FINAL TRANSCRIPT

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TGIC - Q3 2007 Triad Guaranty Earnings Conference Call

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CORPORATE PARTICIPANTS

Ken Jones
Triad Guaranty Inc - SVP and CFO

Mark Tonnesen
Triad Guaranty Inc - President and CEO

Steve Haferman
Triad Guaranty Inc - SVP - Risk Management and Information Services

CONFERENCE CALL PARTICIPANTS

Steve Stelmach
FBR - Analyst

Mike Grasher
Piper Jaffray - Analyst

James Shanahan
Wachovia - Analyst

Rajiv Patel
SuNova Capital - Analyst

Eugene Loper
CGR Products - Analyst

Tom Driscoll
Seacrest - Analyst

Ira Hopesman
Laura Electric - Analyst

Ed Groshans
Fortress - Analyst

PRESENTATION

Operator

Good morning, ladies and gentlemen. Thank you for standing by. At this time, I would like to welcome everyone to the Triad Guaranty Inc. third quarter 2007 Earnings Release Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, we will conduct a question-and-answer session. (OPERATOR INSTRUCTIONS)

As a reminder, ladies and gentlemen, this conference is being recorded today, Thursday, October 25, 2007. If you have any objections to participating in a recorded call, please disconnect at this time. Your host today is Ken Jones, Senior Vice President and Chief Financial Officer. I would now like to turn the conference over to Mr. Jones. Please go ahead, sir.

Ken Jones - *Triad Guaranty Inc - SVP and CFO*

Good morning and thank you for joining the call today. My name is Ken Jones and I'm the Chief Financial Officer of Triad. Joining me on the call is Mark Tonnesen, our Chief Executive Officer; Ken Foster, Executive Vice President of Structured Transactions and Business Development; Bruce Van Fleet, Executive Vice President of Sales and Marketing; and Steve Haferman, Senior Vice President and Chief Risk Officer.

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Just as a reminder, the information that we will be discussing today may include certain forward-looking statements that are protected under the Private Security Litigation Reform Act of 1995. Obviously, our actual results could differ materially from those projected and I'd like to direct your attention to the risk factors included in Item 1A of our 10-K, updated in our second quarter Form 10-Q in the safe harbor statement that we've included in the management's discussion and analysis section of our 10-K, which outlines some of the various factors that could cause our actual results to differ.

If we do make forward-looking statements, we undertake no obligation to update those statements in the future in light of subsequent events. Our earnings release that was distributed last night includes additional financial and statistical information about Triad's quarterly results that we will refer to during the call and also includes certain non-GAAP financial measures. Additionally, we have placed supplemental information in the Investor Relations section of our web site that provides greatly expanded disclosures on our product lines, our portfolio characteristics and portfolio performance.

In order to properly analyze the current situation, it is important to identify the problem areas and separate them from the rest of the portfolio. The data in the supplemental information gives important facts regarding problem areas and soft markets, which we're defining as Florida, California, Arizona and Nevada. Portfolio information is organized in a lot of business and vintage year format and designed to enable the analyst community and our investors to develop their own models and expectations on future performance. While we will not go through all the details of what has been posted on the web site, I would encourage you to have the information available as we will refer to it in our remarks and may reference it in the Q&A session.

We believe that this type of transparency into the composition and performance of our insurance portfolio is critical to inform analysts about future performance and the potential value of the portfolio. We look forward to working with interested investors and analysts to digest the expanded information. In the supplemental information, we have also provided details on captive reinsurance and modified pool transaction structures that share and limit certain risks in our portfolio. If the early performance of the 2006 and possibly 2007 book years is indicative of future performance, we believe that the captive reinsurance treaties will serve to limit the risk on some of the business written under the treaties for those years. We believe the mechanics of the captive reinsurance agreements are not well understood and on page 14 of the supplemental information, we have provided an illustration of how a typical captive reinsurance agreement can serve to limit future losses.

Understanding these structures and how they impact financial performance and financial reporting is critical to understanding the potential long-term results of Triad as almost 60% of our primary flow risk from the 2005 through 2007 policy years is under captive reinsurance treaties. While we're making no commitment to update or provide in the future the level of detail included in the supplemental information, over the course of the fourth quarter, we will determine if continuing this level of detail has the benefits we expect it to have. The earnings release and the supplemental information may be accessed on the Investor Relations page of our web site located at www.triadguaranty.com.

After my comments on the quarter, Mark will update you as to our perspective on the market and our business. Following his comments, we'll open up the line for questions.

The housing and mortgage markets have presented us with a number of challenges. These conditions have resulted in increase in defaults and foreclosures across the mortgage industry; and in areas where home prices have fallen dramatically, we find the portfolio deterioration to be most significant. Our financial results reflect the substantial increase in loss reserves in response to the number of newly reported defaults and reserve strengthening due to decline in cure rates on existing defaults. Primarily due to the increase in reserves, we reported a $31.8 million loss for the third quarter. The net loss per share for the third quarter was $2.13 compared to net earnings per share of $1.30 for the 2006 third quarter. We ended the quarter with a book value of $38.30 per share, slightly below the comparable December 31, 2006 value.

Cash flow from operations remained strong, with $35.5 million being generated during the third quarter. While there are several topics that I will cover today, the level of increased losses is clearly the most significant factor in this quarter's results. Totally incurred losses were $106.8 million for the quarter, compared to $41.9 million in the second quarter of 2007 and $19.3 million in the third quarter in 2006. Paid losses at $28.5 million were up 58% from the second quarter, reflecting a significant increase

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in both the number of claims paid and the average severity of those claims. These results were in line with our expectations based on the volume of filed claims and our pending claim inventory at June 30. At September 30, the number of filed claims and our pending claims inventory was 750 compared to 759 at June 30 and 624 at March 31.

Third quarter, we paid 756 claims compared to 592 in the second quarter of 2007 and 538 in the third quarter of 2006. Average paid loss severity increased to $37,700 for the quarter, up 24% compared to $30,500 in the first half of 2007. The increase in average paid severity is primarily the result of a higher percentage of claims from the more recent books, which reflect larger loan balances. At the end of September, the average size of default in our pending claim inventory was $52,000 compared to $51,000 at June 30. We increased our loss reserves during this quarter by adding $77 million, which represented a 64% increase since June 30.

On feeling the impact of the increasing defaults across the board geographically, the four soft markets contribute 56% or $43 million of the reserve increase this quarter, even though they comprise only 30% of our risk in force, with much of the increase concentrated in the 2006 and 2007 vintages. Although the economy remains generally strong, pressure on the housing market in the soft market states is causing a rapid rise in the number of defaults. Additionally, the higher average loan balance in those states results in a [different kind of] reserve for default, all else being equal compared to the rest of the portfolio. We experienced a 39% increase in our risk in default during the third quarter compared to a 21% increase in the second quarter, again, with much of the third quarter increase concentrated in the soft markets. Our risk in default in the soft market states increased $78 million during the quarter compared to $56 million increase in the rest of the country.

