

FINAL TRANSCRIPT

Thomson StreetEventsSM

RDN - Radian Second Quarter 2008 Conference Call

Event Date/Time: Aug. 11. 2008 / 10:00AM ET

Aug. 11. 2008 / 10:00AM, RDN - Radian Second Quarter 2008 Conference Call

CORPORATE PARTICIPANTS

Teresa Bryce

Radian Group - President of Radian Guaranty

S.A. Ibrahim

Radian Group - CEO

Terri Williams-Perry

Radian Group - IR Specialist

Bob Quint

Radian Group - CFO

Steve Cooke

Radian Group - President of Radian Asset Assurance

Scott Theobald

Radian Group - Senior Vice President of risk management

CONFERENCE CALL PARTICIPANTS

Steve Stelmach

FBR Capital Markets - Analyst

David Hochstim

Buckingham Research Group - Analyst

Michael Grasher

Piper Jaffrey - Analyst

Donna Halverstadt

Goldman Sachs - Analyst

James Gilligan

Equity Group Investments - Analyst

Conner Ryan

Deutsche Bank - Analyst

Maria Panganiban

New York Life - Analyst

Jay Abrams

FMS Bonds - Analyst

Pamela Brill

Allstate - Analyst

Mike Grandall

Key Colony Fund - Analyst

Peter Lardis

Trident - Analyst

Mike Grondahl

Key Colony Fund - Analyst

PRESENTATION

Operator

Aug. 11. 2008 / 10:00AM, RDN - Radian Second Quarter 2008 Conference Call

Ladies and gentlemen, thank you for standing by. And welcome to Radian Group second quarter 2008 earnings conference call. At this time all phone participants are in a listen-only mode. (OPERATOR INSTRUCTIONS).

I would like to turn the conference over to Terry Williams-Perry of Investor Relations. Please go ahead.

Terri Williams-Perry - *Radian Group - IR Specialist*

Good morning. Welcome to Radian's second quarter 2008 conference call. By now you should have received our press release which contains the financial results for the quarter. If you have not yet received this you may obtain it from our investor relations website at www.radian.biz. During this morning's call you will receive prepared remarks from S.A. Ibrahim, Radian's Chief Executive Officer and Bob Quint, Chief Financial Officer. Also on hand for the Q&A portion of the call are Teresa Bryce, President of Radian Guarantee, Steve Cooke, President of Radian Asset Assurance and Scott Tearbauld, Senior Vice President of Risk Management.

Before we begin with our prepared remarks, I would like to remind you that any forward-looking statements that we make this morning should be considered in conjunction with the cautionary statements set forth in the Safe Harbor statement including with our webcast slides and the statements contained in our SEC filings. These are available on the investor relations website at www.radian.biz. I will now turn the call over to SA.

S.A. Ibrahim - *Radian Group - CEO*

Thank you, Terry. Good morning and thank you all for joining us today to review Radian second quarter financial results. I am going to share some views on Radian's position and will comment on our second quarter. As always, Bob Quint will follow with more financial details after which we will take your questions.

Before anything else, I would like to discuss our capital situation. As I said on last quarter's earnings conference call we were exploring various internal and external capital raising alternatives. We continue to believe that we have adequate resources in both our mortgage insurance and financial guarantee businesses, so the objective of the capital raise was to take advantage of opportunities to write profitable new business, improve our risk to capital ratios, address counter parties perception about our capital strength and to position us to better manage through the prolonged economic uncertainty. I am pleased to say that we now believe that Radian can meet these objectives by moving our financial guaranty entity, Radian Asset under our mortgage insurance entity Radian Guarantee. The Radian asset has significant excess capital.

Additionally the Radian Asset is writing minimal new business and this means that more excess capital will likely be released over time. As of June 30, 2008, Radian asset assurance had just under \$1 billion of statutory surplus and just under \$500 million of contingency reserves for a total of \$1.5 billion of qualified statutory capital and an additional \$1.5 billion in statutory claims resources for a total of \$3 billion. Moreover, Radian has minimal exposure to asset classes in its financial guarantee business. This internally generated capital support that is incremental over time to Radian guarantee significantly exceeds the capital we were considering to raise externally with the additional benefit of not diluting our shareholders. And will translate into a strongly capitalized mortgage insurance entity. We have discussed our proposed action with our stakeholders and they have reacted positively. We have now received all the regulatory and bank approvals to proceed with our capital strategy.

I would now like to highlight five key points regarding Radian. First, we believe Radian has adequate capital levels in both of its businesses. Radian guarantee, our entity that writes mortgage insurance, has strong risk to capital ratio of 14.9 to 1 as of June 30th, 2008 and 10.3 to 1 after adding Radian asset on a proforma basis. These ratios compare very favorably with our industry peers. Additionally, Radian has 22% ownership interest in Sherman Financial. Sherman provides Radian with the potential source of future capital and in the interim represents a solid source of dividends.

