

- On March 1, 2011, our subsidiary, Enhance Financial Services Group Inc. (“EFSG”), sold its 45% interest in the holding company of a Brazilian insurance company, which specializes in surety and agricultural insurance, to another owner for a nominal purchase price. This holding company and its subsidiaries are subject to regulation by The Superintendence of Private Insurance, the regulatory agency responsible for the supervision and control of the insurance market in Brazil. Although EFSG wrote off its entire interest in this company in 2005 and has sold its ownership interest, under Brazilian law, it is possible that EFSG could become liable for its proportionate share of the liabilities of the company related to the period in which EFSG was a significant shareholder, if the company was to become insolvent and had insufficient capital to satisfy its outstanding liabilities. EFSG’s share of the liabilities of the company attributable to this period was approximately \$103.4 million as of December 31, 2010, the date of the most recent financial information available to us.

In addition to the foregoing, we use reinsurance from affiliated companies to allow Radian Guaranty to remain in compliance with insurance regulations that limit the amount of risk that a mortgage insurance company may retain on a single loan to 25% of the indebtedness of the insured. In addition, in the fourth quarter of 2012, Radian Guaranty, to improve its capital position, 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 similar 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. The pools of loans that have been reinsured by Radian Mortgage Insurance and Radian Insurance generally consist of recently underwritten fixed-rate, prime, high FICO loans. As of December 31, 2012, the remaining RIF under all of these reinsurance agreements was \$6.3 billion.

Off-Balance Sheet Arrangements

As a provider of credit enhancement, we have provided credit protection directly on VIEs. All VIEs must be evaluated for consolidation in accordance with the accounting standard regarding consolidation of VIEs. VIEs are entities, including corporations, trusts or partnerships, in which equity investors do not have a controlling financial interest or do not have sufficient equity at risk to finance the VIE’s activities without additional subordinated financial support.

VIEs may also be used to create securities with a specific risk profile desired by investors and as a means of transferring risk, such as our Smart Home transactions. Our interests in VIEs may be accounted for as insurance contracts, financial guaranty derivatives or, in some cases, as consolidated VIEs, which are described more fully below. For insurance contracts with VIEs that we do not consolidate, we estimate reserves for losses and LAE, and for derivative interests in VIEs that we do not consolidate, we estimate changes in the fair value as a corresponding derivative asset or derivative liability. Our primary involvement with VIEs relates to transactions in which we provide a financial guaranty to one or more classes of beneficial interest holders in the VIE. We do not record the underlying assets or liabilities of the VIEs on our balance sheets unless we are the primary beneficiary of the VIE.

Smart Home

In 2004, we developed a program referred to as “Smart Home,” for reinsuring risk associated with non-prime mortgages. These reinsurance transactions, through the use of VIE structures, effectively transfer risk from our portfolio to investors in the capital markets. Since August 2004, we have completed four Smart Home reinsurance transactions. We exercised our option to terminate two of these transactions in March 2011, with a total RIF of approximately \$41 million. In 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. Details of this transaction as of the initial closing date and as of December 31, 2012, are as follows:

	Initial	As of December 31, 2012
Pool of mortgages (par value)	\$5.9 billion	\$1.6 billion
RIF (par value)	\$1.4 billion	\$0.4 billion
Notes sold to investors/risk ceded (principal amount)	\$229 million	\$143 million