults related to these products may continue to increase. If this occurs, our results of operations and financial condition could be negatively affected.

Insurance rescissions and claim denials are not expected to continue at the elevated levels we have been experiencing and a number of our lender customers are challenging our loss mitigation actions.

Since 2008, the amount of insurance we have rescinded due to fraud, misrepresentation, underwriting negligence or other non-compliance with our insurance policies has increased significantly. Likewise, the number of claims that we have denied has also increased, primarily due to the inability of our servicing customers to provide the loan origination file or other servicing records that are necessary for our review within the time periods required to perfect a claim.

These rescissions and denials have materially mitigated our paid losses and resulted in a significant reduction in our loss reserves. Our estimate of future expected rescissions and denials on defaulted loans reduced our loss reserves as of December 31, 2012 by approximately $455.0 million. During 2012 and 2011, we rescinded or denied approximately $818.7 million and $645.1 million, respectively, of first-lien claims submitted to us for payment, (net of those loans for which we reinstated coverage following an initial rescission or denial decision) compared to approximately $800.0 million for 2010. These amounts also include a small amount of submitted claims that were subsequently withdrawn by the insured. We do not expect that rescissions and denials will, in the longer-term, continue to mitigate paid losses at the same levels we have recently experienced, in particular as the 2005 through 2008 origination years continue to decrease as a total percentage of our insured portfolio. In recent periods, lenders have demonstrated an increased ability to produce the additional information necessary to perfect a claim. As a result, we expect that a significant portion of previously denied claims will be resubmitted with the required documentation and ultimately paid, and we have incorporated this expectation into our reserve estimate. Our IBNR estimate, which consists primarily of our estimate of the future reinstatements of previously rescinded policies and denied claims, was $323.0 million, $170.6 million and $39.5 million at December 31, 2012, 2011 and 2010, respectively.

As part of our claims review process, we assess whether defaulted loans were serviced appropriately in accordance with our insurance policies and servicing guidelines. To the extent a servicer has failed to satisfy its servicing obligations, our policies provide that we may curtail the claim payment for such default, and in certain circumstances, cancel coverage or deny the claim. In 2012, claim curtailments due to servicer non-compliance with our insurance policies and servicing guidelines have increased both in frequency and in amount, which has contributed to a reduction in the severity of our claim payments during this period. Further, we have identified a significant number of loans in our total defaulted portfolio (in particular, our older defaulted portfolio) for which “Appropriate Proceedings” (actions or proceedings such as foreclosure that provide the insured with title to the property) may not have been commenced within the outermost deadline in our master insurance policy. We currently are in discussions with the servicers for these loans regarding this potential violation and our corresponding rights under the master insurance policy. While we can provide no assurance regarding the outcome of these conversations or the ultimate resolution of these issues, it is possible that this matter could result in arbitration or legal proceedings. We cannot give assurance regarding the extent or level at which such claim curtailments will continue, however, we expect this trend to continue for the immediate future in light of well publicized issues in the servicing industry and our existing portfolio of aged defaults.

Under our master insurance policy, any suit or action arising from any right of the insured under the policy generally must be commenced within two years after such right arose and within three years for certain other policies, including certain pool insurance policies. We have faced an increasing number of challenges from certain lender customers regarding our insurance rescissions and claim denials, which have led us to reverse some, but not all, of our prior decisions regarding rescissions and denials. In the last two years (for primary loans) and the last three years (for pool loans), despite challenges to our decision to rescind, we have determined not to reinstate approximately $461.4 million of rescinded loans.

We are currently in active discussions with customers regarding a portion of our rescissions, as well as claims we have denied or curtailed. These discussions, if not resolved, could result in arbitration or judicial proceedings, which could be brought with respect to all rescissions, denials and claim curtailments that have been challenged by such customers. The heightened risk of disputes with our customers regarding our increased rescissions, denials and claim curtailments could have a negative impact on our relationships with such customers or potential customers, including the potential loss of business and an increased risk of disputes and litigation.

On August 1, 2011, Radian Guaranty filed a lawsuit against Quicken Loans Inc. ("Quicken") in the U.S. District Court for the Eastern District, seeking a declaratory judgment that Radian Guaranty properly rescinded mortgage insurance coverage under our master insurance policy and delegated underwriting endorsement for approximately 220 home mortgage loans originated by Quicken based upon deficiencies and improprieties in the underwriting process. We may be unsuccessful in this proceeding, or other similar proceedings that may be brought with respect to rescissions, denials and claim curtailments, which may be costly and time consuming. Our rescission practices with respect to Quicken's loans are the same as for other lenders and servicers. Therefore, any adverse result in the Quicken proceeding or other similar proceedings may adversely affect the outcome or ultimate result of rescissions involving other lenders and servicers.

The determination of our reserve for losses involves significant use of estimates with regard to the likelihood, magnitude and timing of a loss, including an estimate of the number of defaulted loans that will be successfully rescinded or denied. If the actual amount of rescissions and denials is significantly lower than our estimate, as a result of a greater than anticipated number of successful challenges to our rescissions and denials, litigation, settlements or other factors, or if the levels of rescission and denials decrease faster than we expect, our losses may materially increase, which could have a material adverse effect on our financial condition and results of operations. Similarly, if a significant amount of our claim curtailments are successfully challenged, it could result in our payment of additional claims, which could adversely affect our financial condition.