Aug. 11. 2008 / 10:00AM, RDN - Radian Second Quarter 2008 Conference Call

Second, following the transfer of our financial guaranty business to our mortgage insurance business, we do not believe Radian will need additional capital in the near term. Radian Group does not have any near term liquidity needs beyond our modest dividend payments which were recently reduced. That said we remain opportunistically open to raising capital to further strengthen us in dealing with prolonged economic uncertainties, as well as new mortgage insurance opportunities.

Third, Radian's financial guarantee business had the lowest exposure to mortgage risk as compared to its peers. This point was echoed in a recent rating agency call on the financial guaranty industry. Its strong capital position is further demonstrated by our recent action to take an ordinary dividend of 107 million from Radian Asset. Importantly, our financial guaranty business also continues to be profitable.

Fourth, we have successfully improved the mix of our new MI business to 93% prime during the second quarter of 2008. We have accomplished this while maintaining a stable market share position. At the same time, we have benefited from our captive arrangements and unique smart home risk transfer deals and stand to benefit even more in the near future.

Fifth, we view mortgage insurance as our core business going forward and will continue to back up this commitment with ongoing investments in sales and marketing technology and loss mitigation. Having already demonstrated that we can successfully adjust our business mix and strategy we want to position the business to take advantage of future opportunities. Our significant investment in loss mitigation over the last few years has paid off and we remain committed to working closely with our servicing partners to explore strategies to keep more people in their homes and reduce losses. We believe our loss mitigation capabilities today are second to none.

We also focused on operational enhancements to improve the profitability of the new insurance we write. To that end, we continue to take strong measures to improve the quality of the 2008 and future books through several pricing and guideline changes. As part of these changes we maintain the declining markets policy which requires higher down payment in soft or declining MSA's. We have seen a steady decrease in overall industry MI penetration from nearly 18% in the fourth quarter to 11% during the second quarter. And believe that increases in FHA business were major contributor to this trend. At the same time, low levels of mortgage refinancing have contributed to higher persistency.

Our industry has endured another quarter characterized by difficult economic conditions including continued depreciation of home prices, deteriorating credit performance of mortgage assets and reduced liquidity for many market participants. We do not see these conditions abating in the near term. However, despite these many challenges my focus and the focus of the management team at Radian remains very steady and very clear, we are managing through the downturn and taking prudent deliberate action today that will best position Radian to be a strong and viable player for the long term. That is our objective. Throughout the market challenges of the past year, our people here at Radian have remained incredibly tentative to the day to day details of operating the business and most importantly serving our clients. We believe that remaining focused on creating long-term value without being distracted will prepare us well for recovery. We have updated our loss projection as of June 30, 2008, and as a result have established a pretax premium deficiency reserve of \$422 million for first win portfolio. Bob will take you through the details of the premium deficiency reserve and other results.

In summary, I would like to emphasize that we continue to remain focused on managing our businesses in this challenging environment, while positioning us to enjoy the benefits of a more profitable tomorrow. We engage in frequent productive discussions with the regulators and rating agencies. We prudently keep our assets including our strong investment portfolio \$6.5 billion. We continue to make new investments while being disciplined about our expenses. While the near term environment still remains challenging, we have now come through an extremely difficult 12 months for the industry with a book value of \$30.54. In essence we are strategically managing through this downturn. With the capital strength of Radian guarantee we will continue to be a strong partner to our MI customers and counter parties and expect to benefit as they reallocate the new business in a prudent and balanced manner.

Now I will turn the call over to Bob and he's going to provide detail on the financials for the quarter. Bob.

Aug. 11. 2008 / 10:00AM, RDN - Radian Second Quarter 2008 Conference Call

Bob Quint - Radian Group - CFO

Thank you S.A. and good morning. I will be updating you on the P&L activity and trends for the second quarter of 2008 and our financial position as of June 30th, 2008.

For the last several quarters, due to the deteriorating credit environment, we have been performing an analysis of our book of domestic mortgage insurance to test for potential premium deficiency. We have book to premium deficiency on our second lien book back in the third quarter of 2007. Premium deficiency exists when the present value of expected future results of the existing business is negative i.e., future expected premiums are less than the sum of future expected losses and expenses offset by our loss reserve. This exercise includes our best estimate of future losses in an unpredictable environment.

This quarter, we updated our loss projections, using cumulative HPA declines of 8% nationally on a basis over 2008 and 2009. These assumptions are consistent with those set forth by economy.com. Based on the resulting projections we booked a GAAP premium deficiency of \$421.8 million on our first lien book in the second quarter. This premium deficiency front loads to the current period, much of the expected P&L impact of future projected losses. Based on the fact that we believe 2008 will be the peak year for incurred losses, the P&L impact of such losses would likely have been booked in the third or maybe fourth quarter of 2008 anyway. Of course the result is subject to change if our projections change, which would generally be due to changes in our macro economic expectation.

