FINAL TRANSCRIPT

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RDN - Radian Fourth Quarter 2006 Conference Call

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CORPORATE PARTICIPANTS

Mona Zeehandelaar
Radian Group, Inc. - SVP IR & Corporate Communications

S.A. Ibrahim
Radian Group, Inc. - CEO

Bob Quint
Radian Group, Inc. - EVP, CFO

Mark Casale
Radian Guaranty, Inc. - President

Steve Cooke
Radian Asset Assurance, Inc. - President

CONFERENCE CALL PARTICIPANTS

Rob Ryan
Merrill Lynch - Analyst

Matthew Roswell
Stifel Nicolaus - Analyst

David Hochstim
Bear Stearns - Analyst

Eric Wasserstrom
UBS - Analyst

Mike Grasher
Piper Jaffray - Analyst

Geoffrey Dunn
KBW - Analyst

Paul Miller
FBR - Analyst

Andrew Brill
Goldman Sachs - Analyst

Brad Ball
Citigroup - Analyst

Matthew Park
Prudential - Analyst

Ron Bobman
Capital Returns - Analyst

Josh Smith
TIAA-CREF - Analyst

Howard Shapiro
KBW - Analyst

Brian Horey
Aurelian - Analyst

PRESENTATION

Operator

Welcome to Radian's fourth-quarter 2006 earnings call. At this time all participants are in a listen-only mode. Later we will conduct a question-and-answer session. Instructions will be given at that time. (OPERATOR INSTRUCTIONS) As a reminder, this conference is being recorded. I would now like to turn the conference over to Mona Zeehandelaar. Please go ahead.

Mona Zeehandelaar - *Radian Group, Inc. - SVP IR & Corporate Communications*

Thank you for joining us today. With me on the call are S.A. Ibrahim, Chief Executive Officer of Radian; Bob Quint, Chief Financial Officer; Mark Casale, President of our domestic mortgage business; and Steve Cooke, President of our Financial Guaranty business.

As I do every quarter, let me remind you that today's conference call will contain statements that are forward-looking. As you know, these statements are based on current expectations that are subject to risks and uncertainties; and Radian's actual results may differ materially from those expressed or projected in these forward-looking statements. Factors that could cause Radian's actual results to be materially different than those in the forward-looking statements are described in the Safe Harbor statement that is included with our webcast and in the risk factors detailed in item 1a of part 1 of our annual report on Form 10-K for the 2005 fiscal year, and as modified in item 1 of part 2 of our quarterly report on Form 10-Q for the quarter ended June 30, 2006.

Today we will follow our normal format. S.A. will begin, followed by Bob, who will review key financial metrics for the quarter and the year, and then we will take your questions. For those logged on to the webcast at www.Radian.biz, the slides are provided as background and should complement our remarks today.

For more information on our reserve methodology, transaction economics for various mortgage insurance and financial guaranty products, and other background information on our businesses, please view the webcast slides and transcript from Radian's investor day held on November 9 this past year. Visit www.Radian.biz, click on Investors, and then click on Webcast Presentations and Transcripts. Now it is my pleasure to introduce you to S.A.

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

Thank you, Mona, and thank you all for joining us today. I am pleased to report on a record quarter and a year for Radian which was achieved within a challenging environment for our businesses. Our success is evidenced by a record performance which I will highlight for you today and is the result of our strategic focus on three important themes -- diversification among our strong businesses; discipline; and delivering long-term value.

Specifically, in the fourth quarter, net income was $158.4 million, and diluted net income per share grew to $1.96. Book value of $51.23 and adjusted book value of $70.27 rose 16% and 13%, respectively, year-over-year.

While these results were aided by gains on investments and changes in the fair value of derivatives, our results excluding these amounts were still excellent. As a reminder, adjusted book value is a non-GAAP financial measure; and a reconciliation to book value is included with the webcast slides available at www.Radian.biz.

For the year, net income was $582.2 million versus $522.9 million a year ago. Diluted net income per share rose to $7.08 from $5.91 in 2005. Revenue grew to $1.3 billion. Our return on equity, another important measure of our success, was at the high end of our target range of 12 to 15%. Our balance sheet continues to be very strong.

Both of our core business segments performed well. As you can see, C-BASS and Sherman continue to be important and steady contributors to Radian's results. It is important to emphasize that we achieved our results in a difficult climate for mortgage insurance and financial guaranty, where tight credit spreads and competition from alternative products continued to present challenges for our businesses. We expect earned premiums to continue to be under pressure this year, as we maintain our discipline and focus on driving the business that meets our strict criteria for risk and return.

As you may remember from our investor day, we believe the best way to measure our success is by our historical performance, our proven market expertise, and our decision-making. While you may find fluctuations in our results each quarter, our focus remains on long-term value, and our track record clearly shows our ability to deliver.

In this operating environment, it is very important to control our expense ratio. Therefore, we recently have made difficult but necessary reductions to staff and other expenses in order to reduce our expense run rate. Bob will provide more details on these expense reductions in his remarks. This run rate reduction is net of certain additional investments we are making in growth areas in 2007, with the most prominent being our international expansion efforts.

Let me elaborate. In 2006, our international mortgage group concentrated on refining our strategy and established or expanded our presence in the UK, Australia, and Hong Kong. In the fourth quarter, we made strong progress in further building our business with the establishment of Radian Australia Limited, and the announcement of a multiyear partnership with Australia's fifth largest bank, St. George. Radian Europe also earned a AA rating from Fitch during the quarter; and we continued to profit from our strong exclusive relationship with Standard Chartered Bank in Hong Kong.

Today, we are exploring opportunities in new markets including India and Canada. Our goal is to realize a meaningful and diversified earnings contribution from this business within three to five years.