Because most of the mortgage loans that we insure are sold to Freddie Mac and Fannie Mae, changes in their charters or business practices could significantly impact our mortgage insurance business.

Freddie Mac and Fannie Mae are the beneficiaries of the majority of our mortgage insurance policies. Freddie Mac's and Fannie Mae's federal charters generally prohibit them from purchasing any mortgage with a loan amount that exceeds 80% of a home's value, unless that mortgage is insured by a qualified insurer, the mortgage seller retains at least a 10% participation in the loan or the seller agrees to repurchase or replace the loan in the event of a default. As a result, high-LTV mortgages purchased by Freddie Mac or Fannie Mae generally are insured with private mortgage insurance. Changes in the charters or business practices of Freddie Mac or Fannie Mae could reduce the number of mortgages they purchase that are insured by us and consequently diminish our franchise value. In particular, with respect to loans they purchase, Freddie Mac and Fannie Mae have the ability to:

- implement new eligibility requirements for mortgage insurers and alter or liberalize underwriting standards on low-down-payment mortgages they purchase (see "We could lose our eligibility status with the GSEs, causing Freddie Mac and Fannie Mae to decide not to purchase mortgages insured by us, which would significantly impair our mortgage insurance franchise");
- alter the terms on which mortgage insurance coverage may be canceled before reaching the cancellation thresholds established by law;
- establish and change the terms to be included in mortgage insurance policies (the GSEs recently have informed mortgage insurers that their master insurance policies must include a series of specific items relating to, among other things, loss mitigation, claims processing and the GSEs' rights under the policy; we currently are in discussions with the GSEs regarding these proposed items, which are expected to be effective for loans insured beginning in 2014);
- require private mortgage insurers to perform activities intended to avoid or mitigate loss on insured mortgages that are in default;
- establish and require changes to the amount of loan level delivery fees (which result in higher cost to borrowers) that the GSEs charge on loans that require mortgage insurance (see "Our mortgage insurance business faces intense competition");

- intervene in mortgage insurers' rescission practices or rescission settlement practices with lenders (in April 2011, Freddie Mac advised its servicers that they must obtain its prior approval for settlements of claims to rescind policies and Fannie Mae advised its servicers that they are prohibited from entering into such settlements; in addition, under the terms of the GSE Approvals, we may be required to obtain their prior consent for any settlements and there can be no assurance that the GSEs will approve any settlement agreements); and
- influence a mortgage lender's selection of the mortgage insurer providing coverage.

Some of Freddie Mac's and Fannie Mae's programs require less insurance coverage than they historically have required, and they have the ability to further reduce coverage requirements, which could reduce the amount of mortgage insurance purchased and have an adverse effect on our business and revenues. For a number of years, the GSEs have had programs under which lenders could choose, for certain loans, a mortgage insurance coverage percentage that was the minimum required by the GSEs' charter, with the GSEs paying a lower price for these loans ("charter coverage"). In the second quarter of 2010, Fannie Mae broadly expanded the types of loans eligible for charter coverage. To the extent lenders selling loans to Fannie Mae choose charter coverage for loans that we insure, our revenues would likely be reduced.

The GSE business practices may be impacted by their results of operations, as well as legislative or regulatory changes governing their operations. In July 2008, an overhaul of regulatory oversight of the GSEs was enacted. The provisions contained within HERA encompass substantially all of the GSE operations. This new law abolished the former regulator for the GSEs and created a new regulator, the FHFA, in addition to other oversight reforms. In September 2008, the FHFA was appointed as the conservator of the GSEs to control and direct the operations of the GSEs. The continued role of the conservator may increase the likelihood that the business practices of the GSEs will be changed in ways that may have a material adverse effect on us. In particular, if the private mortgage insurance industry does not have the ability, due to capital constraints, to continue to write sufficient business to meet the needs of the GSEs, the GSEs may seek alternatives other than private mortgage insurance to conduct their business.

In February 2011, the Administration delivered a report to Congress with recommendations for reforming the U.S. housing finance market. As part of this report, the Administration recommended the winding down of the GSEs over a period of time, including by increasing pricing at the GSEs, reducing the size of loans that the GSEs may purchase, requiring borrowers to provide a 10% down payment for GSE loans and decreasing the GSE investment portfolios by at least 10% each year. In addition, the report encouraged the GSEs to pursue "additional credit-loss protection from private insurers and other capital providers" in order to increase the level of private capital in the housing finance system. These recommendations cannot be implemented without legislative action; thus, some of them have been and will continue to be the subject of significant Congressional focus and debate in the near future.