To put further context to the loss projections that led to this premium deficiency, we are expecting a total of approximately \$5.9 billion of gross losses on our existing first lien domestic MI portfolio as of June 30th, 2008. Those amounts are offset by expected future premium of \$2.8 billion, captive and smart home recoveries of approximately \$740 million, and our losses over \$1.8 billion. These amounts are then present valued to arrive at the current premium deficiency of \$421.8 million. This loss projection translates to an overall claim frequency of 10% on our existing prime business and approximately 23% on our ALTA minus business for an overall claim rate of about 14%. In other words we are projecting that approximately 14% of all the first lien loans on our pick today, net book current and delinquent will ultimately become a claim. Implicit in the projections is an unemployment rate of approximately 6.2%. Even if losses are significantly higher than these projected levels, we believe Radian has more than enough claims resources to pay all claims. We believe that the contribution of financial guarantee to MI will provide us with enough capital, continue to write future profitable business. Importantly, this premium deficiency has no impact on statutory capital for risk to capital ratio, which I will address later on.

In conjunction with the booking of our premium deficiency is a write-off of deferred acquisition costs related to our first lien business of \$51 million, which clearly difficulties the finder in the quarter, but will reduce future quarters amortization amounts. Other operating expenses this quarter are also higher than last quarter, primarily a result of a \$10 million accrual for contract underwriting recommended expenses. Our traditional MI first lien loss provision reflects the higher delinquencies and claims that occurred this quarter, although as we previously noted the delinquency trend showed slower rate increase in the second quarter. Paid claims came in at \$209 million, lower than our previously forecasted number of \$240 million, consisting of \$161 million of first liens and \$48 million of second liens. Looking forward into the balance of 2008, we expect a claims paid will be between \$275 million and \$300 million in the third quarter and still in the \$1 billion range for the year including both first and second liens. The total provision for losses for the quarter of \$449 million compares favorably to incurred losses of \$571 million in the first quarter. While gross losses for the quarter were very similar to the first quarter the substantial amount of losses recoverable booked during the quarter created a significant reduction in net losses this quarter. While the pace of increase and delinquencies slowed this quarter, we have seen historically that seasonal delinquencies are usually greater in the second half of the year and when coupled with the uncertainties in the economy we cannot project this pace to continue to slow during the balance of the year.

With regard to NIM, we had risk in force of \$522 million as of March 31st, 2008. Since then our risk has been reduced by another \$37 million to \$485 million as of June 30th. The updated total balance sheet on NIM is \$225 million with the positive change occurring primarily due to further impact of FAS 157. We expect future principle credit losses on NIM will be approximately

Aug. 11. 2008 / 10:00AM, RDN - Radian Second Quarter 2008 Conference Call

\$469 million. The claim payments are expected to begin in 2010 and will occur mostly in 2011 and 2012. Because these future expected credit losses are greater than our liability due to the FAS 157 impact, the balance of the liability is expected to be booked in future quarters.

Our premium deficiency on second liens which is initially booked in the third quarter of 2007 was on the balance sheet at March 31st at \$214 million. Our loss projections in second have stabilized resulting in a \$52 million release of the premium deficiency on seconds in the second quarter to a current balance of \$162 million. This essentially offset the \$51 million of incurred losses relating to second liens this quarter. The risk in force on second liens is down to \$772 million, between our loss reserve of \$179 million plus the premium deficiency reserve of \$162 million, this exposure is 44% reserved. The reserves approximate our current credit loss expectation.

The domestic mortgage insurance CDS business had a further negative mark this quarter of \$32 million and the current mark at quarter end is negative \$139 million which approximates our expected credit losses. The international CDS had a negative mark of \$19 million as of June 30th, 2008. Although the exposure on this business is very high at \$8.6 billion, Radian attaching points super triple A and we still see no reasonable scenario in which we would incur any credit losses in such exposure. This risk is contained within Radian insurance, which is a Pennsylvania only licensed credit insurer, which we believe has more than enough capital to satisfy all of its future claims.

Financial Guaranty results this quarter were as expected with lower premiums written due to the significant slow down in new business and this trend should continue. Premiums earned were very strong, reflecting heavy refunding and losses were as expected with relatively stable credit performance. As we have said our book of business contained significantly less exposure to mortgage and mortgage related credits in the rest of the industry. We paid \$107 million ordinary dividend in July and a \$100 million cash with subsequently downstream to Radian guarantee.

Sherman continues to perform well with pretax operating income this quarter of \$77.8 million of which Radian's share was \$15.7 million. Sherman has an option to acquire our naming interest that expires on September 19th this year and we continue to view Sherman as a potential source of additional capital be it dividend and/or sale in the future. We received \$19.5 million of dividend from Sherman during the second quarter.

Change in fair value line was significantly impacted by the adoption of FAS 157 in the first quarter of 2008, but much less so in the second quarter. We will continue to have several disclosure tables in our 10 Q filings to depict the impact of FAS 157 and details around our change in fair value derivative. We will still have over \$50 million cash at Radian Group after the anticipated pay down of \$50 million of bank facility in conjunction with the move of financial guarantee to MI will reduce our bank commitment to \$150 million. We have minimal need for cash from the holding company.