For our Financial Guaranty business, we also are making progress in our international efforts as we find an attractive fast-growing synthetic market that allows us to provide the AA credit enhancement solutions that have been the core of our success.

Now turning to 2007 and a look at the mortgage industry, the MBA forecasts a slightly slower mortgage origination market of $2.4 trillion versus $2.5 trillion last year. Interest rates are predicted to remain stable and at historically low levels. While spreads remained tied in 2006, we are beginning to see them widen on synthetic mortgage-backed securities. Along with the expectation of continued strong employment and improved persistency, these trends bode well for our Mortgage Insurance business.

We also are pleased with the legislation signed into law last month that makes mortgage insurance premiums tax-deductible. This law broadens the choices available to borrowers and can potentially expand our market reach to homebuyers seeking additional tax advantages.

In this environment, we believe we are well positioned to benefit over the long term from both cyclical and structural opportunities in the mortgage market. As always, we will balance each opportunity against our risk management criteria and ROA discipline in order to make the best decisions for our business.

In MI, we continue to write more business in second loss or more remote positions. This, coupled with our decision to reduce the amount of subprime (indiscernible) business in 2006, has improved the quality of our insured portfolio. Remember, that our risk exposure in Financial Guaranty is primarily remote and event driven.

As we mentioned last quarter, we have significantly intensified our efforts with regards to claims management and loss mitigation, particularly for our nonprime and second lien business. During our investor day, Bob detailed the mechanics of our reserve model, explaining the rationale behind possible fluctuations in our reserves based on model assumptions and the long-term economic outlook. By any measure, our loss reserves are both strong and appropriate; and our general outlook for credit has improved.

Turning to Financial Guaranty, our business performed very well in a difficult credit spread environment last year, with strong production in both structured and public finance. Net premiums written for the 12 months were up 17.9% to $262.9 million versus $223.1 million for the same period in 2005.

During the year, we achieved an important milestone for our Financial Guaranty business when S&P affirmed a AA financial strength rating for Radian Asset Assurance and revised its outlook upwards to stable.

In the quarter, we exceeded $100 billion in net for outstanding. These milestones, along with the outstanding performance throughout the year, validate our AA franchise strategy. Our goal in 2007 is to continue to prudently grow the Financial Guaranty business.

Before I turn the call over to Bob, I would like to share some other news. Last week, Chief Risk Officer Suzanne Hammett advised me that she will be leaving Radian effective Friday, February 2, to join Capital One. While we search for her replacement, Executive Vice President and General Counsel Teresa Bryce will assume responsibilities for this area. Teresa is a seasoned industry veteran who, before joining Radian, had among her roles as an executive at Nexstar Financial, the responsibility of leading the risk management and credit quality functions. I personally will continue to remain closely involved with this area.

Risk management has always been a priority for Radian. As a result of our attention and investment in this area, we have over the past 18 months improved governance and oversight of Radian's credit and risk management qualities and procedures; established a unified credit risk culture; implemented new metrics, processes, and systems to create a solid infrastructure; and built a talented and focused global risk team. While we will miss Suzanne, we have the confidence in the strong and deeply talented organization that we have built, and we will continue our momentum in this area.

Bob will now provide additional information on results for the quarter and year. Following his comments, we will take your questions, and I will close with a few remarks. Bob?

Bob Quint - *Radian Group, Inc. - EVP, CFO*

Thank you, S.A. As always, I will be providing some detail about our fourth-quarter financial results and some outlook into 2007. Our overall results for both the quarter and the year were positive.

With regard to the fourth quarter, on the MI premium side, premiums are down a little bit from last quarter due primarily to run off in the traditional MI book, including the higher-premium bulk MI. Our primary insurance in-force grew in '06; but the run off of the higher-premium bulk business from vintage years 2004 and 2005 has been replaced in part by lower-premium second loss structure (inaudible). This will challenge earned premium in the near term.

By choosing to significantly reduce our amount of new bulk MI and second lien business written in '06, we think we did the right thing for the business in the long term. This premium reduction will be offset somewhat by premiums from NIMs and other structured transactions closed during the fourth quarter and at the start of 2007.

Persistency has continued to trend up slowly. It is our expectation that it will continue to rise slowly, which will also help the premium line. The structured persistency was 57.9% and flow persistency 70.3% for the 12 months ended December 31, '06, compared to 39.1% and 63.6% in 2005.

There has been a lot of concern expressed about the 2006 vintage year subprime mortgage industry production. In 2006, we wrote smaller amounts of subprime bulk MI. Of the structured business written in 2006 only 10.4% or $1.5 billion was A- and below, compared to 24.7% or $4.2 billion in 2005. That $1.5 billion represents only a tiny part of our in-force book.

The reserve for losses on the MI side was basically flat from the third-quarter level. Although there were 2,255 incremental delinquencies, most of which we consider seasonal, there were a few factors offsetting this increase. As we discussed last quarter, we have intensified our loss mitigation activities throughout 2006, particularly in terms of resources. We have begun to see enough positive results from these efforts on both first and second liens to allow us to incorporate this activity into our loss reserve model.

In addition, our view of economic conditions, which provides a limited subjective component for loss reserve, improved due to continued job growth, lower energy prices, and a generally more positive outlook by most economists. As a result, we are still above the midpoint of our modeled range at a similar level to year-end 2005, but at a lower increment above that midpoint than we were last quarter.

As for the second lien transaction that we talked about last quarter, our net reserve increased by $2.6 million this quarter and is $21.6 million at year-end. We continue to work through every claim filed in this deal and still believe that the deal will ultimately end up in the breakeven range or at a nonmaterial loss. The balance of our seconds business is still performing with our expected range.

Although our provision for losses has been volatile during the year, we think it makes sense to step back and examine the provision, paid claims, and the loss reserve compared to 2005, remembering that 2006 was a year when many were worried about the MI industry credit performance.