The second factor impacting reserves was the continuing decline in the cure rates, which required us to increase the frequency assumption in our reserve model, accounting for $20 million of the reserve increase for the quarter. Our cure rate has declined significantly in recent periods with the decline being particularly evident in the performance in the soft market states. The average one-month cure rate in those states is 40% to 50 % lower for the past three months than the average for the first part of the year. However, the same period the cure rate has declined less than 20% in the remaining states.

Total reserves at September 30 were $200 million. Policies originated during 2006 and 2007 comprised 48% of the total reserves at September 30, reflecting the higher loan amounts in those policy years coupled with a relative poor performance compared to the prior policy years. To put that in comparison, at September 30, 2006, 27 % of our reserves were from the 2006 and 2005 policy years. Reserves at September 30 represented 42% of risk in default compared with 33% at December 31 and 30% a year ago. The increase in reserves at a percent of risk in default reflects a significant strengthening of our reserve factors over the past year. The overall delinquency rate for reserve defaults was 2.92 % at September 30 compared to 2.39% at June 30. However, in the soft market states, the default rate was 3.17% at September 30, up from 1.97% at June 30. For all other states, the delinquency rate stood at 2.85% at September 30 compared to 2.51% at June 30.

Clearly, the performance trend in the soft markets are having an impact on our financial performance; and we have provided significant information about the composition, current performance and size of our portfolios in those states in the supplemental information.

Moving now to look at our revenues. Reported new insurance written for the -- was $4.4 billion for the quarter, down 46% from the second quarter, mostly as a function of our reduced bulk production. Our primary flow business new insurance written was $3.7 billion, down significantly from the second quarter of 2007, but up 31% from the third quarter of 2006. In the primary bulk channel, we booked $700 million of new insurance written during the quarter, ending a poor commitment created in the fourth quarter of 2006. We do not expect any further production in the primary bulk line for the foreseeable future.

In the modified pool channel, we do not have any production for the quarter. Total insurance in force continued to grow, helped in part by increasing persistency rate. Annual primary persistency at September 30 was 79.1% compared to 75.3% a year ago. The increase in insurance in force led to growth in revenues in earned premiums. Earned premiums grew about 33% over last year's third quarter; all insurance in force grew by 26% during the same period.

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Total expenses, including acquisition cost, amortization and operating expenses, increased 6% from the second quarter of 2007 and 21% compared with the third quarter of 2006. Premium growth has more than offset the impact of the expense growth, resulting in an expense ratio of 22.4% for the third quarter compared to 24.8% for the third quarter of 2006. The September 30 risk-to-capital ratio at Triad Guaranty Insurance Corporation stood at 17.8 to 1, an increase from 12.5 to 1 at year-end. This is a regulatory risk-to-capital ratio and is not adjusted to reflect the specific credit characteristics of our portfolio. This ratio also does not reflect the benefit of capital residing in captive insurance trusts shown in the supplemental information on page 7, or the additional $100 million excess of loss reinsurance we maintain.

On a risk adjusted basis, we were well in excess of the AAA risk-to-capital ratio using standard in force risk adjusted capital model. On page 7 of our supplemental information, we have included the different components of our capital position. During the third quarter, in response to liquidity crisis that was impacting the mortgage markets, we drew down all of our $80 million credit facility, indicating our ability to access the capital markets in spite of the turmoil. We presently have $100 million of liquidity in the holding company, providing significant financial flexibility.

Now, I would like to turn the call over to Mark for an update on our business.

Mark Tonnesen - *Triad Guaranty Inc - President and CEO*

Thanks, Ken. We are in the midst of an incredibly challenging times in the housing and mortgage markets, and our financial results were negatively impacted by the rapid deterioration in house prices in certain markets. For us, the most significant concerns are in the soft markets of California, Florida, Arizona and Nevada; and we shared our concerns over the emerging performance of these markets in our conference call at the end of the second quarter. At September 30, 2007, these four states comprised 32% of our risk in force and 40% of our risk in default. However, these four states have been some of the best performing states. At September 30, 2006, just a year ago, they comprised 30% of our risk in force, yet only 11% of our risk in default. Obviously, our financial results are being impacted by the higher defaults in these soft markets, but the effect is more pronounced in the 2006 and 2007 vintage years. The 2006 and 2007 soft market risk in force accounts for 23% of the portfolio, but 27% of the risk in default. This fraction of the portfolio is expected to continue to have escalating problems. The remainder of the 2006 and 2007 books, that is the portfolio excluding these soft market states, had delinquency rates of 1.6% at September 30. Although these delinquency rates are higher than 2004 and 2005 book years, they're still relatively immature. They are currently acceptable.

Another area of concern is the primary bulk product, which as Ken mentioned earlier, we had ceased originating. This product which is concentrated in 2007 accounts for only 13% of our total portfolio, but early payment default trends are an area of significant focus. It should be noted that this portfolio consists of 68%, 100% LTV, which we have noted as a source of concern going forward. The final area of concern is our modified pool business, although we stopped writing this business in the first quarter and while losses will be limited by deductible and stop loss provisions within the structures, we are finding the defaults rising where the first is accompanied by a simultaneous second. So, what does this lead us to conclude? We must tighten and have tightened guidelines; we must continue to educate lenders on the problem areas we see; we must stop doing business where performance problems persist and take action to limit our exposure on high-LTV lending in soft markets. Is there good news? Most definitely. First of all, we have avoided some of the worst markets, sub-prime and second lien. We believe that this is the major reason why our current delinquency rate is below the industry rate. It is also the reason we believe that our capital requirements as analyzed by S&P are above the AAA level.

Next, we have $185 million in captive reinsurance trusts supporting the risk transferred to captives. This means that while 2006 and even the 2007 books covered by captive arrangements might perform poorly, our ultimate loss exposure is limited. This is a 180-degree reversal from normal profit emergence. Typically, profit is highest in the early years of a policy with losses following peak revenues. In the current situation, for our recent captive business, losses are early and then will fall to zero in later years and stay there for the period of time in which coverage exists. Important details relative to our captive business have been included in our supplemental information on page 14.

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Continuing on the good news front, there does exist evidence that important positive changes in the market are emerging and a more stringent and pragmatic underwriting environment has been created. We're also encouraged by the decline in simultaneous seconds, as this will boost MI volume as well as the implementation of more stringent underwriting guidelines focused on agency conforming products by lenders. This is prudent and it is good for the mortgage insurance industry. We also believe that continuation of tax deductibility for MI will provide for a more attractive product offering.

