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PRESENTATION

Unidentified Company Representative

Ladies and gentlemen, please welcome Emily Riley, Senior Vice President of Investor Relations and Corporate Communications.

Emily Riley - *Radian Group Inc. - SVP Corporate Communications and IR*

Good morning, and welcome all to Radian's investor day. It's very nice to see so many familiar faces. Also some new ones. I'm very happy to say welcome to everybody here and also on the webcast.

My name is Emily Riley, Senior Vice President of Investor Relations. And on behalf of the entire Radian team, including my colleague in IR, Terri Perry, who most of you hopefully have met today, thank you all for your interest in our Company.

Before we get started, it's important to note that some of the statements we will make today will be forward-looking. These statements as well as Radian's prospects are subject to certain risks and uncertainties, and you should read about these risks on slide 92, 93 and 94. A copy of the presentation we will be using today may be found in the investor section of our Company's website at www.radian.biz.

Now that I've made the lawyers happy, I would also like to tell you that you can find our agenda in your handout packet on page 2. Also before we get started, if I could ask everybody to please silence any mobile devices for the benefit of the people in the room as well as on the webcast.

So in terms of the agenda, what you'll hear from -- who you will hear from today are members of our management team. And each presentation -- after each presenter, we will have a Q&A session. Except for Derek Brummer and Frank Hall, our Chief Risk Officer and Chief Financial Officer, who will present at the end of the day. They will host Q&A together because many of the topics that they will be talking about are very similar.

Our goal is to make this an interactive session, so I encourage you all to take this opportunity, address the questions that are on your mind. But please keep in mind that certain questions may be addressed later in the day. So, the presenters may ask you to hold your question knowing that that topic is coming later. Also keep in mind that we're webcasting our presentation today. Therefore, we ask for you to wait for a microphone if you do have a question so that everybody on the webcast can hear your question clearly.

So first this morning, we will hear from S.A. Ibrahim, Radian's Chief Executive Officer, who will set the day -- set the stage for today's program. Next, we will hear from Radian's Chief Economist, Cliff Rossi, who will provide an overview of the macroeconomic environment and its impact on our businesses. Then Teresa Bryce Bazemore, who is the President of Radian Guarantee, our mortgage insurance business, will discuss the evolving MI landscape. After Teresa's presentation and Q&A, we'll take a half-hour break. And after the break, Joe Durso, President of Clayton, our mortgage and real estate services business, will focus on the product services and business lines impacting the area of the business. Next, Radian's Chief Risk Officer, Derek Brummer, will discuss our risk management vision and strategy among other topics. And finally, Frank Hall, Radian's Chief Financial Officer, will wrap up the day with an overview of our Company's financial strength and capital structure among other things.

So, S.A. will provide any final comments at the end of the day and also field Q&A. So if there's something that you haven't asked, that will be the opportunity to ask it. And then we will adjourn to the lunchtime program and the expo. At the expo, which is across the hall, you'll have the opportunity to learn more about Radian's mortgage insurance products, the services that we provide, also our diverse segment strategy and our targeted lender marketing efforts at credit unions. We also have Radian Guarantee's government affairs team. And you will have the opportunity to learn more about the Clayton family -- the companies including Green River, Clayton Surveillance, Red Bell Real Estate and Value America.

In the very back of your packets this morning, you'll find biographies for the key executives that will be presenting this morning, and you will also find contact information for the investor relations and the public relations teams. I encourage you to use those contacts to follow up with any questions that you have after today's presentation. We would be happy to help you.

As a reminder, we will adjourn at 2 o'clock today following the lunchtime expo. And, again, thank you all for your interest in our Company. And now I would like to begin the program by inviting S.A. Ibrahim to the stage.

So, good morning, S.A.

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

Good morning.

Emily Riley - *Radian Group Inc. - SVP Corporate Communications and IR*

I think it would be a great idea to start off by giving the audience a little overview of Radian. We've got a few new faces, and I'm also sure that we've got some new listeners on the webcast. Could you tell us a little bit about the Company?

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

Sure. Radian has two distinct yet complementary business segments: mortgage insurance, and mortgage and real estate services. Mortgage insurance, where we are a leading player, has been a primary segment since our inception. And last year, we acquired Clayton and successfully introduced the services segment. Clayton is a leader in its own markets.

Earlier this year, we also eliminated all of our exposure to financial guarantee -- financial guaranteed credit risk with the sale of Radian Asset. These actions represent a turning point for Radian, and we are now a Company that, with mortgage insurance still as its primary focus, adds value across the entire real estate chain.

