

FINAL TRANSCRIPT

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by and welcome to Radian's third-quarter 2008 earnings call. At this time all lines are in a listen-only mode; later there will be an opportunity for questions and instructions will be given at that time. (Operator Instructions). As a reminder, this conference is being recorded. I'll now turn the conference over to Terri Williams-Perry. Please go ahead, ma'am.

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Terri William-Perry - Radian Group - IR Specialist

Good morning and welcome to Radian's third-quarter 2008 conference call. By now you should have all 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; Bob Quint, Chief Financial Officer; and Teresa Bryce, President of Radian Guaranty. Also on hand for the Q&A portion of the call are Steve Cooke, President of Radian Asset Assurance; Scott Theobald, Senior Vice President of Risk Management; and Paul Fischer, Executive Vice President of Loss Mitigation.

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 statement set forth in the Safe Harbor statement included with our webcast slides and the statements contained in our SEC filings. These are available on our Investor Relations website. I will now turn the call over to S.A.

S.A. Ibrahim - Radian Group - CEO

Thank you, Terri. Good morning and thank you all for joining us to review Radian's third-quarter results. This morning I will begin by reviewing the quarter's financial highlights followed by comments on Radian's capital and businesses and conclude with an overview of general industry trends. As always, Bob Quint will follow with financial details.

We also have Teresa Bryce joining us this morning. Teresa will provide an update on our mortgage insurance business and the implications of recent government and legislative actions. We will then open the call to take your questions.

Beginning with our earnings, earlier today we reported net income of \$36.7 million for the third quarter resulting in earnings per share of \$0.46. As of September 30 our book value per share was \$28.90. Our results were significantly impacted by the reduction of approximately \$272 million of the first-lien premium deficiency reserve established last quarter which offset a significant amount of our mortgage insurance losses booked during the quarter.

In addition, our results reflect a profitable financial guaranty business, the positive impact from our ownership interest in Sherman, some realized losses in our investment portfolio, and the ongoing impact of mark to market valuations for our derivatives. Bob will provide further detail on these results in a few moments.

Importantly, in the third quarter, in spite of a loss on our investment portfolio, it remains strong and the mortgage insurance claims paid for the quarter were at the lower end of our forecasted range. The financial industry environment continues to be characterized by change and uncertainty. Moreover, while we are encouraged by the financial relief efforts currently underway and in particular the renewed focus in solving the current housing crisis, we still remain cautious about the near-term.

We at Radian continue to take many actions to deal with this challenging environment and I would like to highlight some of these actions for you now. During the third quarter we executed upon our capital plan by contributing our financial guaranty business to our mortgage insurance business. This non-dilutive action adds statutory capital to our mortgage insurance business and is expected to provide this business with cash infusions over time.

In addition, while we believe that our capital is adequate to meet our current needs, we recognize that additional capital could be necessary if the housing downturn continues longer than projected. As a result, we continue to view our interest in Sherman as a source of additional capital through future dividends or a potential sale, and we remain open to opportunistically exploring other alternatives for raising capital.

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Radian has adequate claims paying resources in both our mortgage insurance and our financial guaranty businesses. We have loan loss reserves of \$2.7 billion; our \$6.3 billion investment portfolio remains strong despite a challenging investment climate.

Current market conditions require flexibility and we have changed the priorities for our three business segments over the last year. First, with respect to financial guaranty, market conditions have severely restrained the prospects for this business and, as a result, we have written very little business this year and have ceased writing new business for the foreseeable future.

Financial guaranty now serves as an important source of non-dilutive capital for mortgage insurance business and we have reoriented our financial guaranty operations commensurate with this new purpose. Importantly, this business continues to have a strong capital position and has benefited from low exposure to mortgage risk compared to its peers.

We are also actively exploring alternatives for reducing our existing risk in order to free up capital for our mortgage insurance business. With respect to financial services, our ownership interest in Sherman has increased and currently stands at 29%. We received \$16 million in dividends from Sherman in the third quarter of 2008.

We remain strongly committed to our core mortgage insurance businesses. While Teresa is going to discuss some of the developments in this business, let me highlight a couple. In the last year we successfully shifted our business to focus on prime loans while maintaining a strong market position. We have invested and continue to invest in this business by expanding our sales and operations capability and improving our technology.

The priorities of this business are -- to work with our servicer partners in mitigating losses; originate high quality new business; and to invest and position ourselves to benefit from future opportunities. We believe the recent changes with respect to the GSEs will allow them to continue to provide liquidity to the housing market and to contribute in moving this market towards recovery.

Most critical for us, the GSE charter remains unchanged. Fannie Mae and Freddie Mac are required to obtain credit enhancement on loans with a loan to value ratio of greater than 80%. Fannie Mae and Freddie Mac have historically relied heavily on mortgage insurance for this purpose and we expect to continue to ensure loans sold to them. We remain a top tier provider to the GSEs and will continue to work closely with both organizations through this difficult environment.

We are encouraged by the recent focus including legislative efforts on mitigating the current housing crisis. For example, as part of the Housing and Economic Recovery Act which preceded the recent \$700 billion relief package, the treasury is authorized to use loan guarantees and credit enhancements to facilitate loan modification to prevent avoidable foreclosures. The government has also provided \$280 million for foreclosure mitigation counseling.