Lastly, we continue to find that our message regarding quality is being echoed by the marketplace. Our customer relationships are expanding. For example, we expect that the number of customers with which we do more than $25 million of new insurance written to increase by more than 65% this year. We are also having success in building and enhancing quality relationships. As we continue to advance our agenda of quality, we do realize that we will forego some volume opportunities. On the other hand, reduced volume is also useful as we work to place our limited capital against the best opportunities. But as I said, customers have joined us in this quest for quality. At a recent MBA conference, I was thanked by one lender for providing them advice in early 2006, which helped that lender avoid a risky segment of the all pay market. It is this type of active role that we take in the business that our customers find so valuable. Finally, in Canada we are finding that the story of alliance and partnership resonates with the major lenders and we continue to be encouraged.

So in conclusion, we are disappointed in the short-term results and we have taken aggressive action to reduce or seize business in problem areas. We have identified areas of significant concern and provided detail in our supplemental information to help the investor community better project our ultimate results. We are encouraged on a number of fronts and look forward to the hard work ahead.

With that, operator, I would like to open the lines and invite questions.

QUESTIONS AND ANSWERS

Operator

Ladies and gentlemen, this is the operator. I apologize for there will be a slight delay. Please hold and the conference will resume momentarily. Thank you for your patience.

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. (OPERATOR INSTRUCTIONS) Your first question comes from the line of Steve Stelmach with FBR.

Steve Stelmach - *FBR - Analyst*

Hi, good morning. You guys mentioned your $100 million of liquidity at the holding company level. How should we think about that in terms of sustaining you guys through what's going to be a pretty difficult couple of years ahead of you. You think that's enough capital or is there a scenario where you see a need to actually go out and try to raise capital even at these sort of depressed levels in some sort.

Mark Tonnesen - *Triad Guaranty Inc - President and CEO*

Thanks, Steve.

Steve Stelmach - *FBR - Analyst*

Sure.

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Mark Tonnesen - *Triad Guaranty Inc - President and CEO*

Right now, we take a look at our capital and we gave additional information in the supplement, which I would direct you to. We have $600 million plus of hard capital on the balance sheet; we have a $100 million of excess of loss coverage; we have a $185 million of current captive balances; and we would anticipate an additional $200 million to flow to those captives over time. It's clear right now that we have got pressures on the short term, but as I mentioned, those pressures get alleviated for the captive portfolio and you will note in the supplemental information that we gave you good detail to analyze the large proportion of business that we have got covered by captives. That gets alleviated over time, if the current loss rates continue. So, for right now, we look at the $100 million in the holding company as giving us a number of degrees of freedom, any of which could help our business as we proceed through these times.

Steve Stelmach - *FBR - Analyst*

Okay. And then, can you just give us an update on your discussions with the rating agencies and can you let us know what they are sort of focusing in on. If you feel comfortable with your capital levels, if you feel comfortable about I guess with the reinsurance backstops, what's the concern from a rating agency's perspective that you think may be valid or may not be valid at this point?

Mark Tonnesen - *Triad Guaranty Inc - President and CEO*

Well, Steve, you published a report today and we would debate with you whether or not the discounting that you did is appropriate; and, in fact, we would argue that it is not.

Steve Stelmach - *FBR - Analyst*

Okay.

Mark Tonnesen - *Triad Guaranty Inc - President and CEO*

But the general analysis that you have done is the kind of analysis that the rating agencies have done. In the analysis that you did, you showed that our projected revenues are greater than our projected losses and, therefore, in the long term our capital is not impaired. As the rating agencies make similar assessments, I think that they will come to the same conclusion that you did -- you would which is that the current capital position is sufficient. That said, we are working hard with the rating agencies. We have had Moody's and S&P in, and we gave them an exceptional level of detail, even more detail that -- than we gave out on the Web site, which was significant. Let them inspect the portfolio and they will come to their conclusions. Meanwhile, we continue to work in the market place to make sure that the business that we are currently writing will be profitable in the longer term.

Steve Stelmach - *FBR - Analyst*

And then, just last there, thanks for that answer by the way. Longer term, I guess one of your competitors is seeing flat-to-no earnings, negative earnings potentially next year. Is that an outlet that you would share for yourself and then the industry generally or do you feel more or less confident about breaking even?

Mark Tonnesen - *Triad Guaranty Inc - President and CEO*

We are -- what we have done, Steve, is, we've taken a different tact. Right now, it's very difficult to project earnings. And so, what we have done is we have gone out and given you all of the information that you would be required to do the same kind

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of analysis that we do, so that you can make a good assessment as to the short term and the longer term prospects. This includes vintage analysis and the triangles on delinquencies that would allow you to project those earnings. The thing that we are hoping that you can also analyze as you take a look at our information is the significant support that the long-term earnings get from captives. So, as I mentioned in my comments, the captive situation today turns the profit emergence picture of MIs on its ear. It's a very important and very interesting analysis that needs to be done. Basically what happens in a captive is you forego upside ROE in favor of long-term lower volatility. So while our current profits on the captive related business are under pressure, in the longer term those losses actually turn to zero, during the significant period of time in which the captives are in play. We also expect that the business that's being written by the entire mortgage industry today is significantly improved from the business that was written in 2006. And while we didn't participate in the diciest parts of the market at all, the sub-prime market, the second lien market, we still feel that the pressures on house prices in some of the markets, which have a fraction of our business, will be stressed in the short term.

Steve Stelmach - *FBR - Analyst*

Okay, well thank you and good luck, guys.

Mark Tonnesen - *Triad Guaranty Inc - President and CEO*

Thanks.

Operator

Your next question comes from Mike Grasher with Piper Jaffray.

Mike Grasher - *Piper Jaffray - Analyst*

Good morning, gentlemen. Thanks for providing all the data here; this is extremely helpful. I want to reference page 12 real quick. Just in terms of column C where we see the incurred losses date on the individual vintages, just using that for a second. Is this an appropriate gauge in terms of the loss ratios for each of those vintages? Is that the take away on that?

Mark Tonnesen - *Triad Guaranty Inc - President and CEO*

Now we are on page 12 and this is for the other listeners, there is a lot of data that we have given on the portfolio statistics, both historically as well as on the present portfolio and we have identified on this page our business broken out by captive, by primary flow, by NGAM, by the proportion of business that we have in NGAM, by bulk et cetera. And Mike is asking about the incurred losses to date column, Mike?

Mike Grasher - *Piper Jaffray - Analyst*

That's right.

Mark Tonnesen - *Triad Guaranty Inc - President and CEO*

Okay and --

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Mike Grasher - *Piper Jaffray - Analyst*

And make that over the -- of the -- well it certainly would be the existing loss ratio, but in terms of thinking about it longer term.