Our family of companies is stronger together than we are independently. And what is most important to remember is the fact that we are in a strong and financially competitive position with embedded earnings. The power of earnings comes from a large and profitable book of mortgage insurance business.

Emily Riley - *Radian Group Inc. - SVP Corporate Communications and IR*

Embedded earnings power, I know that's of interest to this group. Can you tell me a little bit more what you mean by that?

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

At Radian, first, let me just talk about our -- what we are focused on at Radian. At Radian, we endeavor to grow our earnings and realizes safe, sustainable and attractive return on equity while positioning the Company for future success. So we expect our future earnings growth for the next several years to be driven heavily by the large and profitable book of MI business we've written since 2008. As a reminder, we've written nearly $200 billion of profitable MI business since the financial crisis began by focusing on our customers. And we did that at a time when many of our peers were focused primarily on internal concerns and pressures.

During that time, we strengthened our sales team, directed our marketing efforts towards the independent mortgage lenders both small and large, because these independent mortgage lenders were writing more conventional loans versus the FHA. And by doing this, we doubled our market share after the financial crisis and emerged from one of the worst economic downturns as a leader in private mortgage insurance.

We seek to further enhance that embedded earnings power of our MI business by writing profitable new business at an attractive return and by growing our fee income, which does not require much capital. We plan to continue to grow our MI income while also aiming to have our services segment represent 20% to 25% of our total revenue over time.

Attractive as this fee income may seem as a diversified source of income, equally important is our goal to leverage our services business to deepen our MI customer relationships and to help drive more insurance business.

Emily Riley - *Radian Group Inc. - SVP Corporate Communications and IR*

Now, S.A., what are some of the primary objectives for Radian as we look ahead? And as I ask you that question, I'm going to change our slide.

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

That seems great. Okay. Here we are.

This slide shows our primary objectives, which are to write more high-quality and profitable new insurance written, NIW. To grow fee income and leverage our fee income products to deepen MI customer relationships. To lead with superior risk analytics and technology. To seek new markets for existing products and services. And to enhance financial strength and judiciously manage capital. Let me expand each of these.

The first objective, to write more high-quality and profitable NIW is obvious and comes down to writing as much NIW as we can, but while meeting strong credit quality and projected profitability to return a target ROE in the low to mid teens or better.

Our second objective is to grow fee income through our broad mortgage services capabilities as well as to use these capabilities to create deeper relationships with our MI customers in order to help originate more high-quality and profitable NIW. We are encouraged by the keen interest being shown in Clayton services by both our existing MI customers as well as by prospects who are considering adding Radian as an MI provider. You will hear more about this later from our team members.

So, later on, be sure to stop by the booths in our expo, where you can learn about the many ways in which we can bring more value to our mortgage lenders.

Our third objective is to leverage superior risk analytics, technology and the power of our team, thereby enhancing our ability to achieve the other objectives. We are building powerful new mortgage risk analytics tools that not only leverage the deep knowledge and data within the MI business, but by also leveraging the data and expertise in our services business.

Our fourth objective is to mine new markets and opportunities for existing products, services and capabilities. We believe we have an amazing set of products and capabilities that can lend themselves to broader use within the mortgage value chain. We are focused on exploring the use of these existing capabilities to finding new opportunities. So let me talk about some of the areas where we are starting to see new opportunities: the Federal home loan banks, the FinTech startups, and the mortgage investment funds. While these efforts are in an exploratory state at this point, they represent attractive future potential.

Radian has always been a Company that seeks to create new opportunities, whether from expanding our MI sales force and customer base at the bottom of the downturn, or by launching one underwrite. In that vein, we continue to explore new ways of creating more value.

And then finally, our fifth objective is to maintain financial strength and to judiciously manage our expenses as well as our capital, particularly as we continue to grow earnings and start accreting capital.

Emily Riley - *Radian Group Inc. - SVP Corporate Communications and IR*

So, S.A., anybody who knows you knows that you are Radian's biggest cheerleader. And it's hard to find anybody more excited about this Company than you. But who should some of the folks in the audience look to at the expo today to get excited about Radian?

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

Everyone. If everyone at Radian wasn't as excited, I wouldn't be doing my job. So our team -- I believe our team is second to none, and I'm confident you'll find the expo today incredibly valuable.

Many of you have been asking questions on the different things we do, and this is your opportunity. But as you know, mortgage insurance is our core business, so you stop by the Radian Guarantee booths to meet Brian McMahon, who is our Chief Franchise Officer, our other CFO. Brian leads our sales and marketing efforts for the mortgage insurance business. He is joined by other senior leaders in sales and marketing, and they will help to bring to light how Radian differentiates itself from our MI peers.