Both our provision for losses and paid claims were down year over year; and the number of primary delinquencies fell by 1,510; and first loss pool delinquencies fell by 1,123. Our net loss reserve, which does not include the second lien gross-up, increased by $35.4 million over that time period. Our measurement of reserve per risk in-force, reserve per dollar of loan in default, and quarters of claim coverage all remain very strong.

MI claims came in lower than we anticipated this quarter, and our expectation for next quarter is in the $90 million range. As we expect that some of the claims that we have held longer as part of our intensified loss mitigation efforts that helped keep claims in the third and fourth quarters at lower than anticipated levels will be worked through, we are still comfortable with the guidance given on investor day for 2007 claims paid to be in the 340 to $370 million range.

Included in MI expenses this quarter are some onetime write-downs and accelerations. After these items, and a series of expense saving moves that we have made during the first quarter, our quarterly run rate for expenses for the MI segment and Radian Group should be reduced by about $10 million from the fourth-quarter run rate number, beginning in the second quarter of '07.

Financial Guaranty had an excellent quarter of written premiums. Public finance ended the year on a particularly strong note. The trade credit run off, which impacts both premiums written and premiums earned, and the relatively light amount of refunding on our book, compared to the third quarter which had a big onetime bump due to refunding, impacted premiums earned this quarter. Much like the third quarter, there were no unanticipated Financial Guaranty claims paid in the fourth quarter.

We don't expect the operating environment to change significantly in '07. We feel we can further improve the business results and expect to see ample opportunities early in the year to write high credit quality, profitable business.

Financial Services performed extremely well during the fourth quarter, demonstrating their recurring revenues and income, but also due to some extraordinary items. Sherman booked a significant gain on sold portfolios during the fourth quarter. We anticipate that they will continue to be strong in 2007, although some of the more lucrative portfolios on their books will be aging and producing less income; and the gains on sales of portfolios that we saw in 2005 and 2006 may not be repeated. We expect to see continued growth in the credit card origination business for Sherman.

During the fourth quarter, C-BASS recovered most of the hedge losses that had been booked in prior quarters. While the subprime origination business is in a state of uncertainty, an environment like this typically creates opportunities for C-BASS to purchase mispriced assets. We feel good about C-BASS's prospects for 2007, although there is clearly some uncertainty around these expectations.

Turning to the fair value of derivatives line, in addition to the normal spread-driven mark-to-market activity that we expect to ultimately zero out over time, the MI segment this quarter booked a $6.6 million reserve related to a NIM transaction, which represents an estimate of an expected claim amount to be paid sometime around 2009. The total exposure on this transaction is $10.5 million. Although the accounting for this transaction was booked through the derivative line, the substance of this reserve is equivalent to it being contained in the loss reserve.

As we have said in the past, any time such reserve or claim exists within our mark-to-market line, we will disclose it. As you recall from our investor day, our overall historical NIM performance has been excellent, with about $200 million of premiums earned booked to date with no claims paid.

With respect to stock repurchase, we completed the last 1 million shares of our most recent 4 million share repurchase authorization during the fourth quarter; and we repurchased an additional 500,000 shares from our newly-approved 2 million share authorization. If nothing changes with regard to business opportunities and the credit spread environment, we expect to repurchase shares at a rate a little lower than in 2006.

If our current repurchased authorization is completed during 2007, we will assess our capital situation and potentially go to the Board for additional authorization. Over the past two years, we have reduced our number of outstanding shares by 14% from 92.3 million at December 31, 2004, to 79.4 million at December 31, 2006.

Finally, our tax rate for the full 2006 year is at a rate that we consider normalized, although the implementation of FIN 48 in 2007 will likely create volatility in the tax rate percentage from this time forward. We would now like to turn the call over for questions.

QUESTIONS AND ANSWERS

Operator

(OPERATOR INSTRUCTIONS) Rob Ryan from Merrill Lynch.

Rob Ryan - *Merrill Lynch - Analyst*

Could you explain some of the quantitative factors going into how the reserve changed in the past three months? The effect of the severity calculation? Whether -- where the hurricane-related reserve is year end versus three months earlier? That kind of stuff, sort of the ins and the outs.

I know you said the economic outlook was a factor. Specifically in terms of dollar amount, where was the difference between the midpoint of the range and the actual net reserve?

Bob Quint - *Radian Group, Inc. - EVP, CFO*

What we did last quarter with specifically identifying each component of the loss reserve change, that was really unique, because of the increase in the reserve last quarter. So all of the factors that you spoke about are included. Certainly the severity change, we update consistently.

Katrina delinquencies actually went down just a little bit; so the reserve went down a little bit for Katrina related delinquencies.

Certainly the outlook that improved had a fairly significant impact on the reserve, as well as the model changes that we talked about. We really put through every quarter to update roll rates and just improve assumptions as new information comes in; and as I did mention, the newer information that went into the model this quarter, some of that related to our improvement in loss mitigation (inaudible).

Rob Ryan - *Merrill Lynch - Analyst*

Okay. How did the whole process of scrutinizing claims more carefully go? What are the intermediate-term results, now that you have done this for several months?

Mark Casale - *Radian Guaranty, Inc. - President*

It's Mark. I think we have been doing it since really the second quarter. The results are -- I mean, quite simply, we have been looking at more claims than we have in the past. We look at every single second lien claim. We started that policy in May, where prior we were looking at a much lower percentage. On the first lien, although we're not looking at every claim, we're looking at a much higher dollar percentage than we had, for instance, in the first quarter.

The results of just looking at more claims and finding more issues, just naturally works through. You're seeing it in our lower claims being paid in the third and fourth quarter.