Other players have also begun the process of modifying troubled residential loans. Bank of America has recently entered into a settlement with various states' Attorney General by pledging \$8.4 billion for interest-rate and principle reductions that will systematically modify loans for nearly 400,000 Countrywide customers. JPMorgan/Chase has also announced plans to modify terms of \$70 billion in mortgages for borrowers who are behind on their payments. This move will again assist as many as 400,000 borrowers.

The FDIC, in its role as conservator for IndyMac, has also proposed broad modification procedures. Radian is monitoring and engaged in these developments to determine the impact these changes will have on our mortgage insurance coverage and losses. However, we believe that any reasonably crafted effort to keep borrowers in their homes and out of foreclosure will ultimately benefit Radian and the economy as a whole. Clearly these measures are of significant interest to Radian and we have been very proactive in remaining close to these events unfolding in Washington. Now I will turn the call over to Bob.

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Bob Quint - Radian Group - EVP, CFO

Thank you, S.A. I will be updating you on the P&L activity and trends for the third quarter of 2008 and our financial position as of September 30, 2008. As you know, in the second quarter we booked a GAAP premium deficiency reserve of \$422 million on our entire domestic first-lien mortgage insurance book. We have updated several items in our third-quarter analysis including an adjustment to our unemployment assumption to reflect our current expectations of a 7% peak compared to a 6.2% peak last quarter. There is no positive impact from any government or service or actions considered in our projections.

Our updated first-lien premium deficiency reserve as of September 30 is \$150 million; therefore the P&L for the quarter contains a net reduction of \$272 million. This means that as of September 30 the present value of our projected aggregate future losses and expenses on the first-lien domestic business on our books at June 30, 2008 exceeds future premiums and our current loss reserve by \$150 million.

Because we have projected a profit on the new business written during the third quarter, this business does not impact the premium deficiency and will be accounted for normally. If updated projected losses on the June 30 book don't materially worsen in the fourth quarter we would expect the balance of the premium deficiency to be reduced to zero. If that is the case, the fourth-quarter results will contain our normal loss provision based on delinquencies and claims offset by a \$150 million elimination of the premium deficiency balance.

Please remember that our projection is over the remaining life of the book that existed at June 30 which represents several years. The timing of this will likely be volatile as we expect the next several quarters to contain net losses followed by net income in longer-term future quarters. For example, using hypothetical numbers, there could be a \$10 net loss in 2009 followed by a total of \$10 of net income in future years, and our analysis would show a breakeven and no need for a premium deficiency liability. We have updated the components of our premium deficiency analysis in our webcast slides.

Expenses for the quarter included some unusual non-repetitive items including an \$11 million charge for financial guaranty severance and \$10 million of expenses related to the termination of our pension plan and other compensation items. Because the mortgage insurance business written in the third quarter is not included in the premium deficiency reserve, related acquisition costs were deferred in accordance with normal practice.

Our mortgage insurance loss provision of \$519 million this quarter reflects the higher delinquencies and claims that occurred offset by recoverables of \$134 million from both Captive and SmartHome. Our paid claims were \$277 million consisting of \$232 million of first-lien and \$45 million of second-liens.

Looking forward into the balance of 2008 we expect that claims paid in the fourth quarter will be similar to the third-quarter number which would bring us to the \$950 million range for the year, 5% lower than our previous expectation. We expect that claims paid will be significantly higher in 2009, although the potential impact of the Government and servicer actions makes the number very difficult to project at this time.

We are just beginning to see a slowdown in claims received which may be a result of these actions aimed at reducing foreclosures. We expect the number of delinquencies to continue to increase in the fourth quarter due to the ongoing deterioration in the housing and credit markets as well as from traditional seasonal factors.

We have added disclosure in our press release regarding our modified pool risk which we include within our primary risk in force. Total modified pool risk as of September 30 is \$854 million and in our premium deficiency projection we have included \$620 million of projected losses or 73% of this risk.

With regard to pool insurance, of the almost \$3 billion of risk in force we have included over \$600 million of losses or 21% of this risk in our projections. A substantial portion of our pool risk is from 2004 and prior and the performance of that business

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has been very good. Both pool and modified pool business have significant deductibles and stop loss components that impact the loss projection materially.

With regard to NIMs, our current risk in force is \$456 million compared to \$712 million a year ago and \$485 million as of June 30. The updated total balance sheet liability on NIM is \$248 million. We expect future principle credit losses on NIMs will be approximately \$440 million with claim payments expected to begin in 2010 and to occur mostly in 2011 and 2012.

Because these future expected credit losses are greater than our current liability due to the FAS 157 impact which takes into account the market's perception of our nonperformance risk, the balance of this expense is expected to be booked in future quarters.

Premium deficiency on second-liens, which were initially booked in the third quarter of 2007, is on the balance sheet at June 30 at \$162 million. Updated projections on losses, premiums and a reduction to our discount rate resulted in an increase to the premium deficiency in the third quarter to a current balance of \$181 million. The risk in force on second-liens is \$696 million as of September 30. So between our loss reserve of \$154 million, plus a premium deficiency of \$181 million, this exposure is 48% reserved.

The domestic mortgage insurance CDS business had a positive fair value adjustment this quarter related primarily to FAS 157 nonperformance risk which results in a current fair value liability at quarter end of \$89 million, as compared to our expected credit losses of \$128 million. Like on our NIMs, this differential between the current fair value and the expected credit losses is expected to be booked over time.

The International CDS has a negative mark of \$6 million as of September 30, 2008. We still see no reasonable scenario in which we would incur any credit losses in such exposure.