Since 2011, there have been numerous legislative proposals that are intended to wind down the GSEs in a piecemeal fashion. Among other changes, these bills, if ultimately enacted, would gradually reduce the GSE maximum portfolio size, prohibit the GSEs from engaging in any new activities or businesses and repeal the GSE affordable housing goals. In addition, there were several comprehensive housing finance reform proposals introduced in Congress. Each of these proposals has been designed to eliminate the GSEs, while most of them would also replace the GSEs with a new mortgage financing system. The proposals vary greatly with regard to the government's role in the housing market, and more specifically, with regard to the existence of an explicit or implicit government guarantee. Most of the proposals would maintain the current role of private mortgage insurance, while some of the proposals would provide for deeper mortgage insurance coverage. It is difficult to predict whether any of these proposals will become law or the impact any future legislation will have on our business and prospects.

The future structure of the residential housing finance system remains uncertain, including the impact of any such changes on our business. Although we believe that traditional private mortgage insurance will continue to play an important role in any future housing finance structure, it is reasonably possible that new federal legislation could reduce the level of private mortgage insurance coverage used by the GSEs as credit enhancement, or even eliminate the requirement altogether, which would reduce our available market and could adversely affect our mortgage insurance business.

Our financial guaranty portfolio has experienced losses as a result of the most recent economic downturn and is susceptible to further deterioration, which could have a material adverse effect on the capital adequacy of Radian Guaranty.

During the third quarter of 2008, Radian Group contributed its ownership interest in Radian Asset Assurance to Radian Guaranty. While this reorganization has provided Radian Guaranty with substantial regulatory capital and dividends, it also makes the capital adequacy of our mortgage insurance business dependent, to a significant degree, on the successful run-off of our financial guaranty business. If our financial guaranty portfolio performs significantly worse than anticipated, including if we are required to establish (or increase) statutory reserves on defaulted obligations that we have insured, or if we make net commutation payments to terminate insured financial guaranty obligations in excess of the then established statutory reserves for such obligations, the statutory capital of Radian Guaranty also would be negatively impacted. A decrease in the capital support derived from our financial guaranty business could, therefore, lead to Radian Guaranty's inability to continue to write new mortgage insurance business.

We have guaranteed structured finance obligations that expose us to a variety of complex credit risks, and indirectly, to market, political and other risks beyond those that generally apply to financial guarantees of public finance obligations. We have insured and reinsured certain asset-backed transactions and securitizations secured by one or a few classes of assets, such as residential mortgages, auto loans and leases and other consumer assets, both funded and synthetic. We have also insured obligations under CDS, including CDOs of several asset classes, such as corporate debt, TruPs, RMBS, CMBS and other ABS obligations. As discussed in "Part II. Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Financial Guaranty—Credit Performance/Credit Quality," we have experienced credit deterioration in our financial guaranty structured finance portfolio, including our insured portfolio of TruPs CDOs and CMBS CDOs, as a result of the most recent economic downturn. The timing and amount of losses associated with our structured finance insured portfolio are difficult to predict accurately and could have a material adverse effect on our financial condition and operating results.

We also have significant exposure to public finance obligations that also are susceptible to default in an economic downturn. Historically, our financial guaranty public finance business was focused on smaller, regional, lower investment grade issuers and structures that were uneconomical for other financial guarantors to insure. As a result, compared to other monoline financial guarantors, a greater percentage of our total exposure is concentrated in sectors such as healthcare, long-term care and education, which have historically had higher default rates than other public finance sectors. These credits, which generally cover smaller, more rural and specialized issuers, tend to be lower rated and more susceptible to default in an economic downturn.

Our public finance insured portfolio continues to experience stress from the general economic downturn and slow economic recovery. More hospitals have been experiencing decreases in patient revenues as a result of a significant decline in patient volumes, increased charity care and limited increases in commercial and government reimbursements. Many healthcare institutions are reporting that further expense reduction efforts are unrealistic and that operating losses are expected as healthcare inflation outpaces weak revenue growth. Further, long-term care facilities have been generally experiencing gradually declining occupancies, reduced debt service coverage margins and slowly eroding cash positions. If these trends continue, it could result in further credit deterioration and require increases in our net claim liability related to our healthcare and long-term care credits.

We expect the negative trend in the public finance sector to continue through at least the end of 2013 and most likely into 2014, due to the slow economic recovery, federal funding reductions (including the end of federal stimulus revenues and potential sequestration), expected Medicare cuts and continued stress on tax-based revenue receipts (in particular where tax revenues are derived from the value of real estate, as discussed below). We expect these collective factors to continue to strain the ability of government entities to maintain balanced budgets and adequate liquidity to meet near-term financial obligations. We may continue to experience further credit deterioration and municipal defaults in our government-related insured credits, which could require increases in our net claim liability with respect to these credits.

We have seen credit deterioration in our insured portfolio of other tax supported bond transactions, in particular, those that are payable from real estate tax revenues derived from the value of real estate in narrowly defined districts or from special assessments for improvements on certain properties. Declining property values have reduced the assessed value of the tax base in these jurisdictions, resulting in reduced tax revenues being available to pay interest and principal on these insured bonds. We may experience further credit deterioration in these transactions, which would increase the likelihood that we will be required to make claim payments with respect to these bonds, especially those from special districts.

Deterioration in our financial guaranty portfolio could reduce Radian Asset Assurance’s statutory surplus and negatively impact its ability to pay dividends to Radian Guaranty.