Rob Ryan - *Merrill Lynch - Analyst*

Are you finding that on a regular basis there is a surprisingly high level of submitted claims that you are subsequently rejecting?

Mark Casale - *Radian Guaranty, Inc. - President*

Not a higher percentage, but I think the facts are when you look at more claims you're going to find more issues.

Rob Ryan - *Merrill Lynch - Analyst*

Okay. Quickly switching over to Financial Guaranty, Fitch recently revised its model and came up with a determination as of a certain date as to the capital adequacy of the Financial Guaranty subsidiary. How have things changed even since that date? How do you feel about the general issue of capital strength in the Financial Guaranty area?

Steve Cooke - *Radian Asset Assurance, Inc. - President*

This is Steve. I think we feel quite comfortable with that. Fitch's results were as of March 31 of last year. Subsequent to that time we had a couple of notable and rather substantial construction finance transactions, which either expired or were terminated and therefore put us well within their capital range. We still feel that we are comfortably within that capital range.

Rob Ryan - *Merrill Lynch - Analyst*

Thank you.

Mark Casale - *Radian Guaranty, Inc. - President*

There's one other thing I want to add, just on claims, on the loss management issue. When you go through that process, remember -- the majority of the issues that you're going to see are more on the subprime part of the portfolio, which is again very consistent with how that industry works in terms of early payment defaults and putbacks is much more standard.

On the prime side, which is where the majority of our book is, we have not seen an increase. It has really been in the subprime side where we have seen the issues.

Rob Ryan - *Merrill Lynch - Analyst*

Great, thank you.

Operator

Matthew Roswell from Stifel Nicolaus.

Matthew Roswell - *Stifel Nicolaus - Analyst*

Two questions. First, sort of a numbers question. Could I get the Katrina delinquencies at year-end '05 and then where they stand now? In other words, how much of the improvement in the delinquency and delinquency rate year-over-year is from Katrina? Then I have a bigger picture question.

Bob Quint - *Radian Group, Inc. - EVP, CFO*

Okay, the total delinquencies for Katrina at year-end '05 was 6208; and the reserve was $46.2 million. At year-end '06, delinquencies are 3,613 and the reserve is $31.3 million.

Matthew Roswell - *Stifel Nicolaus - Analyst*

Okay. As a bigger picture question, what has been the performance of the Alt-A book? I know we have been concerned about subprime all year; but given some of the reports out of the originators here in the fourth quarter, it looks like we could be having some problems in Alt-A. I was wondering if you're seeing anything like that.

Mark Casale - *Radian Guaranty, Inc. - President*

It's Mark. Actually, we have seen a better performance in our Alt-A book. A lot of that is consistent with some of the early troubles; and S.A. has mentioned this on prior calls. As being a leader in the Alt-A, we cycled through the product earlier than some others. Some of the large originators that did not originate such good products were cut off in the 2004-2005 time frame. So as a result, we have actually seen better performance in Alt-A.

Matthew Roswell - *Stifel Nicolaus - Analyst*

Thank you.

Operator

David Hochstim from Bear Stearns.

David Hochstim - *Bear Stearns - Analyst*

I wonder if you can talk a little bit about the credit outlook and how we should think about losses incurred and claims paid in MI over the course of '07. I guess really just wonder if you can expand on what seems to be an improved outlook for the macro environment in the last quarter. You seemed a little more cautious the last couple of quarters. I was wondering what contributed to that? Then I have another question.

Bob Quint - *Radian Group, Inc. - EVP, CFO*

I guess with regard to outlook for losses, we give the guidance on claims; and we did reiterate that the '07 claims guidance of 340 to 370 is still something we expect to happen.

The improvement, I think, we really believe that employment is the primary driver of losses in our business. And the employment picture has continued to be strong and improved. In the second and third quarters, we did have some questions about certainly energy prices and what that would do to the economy. Housing, clearly. And we're really looking at the general outlook by most economists, and the way housing is performing, and clearly employment being the primary driver. That has resulted in our improved outlook.

However, recall that we are still above our midpoint, so there is still some caution and cautiousness built into our expectations. It is not that we are better than normal; we are still above the midpoint.

David Hochstim - *Bear Stearns - Analyst*

You mentioned that you were slightly less above the midpoint than you were. Is that a significant difference?

Bob Quint - *Radian Group, Inc. - EVP, CFO*

We are at a lower point above the midpoint, but still above the midpoint.

David Hochstim - *Bear Stearns - Analyst*

Okay. Could you or I guess somebody talk about changes maybe in loss mitigation trends in the fourth quarter? Was there any change or deterioration relative to the second or third quarter?

Mark Casale - *Radian Guaranty, Inc. - President*

We have not -- again, in terms of house prices, yes, David. But the fact that we tended to see more opportunities just because we have staffed up in that area and are pursuing it further. So we actually have not seen any decrease in that area.

I guess just to follow up on Bob's point around the outlook for losses, remember he mention this in his earlier talk. Is that the composition of our book continues to change. So as we did less bulk subprime during 2006 and did more modified pool and structured transactions, that will also through 2007 and 2008 work its way through the losses.

David Hochstim - *Bear Stearns - Analyst*

Did you say how much you paid in Katrina claims in the last quarter?

Bob Quint - *Radian Group, Inc. - EVP, CFO*

Pretty minimal.

David Hochstim - *Bear Stearns - Analyst*

Okay. Finally, can you just talk about how the credit spread widening that may benefit C-BASS could be affecting the other flow business? Or I guess the structured business in MI and maybe in Financial Guaranty, if at all?

Mark Casale - *Radian Guaranty, Inc. - President*

It's Mark. I think on the MI side, it is two things. You have to look at spread widening both in synthetic, on bonds, and in cash bonds. We are really set to take advantage of both. Cash bonds have not widened as much at the upper end of the structure as synthetic bonds have.

