

Other operating expenses decreased in 2011 as compared to 2010 due to a reduction in salaries, as well as stock-based compensation. This was partially offset by increases in sales commissions due to our increased NIW and increased expenses related to the write-off of certain software and technology projects in 2011. In October 2011, we completed an expense initiative aimed at aligning our support services to the current reduced mortgage market. This re-alignment included a workforce reduction of approximately 9.8% of our corporate and mortgage insurance staff.

Contract underwriting expenses for 2012, including the impact of reserves for contract underwriting remedies, were \$12.1 million, compared to \$16.1 million for 2011 and \$6.1 million for 2010. During 2012, loans underwritten via contract underwriting accounted for 5.0% of applications, 4.9% of commitments for insurance and 5.0% of insurance certificates issued, compared to 8.8%, 8.2% and 8.7%, respectively, for 2011 and 17.9%, 16.5% and 13.9%, respectively, for 2010.

Interest Expense. These amounts reflect the allocated portion of interest on Radian Group's long-term debt based on the relative GAAP equity for our mortgage insurance segment. The decrease in 2012 compared to 2011 primarily is due to the maturity in June 2011 of our 7.75% Debentures. In addition, we purchased \$170.6 million aggregate principal amount of our 2013 Notes in 2012, which reduced our interest expense.

Our consolidated interest expense significantly increased during 2011 as a result of the issuance of \$450 million of convertible notes in November 2010. This increase more than offset the decrease in the allocation percentage to the mortgage insurance segment in 2011.

Income Tax (Benefit) Provision. The effective tax rate on our pre-tax operating losses increased to 12.3% for the year ended December 31, 2012 from (14.8%) for the year ended December 31, 2011. The increase to the rate was primarily due to an increase in our provision for uncertain tax positions in 2011 as a result of the remeasurement of certain liabilities and also due to changes in our overall valuation allowance. The effective tax rate on our pre-tax operating loss in 2010 was (15.9%), which was mainly impacted by the initial establishment of a valuation allowance.

Results of Operations—Financial Guaranty

Since 2008, we have significantly reduced our financial guaranty operations and have reduced our financial guaranty exposures through commutations in order to mitigate uncertainty, maximize the ultimate capital available for our mortgage insurance business and accelerate our access to that capital. In furtherance of these objectives, during 2012 and to date in 2013, we completed 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; 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.

Collateralized Debt Obligation ("CDO") of Asset-Backed Securities ("ABS") and Trust Preferred Securities ("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." See Note 6 of Notes to Consolidated Financial Statements for further information regarding the accounting treatment of this transaction under GAAP.