The performance of our financial guaranty business may affect whether Radian Asset Assurance can pay dividends to Radian Guaranty in the future as it has in past years, and the amount of any such dividends. At December 31, 2012, Radian Asset Assurance maintained claims paying resources of $1.8 billion, including statutory surplus of approximately $1.1 billion. Radian Asset Assurance paid dividends to Radian Guaranty in 2011 and 2012 totaling $53.4 million and $54.0 million, respectively. We expect that Radian Asset Assurance will next have the capacity to pay an ordinary dividend, of approximately $35.0 million, to Radian Guaranty in the third quarter of 2013.

The timing and amount of these dividend payments will depend on the dividend capacity of our financial guaranty business, which is governed by New York insurance laws. Under New York insurance laws, Radian Asset Assurance may only pay dividends from statutory earned surplus. Without the prior approval from the NYSDFS, Radian Asset Assurance can only pay a dividend, which when totaled with all other dividends declared or distributed on it during the preceding 12 months, is the lesser of 10% of its surplus to policyholders as shown by its last statutory statement on file with the NYSDFS, or 100% of statutory adjusted net income. If the performance of our financial guaranty portfolio deteriorates materially or the amount we pay to terminate any particular financial guaranty exposure is larger than the amount of the statutory reserves for such exposure, Radian Asset Assurance’s statutory surplus may be reduced. If this were to occur, Radian Asset Assurance would likely have less capacity to pay dividends to Radian Guaranty and could be prohibited from paying dividends altogether, which could have a negative impact on Radian Guaranty’s available liquidity.

We face risks associated with our exposure to other financial guaranty issuers.

As of December 31, 2012, Radian Asset Assurance had approximately $6.3 billion outstanding par on its total reinsurance portfolio. On January 9, 2013, Radian Asset Assurance completed the commutation of the remaining $822.2 million of outstanding par reinsured by Radian Asset Assurance from FGIC.

After giving effect to the FGIC Commutation, substantially all of our remaining financial guaranty reinsurance business is currently assumed from affiliates of Assured. Our financial guaranty ceding customers, including Assured, have the right to take back or recapture all of their business previously ceded to us under their reinsurance agreements with us. While our treaties with Assured do not permit it to selectively recapture business previously ceded to us, because we have entered into multiple treaties with Assured, it is possible that it may choose to recapture business only under those treaties that it perceives as covering less risky portions of our reinsurance portfolio. This selective recapture, if it occurs, could potentially leave us with risk that is more concentrated in troubled asset classes or exposures.

Our ceding customers are primarily responsible for surveillance, loss mitigation and salvage on the risks that they cede to us. Our ceding customers may be less willing to perform these tasks to the extent necessary to minimize potential losses and/or maximize potential salvage on the credits we reinsure. In addition, these customers may have different incentives to eliminate long-term liabilities than we do. We generally do not have direct access to the insured obligation or the right to perform our own loss mitigation or salvage work on these transactions. We also have limited visibility with respect to the performance of many of the obligations we reinsure. See “If the estimates we use in establishing loss reserves are incorrect, we may be required to take unexpected charges to income, which could adversely affect our capital position.”

Primary ceding customers sometimes delegate their loss adjustment functions to third parties, the cost of which is then proportionally allocated to us and any other reinsurers for the insured transaction. Accordingly, the losses and LAE allocated to us on our reinsured risks may be higher than otherwise would have been the case if we were responsible for surveillance, loss mitigation and salvage for these risks. In addition, should a primary insurer become insolvent, there is a risk that the recoveries that it receives in any given transaction may become a part of its general estate rather than being allocated among the reinsurers paying the related claim. These factors could have a material adverse effect on our financial condition and operating results.

In addition to reinsurance, we have insured certain transactions on a second-to-pay basis, meaning that we are obligated to pay claims in respect of these transactions only to the extent that both the underlying obligation defaults and another insurer, who is the primary obligor for claims, fails to pay a valid claim. Consequently, if the conservator for an insolvent financial guarantor 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. Because many insurers are currently experiencing significant financial difficulties, the likelihood of our having to pay a claim on our second-to-pay transactions, due to another insurer's failure to pay, has increased. In 2009, Syncora and FGIC suspended all claims payments following orders by the NYSDFS. FGIC is currently in rehabilitation, and therefore, the timing and amount of any claims payments from FGIC are uncertain and could result in additional claim payments by us on those transactions for which FGIC is the primary insurer and we have insured on a second-to-pay basis. While the NYSDFS lifted the suspension of payments by Syncora in June 2010, Syncora has subsequently posted additional losses and it is possible the NYSDFS could implement the suspension again in the future. A rehabilitation proceeding for FGIC pursuant to Article 74 of the New York Insurance Law is currently pending before the Supreme Court of the State of New York, and as a result, FGIC is currently only permitted to pay 25% of the amount of any claims. In 2010, Ambac placed a portion of its obligations into a segregated account that is under the control of the WOCI. We cannot provide any assurance whether or not the WOCI will include any of our second-to-pay obligations where Ambac is the primary insurer in the segregated account or otherwise limit Ambac's ability to pay claims with respect to such transactions. As of December 31, 2012, Syncora, FGIC and Ambac are the primary insurers on $691.0 million net par outstanding (or 32.2%) of our second-to-pay exposure. $233.3 million (or 33.8%) of our second-to-pay exposure with respect to these primary insurers is internally rated BIG.