We took advantage of the spread widening, primarily in the fourth quarter, by writing NIM transactions, where we saw both spread widening and a little bit of a supply and demand imbalance on that end of it. So we took advantage of it.

The other thing we saw on the NIM side was a lot of the banks having regulatory scrutiny. It put pressure on their balance sheets and to really lighten their residual exposure. Most of -- I think all the transactions we entered into in the fourth quarter were with those type of banks.

Steve Cooke - *Radian Asset Assurance, Inc. - President*

Just on the Financial Guaranty side, there was no noticeable effect of any spread widening in the fourth quarter on our structured finance (indiscernible) business. But again we are well positioned to take advantage of that should that occur in 2007, although we have constructed our plan assuming that there is no material increase in a widening of spreads in 2007.

David Hochstim - *Bear Stearns - Analyst*

Okay, thanks a lot.

Operator

Eric Wasserstrom from UBS.

Eric Wasserstrom - *UBS - Analyst*

Bob, can we just circle back for a moment to the new insurance written trend in the MI business? I understand the commentary about the premium margin. We have seen that at other places. But was the amount of business that you wrote in the fourth quarter satisfactory to you guys? Or I guess consistent with your expectation? Does that suggest kind of what a run rate may be for this year?

Mark Casale - *Radian Guaranty, Inc. - President*

It's Mark. Again on the flow side I think we had a pretty decent quarter. We're looking at 2007 in terms of a probably deeper MI penetration, given some of the changes in interest rates and the MI tax deductibility being offset by our lower origination volume.

On the structured business, again it is hard to predict. As we have said all through 2006, the bulk business on the top side on the primary is really broken out by deep MI, which is primarily on the subprime originators, and the modified pool, which is primarily written with the GSEs. The GSE business has been relatively strong through 2006, more so in the early part than the latter part. We see that being relatively strong in 2007.

On the deep MI side, subprime, we see that relatively unknown, because it's dependent on spread widening. We did not see spread widen that much in the fourth quarter on the subprime side.

The other thing that is going on there is there just hasn't been a lot of supply, as a lot of the originators have had trouble in the fourth quarter. As some have gone out of business, the securitization volume, which MI is part of, has been materially lower.

Eric Wasserstrom - *UBS - Analyst*

Thanks for that.

Operator

Mike Grasher from Piper Jaffray.

Mike Grasher - *Piper Jaffray - Analyst*

Congratulations on the quarter. I wanted to follow up, Bob, with your comments around the fair value derivatives and that $6.6 million reserve that was booked. Am I right in understanding that that is in the reserve calculation, reserve addition of $2 million in MI?

Bob Quint - *Radian Group, Inc. - EVP, CFO*

It is not, Mike. It is in the fair value of derivatives line. So it is on the balance sheet as a liability, but not in the loss reserve. It is really the equivalent of a loss reserve, and that is why we go out of our way to disclose the number.

Because if NIMs were not a derivative, it would be in loss reserve because it is an amount that we believe we will pay out sometime around '09. So it is not in the number, but it is on our balance sheet in the derivative line.

Mike Grasher - *Piper Jaffray - Analyst*

Okay, thanks for clarifying that. One other point was the run rate you said on the expense reductions, $10 million lower beginning next quarter. Assumes $40 million for the year. Is that what we are talking about?

Bob Quint - *Radian Group, Inc. - EVP, CFO*

Beginning in the second quarter of '07, and if you just to take the total expenses, it is really the lion's share is in MI. So if you take the total expenses on MI for the quarter and the total expenses for the Group and just subtract $10 million, that is around where we believe our run rate would be beginning second quarter '07.

Mike Grasher - *Piper Jaffray - Analyst*

Thank you.

Operator

Geoffrey Dunn from KBW.

Geoffrey Dunn - *KBW - Analyst*

Bob, in your loss expectations you have the first quarter going up towards 90, and staying with your guidance for the year. Behind that guidance, what is the pattern of expected losses on the second lien business? I guess I was surprised it is an issue but yet it improved sequentially.

Bob Quint - *Radian Group, Inc. - EVP, CFO*

The paids on the seconds built into our expectations are fairly steady throughout the year. So the real impact was third quarter, because all of those claims came in, as we talked about last quarter. All those claims came in kind of as a surprise.

Now we are essentially in a steady-state. So we are paying every quarter, but it is essentially stabilized. So we don't expect the paids on the seconds to increase significantly through the year, but they will be at kind of a steady-state.

Geoffrey Dunn - *KBW - Analyst*

Okay, so judging by that statement, then, and looking at the numbers, it would appear that the prime quality business is actually fairly stable. We may have seen a little growth on that front. But really the growth expectation from paids is the ramp-up in Alt-A and A-, which, looking at the quarter statistics, you are seeing a pretty big jump in severity, which was discussed last quarter. Is that fair right way to interpret how you are looking at credit for '07?

Bob Quint - *Radian Group, Inc. - EVP, CFO*

I think generally the '04 and '05 Alt-A and A- and below books will be seasoning. So those will be hitting their peak losses during '07. So that is some of it. The seconds will be steady. And yes, the prime, again, we expect to be pretty steady.

Mark Casale - *Radian Guaranty, Inc. - President*

This is mark. On the average, just to clarify, the average claim paid jump on Alt-A, I think it went from 30,000 to 38,000. You really have to look at that. That is a function of how many claims we pay in the quarter, and obviously the [loan size] attributed to that claim. So if there is one big claim in a quarter, it could really skew the average.

You really have to look at it over the past few years. For all of '06 it was 35 mid, 35,500. For all of '05 it was 36,000. '04 was 38,000. And 2003 was actually 40,000. So it has come down. That is one way to look at it.

