

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

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. See "*Holding Company Liquidity*" and "Risks and Uncertainties" below in this Note 1.

Holding Company Liquidity

Radian Group serves as the holding company for our insurance subsidiaries and does not have any significant operations of its own. At December 31, 2012, Radian Group had immediately available unrestricted cash and liquid investments of \$375.6 million. On February 15, 2013, \$79.4 million of these funds was used to repay the remaining principal amount outstanding on our 2013 Notes. Radian Group's principal liquidity demands for the next 12 months are expected to include: (i) the payment of certain corporate expenses; (ii) interest payments on our outstanding long-term debt; (iii) potential capital support for our mortgage insurance subsidiaries; and (iv) the payment of dividends on our common stock. After giving effect to the exchange of a portion of our long-term debt maturing in 2015, which settled in January 2013, Radian Group has \$54.8 million of principal amount of remaining debt due in 2015, \$195.2 million of principal amount of debt due in June 2017 and \$450 million of principal amount of convertible debt due in November 2017.

Radian Group's principal sources of cash include dividends from Radian Guaranty (to the extent permitted under applicable laws and regulations) and payments made to Radian Group under tax- and expense-sharing arrangements with our subsidiaries. Radian Guaranty's ability to pay dividends to Radian Group is subject to various conditions imposed by the GSEs and rating agencies and by insurance regulations requiring insurance department approval. In general, dividends in excess of prescribed limits are deemed "extraordinary" and require insurance department approval. Based on Radian Guaranty's current financial position, we do not anticipate that it will be permitted under applicable insurance laws to issue dividends to Radian Group for the foreseeable future. To the extent Radian Asset Assurance continues to pay future dividends, these dividends will be paid to its direct parent, Radian Guaranty, and not to Radian Group.

We expect to fund Radian Group's short-term liquidity needs with: (i) existing cash and marketable securities; and (ii) cash received under the expense-sharing arrangements with our subsidiaries. In light of Radian Group's long- and short-term needs, we are considering various options to increase our capital and liquidity position, such as incurring additional debt, issuing additional equity or selling assets, which we may not be able to do on favorable terms, if at all.

Corporate Expenses and Interest Expense. Radian Group has expense-sharing arrangements in place with its principal operating subsidiaries that require those subsidiaries to pay their share of holding-company-level expenses, including interest payments on our outstanding long-term debt. Payments of such corporate expenses for the next 12 months, excluding interest payments, are expected to be approximately \$63.2 million. For the same period, payments of interest on our long-term debt are expected to be approximately \$35.9 million. These amounts are expected to be fully reimbursed by our subsidiaries under our existing expense-sharing arrangements. These expense-sharing arrangements, as amended, have been approved by applicable state insurance departments, but such approval may be modified or revoked at any time. In addition, pursuant to the GSE Approvals, the consent of the GSEs is required to modify or amend the expense-sharing agreements. Approximately \$39.4 million of future expected corporate expenses and interest payments (approximately \$15.3 million relates to payments anticipated to be made in the next 12 months) have been accrued for and paid by certain subsidiaries to Radian Group as of December 31, 2012, and therefore, the total unrestricted cash and liquid investments held by Radian Group as of December 31, 2012 include these amounts. A portion of these expenses (approximately \$29.4 million) relates to performance-based compensation expenses that could be reversed in whole or in part, depending on changes in our stock price and other factors. To the extent these expenses are reversed, Radian Group would be required to reimburse the subsidiaries that paid these expenses to Radian Group. In addition, under the Fannie Mae Approval for RMAI, Radian Group is required to contribute to Radian Guaranty the amount of any future interest expense payments made by Radian Guaranty or RMAI to Radian Group pursuant to the terms of the expense-sharing arrangements among these entities. Pursuant to the terms of our expense sharing arrangements, interest expense payments from Radian Guaranty or RMAI to Radian Group in 2013 are not expected to be significant.