Financial guaranty had much lower premiums written this quarter due to our decision to cease writing new business in light of current market conditions. Premiums earned were very strong reflecting heavy refundings, and we continued to see relatively stable credit performance. We are watching the Jefferson County, Alabama situation closely as we currently have \$284 million of exposure, all via reinsurance. We have booked a case reserve this quarter of \$12.6 million which will cover the next few quarters of our share of expected principle and interest payments as a solution to the situation is worked on.

Financial Guaranty paid a \$107 million ordinary dividend in July and \$100 million of this was subsequently contributed to the MI business, Radian Guaranty. The next ordinary dividend of approximately \$100 million is expected to be paid in mid-2009 and would go directly to its parent company, Radian Guaranty. Significantly our net par outstanding at Financial Guaranty was reduced this quarter to \$111 billion from \$116 billion at June 30.

The change in fair value line was significantly impacted by the adoption of FAS 157 in the first quarter of 2008 and less so in the second and third quarters, although we did have some credit quality adjustments this quarter that had a positive impact on fair values. There was one large positive fair value adjustment based on Radian's credit quality on the CDO of ABS transaction that, according to our updated assumption, we expect to pay credit losses on but not until around 2024.

We have no others CDOs for which we currently expect to pay any material credit losses and have done extensive work on our corporate CDOs and trust preferred CDOs in light of recent corporate credit events to confirm this. We have also expanded our disclosure significantly in this area and included that disclosure in our webcast slides.

Our investment portfolio continued to hold up in this stressed environment. Its safe credit profile, diversity among holdings and our policy of generally not investing in residential mortgages has proven sound. We have booked losses through the P&L in the third quarter via either a loss on sale or via an other than temporary impairment of \$17 million related to Fannie Mae and Freddie Mac and \$21 million related to Lehman.

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The majority of the rest of the losses in our investment portfolio that have either run through the P&L or run through the balance sheet this quarter are not credit related and therefore we believe they are temporary. We also believe our portfolio is positioned as well as possible in this environment.

We currently have approximately \$360 million of cash available to Radian Group with a very minimal near-term expected need for cash at the holding company. The primary financial covenants in our bank facility are the maintenance of at least \$1.7 billion in GAAP equity and that compares to \$2.33 billion that we had as of September 30, and a 35% debt to capitalization ratio which compares to 28% as of September 30.

In addition to just under \$1 billion of statutory surplus as of 9/30/08, Financial Guaranty Company has another \$1.9 billion claims paying resources including unearned premium reserve, future value of installment premiums and contingency reserves for a total of approximately \$2.9 billion in claims paying resources. We believe that these resources will help allow us to continue to write profitable new MI business. We expect to continue to pursue ways to reduce the risk at Radian Asset Assurance in an economically advantageous way, potentially making the existing capital more freely accessible.

In addition, although our financial guaranty counterparties have the right to either claw back or walk away from our exposures, there are no collateral support or any other agreements that could significantly impact the liquidity of this business. At quarter end the total statutory surplus, including contingency reserves, in our mortgage insurance business was \$2.2 billion; we have another \$2.9 billion in loss and premium deficiency reserves. We believe the liquidity in the mortgage insurance business is more than adequate to meet all of its obligations for the foreseeable future. I'd now like to turn the call over to Teresa Bryce.

Teresa Bryce - Radian Guaranty - President

Thank you, Bob. As S.A. mentioned earlier, we remain 100% committed to our mortgage insurance business. While we can do little to change the current market conditions, we have been working hard to build a mortgage insurance franchise that will be successful in the long term. While we are managing risk and cost aggressively we are also making improvements to our operations to streamline processes and improve service levels.

We continued to maintain a strong market position in 2008 despite a significant decrease in mortgage origination volume across the industry. During the third quarter of 2008 Radian's mix of new MI business was over 98% prime. This represents a dramatic shift during the past year and is a trend we expect to continue into 2009.

We realize that our ability to maintain a strong market position and add new quality business is dependent on an experienced and stable workforce which includes field sales representatives. During 2008 we have increased our salesforce significantly to assure that we are building long-term relationships, adding new relationships with high-quality lenders and assisting our clients with the many issues facing our industry.

There is no question that this is one of the most challenging times for our economy and our housing industry. Radian remains committed to maintaining its current prime-based product mix and ensuring appropriate risk-adjusted returns by making necessary guideline changes and pricing increases which are expected to improve the profitability of new business.

On a risk-adjusted basis we believe the pricing changes that we have made will result in enhanced profitability. We constantly monitor the market place, review loan and lender performance, adjust our models in real time and make the appropriate changes in our guideline and pricing formulas.

While the rapidly rising default rates for subprime and Alt-A should be no surprise to anyone, most disconcerting is the rise in the prime default rate. This is now approximately 5.7% during the third quarter of 2008 and it is our expectation that the default rate will continue to rise in the short term, although we are seeing positive trends in certain vintages.

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We continue to monitor and track these default rate trends as well as trends for early payment default. During the third quarter we have seen a turnaround in the performance of our 2008 book. Considering the guideline and pricing changes we have made, we expect the 2008 book to be profitable.

Radian continually monitors loan and lender performance trends and adjusts underwriting standards as warranted. Recently announced changes include lowering the maximum loan to value ratio in stable markets to 95% and in declining markets to 90%, increasing the minimum credit score and reducing risk layering with regards to occupancy and property types. We will continue to monitor the market and will take further actions as they are needed.