There is also a special table dedicated to our diverse segment partnerships, which you will hear about from Teresa, and our targeted credit union marketing efforts. You will also have an opportunity to meet Radian's government affairs team led by Phil Bracken. And then don't miss the exhibits for Clayton, Clayton Surveillance, Green River Capital, Red Bell and ValuAmerica. We know that these are -- these companies are newer members of the Radian family of companies, and therefore we have representatives from each of these companies to help provide you with the background you need to better understand their value to Radian and to our MI customers.

And thank you for your interest in Radian, and we hope you find today's program to be valuable. As Emily said, it is indeed hard to imagine anyone getting more excited about our future than I am. But I'm confident you will leave the room here this morning more excited about Radian's future prospects.

And with that, I am now ready to take any questions you may have. And, again, a lot of the specifics on the businesses will be answered by later presenters, so if you have any questions on broad strategy or direction, you can ask them now or save them from the Q&A session later. Sir?

Unidentified Audience Member

When you think about your ROE targets over the medium term, how do you think about them by business? Because you have these services business is now that you have obviously spent a lot of effort on in the last (technical difficulty) that -- okay. You have these services businesses that you've obviously spent money and time on now over the past little while. And presumably those should be higher ROE businesses, which should offset potentially lower ROEs in the core mortgage insurance business as we get to a state of -- more towards a state of maturity in those businesses. So can you talk about how you see the returns in all the businesses and how that blends to the combined ROE that you are targeting?

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

Now, Frank is going to go into some detail in terms of how we measure both of those businesses. But just as a broad answer, we look at ROE as a target on the new mortgage insurance business, and we typically look at EBITDA as a measure that compares us -- that's a comparable measure an industry that our services business are -- happen to be. And then Frank is going to walk you through some great detail and talk about how we measure success. Yes?

Unidentified Audience Member

There's obviously things going on with a lot of -- with some of the other companies in the industry, whether it be Icahn pushing AIG to break up, whether it be Genworth trying to figure out how to deal with their issues. So as you think about the industry structure going forward, how do you see the landscape playing out? And what do you think the correct number of US mortgage insurers is to support the business that's out there?

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

Very good question. Well, today, there's seven players in the industry. But remember, that was the number of players that existed in the industry for a long time. And there was -- that was a time when the industry, at least at that time, thought it was making a great return if not for the downturn.

So, seven players doesn't seem out of norm first. And if you -- so it's really -- I'm kind of surprised that most people think that's a lot of players today. What makes today different is the fact that there is one new player or there are a couple of new players that are -- that have created an intensive pricing situation. But keep in mind as companies mature, they go from finding a cohort in the market to having to have the discipline to return a fair return to their shareholders. So it's really a maturing industry.

So, seven players is not too many. But having said that, yes, there are situations that could create decisions on the part of some of the players who decide they don't want to be in this industry or consolidation opportunities. While I can't specifically comment on what I think could happen because it would be purely speculative, all I can say is we at Radian are always focused on ways in which we can create shareholder value. And we will monitor those situations. And should there be an opportunity in those to create shareholder value for us, we will look at them very closely and very vigorously in a very disciplined manner. But I can't speculate on what's going to happen or not happen with the situations you talked about.

Unidentified Audience Member

(technical difficulty) you got out of your FG exposure by selling Radian asset. Were there any, any at all, residual liabilities or exposures to that business that were left behind?

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

Again, as far as I know, there is none because we got rid of every exposure in that business, which was one of the conditions we had in making the deal. So it really simplified us significantly. And when you think about that business, that was a business in which many others didn't succeed. And we realized something like $500 million in extraordinary dividends as well as ordinary dividends in that business. And on top of that, we are able to sell that business for $810 million with all the exposures in it. So, it supported our growth at a time we needed capital. And then when it wasn't P. Morris capital eligible, we converted it to cash. Yes?

Unidentified Audience Member

You seemed to indicate at the last conference that you were not going to make the price competition. How long do you think this price situation will last?

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

Again, one can only guess. If we take -- if we look at the model from some of the other industries, usually when new players get into the business and they have no other means of grabbing a foothold, they use price as a means of getting a foothold. But at some point, every player in the industry is going to have to return capital to their shareholders in order to keep operating. And I believe that every player, sooner or later, is going to have to return adequate returns based on our assessment, the way we price; and you'll hear more about the way we price later on today. We target a low- to mid-teen returns, and the most sensitive factor that drives those returns is the capital. And one of the ways you can adjust the capital is looking at either the past life of the loans or looking at forward-looking life of the loans, and you can make a big difference on the returns.