Mark Tonnesen - *Triad Guaranty Inc - President and CEO*

So, what, Mike, is referring to is if you take a look at that page on the 2003 captive excluding potential NGAM, which is the first section, we earned $309 million of premium, net premium to date and have incurred losses of $84 million to date indicating that the total profit is roughly $225 million net and we have incurred an incidence rate of 2.2%. We expect that 2.2% is -- while it has been the mode in the mortgage insurance industry would not be an appropriate incidence rate to project for the future. A couple of other benchmarks that we have looked at in the early 80's, which was the worst time for the mortgage insurance market, the incidence rate rose on a book year basis to as high as about 13% incidence rate. The second highest was during the California problems in the 90's where the incidence rate got up to about 5%. So, what we hope to be able to do is between the triangle information as well as the incurred incidence rate information, Mike, is to help you assess where you think the incidents rates will go. We have also given you then the incurred losses which would include all of the reservings done to date by vintages.

Mike Grasher - *Piper Jaffray - Analyst*

Okay, that's helpful. And then just to think about that you brought out the 80's and the 90's there, to me those were more economic or macroeconomic issues and certainly it may be turning into an economic issue at this point, but it seems to be -- the problem seems to be largely driven by product this time. Is there anyway or how would you steer out as analyst towards sort of navigating or driving a comparison between the 80's, 90's and what we have today?

Mark Tonnesen - *Triad Guaranty Inc - President and CEO*

Mike, what you just said is very, very important. The problems whether they are regional problems and there have been bad regions in the past or on a national level, what we find is that the general economy has been the most important factor in losses. However, house prices also play a significant role, especially when you're dealing with over 80 business. Today what we are finding is a completely different situation where we have the bursting of the speculative bubble. House prices have been escalating in certain markets at an unsustainable rate and as those house prices have come into under pressure, what we find is that some of our default rates have gone up. Now, the default rates in California and Florida, while up still aren't at the Midwest levels. And since our portfolio is underrated in Midwest, we haven't talked about that as a particular problem area. In the areas of California and Florida, those are the ones that we are concentrated in. What we also find is that the cure rates are largely a function of market-to-market LTV. And so as house prices fall, our expectations for frequency increase. That is that we wouldn't be able to cure as many claims through the fullness of the times, cure as many defaults through the fullness of times. So, they will turn into cures. So based on our estimates of that, we added over $20 million to our reserves in anticipation of those factors at play.

Mike Grasher - *Piper Jaffray - Analyst*

Okay, thank you for that. And then just a final question here in terms of provisioning, as we look forward and you have certainly given us a lot of data to go through. What is the metric or what is the gauge that we as analysts should be thinking about in terms of what you are thinking about or how you think about future provisions, not looking for a number per say, but just if we see something moving it implies more or less provisioning.

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Mark Tonnesen - *Triad Guaranty Inc - President and CEO*

Well, obviously the first is defaults. Projecting out the default rate should give you roughly a proportional guide to the increases, and you need to account for the seasonality there. You know that the fourth quarter is a seasonally high and the first quarter is a seasonally low default increase factors. Second is I think you should look at the continuation of house prices. If house prices continue to decline, on a fraction of our portfolio we will see problems in the cure rates and so some amount of relief or some amount of pressure on reserves will occur due to that factor. But the big deal, Mike, is of course the defaults.

Mike Grasher - *Piper Jaffray - Analyst*

Okay, thank you.

Operator

Your next question comes from the line of James Shanahan with Wachovia.

James Shanahan - *Wachovia - Analyst*

I just have a one very brief question. One of your competitors in their earnings conference call made some comments about risk to capital being a significant metric that is employed by the ratings agencies to measure appropriate capital levels and it may or may not have been self serving, but clearly their risk to capital level is much lower than yours and I would like to know what your thoughts are on risk to capital as a metric that is important for ratings agencies and how you feel about your 17 times risk to capital number that you have printed here for the third quarter.

Mark Tonnesen - *Triad Guaranty Inc - President and CEO*

Thanks, James. When you said it may or may not be self-serving, what were you trying to get at there?

James Shanahan - *Wachovia - Analyst*

I am just suggesting that if they are out there in the marketplace with the lowest risk to capital in the universe that it would relatively speaking if you are more favorable versus the public peers.

Mark Tonnesen - *Triad Guaranty Inc - President and CEO*

Yes, I would tend to agree with that. Look, the important thing is the economic capital that needs to be deployed against the specific risks that you have got in a portfolio. As the risks increase, the amount of economic capital or the kind of capital that is calculated by the rating agencies that have models in place increases. The risk to capital ratio, however, doesn't increase. What happens is, you put on very risky business, say sub-prime business, it has a dollar's worth of risk; it counts as a dollar's worth of risk in the risk to capital ratio. However, in economic capital terms, significantly more capital needs to be attributed and that is the way that the rating agencies take a look at it. So, our conversations with the rating agencies focus on the fact of the character of our portfolio, and they look at a number of things including some things where we are sticking out and we have got a slightly higher proportion of pay option arms about 10% more than the industry, but they also take a look at the FICO levels, the type of products that we have done, the fact that we have got 10% less in the greater than 95 LTV's and they put all of that at the loan level basis into their model and that is why S&P has us at significantly over the AAA capital level relatively similar to that of our competitors. The risk to capital ratio is important from a regulatory point of view and the regulatory minimum is 25 to 1.

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James Shanahan - *Wachovia - Analyst*

Excellent.

Mark Tonnesen - *Triad Guaranty Inc - President and CEO*

I am sorry, James. Did I answer your question satisfactorily?

James Shanahan - *Wachovia - Analyst*

You did, but you said 25 times minimum, did you mean 25 --?

Mark Tonnesen - *Triad Guaranty Inc - President and CEO*

25 to 1 is the minimum -- is the maximum capital ratio required by the regulator.

James Shanahan - *Wachovia - Analyst*

But is there also -- I think your debt -- according to your debt that you just issued, I think that might have a lower maximum, 22 times perhaps?

Mark Tonnesen - *Triad Guaranty Inc - President and CEO*

Yes, the [inaudible] that is covenant in the facility, that is 22 to 1, yes. And remember, James, I know you know this, but the debt that we have taken down, it sits at the holding company and isn't part of our risk to capital ratio. That would reduce it by almost two points in and of itself.

James Shanahan - *Wachovia - Analyst*

Yes, that was my follow up. You mean you guys report $660 million of regulatory capital. It looks like it was some approximation of your equity capital base plus the debt. Is that fair? Is that true?

Mark Tonnesen - *Triad Guaranty Inc - President and CEO*

No, no, it is not.

James Shanahan - *Wachovia - Analyst*

No? Can you explain that then?