On the A- side, it is a little bit different story. The severity there is increasing. A lot of it is because the average loan size has increased beginning really in 2004. As we wrote deeper coverage, the severity or the coverage amount has increased from '04 to '06. So you're going to see -- and that is reflected in our reserve model. But you will see that roll through claims over the next couple of years.

Geoffrey Dunn - *KBW - Analyst*

Okay. Then the other question I had is on the premium for the MI, specific. Obviously you have the single premium concerns every quarter. Was this a quarter where not only did you have runoff, but you didn't get much benefit from a single premium acceleration?

Bob Quint - *Radian Group, Inc. - EVP, CFO*

Yes, there was very little. Very little this quarter.

Geoffrey Dunn - *KBW - Analyst*

Okay. Then the last question; this is a little nitpicky. Mortgage services, there was an uptick in the expenses there. I'm not sure if you mentioned that before, but what was happening?

Bob Quint - *Radian Group, Inc. - EVP, CFO*

The expenses in that segment relate to the REMIC business that C-BASS runs for us, and the fees relating to that. That can be volatile because sometimes there is more or less activity during given quarters. So it's a very hard number to project, and it happened to be high this quarter.

Geoffrey Dunn - *KBW - Analyst*

Great, thank you.

Operator

Paul Miller from Friedman, Billings, Ramsey.

Paul Miller - *FBR - Analyst*

On the buybacks, you guys still, even with the expected growth over the next year, even if you grew 10%, you guys are still considered, I would think, overcapitalized. I think you guys would say the same thing. But yet again you say that you're going to not back off buybacks, but have less buybacks in '07 than you did in '06. It was a little bit -- which is lower than you did in '05.

What is the thought process? Do you really think that you can start to crank out insurance in-force growth and you want to keep the capital in-house? Or just what is your thoughts on that?

Bob Quint - *Radian Group, Inc. - EVP, CFO*

Well, two things Paul. I think, one, we are less overcapitalized. So we have been using our excess capital to repurchase stock, and we are less overcapitalized than we have been.

Secondly, we do believe we can add to our in-force, certainly on the Financial Guaranty side; and on the MI side some as well. So our capital plans are incorporate some repurchase, as we said, but not quite at the levels that it has been.

Paul Miller - *FBR - Analyst*

Where would you guys be very comfortable with your risk to capital?

Bob Quint - *Radian Group, Inc. - EVP, CFO*

That is a number -- remember we have talked about this a lot. That is a number that you can't just measure risk to capital because Mark talked about the second loss business, the NIM business. We have a lot of risk in-force that has different kinds of capital requirements than the traditional MI.

So risk to capital was a much more relevant figure to look at when we just had traditional MI. You can't just look at our risk to capital and say, oh, it is 10 to 1, it needs to be 15 to 1; you have excess capital. Because there is so much in our risk in-force that has either more or less capital requirements than the traditional business.

So that is why we have deemed it important to sort of give more guidance with regard to our excess capitalization and our stock repurchase, because you can't just look at the number and figure it out.

Paul Miller - *FBR - Analyst*

The other thing is you mentioned about this cost-cutting. Exactly -- have you laid people off? Is that what you're trying to tell us? Also, or is it just increased efficiencies in the system are bringing in new computer programs and whatnot?

Bob Quint - *Radian Group, Inc. - EVP, CFO*

It is really across the board, but there have been some reductions. It is the targeted focus that we embarked on to really look at the expense ratio in light of the fact that the revenues haven't been growing substantially. It was really across several different areas of the Company, and we believe we have done the right thing.

Paul Miller - *FBR - Analyst*

Okay, thank you very much.

Operator

Andrew Brill from Goldman Sachs.

Andrew Brill - *Goldman Sachs - Analyst*

Just a few questions here. Just firstly, can you talk to the trends you're seeing out of California and Florida? Are you seeing losses there start to pick up at all? Are we still at pretty low levels? Just how do you think those losses might fare as we move out further into '07?

Bob Quint - *Radian Group, Inc. - EVP, CFO*

California has performed extraordinarily well. I think that has been -- everyone has seen that. The delinquency rates in California have ticked up some. The claims have come up some, but are still very, very well behaved.

And Florida as well. Florida has not been an area that has significantly pick up either.

Mark Casale - *Radian Guaranty, Inc. - President*

This is Mark. Just a comment on overall performance of vintage. I think Bob mentioned earlier a lot of the issue with the 2006 book. Our defaults 12 months out, our 2006 book, are actually tracking pretty well ahead of our '05 book. That is significant. Part of that is really because we did a lot more bulk subprime in 2005 than we did in 2006.

Andrew Brill - *Goldman Sachs - Analyst*

I just want to go back to the reserving above the midpoint of the range. I know last quarter you quantified it at about 24 million [above]. Can you just remind us where it stands exactly now as far as the exact number?

Bob Quint - *Radian Group, Inc. - EVP, CFO*

It is about between 6 and 7 million.

Andrew Brill - *Goldman Sachs - Analyst*

Between 6 and 7? Thanks. Just lastly, the other reserves look like they came down a little bit in the quarter. It may be a little bit nitpicky, but was there anything to think about there?

Bob Quint - *Radian Group, Inc. - EVP, CFO*

The other reserves? Yes, that relates to some of our other structured business, where there is no reserve required anymore.

Andrew Brill - *Goldman Sachs - Analyst*

Thank you.

Operator

Brad Ball from Citigroup.

Brad Ball - *Citigroup - Analyst*

Bob, just a quick follow-up on the expense management question. Can you give us a sense proportionally where those saves are coming in MI versus Financial Guaranty?

Also, you mentioned, I think, briefly that there were some onetime maybe severance costs taken in the fourth quarter. How much were those?