Our process for evaluating risk is driven by the latest loan performance data and, in particular, early payment default trends. The multiple guideline changes we made during the third quarter reflect loan characteristics and performance data well beyond basic credit scores and loan to value. Radian is also looking carefully at lender performance. We are working closely with our lender partners to improve underwriting and to ultimately reduce the rate of default to levels that will drive greater profitability.

As you are aware, a number of our peers have made decisions during the third quarter regarding their captive structures. Specifically some have announced that they will no longer cede new business under excess of loss reinsurance plans with lender captive insurance companies. We have no present plans to exit this market; however, we are currently evaluating the terms of all of our reinsurance programs. Once we have completed this analysis we will communicate our plans for this area of our business.

As you would expect, our efforts in loss mitigation have been a priority and a key part of our capital preservation strategy. Just as we are making tough decisions regarding our guidelines and program, Radian is aggressively managing loss strategies to preserve capital. A major component of our loss mitigation approach is evaluating every opportunity to keep people in their homes.

We have placed staff on-site with major mortgage servicers to identify and expedite solutions. We continue to promote the use of our fast advance program that advances up to 15% of a potential claim to our servicers. In turn, they can use the funds to provide solutions directly to the homeowner such as loan modifications and buy downs.

We are also an active participant in the Hope Now initiative. These initiatives represent the variety of solutions that are available to our mortgage servicing partners. Radian has also launched outreach programs that go directly to customers. Our borrower website educates homeowners on a variety of solutions available to them and to date we have tracked over 5,000 visits to the site. Radian has sent over \$30,000 mailers to borrowers inviting them to visit our website for more information.

Radian has also continued its partnership with the Consumer Credit Counseling Service of Delaware Valley to contact borrowers on a national basis to offer free credit counseling services. The result of this outreach program has been a contact rate of 27% with over 2,400 counseling sessions conducted.

As S.A. mentioned earlier, I will now provide you an update of our September meetings on Capitol Hill. We believe it is important for our legislators, our regulators and the public to recognize the important role of the MI industry and Radian during this downturn.

First, although the industry has experienced losses and downgrades, the MI industry has done exactly what it was supposed to do during this time -- claims paid by the industry have exceeded \$15 billion over the past two years. At the same time, we are working in partnership with servicers to help borrowers stay in their homes if at all possible. This clearly demonstrates the value of MI to the GSEs, taxpayers and the overall stability of the housing market.

Also, we have not only been closely monitoring the developments in Washington, but we have participated in meetings and discussions with legislators. Their reactions were receptive and favorable. We and others within the MI industry have provided our input on the industry's role moving forward. Based on our meetings we believe that legislators recognize the benefit of

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private mortgage insurance and the need to preserve it in whatever financial reform legislation Congress undertakes next year. We will continue to meet with legislators and regulators as appropriate.

I would like to close by reiterating our commitment to our MI business. We remain focused on efficiently managing our operations and preserving capital to ensure that Radian is best prepared to emerge from the current challenges positioned as a long-term value player. This has meant taking measures such as making pricing and guideline changes and adjusting our business mix in addition to ensuring cost control. I will now turn the call back to S.A.

S.A. Ibrahim - Radian Group - CEO

Thank you, Teresa. Before we open the call for questions I would like to reiterate four key points. First, we contributed our financial guaranty business to our mortgage insurance business in the third quarter. We still view our interest in Sherman as a source of additional capital through future dividends or potential sale while remaining opportunistically open to other alternatives for raising capital.

Second, we believe we have adequate claims paying resources in both our mortgage insurance and financial guaranty businesses. Third, going forward we are strongly committed to our mortgage insurance business and our franchise remains resilient. And fourth, our investment portfolio is strong and we believe we have adequate liquidity to meet near-term anticipated needs.

We remain focused on ensuring Radian is best positioned to weather the current economic climate and to take advantage of future opportunities. Now we will open the call to your questions. Operator?

QUESTIONS AND ANSWERS

Operator

Howard Shapiro, Fox-Pitt.

Howard Shapiro - Fox-Pitt - Analyst

Thank you very much. Just a couple of questions. You published I think three risk to capital ratios; I'm just wondering which one we should consider the operative one as far as the regulators, the rating agencies and the GSEs are concerned. And just tell us what your capital is relative to that. And if it's the 19 and change to 1 one, what would that mean in terms of your need to raise capital, how soon you would have to do it?

Bob Quint - Radian Group - EVP, CFO

Howard, the only risk to capital ratio that is really relevant for the purposes you're talking about is the Radian Guaranty. That's the primary writer of business and that's the 50-state licensed company that is regulated by the state insurance department to the 25 to 1, so it's the 14.5 to 1. The other numbers are really much less relevant because they include credit insurers or insurers that are not so regulated.

Howard Shapiro - Fox-Pitt - Analyst

Okay. And then just some questions I guess on credit and claims. Your average claim rate continues to go up. You guys I think said -- S.A. said early in the call you're just beginning to see maybe a decline in new claims. Can you kind of tell us where we are

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in the process, where you would expect -- when you would expect severity to max out and where would you say we are in terms of the maximum delinquency rates and frequency?

Bob Quint - *Radian Group - EVP, CFO*

Howard, if you're referring to the claim size as severity -- if that's what you're referring to, it sounds like you are --.