We could lose our eligibility status with the GSEs, causing Freddie Mac and Fannie Mae to decide not to purchase mortgages insured by us, which would significantly impair our mortgage insurance franchise.

In order to maintain the highest level of eligibility with Freddie Mac and Fannie Mae, mortgage insurers have historically been required to maintain an insurer financial strength rating of AA- or Aa3 from at least two of the three ratings agencies by which they are customarily rated. If a mortgage insurer were to lose such eligibility, Freddie Mac and/or Fannie Mae could restrict the mortgage insurer from conducting certain types of business with them or take actions that may include not purchasing loans insured by such mortgage insurer. In light of the most recent housing market downturn, both Freddie Mac and Fannie Mae have indicated that loss of mortgage insurer eligibility due to such a downgrade will no longer be automatic and will be subject to review if and when the downgrade occurs. Radian Guaranty has been downgraded substantially below these required ratings. As a result, we have presented business and financial remediation plans to Freddie Mac and Fannie Mae for how to restore profitability and ultimately regain a higher rating for our mortgage insurance business. If the rating agencies and GSEs believe that our plans will not provide the capital required by our mortgage insurance business, or otherwise are not satisfied, we could lose our eligibility with the GSEs and/or be further downgraded by the rating agencies. We cannot be certain whether, or for how long, either of the GSEs will continue to accept our existing remediation plans.

In addition to ratings requirements, the current eligibility requirements impose limitations on the type of risk insured, standards for the geographic and customer diversification of risk, procedures for claims handling, standards for acceptable underwriting practices, standards for certain reinsurance cessions and financial requirements that generally mirror state insurance regulatory requirements. The GSEs currently are in discussions with mortgage insurers regarding potential revisions to the GSE standard mortgage insurer eligibility requirements, including certain changes that are more stringent than the current requirements, such as imposing more onerous capital requirements than those that are currently in effect. We do not know whether or when such modifications may be implemented or the form that any such modifications may take.

In February 2012, RMAI was approved to operate as an eligible insurer on a limited basis in certain states, subject to the terms and conditions of the GSE Approvals. The GSE Approvals are conditioned upon our compliance with a broad range of conditions and restrictions, including without limitation, minimum capital and liquidity requirements, a maximum risk-to-capital ratio of 20 to 1 for RMAI, restrictions on payment of dividends and requirements governing the manner in which Radian Guaranty and RMAI conduct affiliate transactions. There can be no assurance that we will be able to maintain compliance with the requirements of the GSE Approvals or that the GSEs will not revoke their approvals. Failure by RMAI to maintain compliance with the GSE Approvals could impact Radian Guaranty's eligibility status with the GSEs.

We cannot be certain that Radian Guaranty and RMAI will be able to retain eligibility status with the GSEs. Loss of our eligibility status with the GSEs would likely have an immediate and material adverse impact on the franchise value of our mortgage insurance business and our future prospects and would negatively impact our results of operations and financial condition.

A decrease in the volume of home mortgage originations could result in fewer opportunities for us to write new insurance business.

Our ability to write new business depends, among other things, on a steady flow of high-LTV mortgages that require our mortgage insurance. Losses from the housing market downturn have caused lenders to substantially reduce the availability of these loans and to significantly tighten their underwriting standards. Fewer loan products and tighter loan qualifications, while improving the overall quality of new mortgage originations, have in turn reduced the number of qualified homebuyers and made it more difficult for buyers (in particular first-time buyers) to obtain mortgage financing or to refinance their existing mortgages. In addition, the significant disruption in the housing and related credit markets that began in 2007 led to reduced investor demand for mortgage loans and MBS in the secondary market, which historically has been a source of funding for many mortgage lenders. This significantly reduced liquidity in the mortgage funding marketplace, forcing many lenders to retain a larger portion of their mortgage loans and MBS and leaving them with less capacity to continue to originate new mortgages.

Total domestic mortgage originations have decreased significantly from the $2.7 trillion in 2006 (pre-dating the housing downturn) to approximately $1.9 trillion for 2012. If the volume of new mortgage originations continues to remain at low levels for a prolonged period, we will likely experience fewer opportunities to write new insurance business and we may be subject to increased competition with respect to these opportunities, which could reduce the size of our mortgage insurance business and have a significant negative effect on both our ability to execute our business plans and our overall franchise value. See "Our mortgage insurance business faces intense competition."

Further, the Dodd-Frank Act's reforms to strengthen lending standards, improve underwriting standards and increase accountability in the loan origination and securitization processes could further reduce the total number of mortgage originations in the future, in particular with respect to the high-LTV market. In addition, the proposed Basel III guidelines, unlike previous Basel rules, do not recognize private mortgage insurance as a factor that reduces risk when calculating a loan's risk weighting, which could discourage the use of mortgage insurance and result in fewer opportunities for us to write new business. See "Legislation and regulatory changes and interpretations could harm our mortgage insurance business" and "The implementation of the Basel II capital adequacy requirements and the Basel III guidelines may discourage the use of mortgage insurance."