Mark Tonnesen - *Triad Guaranty Inc - President and CEO*

Regulatory capital is based on statutory accounting principles and it is what the states use to govern and provide supervision level over the insurance company. So, it is a different concept than generally accepted accounting principles. It includes the regulatory statutory and surplus, plus the contingency reserve aspect and, again, we won't go into details on the call. It's a different concept, different accounting basis for regulators than what we use for GAAP reporting and generally, what we look

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-- certainly what we look at for economic capital. But, the important part is that the liquidity that currently exists in the holding company is not counted in that ratio today.

James Shanahan - *Wachovia - Analyst*

Thank you very much.

Mark Tonnesen - *Triad Guaranty Inc - President and CEO*

Welcome.

Operator

Your next question comes from the line of Rajiv Patel with SuNova Capital.

Rajiv Patel - *SuNova Capital - Analyst*

Hi and thanks for taking the question. Just had one quick one really. You guys were talking about the captives kicking in over the longer term I think when Steve asked the question regarding the potential for capital raise in this environment. When you say longer term, are you -- because one of your competitors said kind of 2009 was really when the beginning of the captives would even start to kick in. Is that similar to the time frame you are thinking or could some of the capital start kicking in in later ways?

Mark Tonnesen - *Triad Guaranty Inc - President and CEO*

Well, it is an excellent question, Rajiv. What we have done in our supplement, again on page 12 as Mike Grasher pointed us towards, we have indicated the weighted average captive attachment point is an incidence rate of 4.2. That means that the first 4.2 claims per 100 fall to our account and claims after that fall to the captive. The exit points on the captive would be at incidents rates of around 13 -- of around 13. Remember, we have a 5-10-5 captive and a 4-10-40 captive; the first entering at 5 and exiting at 10; the second entering at 4 exiting at 14. The average -- weighted average is a 4.2 incidence rate. So, whenever you expect losses to reach 4.2 on an incurred basis, not on a paid basis, but on an incurred basis because there will be at that time that we would get our relief on the reserving for future claims. That is the time in which the captives kick in. So, the longer it takes to have the captive kick in, the more favorable you think the ultimate performance would be. It is not bad news that the captives kick in long. Short term, it means that the losses will be under significant pressure immediately. Either way, the answer ends up being the same, that as long as the attachment points aren't -- [appears] the high end of the attachment points, the answer is the same. The other good thing about this is generally speaking when a environment exists where captives will be attached are generally times when persistency is higher. So, high loss rates under a captive arrangement actually have the effect of increasing the profitability of the book of business because the persistency of that book of business is improved.

Rajiv Patel - *SuNova Capital - Analyst*

Okay. That clears that up and then just a follow-up to that, so if the captives do kick in in 2009 or later rather than '08, the capital adequacy assumptions you guys are kind of giving out with $100 million of capital at the holding company and such, do those contemplate kind of potentially losing money next year and the potential for, if you do lose money, will you still feel that you have enough capital under those scenarios and what sort of discussions have you had with the regulators under that assumption?

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Mark Tonnesen - *Triad Guaranty Inc - President and CEO*

What we have done, Rajiv, is given the information to the analyst community to make those assumptions. You take a look at the work that Steve did and I don't know -- I don't have any information regarding how he did it but in his analysis, I think he projected future revenues of about $1.3 billion and future losses of around $950 million. If that -- those kind of analyses suggest that capital will not be an issue. What you need to be able to do is to utilize the information that we have given you to stress these things as you see appropriate. We have given you the detail to allow you to do it in a area -- we have told you that we think that the areas of concern are Florida, California. We have given you the information regarding the percentage of our portfolio in those areas, so that you can do an accurate job of projecting. This is important work that the market has not had thus far and, therefore, we believe that the market is trading in the blind and it is important to shed some light on the facts of our situation.

Rajiv Patel - *SuNova Capital - Analyst*

Okay, great. Thanks a lot for taking the questions.

Mark Tonnesen - *Triad Guaranty Inc - President and CEO*

Sure.

Operator

Your next question comes from the line of [Eugene Loper with CGR Products].

Eugene Loper - *CGR Products - Analyst*

Mark, Eugene Loper. I am not as sophisticated as these fellows in asking all these other questions, but do you feel that the market is overreacting which it always does to the upside and to the downside relative to the price of Triad Guaranty stock today?

Mark Tonnesen - *Triad Guaranty Inc - President and CEO*

Eugene, you have asked the question in a way that it is very difficult for me to answer. So, let me take it outside of our particular Company. There is a lot of emotion regarding the markets today. You take a look at what has happened in the capital markets. I believe that there has been concern that started to form towards the end of 2006; that then turned into fear and that then turned into panic which, because of the lack of transparency in the capital market, I think froze them. Our capital markets came under pressure in my opinion largely because people couldn't see the risks that they were taking. The derivatives markets, the combinations on CDOs made it very difficult for the market to assess risk. And in those conditions, I believe concern to fear to panic has a possibility of fermentation. Thus, what we try to do is make sure that people can see our business with worth and all so that they can make an appropriate decision. It is our belief that with an appropriate decision on their part and good analysis, and we do believe that there are some very good analysts that follow our stock, we will have a more rational view on the Company.

Eugene Loper - *CGR Products - Analyst*

Mark, thank you very much. That's a nice way to answer the question. I appreciate your time. Thank you so much.

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Mark Tonnesen - *Triad Guaranty Inc - President and CEO*

Thank you, Eugene.

Operator

(OPERATOR INSTRUCTIONS) The next question comes from the line of Mike Grasher with Piper Jaffray.

Mike Grasher - *Piper Jaffray - Analyst*

Hi, just a couple of follow-ups. Ken, could you go back over the -- you made some comments earlier about the capital and the $185 million. How do the rating agencies think about this $185 million? Just to clarify?

Ken Jones - *Triad Guaranty Inc - SVP and CFO*

Right. What the rating agencies do is generally they have a capital [adequacy] model, and they will take our portfolio on a granular basis and run it through their model and look at the performance of the individual policies and the captive reinsurance within that, and as those losses are stressed and again, that is what the agencies are doing, they are running through a stressed environment to determine do we have the AA, AAA capital level, as those losses are stressed, then the captives will attach and we will get credit for those captive attachment points within the model. We think today, given what could happen with the '06 and '07 book, that the $185 million that we currently have in captive trust balances is clearly all should be considered available capital to support the block going forward. There will be, as Mark indicated earlier, significant additional premiums funded those -- from the business that -- from the premiums that come in the future that will be able to support the captives being able to fill their obligations as well. But, as we look at the current environment, we think that $185 million in captive trust balances is available and should be considered in our resources to fund claims.