Howard Shapiro - *Fox-Pitt - Analyst*

Yes, I am. I'm sorry, yes.

Bob Quint - *Radian Group - EVP, CFO*

We do expect the average claim amount will continue to rise throughout '09. And in terms of delinquencies, we did say that we expect delinquencies to increase in the fourth quarter due to the continuation of the market and due to seasonality which typically occurs in the fourth quarter.

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

Howard, though one of the points that I might ask Scott to comment on is in some of our vintages. We've actually seen delinquencies level off. Scott, I don't know if you --?

Scott Theobald - *Radian Group - SVP, Risk Management*

That's true. What we're seeing is, as of course, as everybody knows places like Florida, California and Arizona continue to have delinquency issues. Of course these are states where there's also a lot of standard product like Alt-A and subprime. However, overall we're seeing some nice leveling off in 2005 vintage and the 2007 vintage has actually performed reasonably so far.

Howard Shapiro - *Fox-Pitt - Analyst*

Perfect, thank you very much.

Operator

Steve Stelmach, FBR Capital Markets.

Steve Stelmach - *FBR Capital Markets - Analyst*

Hi, good morning. Teresa, you mentioned some positive comments from Capitol Hill or at least relatively receptive legislative discussions. Could you discuss what the nature is of those discussions? Is it to keep the GSE structure and the MI structure intact after the GSEs are removed from conservatorship? Or is it a discussion in terms of what the business is going to look like after the conservatorship issue and what the MI role is going to be under a potentially new structure? What's the flavor of those discussions?

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Teresa Bryce - Radian Guaranty - President

Thanks for the question and the major focus really of those discussions was on making sure that those on the Hill were really focused on how important MI has been over the course of this downturn and how it should really be preserved in any legislation going forward. So in fact when we were there it was just about 10 days after the conservatorship was announced and so we didn't really focus on kind of what that would be going forward as much as just trying to make sure that people have on their radar screens as they're moving forward what a critical role MI has had in how it should be preserved.

Steve Stelmach - FBR Capital Markets - Analyst

I don't think there's much doubt that you guys have reserved a lot of capital for the GSEs. But on a prospective basis, are you guys contemplating any potential change of business models for the industry or is the going assumption that in a status quo business model is what you'll see in the next few years?

S.A. Ibrahim - Radian Group - CEO

As you are probably aware, there are a number of different groups and industry stakeholders who are going to weigh in as future administrative and legislative efforts shape the role of the GSEs and the financial policy going forward. Among the players that are going to participate in that are the mortgage insurance industry as a whole because this is something that affects the whole industry, as well as on a larger basis the mortgage banking industry.

And as such the Mortgage Bankers Association has set up a task force which is going to focus on liquidity and GSE issues. And very importantly, they have invited a couple of mortgage insurance players, including myself, to be part of that task force that is going to look at different alternatives for the GSEs. And you heard Ben Bernanke's views, the other views that come into play, and we'll have an opportunity to have a say in whatever gets shaped in Washington.

Steve Stelmach - FBR Capital Markets - Analyst

Great. Thank you very much. And Bob, just a quick follow-up. You mentioned the dividend from the bond insurance business up to the MI business. What was that number? I am sorry I missed it.

Bob Quint - Radian Group - EVP, CFO

\$107 million and it was paid at the very big beginning of July.

Steve Stelmach - FBR Capital Markets - Analyst

Great. Thank you very much.

Operator

Amanda Lynam, Goldman Sachs.

Donna Halverstadt - Goldman Sachs - Analyst

It's Donna Halverstadt. I had a question on liquidity. You had mentioned that resources available to Radian Group I think are \$360 million. And last quarter we talked about I think pro forma for the pay down on the facility, about \$50 million being at the

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hold co. So with (technical difficulty) \$360 million, can you tell us how much of that is actually at the holding company, how much is at an intermediate holding company and why it's at that intermediate hold co and under what circumstances you can access it? And if that doesn't get us up to \$360 million, what other buckets there are that get you up to that \$360 million? Thank you.

Bob Quint - *Radian Group - EVP, CFO*

That is the amount and we view either it be at the hold co or at a non-insurance affiliate of the hold co as being pretty much fungible. So we don't view that as being any different. We view the \$360 million as the amount that Radian Group has available. And right now there is some money at another intermediary holding company, but that's not really very relevant.

Donna Halverstadt - *Goldman Sachs - Analyst*

Okay. Just one follow-up then. Was there some change in your thinking that led you to now talk about \$360 million as opposed to the amounts that used to literally at the hold co? Should we be thinking about anything different here?

Bob Quint - *Radian Group - EVP, CFO*

No, nothing in our -- we've been consistent in describing the amount and there's also a lot of disclosure in our 10-Q's regarding these amounts as well.

Donna Halverstadt - *Goldman Sachs - Analyst*

All right, thank you.

Operator

(Operator Instructions). David [Katz], JPMorgan.

David Katz - *JPMorgan - Analyst*

You talked a little bit about your expectations of possible legislation in your attempt to influence the legislators beyond the value of mortgage insurance. At the same time (technical difficulty) been gaining market share. I was hoping that you could comment on that and how you expect that to shape out over the next couple of quarters and possibly the next few years?

Teresa Bryce - *Radian Guaranty - President*

You're certainly right that FHA has been gaining a market share given all the changes that have been going on from a guideline and pricing perspective. And we anticipate, particularly with some of the programs that were put in place like Hope for Homeowners that we'll see a continued increase with FHA.