As SA mentioned Radian Guaranty risk to capital ratio June 30th 2008 is 14.9 to 1. This is a regulated entity in which we write our MI business that is subject to the regulatory requirement of 25 to 1 and is the counter party to Fannie May, Freddie Mack and our lender customers. Importantly after the financial guarantee contribution the proforma risk to capital at Radian Guaranty would be 10.3 to 1. In addition to the \$960 million in debt surplus a financial guarantee company has another \$2 billion in including unearned premiums, future value of installments and contingency reserve for a total of approximately \$3 billion in claimed payment resources. These numbers should leave no doubt that Radian guarantee's capital position is among the strongest in the industry and in no danger whatsoever of violating the 25 to 1 risk to capital requirement for the foreseeable future. At quarter end the total statutory surplus which includes contingency reserve in our MI business was \$2.1 billion and we have another \$2.6 billion in loss and other reserves.

Our investment portfolio continued to maintain its value in this stressed environment. Its extremely safe credit profile emphasis on liquidity and our policy of generally not investing in residential mortgages has proven sound. I would now like to turn the call back over to SA.

Aug. 11. 2008 / 10:00AM, RDN - Radian Second Quarter 2008 Conference Call

S.A. Ibrahim - Radian Group - CEO

Thank you Bob. Operator, we are now ready to take questions.

QUESTIONS AND ANSWERS

Operator

(OPERATOR INSTRUCTIONS). We will go to Steve Stelmach with FBR Capital Markets, please go ahead.

Steve Stelmach - FBR Capital Markets - Analyst

Hi, good morning.

S.A. Ibrahim - Radian Group - CEO

Morning.

Steve Stelmach - FBR Capital Markets - Analyst

SA you mentioned that potentially may raise capital in then certain environments. Can you give us an idea what it would take for you guys to actually contemplate a capital raise of some sort. What sort of form would that take, is that just monetizing Sherman or are there other avenues that are available to you at this point.

S.A. Ibrahim - Radian Group - CEO

Steve, when I said that we would be opportunistically open to raising capital, first of all I also said that we believe we are strongly capitalized based on the move of our financial guarantee, financial guarantee entity into our MI entity, Radian Guaranty. So we do not have any immediate pressing need for capital based on the way we look at the picture. That said the environment uncertainty going forward and we believe that there may be opportunities for us to write more profitable MI business and that said, environment out there sparked with uncertainty I think it's wise to say we have to be opportunistic in looking for capital.

Steve Stelmach - FBR Capital Markets - Analyst

Okay, that's helpful. But then on Radian Asset presumably is in hibernation right now. Can you give us an idea what sort of capital relief that's going to provide if it business or hibernating, is there an annual number we should be thinking about in terms of capital.

Bob Quint - Radian Group - CFO

From a regulatory standpoint the Company has \$960 million in surplus. Now, we took the ordinary dividend recently of \$107 million and there is an expectation that if things continue the way they have there will be a regular ordinary dividend capacity that we would -- that we would look to achieve. And, you know, the other thing that may happen is there may be proactive management of the current risk in force that may enable us to take further dividend.

Aug. 11. 2008 / 10:00AM, RDN - Radian Second Quarter 2008 Conference Call

Steve Stelmach - FBR Capital Markets - Analyst

Okay. So maybe just to clarify, the \$960 million at Radian Asset, that is all included in Radian Guaranty's risk to capital ratio currently, is that correct.

Bob Quint - Radian Group - CFO

No, but it will be once --

Steve Stelmach - FBR Capital Markets - Analyst

Once it moves.

Bob Quint - Radian Group - CFO

Contributed, yeah.

Steve Stelmach - FBR Capital Markets - Analyst

Got you. Then presumably risk to capital ratio will improve further if Radian asset exposure line down.

Bob Quint - Radian Group - CFO

As the surplus gross and that statute surplus can grow generally by earnings or the release of contingency reserve, that ratio will be helped by that surplus, yes.

Steve Stelmach - FBR Capital Markets - Analyst

Okay. So it could migrate higher is what I'm trying to get to, the capital.

Bob Quint - Radian Group - CFO

Well, obviously there are a lot of components to that. That component will go up. But the risk to capital is going to be driven by the MI result as well as far as the risk in MI.

Steve Stelmach - FBR Capital Markets - Analyst

Okay. But all else equal, Radian Asset should be helping going -- should be additional benefit going forward, is that fair to say or no.

Bob Quint - Radian Group - CFO

That's fair, if all things perform as expected.

Aug. 11. 2008 / 10:00AM, RDN - Radian Second Quarter 2008 Conference Call

Steve Stelmach - *FBR Capital Markets - Analyst*

Got you, okay. Great. And then what was, Bob you mentioned minimum cash needs at group. Could you just sort of quantify minimal relative to the current \$50 million in cash?

Bob Quint - *Radian Group - CFO*

Yes, we reduced our common dividend to an annualized amount of about \$800,000.

Steve Stelmach - *FBR Capital Markets - Analyst*

Yeah.

Bob Quint - *Radian Group - CFO*

So that's the only need for cash at the holding company that is in the near term.

Steve Stelmach - *FBR Capital Markets - Analyst*

Okay. All right guys, thank you very much. Thank you.

Operator

We will go to David Hochstim with Buckingham Research Group, please go ahead.