And, Mike, it is important there, remember that the rating agencies are using the stress model to assign capital. So, different than an expected model and clearly, in -- their stress or depression scenarios are very -- are the worst-case scenarios and, therefore, the captives kick in.

Mike Grasher - *Piper Jaffray - Analyst*

Okay. So, in terms of thinking of -- in your comments earlier about the AAA level of capital, they are including this $185 million in that?

Ken Jones - *Triad Guaranty Inc - SVP and CFO*

We don't know that, perhaps a little short, but we have made sure that they understand the way that the captives work and the way that the captives would contribute over time. And thus, if their stress models would indicate that the incidents rates would be such as to attach captives, they would count that. My guess is that they count that.

Mike Grasher - *Piper Jaffray - Analyst*

Okay and then just to go back to Canada for a second, how is this impacting Canada in terms of your capital position? I know you keep it separate, but are your resources being tied up in the U.S. for now and that Canada is put on hold? I know you are developing relationships in that, but when could we expect to see some business being written out of Canada?

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Ken Jones - *Triad Guaranty Inc - SVP and CFO*

Well, we are very encouraged by the reception that we have had in Canada. As I mentioned in my comments, Mike, we have $50 million worth of capital sitting in Canada ready to deploy against that opportunity. We have been working hard with a number of customers and continue to be encouraged. We have also been working with OSPE and the departments, and we are through all of the regulatory hurdles with the exception of the Province of Quebec. So we are very encouraged. We are also working hard on plans that might include strategies such as reinsurance to ensure that the $50 million worth of capital is sufficient for the foreseeable future and, thus, Canada won't put any more demands on the parent.

Mike Grasher - *Piper Jaffray - Analyst*

Okay. So, if you were to gauge or guess when you might be writing your first policy?

Ken Jones - *Triad Guaranty Inc - SVP and CFO*

If I was to gauge or guess, I would guess that it would be the day before the day I call you to say, we just started writing business in Canada.

Mike Grasher - *Piper Jaffray - Analyst*

Thank you.

Ken Jones - *Triad Guaranty Inc - SVP and CFO*

We continue to make progress on this, Mike, and the important thing is that when we write business in Canada, the long-term value of our firm is significantly increased. The short-term implications through 2008 are rather small in terms of earnings.

Mike Grasher - *Piper Jaffray - Analyst*

Thank you.

Operator

Your next question comes from the line of Tom Driscoll with Seacrest.

Tom Driscoll - *Seacrest - Analyst*

Hello, gentlemen. Thank you for taking the call. I've been listening to some of the analysts struggling with how to take a look at the next few quarters. I was wondering if you could respond to something. If we assume that the mortgage insurance business generally over a cycle justifies a valuation at book value based on its returns, how or under what scenario would Triad lose 75% of its current book value? Thank you.

Mark Tonnesen - *Triad Guaranty Inc - President and CEO*

We have run calculations based on incidents rates by the various vintages. I don't have that -- I don't have that specific scenario done, but the incidents rates would have to be significantly worse on the 2005 -- 2005 is kind of cooked. 2004 and before are in pretty steady state. So, on the 2006 and 2007 books, they would have to be significantly worse than the industry has ever, as

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a -- in its entirety has ever had and would have to approach, as the entire book, the kind of problems that and the worst problems ever were concentrated in the Rocky Mountains in the early '80s. In the Rocky Mountains in the early '80s you had incidents rates on a book business of around 25 to 27.

Tom Driscoll - *Seacrest - Analyst*

And you would need that on a national basis to justify $30 in book value?

Mark Tonnesen - *Triad Guaranty Inc - President and CEO*

As I said, I haven't done that calculation specifically, Tom, to know that number. I am sure that one of the analysts can run that number, but it is certainly well above the highest incidents rates for the mortgage insurance industry in total, which are 13.

Tom Driscoll - *Seacrest - Analyst*

I think that should be a point of emphasis as you are communicating with the investment community, obviously, trying to give them guidance in the short term, but make them understand the implications of the current share price in the context of what actually has to happen to justify that type of loss book value.

Mark Tonnesen - *Triad Guaranty Inc - President and CEO*

Tom, we couldn't agree more and that is why, some of the other MIs have come out with their own estimates as to what the ultimate incidents rates would be on their books of business. The ultimate incidents rates that they projected are significantly below the double-digit range. Those estimates have had zero impact in this market -- zero impact on the share price and it is very frustrating for any MI to be able to go out and bear his soul to provide the kind of projections that these MIs have done and to see it have no value in the marketplace. So, our tact is we are going to give you the detail, we are going to give the analysts the details, so that they can do that and hopefully from a third party, we can bring the kind of transparency the investors need to make good decisions.

Tom Driscoll - *Seacrest - Analyst*

Well, I thank you for that and I hope the analysts take advantage of the numbers to show not just what they think will happen over the next couple of quarters, but the doomsday that actually has to happen that just by the current price. Thank you for your time.

Mark Tonnesen - *Triad Guaranty Inc - President and CEO*

Thank you, Tom.

Operator

Your next question comes in the line of [Ira Hopesman with Laura Electric].

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Ira Hopesman - *Laura Electric - Analyst*

Yes. Hi, Mark. The question I guess that I am from a layman's standpoint, is the reserves that you've come out with which created the $30 million loss, you are anticipating that is enough to cover everything written to date through today or is it just through September 30 or--?

Mark Tonnesen - *Triad Guaranty Inc - President and CEO*

Ira, I'll let Ken Jones chime in on this, but the reserving that is done in the mortgage insurance business is our best estimate of the ultimate losses of the current default inventory. So, that is our best estimate based on the current 12,000 semi-defaults that we have got on our books. That will be the ultimate losses of that default inventory. There are no reserves for future defaults and that is what we have the capital and the future premium to the Company to cover.

Ira Hopesman - *Laura Electric - Analyst*

Okay, so that is for everything that you anticipate that is currently in default right now, not against the future defaults?

Mark Tonnesen - *Triad Guaranty Inc - President and CEO*

Right, that's correct.

Ira Hopesman - *Laura Electric - Analyst*

Okay and when you talk about a cure rate, how do you cure one? What actually happens?

Mark Tonnesen - *Triad Guaranty Inc - President and CEO*

Well, of course, the best thing that can happen is the situation that the family finds themselves in is resolved, whether that is a problem with medical bills or a problem with their job situation or they find some other help along the way, so that they can bring themselves out of default. That is the best way to cure. We are very encouraged in this market with some of the announcements by lenders, as they are pursuing creative alternative ways to help borrowers out of their situation. The second is less fortunate and has to do with the foreclosure and a sale of the property that mitigates the losses for us. And we also try to work directly with the borrowers to help them find alternatives to the loss of their home.

Ira Hopesman - *Laura Electric - Analyst*

At what point do you actually pay on the claim? Is it after foreclosure or is it the lender says "Hey, these guys are just not paying" and then do you then own the loan?