At the same time, I think that it's difficult for us to say exactly what we think that will do in terms of the mortgage market overall. It may reduce slightly the amount that is private MI cover over the next couple of -- but I think that's something that we're really monitoring. And our focus really is on making sure that we are taking the right approach in terms of underwriting and pricing to make sure that we're putting (technical difficulty) new business on our books.

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David Katz - *JPMorgan - Analyst*

Does that mean that the market share that we've seen in the last quarter is what you see as a more stabilized number going forward for the next couple of quarters or do you think that the private MI number could shrink even further?

Teresa Bryce - *Radian Guaranty - President*

I think that's really hard to say at this point in terms of how lenders are separately looking at where they're going to put their share of business. And I think that as we talk to lenders, they seem to be continuing to expect to put a significant amount of loans with the private mortgage insurers. At the same time, especially with trying to refinance out some of the borrowers who have had credit issuers, FHA has been gaining some share there.

David Katz - *JPMorgan - Analyst*

And then you had said that you have no -- I believe the phrase you used was no present plans to exit the captive reinsurance business.

Teresa Bryce - *Radian Guaranty - President*

That's correct.

David Katz - *JPMorgan - Analyst*

But you said that you were investigating it. What would cause you to change and to follow the tactics that some of your competitors have used?

Teresa Bryce - *Radian Guaranty - President*

Well, I think what we're saying is that at this point we're looking at really what the right terms should be in terms of moving forward with that business. And so our expectation at the moment is that we would be able to come up with terms that we would feel comfortable with going forward. And then we would communicate that and see what customers might be interested in continuing on those terms.

David Katz - *JPMorgan - Analyst*

So in other words perhaps the present arrangement goes on, but at terms that are more favorable to Radian?

Teresa Bryce - *Radian Guaranty - President*

That's correct.

David Katz - *JPMorgan - Analyst*

Okay. And then finally, you talked about the trends in claims and delinquencies. I was hoping that you could go over the trends you're seeing in frequency and severity and how that has affected your loss and reserve assumptions.

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Bob Quint - *Radian Group - EVP, CFO*

The severity in terms of average loan size and average claim payment has continued to go up and all of that is reflected within our current reserve. So if there's a delightful loan that's a larger loan that's going to have a higher reserve. So our reserves reflect the fact that we expect the average claim size to keep going up.

As well, as a delinquency rolls into foreclosure, what we call roll-based, those have been going up as well and those are also taking into account our reserve calculations and a lot of the increases in roll rates are incorporated within our reserve expectations. So that's why we believe our reserves are strong and they've always been consistently strong in light of the rising delinquency levels.

David Katz - *JPMorgan - Analyst*

Okay, thank you very much.

Operator

Nat Otis, KBW.

Nat Otis - *KBW - Analyst*

Good morning. Just a quick follow-up on that first-lien premium deficiency, just maybe you could provide a little bit more color on how with assumptions -- maybe the unemployment assumption getting worse to 7% from 6.2% and you guys just put the premium first-lien premium deficiency on, how we kind of get to the point that it's being reduced so much this quarter and will go away within a couple of quarters of actually being put on. If you could just give a little color I'd appreciate it.

Bob Quint - *Radian Group - EVP, CFO*

Yes, I'll try and hopefully this will be helpful. What the premium deficiency does, it really front loads all of our projected results on the business. So as the actual results unfold you're booking those actual results, but that's really all been pre-booked essentially via the premium deficiency.

So as time goes on the premium deficiency will be released with our premium deficiency that we booked in the second quarter. And then the way losses and premiums develop in the third quarter and our review of all the new assumptions regarding the future performance, we believe the premium deficiency needs to be \$150 million.

So that's sort of the mechanics of it. And then judging from our expectation about fourth quarter, again, if we don't change those ultimate projections materially we would expect that \$150 million to be reduced to zero in the fourth quarter.

Nat Otis - *KBW - Analyst*

So it sounds like it was really how they developed in the third quarter less of maybe that change in assumption going forward on unemployment. It was really how they developed in the third quarter is how you ultimately are looking at it now for the fourth quarter?

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Bob Quint - *Radian Group - EVP, CFO*

Right. More of the P&L impact in the third quarter was based just on the business unfolding as compared to changes in future projections. There were changes in future projections that also were incorporated within that.

Nat Otis - *KBW - Analyst*

Okay, that's helpful, thank you.

Operator

Mark DeVries, Barclays Capital.

Mark DeVries - *Barclays Capital - Analyst*

Thanks. I know it's still early in the life of the Hope for Homeowners plan, but have you been active at all at this point working with lenders and servicers with delinquent loans that have mortgage insurance on it that are interested in refinancing those loans into the program?

Teresa Bryce - *Radian Guaranty - President*

Well, as a general proposition we have been very active from a loss mitigation perspective as a whole. That's an area that we started ramping up significantly over a year ago. And so we've been actively working with servicers to try to look for opportunities to stem foreclosures and to keep borrowers in their homes. And so that is an area that we continue to focus on.

We continue to work with the various trade groups with the Hope Now initiative and others to look for opportunities to further that aim. But that's certainly something that we've been quite focused on. We've seen an increase in loan modifications, a significant increase in loan modifications and so those are activities that we will continue.

Mark DeVries - *Barclays Capital - Analyst*

So are you more focused at this point on more minor modifications than considering principle reduction at this point?

