

### *Freddie Mac Approval*

Pursuant to the approval by Freddie Mac of RMAI as a special purpose mortgage insurer (the “Freddie Mac Approval”), Radian Group is required to make contributions to Radian Guaranty as may be necessary so that the “Liquid Assets” of Radian Guaranty, as defined in the Freddie Mac Approval, are at least \$700 million throughout the term of the approval. As defined in the Freddie Mac Approval, “Liquid Assets” are equal to the sum of: (i) aggregate cash and cash equivalents; and (ii) the fair market value of the following investments: (a) RMBS guaranteed by Fannie Mae, Freddie Mac or Government National Mortgage Association; (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 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. Radian Guaranty maintains significant additional liquid investments that may be converted into Liquid Assets to ensure ongoing compliance with the Freddie Mac Approval and we expect to continue to remain in compliance with the Liquid Asset requirement of the Freddie Mac Approval.

### ***Financial Guaranty***

As of December 31, 2012, Radian Asset Assurance maintained claims paying resources of \$1.8 billion, including statutory surplus of approximately \$1.1 billion. In July 2012, Radian Asset Assurance paid an ordinary dividend of \$54.0 million to Radian Guaranty. We expect that Radian Asset Assurance will have the capacity to pay another ordinary dividend of approximately \$35.0 million to Radian Guaranty in the third quarter of 2013.

The principal demands for liquidity in our financial guaranty business include the payment of operating expenses (including those allocated from Radian Group), claim and commutation payments, taxes and dividends to Radian Guaranty.

Radian Asset Assurance could be required under certain circumstances to pay its counterparty the outstanding par amount with respect to up to four of the insured TruPs bonds (a “liquidity claim”), which Radian Asset Assurance then would have the right to recover to the extent amounts are subsequently paid in respect of the relevant TruPs bonds. A liquidity claim may arise if an event of default under the TruPs bond (e.g., a failure to pay interest or a breach of a covenant requiring the maintenance of a certain level of performing collateral) existed as of the termination date of the CDS contract. The current termination dates of these CDS contracts occur in 2017, but will automatically extend for additional one-year increments (but no later than the maturity date of the TruPs CDO) unless terminated by the Counterparty. If Radian Asset Assurance were required to pay a liquidity claim, the Counterparty would be obligated under the CDS to pay Radian Asset Assurance cash periodically in an amount equal to any future amounts paid in respect of principal and interest on the insured TruPs bond. Although there can be no assurance, we do not currently expect a liquidity claim to occur. At December 31, 2012, the net par outstanding of the insured TruPs bonds potentially subject to a liquidity claim was \$362.9 million. These bonds had a weighted average rating of BB. In addition, four of the Terminated TruPs CDOs commuted pursuant to the CDO Commutation Transactions had this liquidity claim feature. Although Radian Asset Assurance is no longer directly obligated to pay a liquidity claim for these terminated transactions, the CDS entered into by the LPV with the Counterparty (the “Residual CDS”) includes provisions that provide the Counterparty with substantially the same economic rights upon the occurrence of circumstances where a liquidity claim would have been payable by Radian Asset Assurance. Consequently, if one of these circumstances were to occur or would be expected to occur, Radian Asset Assurance’s projected and actual salvage recovery from the LPV, which as of December 31, 2012, was approximately \$76.3 million, may be materially reduced or eliminated.

The principal sources of liquidity in our financial guaranty business are premium collections, credit enhancement fees on credit derivative contracts and net investment income. We believe that the cash flows generated by our financial guaranty subsidiaries will provide these subsidiaries with the funds necessary to satisfy their claim payments and operating expenses for the foreseeable future. We believe that we have the ability to fund any operating cash flow shortfall from sales of marketable securities in our investment portfolio maintained at our operating companies and from maturing fixed-income investments. In the event that we are unable to fund excess claim payments and operating expenses through the sale of these marketable securities and from maturing fixed-income investments, we may be required to incur unanticipated capital losses or delays in connection with the sale of less liquid marketable securities held by our financial guaranty business.