Steve Haferman - *Triad Guaranty Inc - SVP - Risk Management and Information Services*

This is Steve Haferman. The actual claim gets paid out after a foreclosure happens. And so the -- that time frame is roughly 12 to 18 months after the first notice of default. There's a lot of work that goes into helping our borrowers, lenders and ourselves to try to avoid that situation.

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Ira Hopesman - *Laura Electric - Analyst*

Right. So, is there something that if the housing market is -- we think is going to be better in a year or more stable in a year that instead of paying off a full claim, if there's a way of deferring that, so that they could get out of it with less of a loss?

Steve Haferman - *Triad Guaranty Inc - SVP - Risk Management and Information Services*

Absolutely that would be the case. What our reserves currently contemplate, we got reserves in there for roughly 43%, which is a -- and that's a new statistic by the way that is in the supplemental information, on our current default inventory, that's an exceptionally high ratio. So, it does not contemplate any improvement although I would be quick to point out that it doesn't include any particular further decline in the housing market. What we are watching, Ira, is we are watching to see when house price -- when housing inventories stabilize. What we think is once housing inventories stabilize that that will begin to put a floor on the issues that we are facing.

Ira Hopesman - *Laura Electric - Analyst*

Right, thank you.

Steve Haferman - *Triad Guaranty Inc - SVP - Risk Management and Information Services*

Thank you.

Operator

You have a follow up-question from the line of James Shanahan with Wachovia.

James Shanahan - *Wachovia - Analyst*

Thank you. I just have one point of clarification here I would like your help with. You made a comment, Mark, I believe that you had $185 million of captive balances plus another $200 million of captive balances over time. Can you just explain that statement?

Mark Tonnesen - *Triad Guaranty Inc - President and CEO*

Sure. Thanks, Jim, because it's an important topic and one that -- it's quite remarkable. When we think back just a year ago that the Attorney Generals were questioning the risk transfer on captives and whether or not this wasn't just a sham between the mortgage insurers and the lenders to transfer money back or provide kickbacks. And what we see quite clearly right now is that the captive reinsurance opportunities are really a volatility management tool. We contribute -- in the 5, 10, 25, we contribute 25% of the premium to the captive balances that then would sustain us if losses escalate over 5% up to the 10% exit point on that particular captive. On the 4, 10, 40's, we contribute 40% of the premiums and absorb the first 4-percentage point loss on the original balance with the captive picking up the next 10, so long as there are captive balances available. Now interestingly, the availability is based on the fact that these balances were built up over some very good years, so captives started coming into vogue early in the century and those balances have been building and there is a cross collateralization of each one of the book years. So, the contributions that were made in 2003 and 2004 are currently available to absorb losses that might be incurred in 2006 and 2007 book years. So, the $200 million that I referred to was a very, very ballpark estimate of the future contributions that will make -- that will be made on the existing books of business as they continue to throw off revenues.

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James Shanahan - *Wachovia - Analyst*

And what is happening at the margin with captives? Are they -- is the use of captive accelerating at the margin or is it decelerating at the margin?

Mark Tonnesen - *Triad Guaranty Inc - President and CEO*

For us, the use of captives is slightly higher but relatively stable.

James Shanahan - *Wachovia - Analyst*

Thank you.

Mark Tonnesen - *Triad Guaranty Inc - President and CEO*

Thanks, James.

Operator

Your next question comes from the line of Rajiv Patel with the SuNova Capital.

Rajiv Patel - *SuNova Capital - Analyst*

Hey guys, thanks. Just two follow-ups. Your decision to stop rating bulk, is that more kind of market serving or is it just to preserve capital?

Mark Tonnesen - *Triad Guaranty Inc - President and CEO*

And there are two types of -- thanks, Rajiv, it's a good question. There are two types of bulk business. One is primary bulk and primary bulk is written with either, well, basically with deep coverage at over 80% LTV. We have made a decision to stop doing that business over our concerns about the risk associated with that business. On the modified pool business, which has been the bulk of the writings and a significant contributor to our profitability, we have bid indicatively since the beginning of the second quarter, end of first quarter. And the reason that we have done that is that that market is in a lot of turmoil, that products that are coming in are changing. We had an affinity to the high FICO, low LTV to pull below 80 LTV all pay business. That business mix has changed, and we are continuing to work with all of our customers to enter that marketplace at the appropriate time.

Rajiv Patel - *SuNova Capital - Analyst*

Okay, great. And then, just going back to the captives, one of the largest captive providers obviously is going through their own turmoil right now. And if the captive provider actually goes into bankruptcy or faces their own liquidity crisis, how does that affect your ability to collect from them?

Mark Tonnesen - *Triad Guaranty Inc - President and CEO*

The captive -- that is a very important point, Rajiv, and I appreciate the question. All of the balances in a captive are located in a trust of which we are the beneficiary. So, the travails of any particular customer do not affect our ability to attach the captive balances.

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Rajiv Patel - *SuNova Capital - Analyst*

Okay, so in that event you guys will be paid in full.

Mark Tonnesen - *Triad Guaranty Inc - President and CEO*

To the extent the claims have been -- have surfaced, yes.

Rajiv Patel - *SuNova Capital - Analyst*

Right, okay, great. Thanks a lot for the follow-up.

Operator

Your next question comes from the line of Steve Stelmach with FBR.

Mark Tonnesen - *Triad Guaranty Inc - President and CEO*

Hey, Steve.

Steve Stelmach - *FBR - Analyst*

How are you guys? I'm sorry about that. Just another clarification on the rating agencies and correct me if I'm wrong, but it seems as if and historically the rating agencies have concentrated more so on catalytic receipts from a statutory perspective, your ability to pay claims. Sort of reading the press releases that they have been putting out recently in the industry, it seems that they have a new found focus on GAAP earnings. Is that my imagination or is that -- is there sort of a shift in their methodology that I'm not necessarily aware of? And if so, what's the rational for focusing on sort of GAAP profitability when your ability to pay claims is a statutory function?

Mark Tonnesen - *Triad Guaranty Inc - President and CEO*

Correct. Let's make sure that we go back on what they focused on. They have focused on the claims paying capability, not the risk to capital ratio, but the claims paying capability based on the specific risks that have been embedded in any MIs business. That is a critical component for them to focus on because the claims paying ability of an insurance company is the most important part.

Mark Tonnesen - *Triad Guaranty Inc - President and CEO*

Okay. Just on --

Steve Stelmach - *FBR - Analyst*

On the issue of earnings emergence, what the rating agencies are thinking about is the industry in total and the profitability of the industry. What some of the rating agencies have said is that this is a cyclical business; we understand this. And as a cyclical business, we can -- we fully expect that there will be times when profits are under pressure and even losses emerge. That is understandable. However, there's only a certain period of time that they will find that acceptable before they have to challenge

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the industry. That's why some of the rating agencies have talked from an industry perspective about the need to see profits reemerge in 2009.