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

This is S.A. Overall, as you know, on the expense side in the Financial Guaranty business, we started a disciplined process to look at the expenses of the Financial Guaranty business some time back. The numbers that Bob cited here are more focused on the MI part of the business and in the corporate area.

It is just an exercise of being --taking a disciplined look at all of our expenses, trying to get the expenses more in line with the nature of the business and the revenue realities of the business. I don't know, Mark, if you want to add a little bit more detail on the MI expenses.

Mark Casale - *Radian Guaranty, Inc. - President*

I think the MI expense is, again, it is very consistent with the strategy that we outlined during investor day. As we are focused really on two parts of the business, which is the lender solutions and the more traditional business, and also our capital markets, which is really more of our large lender strategy. And it really came down to a point of putting resources against where the revenue opportunities were and making sure that we are being as efficient as possible, and trying to be ahead of the curve as where we think the industry is going.

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

As we continue to play out our strategy, we continue to fine-tune where we need more resources and where we need less resources. So it is just as simple as that.

Brad Ball - *Citigroup - Analyst*

Okay. Did Bob say that there was one-timers associated with that in the fourth quarter?

Bob Quint - *Radian Group, Inc. - EVP, CFO*

Not in the fourth quarter. The accelerations in the fourth quarter were writing down some systems and things like that. There will be some severance and other cost in the first quarter relating to these reductions.

Brad Ball - *Citigroup - Analyst*

Okay. The writing down of systems in the fourth quarter, was that just a nominal amount, or is it worth noting that amount?

Bob Quint - *Radian Group, Inc. - EVP, CFO*

It was in the $6 million range.

Brad Ball - *Citigroup - Analyst*

Okay. Just, S.A., a follow-up. Given Suzanne's departure, you did you say that you will be replacing her as head of risk management. Are you expecting to do that internally or externally, or what is the time frame for that?

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

We are going to replace her; no question about that. We believe that we will find the candidate externally. We are already well at work with that process. Like I mentioned, in the meantime we have a very strong team and a lot of momentum in that area that we will continue.

We also have the benefit of having, in addition to our risk staff teams, both in Steve and Mark two people who have a lot of experience in the risk area. As you know, risk management works on both sides and both sides have to take it seriously. I am very comforted with the fact that we have in our line area people leadership that is mature and fully balanced in terms of risk, dealing with risk issues.

Brad Ball - *Citigroup - Analyst*

Great, thanks very much.

Operator

(OPERATOR INSTRUCTIONS) Matthew Park from Prudential.

Matthew Park - *Prudential - Analyst*

I have a question for Bob. On your reserve target, just looking through the fact that you've gotten a little more comfortable this quarter, what kind of external data or perhaps milestones in the economic outlook would trigger you to lower your [subjected] component down to the average? I think you mentioned that it is still a little over average. So just curious about what we should expect? Thanks.

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

This is S.A.; let me talk to the points that we consider in making these assessments. Obviously, we have got to take into consideration many factors. But the most important factor in our view that drives new defaults is unemployment.

I will cite just one example of unemployment data where we feel better; and there's many points of data and many examples people can choose. But if you look at the Mortgage Bankers Association forecast, long-term economic forecast, as of January 8, 2007, and compare it to their long-term economic forecast as of July 12, 2006, you will see in the July 12 forecast for the year 2007 and 2008 unemployment rates getting into the low 5% range. Whereas in the more recent forecast you see unemployment forecast within a very tight band, not even approaching 5%. It is sort of in the 4.8% to 4.9%. Very, very tight range.

So among other things, this is just one example of the factors we take into consideration in making those assessments.

Matthew Park - *Prudential - Analyst*

Okay, thank you.

Operator

Ron Bobman from Capital Returns.

Ron Bobman - *Capital Returns - Analyst*

I had a Financial Guaranty question; and in particular as it relates to doing business in the state of Florida. I was wondering. I assume you have been watching, and I am wondering if changes in Florida's position is basically sort of the reinsurer of nearly all homeowners' risk, with recent legislative changes there this past two weeks, sort of affects your view on writing Financial Guaranty business in the state; and what your thoughts might be there, if any. Thanks.

Steve Cooke - *Radian Asset Assurance, Inc. - President*

No, certainly we do write business in Florida. But the nature of the business that we write, whether it be on the general obligations side or other of the targeted bond type areas, would not be directly impacted by that.

Ron Bobman - *Capital Returns - Analyst*

So the order of magnitude of loss at the state could be obligated to pay in the event of a severe storm, you don't think it is material to sort of the -- its ability to meet its general obligations? Is that (multiple speakers) your takeaway?

Steve Cooke - *Radian Asset Assurance, Inc. - President*

We don't as a general matter, as a AA insurer, have direct exposure to the state of Florida. For example, we are not insurers of any of the state's general obligation bond or special revenue bond issues. If we were, it would more likely be in the capacity of reinsurer from the triple-A primaries, who we may have reinsured. So we're certainly not forecasting any direct or material impact on our results as a result of those legislative changes.

Ron Bobman - *Capital Returns - Analyst*

Okay, thanks a lot for your thoughts. Appreciate it.

Operator

[Josh Smith] from TIAA-CREF.

Josh Smith - *TIAA-CREF - Analyst*

A few quick ones. On your expense run rate, reduction of $10 million run rate for starting in the second quarter. Does that mean $10 million for the year? So all else equal that would be for three quarters' worth $7.5 million?

Bob Quint - *Radian Group, Inc. - EVP, CFO*

That is a quarterly number.

Josh Smith - *TIAA-CREF - Analyst*

That seems so high, given that your total expenses -- I mean if you said it was specifically in MI, excluding provisions, so if I am looking at underwriting and other operating, your other operating expenses are 43; your underwriting in --?

Bob Quint - *Radian Group, Inc. - EVP, CFO*

You look at acquisition and other operating together. That is 64.