Teresa Bryce - *Radian Guaranty - President*

I wouldn't say that. I think we're looking at all opportunities with respect to individual loans. So for instance, I talked about our Fast Advance program and the Fast Advance program is one where there's a delinquent loan and we essentially offer 15% of the perspective claim amount to servicers and they can use that to reduce the principle amount. They can also use it to reduce the interest rate on the loan. So we're really -- each one of these situations is different and so we're really working actively with the servicer in order to find what the right solution is for each borrower.

Mark DeVries - *Barclays Capital - Analyst*

Okay. And do you have any data yet on how effective some of the loan modification efforts have been, how many of those loans are remaining current?

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Teresa Bryce - Radian Guaranty - President

Our data now says it's about 50%.

Mark DeVries - Barclays Capital - Analyst

Okay, thank you.

Operator

Mike Grondahl, Key Colony.

Mike Grondahl - Key Colony - Analyst

Just two questions. One, on your premium deficiency reserve, can you just kind of handicap your initial assumptions that you used? Were you satisfied with how aggressive or the level that you came up with? Or -- just kind of give us some highlights there. And then secondly, have you begun discussions with Bank of America or JPMorgan about the loans you have that they may provide some assistance with and any potential look at ranges of benefits or loans that could be identified?

Teresa Bryce - Radian Guaranty - President

I'll take the second part of your question first and then turn it over to Bob. We actually have been working with those servicers. With respect to these settlement that we mentioned earlier in the call, we've taken a look at that and based on the parameters of the settlement that Bank of America entered into, it affects about 8% of the defaults that we currently have, so it's a material amount of defaults.

With respect to the Chase announcement, we're still trying to -- that was more recent and we're still trying to ascertain sort of what that impact may be on the default. From what we know at this point it focuses more on the payment option arm, so we expect it to have a positive impact but I can't give you a percentage of defaults at this point that we (inaudible) back.

Bob Quint - Radian Group - EVP, CFO

Mike, on our loss projections, we're required to put out there the best estimate that we can possibly come up with regarding future losses. We've done that and we're confident in the number, although obviously there's -- obviously there are assumptions and uncertainty involved. But I think importantly, nothing we're seeing in the actual results through the third quarter and into the fourth quarter are leading us to believe that these projections are not accurate.

Mike Grondahl - Key Colony - Analyst

Great. And then last question, could you talk a little bit about your -- maybe the change in the volume of what you're able to rescind due to fraud this quarter versus the year ago quarter?

Teresa Bryce - Radian Guaranty - President

Well, we have seen an increase in our rescissions and denials over the last year and a significant amount of that is due to fraud. So I would say that we continue to see that as a trend and we've always at Radian had a special investigative unit and that unit has been focused on looking at claims for fraud; that's a unit that we've expanded. We're seeing based on our risk filters more

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loans going through that unit at this point. And so we would expect that we would see even a higher number of loans going through that unit as a result of the fraud that we're seeing.

Operator

Howard Shapiro, Fox Pitt.

Howard Shapiro - *Fox-Pitt - Analyst*

Just a follow-up to Mike's question and, Bob, it's more of an accounting question. I just want to make sure I understand. Until you actually begin to see the positive effects of these modification programs in run rates or roll rates there's no way you can change your assumptions in terms of reserving, is that correct?

Bob Quint - *Radian Group - EVP, CFO*

We wouldn't do that because we can't quantify them. But to be extent that the impact roll rates go forward, so if less delinquencies go to claim as a result of this then the roll rates are going to be impacted over time and that will get into the reserves that way. But we're not going to anticipate some sort of change in roll rates because it's really impossible to do.

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

Howard, if you look at our history we've been fairly consistent in basing our reserves on the statistics -- our folio statistics and our experience. So while there is a view that some of the government and private actions that we just talked about may have a positive impact at some point in the future on our defaults, until we see that actually come through in our default and our severity and our role rate experience we would be very reluctant to modify our reserve or change the way we reserve.

Howard Shapiro - *Fox-Pitt - Analyst*

Okay, thank you.

Operator

[John Giodono], Credit Suisse.

John Giodono - *Credit Suisse - Analyst*

Good morning. Just a couple (technical difficulty). One thing I wanted to ask was I know the FDIC has been sort of gathering some steam on a plan to possibly guarantee mortgages. And I'm just curious given your comments on the importance of private MI that you are sort of making at Capitol Hill, how would that change the view of the need for private mortgage insurance going forward if they were able to put something together?

Teresa Bryce - *Radian Guaranty - President*

I think our focus, at least with respect to what the FDIC has been proposing, is a plan that would essentially look at modifying borrowers on the basis of the existence of MI in part in looking at the net present value of the loan. And one of the concerns

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that we have with that plan is that we think that the focus really should be from a policy perspective on keeping borrowers in their home and stemming foreclosures because we also believe that that is the way to help stabilize the housing market overall.

And so as a result our concern is that in looking at whether to work with a borrower to try to stem a foreclosure in terms of whether MI is on their loan or not really doesn't meet up with that policy objective. And we're also concerned about the fact that it may have a larger impact on people who were sort of affordable housing borrowers as well as single borrowers and minority borrowers just because those are the people who tend to have less than 20% to put down and would be participating in private mortgage insurance.

John Giodono - *Credit Suisse - Analyst*

Okay, great. And then I guess you had mentioned the possibility earlier on in the call a possibility of needing additional capital. And I guess your comment around the fact that prime defaults are probably going to go up. If you did need capital and you needed it in the short term, what are the sources -- do you think that you could tap quickly?