Steve Stelmach - *FBR - Analyst*

Yes. Do you think an unreasonable expectation given sort of credits like it will last a little longer than just a year or so?

Mark Tonnesen - *Triad Guaranty Inc - President and CEO*

I think it's a very reasonable position for them to take.

Steve Stelmach - *FBR - Analyst*

Okay. Thank you for the clarification. I appreciate it.

Mark Tonnesen - *Triad Guaranty Inc - President and CEO*

Sure.

Operator

The next question comes from a line of [Ed Groshans with Fortress].

Ed Groshans - *Fortress - Analyst*

Good morning and thank you very much for taking my call. I guess, can you just talk about -- I got on a little bit late, you probably talked about it a little bit, but I guess the jump in severity in modified pool, can you just talk about what the differences you're seeing there. I guess the way I calculate, it looks like a sequential increase of 55% severity and I just don't see home prices coming down that much, so I'm surprised at that large jump.

Mark Tonnesen - *Triad Guaranty Inc - President and CEO*

Yes, this really came out of a 2005 non-deductible deal. It's a small amount of claims where there was 130 claims. So, it's very -- I would caution anyone that is trying to project trends on, especially on our modified pool basis on severity. You've seen it in the past where it's gone up and then it's gone back down. In the detail that we've given you, we have tried to help you understand what the risk enforces on each one of the book years, that's a better way to think about that. But with the small amount of claims that we've had, Ed, it's difficult to manage the volatility.

Ed Groshans - *Fortress - Analyst*

Okay. So, it's not just really, now do you have more non-deductible deals that we could see this issue rise up again going forward?

Mark Tonnesen - *Triad Guaranty Inc - President and CEO*

We've given detail on the deductibles that are available by book year.

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Ed Groshans - *Fortress - Analyst*

Okay, good. And then, so if I'm really looking at, I look at the primary severity, it jumped up 20% sequentially. Is that also a similar function or is that more trend supported by what's going on in the housing market?

Mark Tonnesen - *Triad Guaranty Inc - President and CEO*

I think that that's a trend that's supported more on the basis of the housing market, but also on our book of business. As you know, the average loan size has increased. We have crept up slightly in terms of the average LTV; in the book of business, both of those would contribute to a higher severity. We reported earlier in the year that we increased reserves because the actual percent of optional guarantee that we were paying out had risen from the low 80s, to the high 80s or around 90%. What that means is that if there was a $10,000 claim posted that we used to pay out about $8200 and we are now paying out about $9000, that has stabilized over the last couple of quarters. So, it's per month, primarily a function of the changes in our portfolio that have happened over a sustained period of time.

Ed Groshans - *Fortress - Analyst*

Thanks. And then, when we look at the movement up in severities and as you said some of it is due to larger loan sizes and then we start looking at the book years of '05 and '06, are you going to pierce the captive levels in maybe not '05 but '06? I mean are you going to hit 4% losses on your '06 book or 5% losses?

Mark Tonnesen - *Triad Guaranty Inc - President and CEO*

No, I think that that's an important data point to calculate. Let me tell you this. If on normal pricing of the MI business, at a rate of 5, at an incidence rate of 5, on the BPMI, on the borrower paid MR pricing, we generate a return on capital of somewhere around 11% to 13%, that's our estimate. So generally the pricing supports about a 5 to hit reasonable returns. The pricing comes down to about a zero at around a 13. Now with captive support, what happens is it levels out at around 11 all the way from an incidence rate of 4 through an incidence rate of 14 on a deep seeded captive. Is that helpful, Ed?

Ed Groshans - *Fortress - Analyst*

A little bit. I guess what I -- the path I kind of wanted to walk along is, you made the comment earlier here that if you go and pierce the captive levels, that you feel that you are going to get paid in full, and to me that means that each of these captive trusts have 4% or 4 out of a 100, whatever their severity and those losses are set aside in those trusts. And it's not clear to me that the captives are carrying that much capital in there. So, if we really had a significant decline and the total losses went to 7 per 100, it's not clear to me that the captives have enough to come in at 3 per 100, especially if they are no longer in business.

Mark Tonnesen - *Triad Guaranty Inc - President and CEO*

Well, the captives are a trust; they are not a business.

Ed Groshans - *Fortress - Analyst*

Right.

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Mark Tonnesen - *Triad Guaranty Inc - President and CEO*

And so, Ed, it is critically important that that gets clear to you because it's true. And so, what we will do is, we will work with you offline to make sure that you understand that. It is absolutely a fact that the captive balances exist to the tune of a $185 million. We have laid that out for you; you can do the arithmetic on the loss rates by vintages and see what will happen to those captives. Now we have -- we've done all of that work on a captive-by-captive basis. We did all the legal work on making sure that the trusts were set up the way that we have explained them to be set up and we are quite confident that those balances will accrue to our benefit should those losses escalate. And because there is cross collateralization against book years and because those balances have been building up for a number for years, you should have great confidence in that, Ed.

Ed Groshans - *Fortress - Analyst*

So, you're saying that there's no way that the captive responsibility for losses is going to exceed a $185 million?

Mark Tonnesen - *Triad Guaranty Inc - President and CEO*

No, I'm not saying that. I'm saying that if the --

Ed Groshans - *Fortress - Analyst*

And that's what available, right?

Mark Tonnesen - *Triad Guaranty Inc - President and CEO*

I'm saying if the losses go up to 7% -- you asked if losses go up to 7%, would they be available? Absolutely. If they go up to a 100%, they wouldn't. But in any range that is -- that we have ever had in our history regarding incidents rates, the captives have been available. Now the captives, you got to remember that the captive structures were set up based upon actuary or methodologies in which the risks were transferred.

Ed Groshans - *Fortress - Analyst*

Right.

Mark Tonnesen - *Triad Guaranty Inc - President and CEO*

So when we have a risk situation like we do today, it's only reasonable that they would be available.

Ed Groshans - *Fortress - Analyst*

Okay, fair enough. Thank you.

Mark Tonnesen - *Triad Guaranty Inc - President and CEO*

Thank you.

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Operator

Mr. Jones, there are no further questions at this time. Please continue with closing remarks.

Ken Jones - *Triad Guaranty Inc - SVP and CFO*

Okay, well thanks to everyone for their participation today and always we appreciate your interest in Triad. Have a good day.

Operator

Ladies and gentlemen, this concludes today's conference call. Webcast replays will be available on the TGIC Web site at www.triadguaranty.com. Thank you for participating and you may now disconnect.

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