But anyways, the point is everybody's going to have to deliver an attractive return, and we believe that will bring some sanity back to the market. Also, the new PMIERs capital requirements that put everybody on the level playing field come into effect January 1. And if that shouldn't happen, there are segments in the market that are less price sensitive. So from our perspective, we have actually written the second-highest NIW in our history while writing that business at attractive returns. And in an environment who everybody thinks is very competitive, I certainly feel very good about that. And we've shown our discipline by actually being willing to trade off some market share to preserve our return.

Emily Riley - *Radian Group Inc. - SVP Corporate Communications and IR*

I think we've got a patient waiter in the third row.

Unidentified Audience Member

Just a follow-up on that point, your first bullet point, you highlight -- write more in bold. Do you have specific market share targets or a level of NIW that you need to target? And I guess, what do you see is the biggest lever to pull outside of whatever the market forces are? And then just secondly, that ROE target, is that levered or unlevered?

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

That target is unlevered.

Emily Riley - *Radian Group Inc. - SVP Corporate Communications and IR*

And I do think we're going -- not to interrupt you, S.A., but Frank and Derek will (multiple speakers).

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

Yes, Frank and Derek will get into the target more specifically. But just to answer your question, in terms of how we will originate more business, again, I will -- since Teresa is going to be making a whole presentation which focuses heavily on that, I'll let her talk about that. And you will learn more about that.

But, clearly, we're going to originate more as long as it meets the high quality and profitability requirements. That's the point of the first objective.

Emily Riley - *Radian Group Inc. - SVP Corporate Communications and IR*

We will take one last one before we bring Cliff up.

Unidentified Audience Member

Just wanted to ask, following up on the pricing discussion, what are you guys hearing from your lending clients in terms of how attracted they are to what might be a flattened rate card or more of a black-box pricing model?

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

Again, that's very specifically addressed by Derek later on. All I will say is that, in effect, we could introduce a rate card pretty quickly if we felt that would make a difference. So we always look at -- I mean, we could increase black-box pricing if we felt that would make a difference and we're always evaluating it. And if we feel that it will create an opportunity for us to write more profitable business, we will include it.

The point to take away, though, as you will hear later on, is we do price on a fairly detailed risk basis that you will see that in one of the slides that Derek has.

Emily Riley - *Radian Group Inc. - SVP Corporate Communications and IR*

Thank you very much, S.A.

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

Thank you.

Emily Riley - *Radian Group Inc. - SVP Corporate Communications and IR*

I think now I would love to introduce Cliff Rossi, our Chief Economist, to the stage.

Cliff Rossi - *Radian Group Inc. - Chief Economist*

Okay. Well, this will be the nerd segment of the session for today. So if you make it through my presentation, it's all downhill from here. So to set the economic landscape for the remaining speakers, basically what I would like to do is give you some perspectives on the health and the direction of the mortgage market. And this first slide that I actually have up here is for good reason.

I'm sure on any given day, you've opened up the newspaper only to see the latest mortgage or housing market statistic. And you are wondering what's going on there. Sometimes you'll see pundits that will say something in a countervailing way just the next day on another type of statistic.

And so trying to make sense of all these statistics is difficult, if not confusing. And the market that we have today has features of what I would characterize as a glass-is-half-full, glass-is-half-empty kind of view of the world. So really what I want to do is walk you through an approach for how to make sense of all the disparate parts of the market, the statistics that we tend to look at. And there are so many of them that I could spend the rest of today kind of going through that, but I won't. And then reviewing these to provide you with some assessment of the market -- my assessment of the market over the next 12 months, so keep that in mind.

So looking at this first slide, it's a little busy. But what you see in the center here are a set of macroeconomic drivers. This really sets the stage for the housing and the mortgage market in a sense. These are the key drivers, the macro -- overall US macro direction. And why is that? It's because they impact demand and supply for housing and mortgages -- things like GDP growth, unemployment rates, interest rates. I mean, again, we could go on -- oil prices, treasury spreads, you name it. Those directly affect demand in the form of things like income stability, something that we pay close attention to, and growth in housing affordability.

So beyond income and affordability, other factors affecting the borrower's financial health, or a decision to actually buy a home include things like that capacity. And you see that over in the left-hand side here. So, I'm kind of listing these things up -- compartmentalizing them between demand and supply, and their outlook towards market and housing in the form of sentiment -- consumer sentiment. Or, in the case of Fannie Mae, they have a home purchase sentiment index.