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

Again, in terms of capital we've been pretty consistent in what we've said. We've said that we believe we have adequate capital to meet the projected needs. But at the same time we recognize that there is a lot of uncertainty and stress in the environment and if this uncertainty and stress continues we have to remain open to the possibility of accessing capital.

We also have the benefit of having the flexibility that comes from our Sherman investment which stands at 29%. And beyond that investment we would be open to evaluating all the alternatives that are possible. But that is it. In this environment we can't say anything other than the fact that as long as the environment continues to have stress we have to be open to opportunistically seeking capital. That doesn't mean that our needs are imminent, it just means that we have to take into consideration all these factors and balance.

John Giodono - *Credit Suisse - Analyst*

Okay, great. And then I'll just ask one last question. I know there were a couple of questions around the hold co liquidity and the \$360 million that you had referenced. I'm curious -- maybe just to ask you a different way, is any of that money at a regulated entity?

Bob Quint - *Radian Group - EVP, CFO*

It's not and there's no near-term expectation that that will be paid down.

John Giodono - *Credit Suisse - Analyst*

Okay, great. That's all my questions. Thank you.

Operator

Maria Panganiban, New York Life.

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Maria Panganiban - *New York Life - Analyst*

Just questions on two topics. Just to follow up on that liquidity question, what is that non-insurance entity that you're talking about that has some of that liquidity and how does that (inaudible) in terms of hold co versus that identity for the \$360 million?

Bob Quint - *Radian Group - EVP, CFO*

It's a non-insurance company, it's called Enhanced Financial Services and the breakout is something like \$300 million there and \$60 million at the hold co. But again, we don't view that as being any different. There's no significance in where it is necessarily.

Maria Panganiban - *New York Life - Analyst*

And then my second question is on the financial guaranty CDO portfolio. You gave some disclosure with regards to average attachment points, but you didn't actually say what that number is. You referenced an S&P CDO evaluator, but what exactly would be 2.2 times AAA level?

Steve Cooke - *Radian Asset Assurance - President*

Typically within the industry if you're looking at what an attachment point is and where a CDO falls relative to that, the industry standard is to refer to the CDO evaluator that's used by S&P to determine what is the AAA attachment point in a given transaction. You use that as your base. Also, when we use that number and say that the average attachment point is 2.2 times that level, that's what we're referencing with respect to that.

Maria Panganiban - *New York Life - Analyst*

But can you just quantify what exactly that would be? What's a AAA level? Is that 10%, 5% --?

Steve Cooke - *Radian Asset Assurance - President*

It would depend on the particular type of transaction, it would depend on whether it's a corporate CDO transaction, depend on whether it's a CMBS CDO. There will be different attachment points assigned by the rating agencies according to the type of transaction. So what we're doing is using whatever the appropriate or applicable attachment point is for that generic type of transaction and the number that you're seeing in our disclosure is a multiple of that particular number.

Maria Panganiban - *New York Life - Analyst*

Just to press you a little bit again on that, is it possible to give us some generic numbers just because of --?

Steve Cooke - *Radian Asset Assurance - President*

Let's say for example on a corporate CDO, let's say that the AAA attachment point was at a 6% level. We're saying that for our deals that our attachment point let's say is in the 15 range with respect to that. There will be other deals where that AAA attachment point will be lower than the 6%, might be 3%. And again, that's based on the agency's assessment of performance of the underlying assets in that transaction also combined with the structure of a particular deal.

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Maria Panganiban - *New York Life - Analyst*

So would you say that the average for that corporate CDO bucket, which is 80 something percent of that portfolio, would be kind of like 6% would be the AAA attachment point on average?

Steve Cooke - *Radian Asset Assurance - President*

It's a little hard to say. I'd rather sort of get back to you in terms of specifics with respect to let's say the entirety of our corporate CDO portfolio. The one thing that I will say to you from a perspective of comfort in that sense is that that CDO evaluator number is not something that we derive, that's something which is specified by the rating agencies across all CDOs.

Our deals were structured looking at that and then saying at what point in the credit spectrum do we wish to attach because the conscious decision was made when we did these deals -- because remember, a lot of these deals are done in a much tighter spread environment -- that we were comfortable in doing these deals only if we were going to attached higher up in the credit spectrum which is why we placed a premium on having higher attachment points.

Bob Quint - *Radian Group - EVP, CFO*

The other thing you could do is you can look at our webcast slide on credit exposure to direct corporate CDOs. And we laid out the amount of sustainable credit events and the amount of current remaining names. So you can compute the percentages that would be necessary to go through our subordination.

Maria Panganiban - *New York Life - Analyst*

Now would that be a better way to look at it because I'm looking at page 20? So that would then be the best way to figure out for instance --?

Bob Quint - *Radian Group - EVP, CFO*

That is a way, yes.

Maria Panganiban - *New York Life - Analyst*

Now when you say credit event, is that the same as saying a default?

Bob Quint - *Radian Group - EVP, CFO*

Right, that's a payment default.

Maria Panganiban - *New York Life - Analyst*

Okay. All right, thank you very much.

Operator

Thank you. We have no further questions. I'll turn the call back to S.A. Ibrahim for closing remarks.

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

Thank you, Operator. And I'd like to thank all of you for participating in the call and for the questions you asked and thank you again.

Operator

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.

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