David Hochstim - *Buckingham Research Group - Analyst*

Hi. I wonder is it possible at this point to say provide any color on the ALTA claims that you're reviewing in terms of underwriting lapses or the legitimate problem loans, is it pretty dramatic increase and obviously claims that you're looking at there.

S.A. Ibrahim - *Radian Group - CEO*

David, first of all congratulations on your new company and I will ask Teresa Bryce the President of our MI business to answer your question.

Teresa Bryce - *Radian Group - President of Radian Guaranty*

David, first of all I want to say that we have done a lot in the loss management area, I think that's what you're getting at here. It's not just related to ALTA claims although that certainly is a significant component of it. And we are actively looking at claims as they come in. We have doubled our staff in loss management area over the last year. And we have increased the number of resignificance and denials that we are seeing as a result of the significant focus and what we call our special investigative unit on those claims.

Aug. 11. 2008 / 10:00AM, RDN - Radian Second Quarter 2008 Conference Call

S.A. Ibrahim - Radian Group - CEO

And David, I can't let your question go by without commenting that we have been the only company over the last two years to disclose our ALTA exposure. If you look at the exposure they compare favorably to some of our peers.

David Hochstim - Buckingham Research Group - Analyst

Yeah, I guess, given your experience in the ALTA world, when ALTA used to be a legitimate underwriting strategy, it's just shocking what's gone on the last two years in terms of what's been termed "ALTA." I guess just looking at the delinquency trends and the loss prospects it's really shocking. I just wonder how much of that is a result of failures to adhere to even minimal standards in terms of underwriting.

S.A. Ibrahim - Radian Group - CEO

It should also be viewed in the context of ALTA is prevalent which is California, Florida, Nevada, Arizona. So there's an interplay of both geography and underwriting.

David Hochstim - Buckingham Research Group - Analyst

All right, thanks.

Operator

We will go to Michael Grasher with Piper Jaffrey, please go ahead.

Michael Grasher - Piper Jaffrey - Analyst

Good morning everyone. Just wanted to follow up with a couple questions here. Bob, you were talking about the peak losses I think it was \$5.9 billion with the 6.2% unemployment worked in. Where does that get you in terms of your peak risk to capital, everything else, I guess given as you model.

Bob Quint - Radian Group - CFO

It's a little bit higher than it is now, Mike, but it's well within any of the regulatory requirements and it's at levels that we think are very, very appropriate and conservative.

Michael Grasher - Piper Jaffrey - Analyst

So you're talking mid-teens or lower.

Bob Quint - Radian Group - CFO

Yeah, in that range.

Aug. 11. 2008 / 10:00AM, RDN - Radian Second Quarter 2008 Conference Call

Michael Grasher - Piper Jaffrey - Analyst

Okay, fair enough. And then SA, I wonder if you could give us a little bit more detail or background on some of the conversations you've had with both the rating agencies as well as the GSEs.

S.A. Ibrahim - Radian Group - CEO

I'd be delighted to, but I'll give Teresa Bryce who is the President of our mortgage insurance entity and close and frequent conversations with both the GSE and rating agencies, the opportunity to answer the question.

Teresa Bryce - Radian Group - President of Radian Guaranty

Good morning. We have been having continuous dialogue with the GSE, our regulators and the rating agencies. We think those have been very productive conversation. We continue to keep them up to speed on the activities that we're doing around the business, around underwriting guidelines, around pricing. And we believe that those continue to be fruitful conversations.

S.A. Ibrahim - Radian Group - CEO

And in addition to the MI business, we have conversations with regulators for financial guarantee business and you can be the judge of the result of those conversations based on our dividend that we pulled out in our financial guarantee business.

Michael Grasher - Piper Jaffrey - Analyst

Fair enough. And then would you characterize the conversations or the agencies as having different concerns or are they pretty much the same both ways.

Teresa Bryce - Radian Group - President of Radian Guaranty

I would say that generally the concerns have been pretty consistent.

Michael Grasher - Piper Jaffrey - Analyst

Okay, thank you.

Operator

We will go to Amanda [Linem] with Goldman Sachs, please go ahead.

Donna Halverstadt - Goldman Sachs - Analyst

Hi, it's actually Donna Halverstadt. Two quick questions for you. You said that the only cash need at the hold which really was your common dividend. What have the regulators said about that, are you comfortable that will continue to work.

Bob Quint - Radian Group - CFO

Well, the regulators are aware of the agreement and have approved them. So we're expecting them to continue.

Aug. 11. 2008 / 10:00AM, RDN - Radian Second Quarter 2008 Conference Call

Donna Halverstadt - *Goldman Sachs - Analyst*

Okay. And the other thing I wanted to ask about was the amendment to the credit facility. Your release said that it's effective upon satisfaction of certain conditions, just curious what the conditions are. Then secondly was curious if any of the financial covenants had changed and if you could update us on where you stand relative to each of the financial covenants.

Bob Quint - *Radian Group - CFO*

The financial covenants did not change with this amendment. What is required are just a couple of minor items that we think will be completed very shortly.

Donna Halverstadt - *Goldman Sachs - Analyst*

Okay. One if I can follow up with respect to the net worth requirement it was supposed to be without giving effect any gain or loss or sale on Radian asset. Does the move of Radian asset to underneath Radian guarantee play into that at all?