And over the long term, what we're seeing are a whole new change in population dynamics that play heavily into shaping the future demand for housing. And even today, we see really some dramatic changes on the horizon for important demographic segments of the market. And I know Teresa will spend some time introducing you to the diverse strategies that we have here.

So turning to supply, the right-hand side of this slide actually, we can distill these influences into the availability of housing, housing alternatives such as renting, and market absorption as reflected by trends in foreclosure inventories and the share of underwater borrowers that you see from time to time.

Finally, we recognize that on any given day, a number of wild cards down here at the bottom, what we call external shocks, actually can dramatically affect markets, which I will speak to later on. But first, let me elaborate a little on some of the key macro trends and provide some commentary on those.

So, a little busy again on the slides here. But there has been increasing focus on economic growth since the crisis, and what we find is that there hasn't been much of a solid rebound in the market that we might otherwise have expected to see since the financial crisis. Everybody talks about weak growth, subpar growth. Growth is weak, but it is stable. And while we expect the economy to grow to about 3% or so next year, depending on which forecast you're looking at, it is a growth trajectory, by the way, that the MI business is comfortable with. Neither too hot nor too cold; provides a good environment for steady progress to be made for our industry. We wouldn't want it too hot or we wouldn't want it too cold, in other words.

Alongside growth, you see on this left-hand chart, unemployment rates continue to moderate toward normal levels while the interest rate environment is reaching its trough. And so I could sit up here and we could play devil's advocate about when the Fed is actually going to move on this because we've -- for the last six months through a year or more, we have been wondering about that. But with the Fed expected to raise rates 25 basis points before too long -- I say too long because I don't know any better than probably Janet Yellin at this point. We expect the return to a purchase money environment, while the pace of rate increases are expected to be drawn out and slow for some time. Thus, keeping housing affordable for the foreseeable future.

So to kind of put that into context, if you think rates today -- and I'm going to use around numbers here. If somebody has a loan out there, $200,000 loan, 30-year fixed-rate loan, they currently have a 4% mortgage on that loan, let's say, and you were to see the Fed bump rates to, say, a quarter point, that extra payment per month is about $30. So it's about an extra 3% increase in that mortgage payment.

So that first increase, we don't think is going to be very material. At the same time, we think there is a gradual sort of trajectory in the way in which the Fed will actually moderate rates because they are really in the midst of trying to do some balancing right now in the overall economy.

The bond market is also telegraphing a low probability of recession over the next 12 months based on where spreads are between long and short rates. So in other words, we really don't see any signs right yet of an inversion of the yield curve that might signal future problems with economic growth, although we have seen curve flattening over the last year.

Now, one market indicator that has not been going in the right direction for some time is wage growth. So if you look here on this left chart, you have seen that that has been in a downward trend. Over on the far left, that starts at 1980, for many years despite -- actually, there has been a glimmer of hope -- of recent positive news with private-sector earnings actually posting the best gain in five years. But beyond that, you can see the downward trend is just that.

On the right side of the slide, we find debt burdens have generally moderated from crisis levels, although there is an important new entrant into the market, that is. The 20- to 39-year-old group that's actually seeing a sharp rise in the percentage of student debt. This is of no surprise; we see this every day in the headlines. Something on the order of the percentage of students or percentage of people in that age group that have student debt has gone from 20% in 2001 to I think it's about 39% as of 2014. So a fairly significant increase there. And that will continue to plague millennials for some time and delay their entry into the market.

Now, on the affordability front, we find that housing has become more affordable after the crisis as rates and home prices fell.

And so, much can be said about consumer behavior. In fact, I was never much of a -- embrace the idea of behavioral finance before until after the crisis. But I will say that consumer behavior affecting markets is pervasive. And the good news here is that on both of these slides, we see that consumer sentiment has been rising here, as has been home purchase sentiment that comes from Fannie Mae.

Taking another look here is a factor that we really paid a lot of attention to, and that is credit, be it credit availability or the amount of credit that's out there building in the marketplace. Over on the left slide here, this is a proprietary index that we have devised. And call it our underwriting risk layering index. And basically what it does is it looks at all of the factors for -- borrower risk factors that are associated with a loan. And we look at them in totality and come up with this indicator of the degree of loosening or tightening of credit standards in the marketplace.