Our NIW and franchise value could decline if we lose a significant customer.

Our mortgage insurance business depends on our relationships with our customers, and in particular, our relationships with our largest lending customers. As of December 31, 2012, our top 10 mortgage insurance customers (measured by NIW) were generally responsible for 24.8% of our primary NIW in 2012. Since 2011, we have been focused on expanding and diversifying our customer base, and in 2012, 20.8% of our NIW was from customers new to us in 2011 and 2012. Notwithstanding this diversification trend, maintaining our business relationships and business volumes with our largest lending customers remains critical to the success of our business.

In response to the most recent deterioration in housing markets, we have tightened our underwriting guidelines, which has resulted in our declining to insure some of the loans originated by our larger customers. We have also increased our pricing to reflect the increased risk of default in the current economic and housing downturns. Our increased pricing, tighter guidelines and increased level of loss mitigation activity has negatively affected our relationships with certain of our customers and could result in customers choosing to limit the amount of business they conduct with us or cease to do business with us entirely. See "Insurance rescissions and claim denials are not expected to continue at the elevated levels we have been experiencing and a number of our lender customers are challenging our loss mitigation actions."

Our master insurance policies and related lender agreements do not, and by law cannot, require our mortgage insurance customers to do business with us. Although we have taken steps to significantly expand and diversify our customer base in recent years, we cannot be certain that any loss of business from a single lender would be replaced from other new or existing lending customers in the industry. As a result of current market conditions, our lending customers may decide to write business only with certain mortgage insurers based on their views with respect to an insurer's pricing, underwriting guidelines, loss mitigation practices, financial strength or other factors. In addition, many of our customers currently are placing a significant portion of their mortgage insurance business with us. Our customers may choose to diversify the mortgage insurers with which they do business, which could negatively affect our level of NIW and our market share.

Certain of our mortgage insurance competitors are affiliates of much larger companies that have significantly larger consolidated capital positions than we have, which could make it more likely that customers may choose to do business with them. See “Our mortgage insurance business faces intense competition.” Under the terms of our master insurance policies, our customers or the parties they designate to service the loans we insure have the unilateral right to cancel our insurance coverage at any time for any loan that we insure. Upon cancellation of coverage, subject to the type of coverage, we may be required to refund to the insured lender unearned premiums, if any.

The economic downturn and challenging market conditions of the recent past have adversely affected the financial condition of a number of our largest lending customers. If the U.S. economy fails to fully recover or re-enters a recessionary period, these customers could again become subject to serious financial constraints that may jeopardize the viability of their business plans or their access to additional capital, forcing them to consider alternatives such as bankruptcy or consolidation with others in the industry. The loss of business from a significant customer could have a material adverse effect on the amount of new business we are able to write, and consequently, our franchise value.

Our mortgage insurance business faces intense competition.

The U.S. mortgage insurance industry is intensely competitive. Our competitors include other private mortgage insurers and federal and state governmental and quasi-governmental agencies, principally the FHA, which has significantly increased its competitive position in the mortgage insurance market in recent years.

We compete with other private mortgage insurers on the basis of price, customer relationships, reputation, financial strength and service. The improvement in the credit quality of new loans being insured in the current market, combined with the deterioration of the financial positions of many existing private mortgage insurance companies (which has led insurance regulators to take action with respect to certain companies), in part due to their legacy books of insured mortgages, is bringing new entrants to our industry and could encourage additional new competitors. Certain of our private mortgage insurance competitors are subsidiaries of larger corporations or are not burdened by legacy credit risks, and therefore, may have access to greater amounts of capital and financial resources than we do and may have stronger financial strength ratings than we have. If we are unable to compete with other providers, including new entrants that are not burdened by legacy credit risks or by loss mitigation actions on legacy insurance portfolios, it could have a material adverse effect on our business position, financial condition and operating results.

We also compete with governmental and quasi-governmental entities that typically do not have the same capital requirements or business objectives that we and other private mortgage insurance companies have, and therefore, generally had greater financial flexibility in their pricing guidelines and capacity that could put us at a competitive disadvantage. Beginning in 2008, the FHA, which historically had not been a significant competitor, substantially increased its share of the mortgage insurance market, including by insuring a number of loans that would meet our current underwriting guidelines, sometimes at a lower monthly cost to the borrower than a loan that carries our mortgage insurance.

The FHA may continue to maintain a strong market position and could even increase its market position to the point that private mortgage insurers may be perceived as less significant to the future of the housing finance market. Factors that could cause the FHA to maintain or increase its share of the mortgage insurance market include:

- past and potential future capital constraints of the private mortgage insurance industry;
- the tightening by private mortgage insurers of underwriting guidelines based on past loan performance or other risk concerns;
- the increased levels of loss mitigation activity by private mortgage insurers on older vintage portfolios compared to the FHA’s practice of engaging in limited loss mitigation activities;
- the imposition of loan level delivery fees by the GSEs on loans that require mortgage insurance;
- the perceived operational ease of using FHA insurance compared to the products of private mortgage insurers; and
- the implementation of new regulations under the Dodd-Frank Act and the Basel III guidelines that may be more favorable to the FHA compared to private mortgage insurers (see “The Dodd-Frank Act may have a material effect on our mortgage insurance and financial guaranty businesses” and “The implementation of the Basel II capital adequacy requirements and the Basel III guidelines may discourage the use of mortgage insurance”).