Bob Quint - *Radian Group - CFO*

No, that shouldn't create any kind of gain or loss.

Donna Halverstadt - *Goldman Sachs - Analyst*

Okay, great, thank you.

Bob Quint - *Radian Group - CFO*

Sure.

Operator

Next, we'll go to James [Gilligan] with Equity Group Investment, please go ahead.

James Gilligan - *Equity Group Investments - Analyst*

Hi guys.

S.A. Ibrahim - *Radian Group - CEO*

James.

James Gilligan - *Equity Group Investments - Analyst*

A couple questions just some clarification some of your points here. On your HPA assumption on your, in your supplement materials you say negative # %. Where is that today.

Aug. 11. 2008 / 10:00AM, RDN - Radian Second Quarter 2008 Conference Call

Bob Quint - Radian Group - CFO

Basis there's only been a very small negative so far James.

S.A. Ibrahim - Radian Group - CEO

And James, as you would expect that 8% is nationally, so it really varies from geography to geography.

James Gilligan - Equity Group Investments - Analyst

Okay, that's great. Another clarifying question. On your second loss you said you had about 772 risk in force. In a prior call I think it might have been either the first quarter or the fourth quarter you had talked about the second in kind of two buckets. One performing well and one performing not so well. Is that 772 still divided into two buckets and if so what's the sort of relative size of those two groups?

Bob Quint - Radian Group - CFO

It's about half and half. It's been half and half. But I think the good news on seconds is we have really seen sort of all around the performance stabilize in terms of delinquencies, claims, so we're pretty confident that we're, you know, we're in the range that we have booked right now.

James Gilligan - Equity Group Investments - Analyst

Okay. And then just one more. Post amendment you might have answered this and I apologize if I missed it, what's the liquidity in the bank agreement.

Bob Quint - Radian Group - CFO

Well, the total commitment will be \$150 million and it will be fully drawn. So we're going to pay \$200 million down to \$150 million, then the commitment gets reduced to \$150 million.

James Gilligan - Equity Group Investments - Analyst

Okay, thanks guys.

Operator

We will go to Shawn with Deutsche Bank, please go ahead. Hi, this is Conner Ryan calling. I was just curious as to what effect you guys have seen from potential recapture or what effect you could see going forward.

Conner Ryan - Deutsche Bank - Analyst

Are you talking about financial guarantee recapture?

Aug. 11. 2008 / 10:00AM, RDN - Radian Second Quarter 2008 Conference Call

Bob Quint - Radian Group - CFO

Yeah.

Conner Ryan - Deutsche Bank - Analyst

Well, you know, two things, the majority of our assumed business is subject to downgrade and was subject to downgrade once we were downgraded by the agencies. To date there has been only minimal amount of recapture, although that is an open ended option, that's how we reassure or retain.

S.A. Ibrahim - Radian Group - CEO

As Bob pointed out earlier should a recapture event occur it would release capital after.

Bob Quint - Radian Group - CFO

Yeah, what would happen if there was a recapture is we would pay back premium reserve, so it wouldn't affect capital in that regard. But it would potentially free up contingency reserve, which would in turn improve our dividend capability sooner. So that would be the impact. But as Steve said, we're not, we're not counting on that happening, although it's open ended. The other financial guarantors have their own issues and, you know, we're not, we're not sure that any of the recapture will happen.

Conner Ryan - Deutsche Bank - Analyst

Okay. Just to follow up on that real quick, though. Not assuming this is what would happen, but I was just curious could there be a situation where you could be left with the risk that was not performing as well or not expect to perform as well going forward whereas a lot of the good business could be recaptured.

Bob Quint - Radian Group - CFO

The insurance agreements specifically structured so as not to permit adverse election or cherry picking in that regard.

Conner Ryan - Deutsche Bank - Analyst

Okay.

Bob Quint - Radian Group - CFO

Really an all or nonproposition in large part.

Conner Ryan - Deutsche Bank - Analyst

Okay, great, thank you very much.

Operator

We will go to Maria Panganiban with New York life, please go ahead.

Aug. 11. 2008 / 10:00AM, RDN - Radian Second Quarter 2008 Conference Call

Maria Panganiban - *New York Life - Analyst*

Hi. I have a number of follow-up questions on liquidity at the holding company. The first one is the \$50 million of cash at the holding company, does the payment of the bank line already include the Sherman dividend.

Bob Quint - *Radian Group - CFO*

The Sherman dividends that we have received in the past, yes.

Maria Panganiban - *New York Life - Analyst*

Is there an expectation of further dividends from Sherman this year?

Bob Quint - *Radian Group - CFO*

There may very well be more dividends from Sherman over the rest of the year, yes.

Maria Panganiban - *New York Life - Analyst*

Is there like a set number or is that something they declare on a quarterly basis?

Bob Quint - *Radian Group - CFO*

You know, it would be declared, it's not set yet. But, you know, there's an expectation that if things continue as they have there will likely be a dividend paid.