We have benchmarked that beginning in 2001, so that's the baseline. And as you can see here, hopefully I'm going to hit the laser -- okay good. Wasn't sure what that was going to do. You can see certainly the irrational exuberance that took place in credit markets in the period leading up to the crisis, as evidenced here. What this is telling us is there was massive amount of risk layering in the market. Things like pay option arms, piggyback seconds, high LTV, low FICA, you name it. Low documentation loans. All those things are evidenced here in the risk layering that was taking place.

But what you saw was an abrupt decline in all of those to the point where, since 2009, we are virtually -- or what we're seeing is a manifestation of a much tighter credit environment. I call it the back-to-the-future environment from an underwriting standpoint, which makes good sense. This is a very plain vanilla environment. Derek is actually going to tell you about the quality of the credit that we have put on since that time, and you'll get a good sense of why we focus on that.

On the right-hand side, this is coming from the Mortgage Bankers Association. Gives us some sense that there's been an increase in mortgage credit availability, certainly as we see since 2012. Right around here, we've seen this steady track up, and we expect that trend to actually continue.

Now finally -- and I know a lot of people focus on originations from a demand standpoint -- based on a consensus forecast from the GSEs and the Mortgage Bankers Association, we expect originations to be about $175 million lower than this year looking out to 2016, and that's due in part to a slowdown in refinancings. And, again, I just want to kind of play up this point that we think this environment plays well to Radian's MI business by continuing the trend of excellent credit and helping make loans to borrowers making a home purchase.

So looking ahead, we see a number of important changes on the horizon for the housing market in our population dynamics.

So a couple of things that we pay attention to here are -- is household formation. And actually we've got some good news actually today about that. But what you can see in 2015 is that the rate of household formation has started to lift off from where it's been over the last several years, which is a good sign. Meaning that additional households are coming in and making themselves available into the market.

But the improvement that we see on the household formation side, it kind of harkens back to what I was talking about earlier with respect to new entrants -- the younger generation, the millennials, for example -- is that it hasn't translated into a movement that the first-time home buyer segment has gravitated to our historical share, which is usually about 40%. It's been hanging in there about 25% or so. and you see that trend over here in this blue curve, where it's been coming up but it hasn't come back up to historical levels.

We also see evidence of this in the next slide with regard to home ownership rates. And what I've done here is we've broken this out from the Census Bureau in terms of home ownership rates by age category. And the one takeaway here that you should focus in on are these segments that are below 45 years of age. And while home ownership rates have certainly come down significantly since the peak before the crisis, what we see is that those younger groups, they've had a much sharper decline as a result.

Okay. So, looking at population dynamics a little bit more, in terms of the contrast that we see here for minority borrowers is that over the next 10 to 20 years, they're going to comprise the lion's share of net household growth. And that also would include a net increase owing to foreign-born borrowers as well.

So what this means, and this is very important for the MI business, is that addressing the credit needs of borrowers with nontraditional credit profiles is imperative for Radian. And Radian is actually leading the way in many instances through their diverse strategies initiative -- and, again, I will invoke Teresa's name on this because I know she's going to spend some time on it -- including providing for programs such as 97 LTVs.

So now let me switch gears just a little bit and talk about the supply side of the market. The number of months supply is an indicator that we focus a lot of interest on. That's a good indicator of market equilibrium or not. And so keep in mind, however, and I think we all recognize this, is that there are hundreds of different housing markets. There isn't just one. We tend to focus on home prices at the national level in all these other things when in fact there are hundreds of these markets. And so the local dynamics of these communities are affecting what we see here.

And just to kind of give you a rule of thumb, a month's supply of about six months or so is indicative of a market equilibrium. And as you can see, we've come back to that level over the last several years. In some cases, that number might be masking artificial supply constraints -- and we'll talk about that in a second -- in some hot markets. But overall, it is an encouraging sign.

One of the drivers of limited supply is in the form of available housing stock. So what I'm depicting over here on the left-hand side is that housing starts plummeted after the crisis but are slowing, making their way back. And this could partially explain the improvement in the months-supply statistic that we just saw earlier as well as the upward movement in home prices. Rental unit growth that you see over on the right-hand side has continued to grow rapidly since the crisis in an effort to actually keep up with growing demand for rentals following the crisis.

Other trends that we look at our things that I like into absorption rates. And in particular here, I'm looking at the available housing stock in the marketplace at any point in time. So looking at foreclosure inventories, which we know have been kind of -- over time, since the crisis, had been pulling things back as well as what we refer to as shadow inventory. And the share of homeowners on the right-hand side here with negative equity, or what I refer to as stranded borrowers, borrowers that might otherwise like to move or get into a new home or something of that nature but can't simply because they have -- they're underwater in their mortgage. And as you can see, that percentage has actually declined considerably since 2011 or 2012 over there.