Josh Smith - *TIAA-CREF - Analyst*

So all else equal, that would be 54?

Bob Quint - *Radian Group, Inc. - EVP, CFO*

Yes.

Josh Smith - *TIAA-CREF - Analyst*

Okay. On the buybacks, you said you were not going to achieve 2006 levels. Are you talking about -- but you only have a 2 million authorization. Does that presume that you're going to reauthorize? So you're just saying you're going to be less than the 4.5 million [do] in 2006 at this point?

Bob Quint - *Radian Group, Inc. - EVP, CFO*

It doesn't presume. Basically we believe we can keep repurchasing stock but at a lower volume level than in 2006. If and when we complete the current authorization there, 1.5 million shares left in the current authorization, we would assess our situation and potentially go back to the Board.

Josh Smith - *TIAA-CREF - Analyst*

Right. Finally, this is more of a high-level question. We're seeing a lot of [good] credit deterioration at some of the banks and the mortgage lenders. Can you talk about generally how -- what is the sequence in terms of when they experience the credit losses versus how it impacts your business? Are you guys six months down the road? Or is it not entirely correlated? Or does your reinsurance purchases mitigate some of that correlation?

Mark Casale - *Radian Guaranty, Inc. - President*

This is Mark. One, it is not directly correlated at all. In terms of the timing it is correlated. When they have a default, they're going to file a claim shortly thereafter. So there is not a lag. So you can't look and say a bank has a default in January, and we are going to get a claim in March. It is going to happen right around the same time.

The only thing we can reemphasize is a lot of the product that is causing some of these defaults, whether it is subprime or some of the more exotic product, is just not a material part of our book. Especially when it comes to I/O and Neg Am; and that point it is a very small percentage of our book.

On the subprime, as we have noted, our risk in-force is really -- where a lot of the issues have been. A lot of the issues in the 2006 [finish] have been in subprime, early payment defaults. They have come from really the first half of 2006, when guidelines really got loose and were significantly and materially tightened during the second half of 2006.

So again, let's isolate where the issues are. To the extent we are impacted, we are impacted to that percentage of our book.

Josh Smith - *TIAA-CREF - Analyst*

But if you look at 2005 you had 30% of your book or so exposed to that type of business. You significantly cut back last year. But the 2005 is probably what is going to season this year. So you should feel an impact from that.

Mark Casale - *Radian Guaranty, Inc. - President*

And we are. You can look at our reserves for A-; they have increased significantly from '05 to '06.

Josh Smith - *TIAA-CREF - Analyst*

Great, thanks a lot.

Operator

Geoffrey Dunn from KBW.

Geoffrey Dunn - *KBW - Analyst*

Bob, I am not sure if you have this detail in your hands, but we have the average loan balances for your entire book. Do you have the average loan balances for, say, the '04, '05, '06 vintages for A- and Alt-A?

Bob Quint - *Radian Group, Inc. - EVP, CFO*

Certainly not at hand, Geoff.

Geoffrey Dunn - *KBW - Analyst*

Okay. I will follow up. Thanks.

Operator

Howard Shapiro from KBW.

Howard Shapiro - *KBW - Analyst*

Just a quick question, and you may have addressed this. But last quarter you had a rise in delinquencies due to a servicing transfer issue. Can you just tell us what the status of that is?

Bob Quint - *Radian Group, Inc. - EVP, CFO*

Yes, it has really stabilized, Howard. We had a big bump in the third quarter, and it has kind of stabilized. So certainly it is not a good deal, by any stretch, but it is stabilized.

Howard Shapiro - *KBW - Analyst*

What is the prognosis? As the loans are actually transferred and get up on the new platform, and everything, what would you expect to happen?

Mark Casale - *Radian Guaranty, Inc. - President*

This is Mark. As we said last time, it was not a servicing transfer. The ownership of the servicing platform changed hands. It was again related to the second lien transaction as Bob had stated. It is very much stabilized in the fourth quarter.

Howard Shapiro - *KBW - Analyst*

Okay, thanks.

Operator

Brian Horey from Aurelian.

Brian Horey - *Aurelian - Analyst*

Just to follow up on that second lien transaction that you guys called out last quarter. I think I heard you right; you said that you increased the reserves there after a fairly large reserve last quarter. Just wondering if you can give us -- now that you have had 90 days to look at that transaction, can you give us any color on what you think has happened there in terms of the fundamentals of that transaction and why you had to take an additional write-down?

Bob Quint - *Radian Group, Inc. - EVP, CFO*

The reserve only increased by a couple million this quarter. So again, it is pretty much stabilized. The real impact was in the third quarter.

Mark Casale - *Radian Guaranty, Inc. - President*

To be more precise, the level of defaults and pending claims is relatively flat quarter-over-quarter.

Brian Horey - *Aurelian - Analyst*

Okay, but do you have any color on why you had the claim pattern that you had there?

Mark Casale - *Radian Guaranty, Inc. - President*

The claim pattern? Remember, the claim pattern has not increased. It's all in the reserves. The claims paid in second does not materially increase through 2006. It was the level of defaults and the filed claims in the third quarter increased, which according to our policy we reserve 100 cents on the dollar for.

Brian Horey - *Aurelian - Analyst*

Okay.

Operator

Thank you, speakers. That does conclude our questions. Please continue.

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

Thank you all. Before we close, I would like to take a moment to reiterate that we continue to believe we have the right strategy to achieve our long-term results.

First, we are a diversified Company with a portfolio of synergistic businesses. This diversification provides us with alternative sources of revenue and earnings. Second, our strong emphasis on risk management and discipline positions us well for the long term. Finally, we are focused on creating long-term value and believe the business will continue to generate returns of 12 to 15% ROE. Thank you all for your participation and for your ongoing interest in Radian.

Operator

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