Maria Panganiban - *New York Life - Analyst*

How much have they paid this year in total?

Bob Quint - *Radian Group - CFO*

We have gotten \$19.5 million so far.

Maria Panganiban - *New York Life - Analyst*

Now, in terms of if you could remind us what the annual interest payments are at the holding company for debt service?

Bob Quint - *Radian Group - CFO*

It's about \$55 million or so, but that gets charged out to the sub, it's not a company obligation.

Maria Panganiban - *New York Life - Analyst*

Then the final question, is there still existing dividend capacity from the financial guarantee business for 2008.

Aug. 11. 2008 / 10:00AM, RDN - Radian Second Quarter 2008 Conference Call

Bob Quint - Radian Group - CFO

Not for 2008.

Maria Panganiban - New York Life - Analyst

And is there a difference in the calculation of, in terms of the formula calculation of what you may be eligible for in 2009, if you could just remind us what the formula is in terms of calculation of potential dividend payment.

Bob Quint - Radian Group - CFO

Based on the lesser of, 10% of your policyholder surplus or your net adjusted investment income. And it depends on what the company's situation is at that point in time, which is the driver.

Maria Panganiban - New York Life - Analyst

I'm sorry, that investment income and.

Bob Quint - Radian Group - CFO

Adjusted and income and policyholder surplus. So, if you think in terms of where the surplus is now, 10% of that would be 96 million.

Maria Panganiban - New York Life - Analyst

Okay. Okay, thank you very much.

Operator

We will go to Jay Abrams with FMS Bonds, please go ahead.

Jay Abrams - FMS Bonds - Analyst

Hi, I'm interested how the Radian Asset move, how that and the dividends that you're taking from there, how it's going to affect the ability of Radian asset to meet any future claims. And also what kind of capability are you retaining there to monitor and remediate their insured portfolio.

Steve Cooke - Radian Group - President of Radian Asset Assurance

Well, let me answer your question in two parts. First, the taking out of any dividends from the company assumes that there's sufficient capital that remains to support remaining business within the Company. So there is nothing about the dividends that will be taking out over a period of time that would compromise that at all. Secondly with respect to mediation we still he maintain a large risk management department within the company, it's our largest department there and we will continue to actively survey and engage in active remediation and loss mitigation on financial guarantee side as we have always done.

Aug. 11. 2008 / 10:00AM, RDN - Radian Second Quarter 2008 Conference Call

Jay Abrams - *FMS Bonds - Analyst*

Do you expect at any time that Radian asset will start to write new business or is it going to be mostly a runoff scenario?

Steve Cooke - *Radian Group - President of Radian Asset Assurance*

We are writing very little new business now, not inconsistent with many places in the industry and expect that to continue.

Jay Abrams - *FMS Bonds - Analyst*

Okay, thank you.

Operator

We will go to Pamela Brill with Allstate, please go ahead.

Pamela Brill - *Allstate - Analyst*

Good morning. Provided the progression toward attachment in Exhibit O in your release, could you provide with respect to smart home any more detail of which deals fall into which progression bucket, which deals you expect to attach and how much offset each deal has provided?

Bob Quint - *Radian Group - CFO*

We have provided the information in summary form and I think that's, you know, that's, that is what we would expect to provide.

Pamela Brill - *Allstate - Analyst*

Okay, thank you.

Bob Quint - *Radian Group - CFO*

You're welcome.

Operator

And we will go to Amanda [Linem] with Goldman Sachs, go ahead please.

Donna Halverstadt - *Goldman Sachs - Analyst*

Just one other follow up on credit facility related to defined terms. Can you tell us where the ratio of debt to cap in six charge coverage ratio as defined in that agreement stood at the end of the quarter, thank you.

Bob Quint - *Radian Group - CFO*

We're in compliance. The exact number we can get for you if you'd like, but we're in compliance on all financial covenants.

Aug. 11. 2008 / 10:00AM, RDN - Radian Second Quarter 2008 Conference Call

Donna Halverstadt - *Goldman Sachs - Analyst*

Yeah, that would be great, we will call you back later for that, thank you.

Bob Quint - *Radian Group - CFO*

Okay.

Operator

Go to Mike [Grandall] with Key Colony Fund, please go ahead.

Mike Grondahl - *Key Colony Fund - Analyst*

Yeah, two questions please. Could you explain in relationship to your paid deficiency reserve or premium deficiency reserve what bucket of your business or segment of your business that applied to and why you stopped there and didn't go further or how that decision was made? Then could you also help us understand with the claims paid coming in below your expectation what were some of the drivers there?

Bob Quint - *Radian Group - CFO*

Premium deficiency, then Teresa can do the claims. This is our entire first lien domestic mortgage book of insurance. So it's not, it's not splitting it up into any buckets or anything like that, this is the whole book of business as of June 30th, 2008. And, we do this future projection on estimated losses and premiums and expenses and that's how that calculation is done.

Mike Grondahl - *Key Colony Fund - Analyst*

By saying it's your entire first lien book of business, do you mean your flow business, your all day business, your A minus business?

Bob Quint - *Radian Group - CFO*

Everything on the books as of June 30th on a first lien basis domestic.