So all of these trends that we've been talking about -- demands, supply trends -- actually lead us to talk a little bit now about the transaction side. If you go back to that first slide that I had in the middle of this, we really kind of bring those forces of demand and supply together in order to kind of now talk about home sales, home prices and those kinds of things to try to gauge the level of health in the marketplace.

What we're looking at here is home sale activity. Sales have improved since the crisis, although, as you can see, they remain well below pre-2006 levels. Now if you look at home prices -- and what we have here is a split-out by price segment, because I think that's very telling as well. And, again, you realize this is at the US level. Each market, your mileage may vary. But one of the interesting patterns in addition to which that we all know that home prices have been directionally moving up, which is a good thing. But what we also see is that in the low-price segments, we see that that acceleration has been even faster, as represented by this part of the chart.

So in terms of the credit or the -- I'm sorry, the rent-or-buy decision on this slide, we typically will look at this statistic, the house price to rent ratio. And what we see from the long-term data comparing home prices to rents is that the ownership option improved after the crisis. You see that here -- this steadily declining part of the segment, followed by after -- but since 2012 has trended back up. And that -- and thus moderating the clear ownership value proposition that existed in the period immediately after the crisis.

Teresa is actually going to show that factoring in low rates and lower home prices since the crisis, coupled with rising rents compared to income, that makes home ownership actually still a compelling value.

So with all that that I just walked you through very quickly here, where does that leave us? And, again, I think if you look at my bio in the back, you'll see that I also -- I pretend to be a professor these days at the University of Maryland's business school. I couldn't help myself but to say, well, I need to score this out and I need to come up with my own assessment of this.

And so I put this score card together with, again, just that in mind. And based on that assessment, where the market is along with all these factors that we just discussed, I would assign it a grade of B. Again, characterizing it in a qualitative fashion consistent with what I said earlier. Not too hot, not too cold. And, again, let me point out it's indicative, in my opinion, of an above-average market over the next 12 months or so.

Credit conditions are exceptional. Borrowers are able to buy homes without stretching into them into untenable positions like we saw right before the crisis, and prevailing macro conditions support that direction. Having said that, I couldn't actually stand up here, and no self-respecting economist could actually conclude a presentation with actually saying on the one hand.

So in this case, I come back to that first slide that I had and talk about the wild cards. And we all know too well, unfortunately, particularly over the last weekend, about the impact of geopolitical unrest as well as a variety of different global shocks -- decline of oil prices, what's going on in equity markets in China, et cetera, emerging markets and others -- that could affect everything that I have just said.

The one thing that we do know is this: that the market is showing great resiliency -- our housing and mortgage market -- to such shocks as the Great Recession. Having rebounded, maybe not as fast as we like, but it has done that. The sovereign debt crisis and the recent decline in China's equity markets, among other.

So with that caveat, we expect markets to remain stable heading into 2016. And as you will hear from the next speakers, I believe Radian is well poised to thrive in that environment.

So that's it for me. So if you would like to fire some questions along, I would be happy to take them. Yes?

Unidentified Audience Member

Just curious about one -- slide 11 that you showed that showed the first-time home buyer percentages -- percentage of GSE loans. Looked like the number went up by about 10 points over the last two years, which I think is a fair amount higher than the overall percentage increase just for existing home sales. Yes, sorry, slide 12. So I'm wondering what drove that 10-point increase about -- if the percentage for existing home sales -- is that increasing buy as much? And if that -- how that 25 compares to date of past -- before 1999?

Cliff Rossi - *Radian Group Inc. - Chief Economist*

Yes, that's a great question. I have personally not dug into the details behind what drove that spike that you just see there, but I can tell you that it is straight from -- if you happen to pull both the Fannie Freddie credit data, it's -- that's exactly what that data would show you.

At this point, I think we have seen some improvement over on the first-time home buyer share, particularly on the younger folks that I've been talking about earlier. But that's a pretty extraordinary spike, to be quite honest.

Over here, yes? Are you picking, or am I picking?

Unidentified Audience Member

Could you give me --

Cliff Rossi - *Radian Group Inc. - Chief Economist*

Okay, you guys pick.

Doug Harter - *Credit Suisse - Analyst*

Sure. This is Doug Harter from Credit Suisse. I was just hoping you could give a little more detail about the mortgage credit availability, contrast that slide you show there versus all the media reports of credit still being tight.