In the event that a government-owned or government-sponsored entity in one of our markets decides to reduce prices significantly or alter the terms and conditions of its mortgage insurance or other credit enhancement products in furtherance of political, social or other goals rather than a profit motive, we may be unable to compete in that market effectively, which could have an adverse effect on our business, financial condition and operating results.
One or more private mortgage insurers may seek to regain market share from the FHA or other mortgage insurers by reducing pricing, loosening their underwriting guidelines, or relaxing their loss mitigation practices, which could, in turn, improve their competitive position in the industry and negatively impact our level of NIW.
In addition, before the recent housing downturn, an increasing number of alternatives to traditional private mortgage insurance developed, many of which reduced the demand for our mortgage insurance. As a result of the disruptions in the housing finance and credit markets, however, many of the alternatives to private mortgage insurance are not currently available. If market conditions were to change, or new alternatives are developed, we again could face significant competition from these alternatives, as well as others that may develop.
Our business depends, in part, on effective and reliable loan servicing, which could continue to be negatively impacted by the current disruption in the housing and mortgage credit markets.
We depend on reliable, consistent third-party servicing of the loans that we insure. Dependable servicing generally ensures timely billing and effective loss mitigation opportunities for delinquent or near-delinquent loans. As part of our claims review process, we assess whether defaulted loans were serviced appropriately in accordance with our insurance policies and servicing guidelines. In the high claims environment of the recent past, we have found a high frequency of servicer negligence with respect to the loans we have insured, which makes us more susceptible to greater losses on these loans.
Many of our customers also service the loans that we insure, whether the loans were originated by the customer or another lender. The same challenging economic and market conditions affecting our customers that are described above (see “Our NIW and franchise value could decline if we lose a significant customer”) also affect their ability to effectively maintain their servicing operations. In addition, current housing trends have led to a significant increase in the number of delinquent mortgage loans. These increases have strained the resources of servicers, reducing their ability to undertake loss mitigation efforts in a timely manner, including the processing of potential loan modifications, which could help limit our losses. Further, due to the strain on the resources of servicers, delinquent loan servicing is increasingly being transferred to specialty servicers. The transfer of servicing can cause a disruption in the servicing of delinquent loans. Additionally, specialty servicers may not have sufficient resources to effectively handle the substantially higher volume of delinquent loans.
Recent state and federal inquiries and investigations into whether servicers have acted improperly in foreclosure proceedings, including the cost of and conditions imposed in settlements of such inquiries or investigations, may further strain the resources of servicers. In January 2013, the CFPB issued final rules that establish national servicing standards for servicing residential mortgage loans and impose new and potentially more burdensome requirements, procedures and standards. These new rules are scheduled to become effective in January 2014. Complying with the new rules could cause additional disruptions in the servicing of mortgage loans covered by our insurance policies.
If a disruption occurs in the servicing of mortgage loans covered by our insurance policies, this, in turn, could contribute to a rise in delinquencies and/or claims among those loans and could have a material adverse effect on our business, financial condition and operating results.
Loan modification, refinancing and other similar programs may not provide us with a material benefit.
The FDIC, the GSEs and various lenders have adopted programs to modify loans to make them more affordable to borrowers with the goal of reducing the number of foreclosures. In addition, in 2009, the U.S. Department of the Treasury implemented the HAMP program, which provides guidelines for loan modifications. Some of the eligibility criteria for these programs require information about borrowers, such as the borrowers’ current income and non-mortgage debt obligations. Because the GSEs and the lenders do not share such information with us, we cannot determine with certainty the number of loans in our default inventory that remain eligible to participate in such programs. While modifications continue to be made under these programs, it is unclear how many successful loan modifications will result from these programs, in particular in light of the high level of re-default rates for loans that have been modified through these programs. To the extent modifications cure previously defaulted loans, our loss reserves do not account for potential re-defaults unless at the time the reserve is established, the re-default has already

occurred. We believe that we have realized the majority of the benefits from HAMP because the number of loans insured by us that we are aware are entering HAMP trial modification periods has decreased significantly over time.

Some mortgage lenders and other agencies have implemented private modification programs with a goal similar to HAMP. While we do not have complete information regarding which of our insured loans may be entering these programs, we believe that a material number of our defaulted insured loans may be subject to private modification programs. It is uncertain how many of these loans may be successfully modified and, if modified, how many will remain current following such modification.