Mike Grondahl - *Key Colony Fund - Analyst*

Okay. Thank you.

Teresa Bryce - *Radian Group - President of Radian Guaranty*

And then with respect to the other part of your question, I I have spoken a little bit earlier about what we have done in terms of loss mitigation, just to go into a little bit more detail about that, we have been working actively with the servicers to try to decrease the amount of claims or the amount that we have to pay out. And as a result of that, we have increased our retention workout significantly. We have been involved in more loan modifications, we have been involved in increase in short sales which has also been a benefit. We have taken on activities that have increased borrower contact which is a big driver of trying to do successful loss management, including our partnership with consumer credit counseling services of Delaware valley which has significantly increased our ability to contact and make contact with customers. We have also put out a borrower web site,

Aug. 11. 2008 / 10:00AM, RDN - Radian Second Quarter 2008 Conference Call

we notify borrowers that are in default about that web site and it tells them information about, you know, what possible steps can be taken to try to remediate their situation. And in addition to that we recently joined the Hope Now initiative. So we're continuing to take a very active position in loss management and that has had a significant impact on the reduction in the actual claims paid.

Mike Grondahl - *Key Colony Fund - Analyst*

Did you mention the increase in rescission year over year or sequentially due to fraud or anything?

Teresa Bryce - *Radian Group - President of Radian Guaranty*

It's hard to actually say a number with respect to fraud. What you can say is that we have the number of claims that we're reviewing with respect to both fraud and whether or not they met the underwriting criteria at the time. So -- and we have seen an increase in the number of rescissions as a result of that.

S.A. Ibrahim - *Radian Group - CEO*

From a broader perspective, I think I believe maybe two years ago on one of these calls we had talked about the fact that we were starting to make significant investments in loss mitigation capability because we wanted to position ourselves for the market that was coming. And we in that period both added significant about doubled our staffing in that area, we upgraded our capabilities. We brought in new talent, we pie neared, partnership relationship with servicers, and outside agencies and all of that was very timely and we believe has resulted in significant loss reductions and we are very pleased with that.

Mike Grondahl - *Key Colony Fund - Analyst*

Great, thank you.

Operator

We will go to Peter [Lardis] with Trident, please go ahead.

Peter Lardis - *Trident - Analyst*

Hello. Actually I was interested in your experience in terms of the major problem states California, Florida, Arizona, Nevada, what kind of delinquency rates are you seeing. Because the concern I have is when you listen to what Fannie Mae and Freddie Mac and some of the others have said they have said the last quarter is one of the worst they have seen and if anything July is worse than the last quarter was. You're paying claims that basically arose from mortgages that went delinquent maybe six months ago or longer. What exactly has been the first the window of payment, has that shrunk at all, are you seeing claims coming in through the pipeline faster. Second what is your experience now with delinquency rates in your portfolio in these problem states.

S.A. Ibrahim - *Radian Group - CEO*

Peter, I'll turn the answer over to Scott who is the head of our MI risk management.

Aug. 11. 2008 / 10:00AM, RDN - Radian Second Quarter 2008 Conference Call

Scott Theobald - Radian Group - Senior Vice President of risk management

Good morning. Consistent with our industry participants we're finding California, Florida and Arizona of course are driving our default rates as well. These are all states that are correcting after a rapid house price appreciation and use of alternative mortgage products. There is some good news in this though, we're seeing in the 2005 and 2007 vintages we're actually seeing deceleration in default rate. Fortunately the 2006 book still hasn't shown any signs of peaking, but overall we're seeing a deceleration in these states.

Peter Lardis - Trident - Analyst

And in terms of the window of claims, because clearly six month delay or something before you actually have to pay claims, has that window changed very much.

Teresa Bryce - Radian Group - President of Radian Guaranty

I don't believe that that has changed. The process for these things to move through the system has stayed pretty consistent. If anything it may have moved out a little bit in terms of loss mitigation efforts that the servicers and others have tried to engage in. But I don't think we have seen significant movement.

Peter Lardis - Trident - Analyst

Okay. Thank you.

S.A. Ibrahim - Radian Group - CEO

Peter, as you would expect I think there's a lot more pressure on the servicers to try and avoid foreclosures. So each -- as well as a lot of pressure on everybody in the system to subject default or delinquencies to a lot more analysis and that takes more time. So as a result of that there may have been some process, but for good reasons.

Peter Lardis - Trident - Analyst

Okay. Thank you.

Operator

Mr. Ibrahim, I will turn the call back over to you for closing comments.

S.A. Ibrahim - Radian Group - CEO

Thank you operator. At this time I would like to thank all of you for participating in our investor call. We look forward to seeing you on our third quarter call later this year. Thank you.

Operator

Ladies and gentlemen, that does conclude your conference for today. Thank you for your participation and for using AT&T executive teleconference service. You may now disconnect.

Aug. 11. 2008 / 10:00AM, RDN - Radian Second Quarter 2008 Conference Call

DISCLAIMER

Thomson Financial reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON FINANCIAL OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2008, Thomson Financial. All Rights Reserved.