In 2009, the GSEs began offering HARP. HARP allows a borrower who is not delinquent to refinance a mortgage if such borrower has been unable to take advantage of lower interest rates because the borrower's home has decreased in value. In November 2011, the FHFA made enhancements to the HARP program (HARP 2) that expanded the number of borrowers who can qualify for refinancing. Under HARP 2, among other changes, the FHFA: (i) removed the 125% LTV ceiling for fixed-rate mortgages backed by the GSEs, which had prevented some borrowers whose home values had declined from participating; (ii) eliminated certain risk-based fees for borrowers who refinance into shorter-term mortgages; (iii) waived certain representations and warranties required to be made by the borrower; and (iv) extended the program so that it now expires at the end of 2013. Importantly, Radian Guaranty and other private mortgage insurers have agreed with the FHFA to facilitate the transfer of mortgage insurance on loans to be refinanced without regard to LTV. While HARP 2 may result in fewer delinquent loans and claims, our ability to rescind coverage on HARP loans will be limited in certain circumstances pursuant to our agreement with the FHFA. The changes implemented by HARP 2 have increased the number of borrowers who may benefit from the program and, as of December 31, 2012, approximately 9% of our total primary mortgage insurance RIF had successfully completed a HARP refinance. Congress is considering refinancing proposals that would effectively waive the GSEs' charter requirements to use private mortgage insurance on loans with LTVs greater than 80%.

We cannot ascertain the total benefits we may derive from these loan modification programs, particularly given the uncertainty around the re-default rates for loans that have been modified through these programs. Re-defaults can result in losses that could be greater than we would have paid had the loan not been modified. If a mortgage balance is reduced as a result of a loan modification program, we may still be responsible under our master insurance policy to pay the original balance if the borrower re-defaults on that mortgage after its balance has been reduced. HARP 2 will expire at the end of 2013 unless further extended by the FHFA and there can be no assurance that other loan modification, refinancing or other similar programs will continue to be available. The expiration, termination or temporary cessation of any of these programs could result in an increased number of claims in our mortgage insurance business and could have a material adverse effect on our business, financial condition and results of operations.

Foreclosure moratoriums may extend the period of time that a loan remains in our delinquent loan inventory and increase the severity of claims we are required to pay once the moratoriums expire.

Various government entities and private parties have enacted foreclosure (or equivalent) moratoriums to allow time to determine whether delinquent loans could be modified. Moratoriums also have been imposed in response to allegations that certain mortgage servicers and other parties acted improperly in foreclosure proceedings. Generally, moratoriums do not stop the accrual of interest or affect other expenses on a loan, and unless a loan is cured during a moratorium, at the expiration of the moratorium, our paid claim amount may include additional interest (subject to a two-year limitation under our insurance policies) and expenses. However, where our claim amount is increased because of foreclosure delays caused by a failure to appropriately service or meet other conditions under our insurance policies, we are entitled to adjust claims appropriately. The various moratoriums may further delay our receipt of claims, resulting in an increase in the period that a loan remains in our delinquent loan inventory, and may increase the severity of claims that we are ultimately required to pay.

Our success depends on our ability to assess and manage our underwriting risks; the premiums we charge may not be adequate to compensate us for our liability for losses.

Our mortgage insurance and financial guaranty premium rates may not be adequate to cover future losses. The estimates and expectations we use to establish premium rates are based on assumptions made at the time our insurance is written. Our mortgage insurance premiums are based on our long-term expected risk of claims on insured loans and take into account, among other factors, each loan's LTV, type (e.g., prime vs. non-prime or fixed vs. variable payments), premium structure (e.g., single lump sum or monthly), term, coverage percentage and whether there is a deductible in front of our loss position. Our financial guaranty premiums are based on our expected risk of claim on the insured obligation and take into account, among other factors, the rating and creditworthiness of the issuer and of the insured obligations, the type of insured obligation, the policy term and the structure of the transaction being insured. These assumptions may ultimately prove to be inaccurate. In particular, the predictive value of historical data may be less reliable during periods of greater economic stress and, accordingly, our ability to correctly estimate our premium requirements may be impaired during periods of economic uncertainty such as we have recently experienced.

We generally cannot cancel or elect not to renew the mortgage insurance or financial guaranty insurance coverage we provide, and because we generally fix premium rates for the life of a policy when issued, we cannot adjust renewal premiums or otherwise adjust premiums during the life of a policy. Therefore, even if the risk underlying many of the mortgage or financial guaranty products we have insured develops more adversely than we anticipated, including as a result of the ongoing weakness in many parts of the economy and housing market, and the premiums our customers are currently paying for similar coverage on new business from us and others has increased, we generally cannot increase the premium rates on this in-force business, or cancel coverage or elect not to renew coverage, to mitigate the effects of such adverse developments. Our premiums earned and the associated investment income on those premiums may ultimately prove to be inadequate to compensate for the losses that we may incur with respect to those insured risks.
See “We have incurred significant losses on our insured products as a result of the economic downturn that began in 2007 and we expect to incur additional losses in the future.”
Our delegated underwriting program may subject our mortgage insurance business to unanticipated claims.
In our mortgage insurance business, we enter into agreements with our mortgage lender customers that commit us to insure loans made by them using pre-established underwriting guidelines. Once we accept a lender into our delegated underwriting program, we generally insure a loan originated by that lender even if the lender has not followed our specified underwriting g