Cliff Rossi - *Radian Group Inc. - Chief Economist*

Yes, and there are any number of these things that are out there. In fact, if you look at the Fed underwriting survey of senior credit offices, that's another thing that I will tend to look at. But, again, it's based on a very limited sample; 60 or so in their survey, I believe. Maybe you have seen things coming out of AEI. There are all sorts of different credit availability in the indices.

That said, the one thing to keep in mind is the following: that's not a very long or lengthy time series. It's really starting back in June of 2011. What it is saying, however, is that things are improving directionally. That's the important factor. They are moving upward. That does not mean necessarily that we are back to what we might otherwise characterize as a full equilibrium type of credit environment, if you will, in that regard.

And I think part of that actually plays to what we see over here on the left-hand side, which is manifest by this proprietary indicator that we've come up with in terms of the risk layering index. The fact that we are seeing that the level since 2009 is so far below what we think is a more normal credit environment witnessed in 2000 or so, let's say, in that period before the run-up -- I will call it the boom period -- tells me that we still have some ways to go in terms of expanding the credit box. And when I say expanding the credit box, I do believe you can easily expand that credit box prudently and be able to expand the market from that standpoint. But that's just kind of based on this information I'm talking about. Yes?

Geoff Dunn - *Dowling & Partners Securities - Analyst*

Geoff Dunn with Dowling. Over the last year, the MI industry has lost share to FHA but gained penetration as purchase has grown. And you have seen the overall insured market grow -- I think we're now just south of 50%. Looking back at the last 10, 15 years, it's not a good proxy given all the crazy lending going on. So what is a -- what does the insured market in a healthy origination market look like? Are we above 50% and heading in that direction or are we above-average right now relative to where we might see things settle out?

Cliff Rossi - *Radian Group Inc. - Chief Economist*

In general, the way I would characterize that is that we -- you have to remember, and I talk a lot about this with different folks when we are actually doing a lot of our own internal modeling. There have been -- there's been such a structural change that's happened to the market. When you look at the data, the data, particularly GSE data from 1999 to 2004, marks one period. I would call that a much more normal type of an environment before the advent of things like pay option arms and other kind of -- the nontraditional type of mortgage credit that was out there. I think if you look at that period of time to gauge what seems more reasonable, that's kind of where I would point you to. Because certainly that period between 2004 to, let's say, 2007, 2008 is the boom. Then we had the crash, and we're coming back out of that. Those are very different periods of time. So you've got to go back well before I think 2004 to get a sense of where that -- where the overall market actually is.

Sean Dargan - *Macquarie Research - Analyst*

Sean Dargan from Macquarie. I have another question on -- I think it's your slide 12, the first-time home buyer. The historical share of first-time home buyers is about 40%. Is that apples to apples with what you are showing on the slide on the -- the chart on the right?

Cliff Rossi - *Radian Group Inc. - Chief Economist*

It probably isn't quite the way in which -- and I've seen some statistics from the National Association of Realtors where if you look at their survey data, they will actually quote that 40% share. I think I would have to go back in. What I wanted to do in this presentation was actually get as close to that just using the GSE data which is focused on the MI. So I think there's probably some differences.

Sean Dargan - *Macquarie Research - Analyst*

Okay. And I'm just -- I have a follow-up question about the relationship -- the graph on the left. When household formation spiked, and it looks like 2004/2005, it doesn't look like the share of the first-time home buyer came up that much. A lot of questions we get from investors is there's been this pent-up demand, there's been household formation. When are we going to see the first time home buyer really come back?

Cliff Rossi - *Radian Group Inc. - Chief Economist*

Yes. And, again, I would point you to -- we need to look at that under-44-year-old group, particularly that 20- to 39-year segment where we saw home ownership rates down, to your point. Absolutely, there some pent-up demand. But as we know, there's also the flip side. That group is particularly struggling with limited job opportunity, stagnant wage growth; on top of which they are coming out, as we clearly see, with heavier student debt burdens which are affecting that market more heavily than other markets. So I think there's still a lag there, which we will see. I couldn't tell you with definitiveness as to when that might happen, no.

Any other questions? All right. I can spend some time with you afterward if you have any others that you would like to ask or find. So thank you very much.

My bad. Let me introduce Teresa Bazemore Bryce, the President of Radian's mortgage insurance business. Sorry about that.

Teresa Bazemore - *Radian Group Inc. - President Radian Guaranty Inc.*

Good morning, and thanks for joining us. Today I will cover the important role -- actually, I should move ahead first. Today I will cover the role private mortgage insurance plays in the marketplace, some of the strategies we have deployed to grow new insurance written, and a few salient points about the proposal to ensure GSE loans with deeper coverage.

Many prospective home buyers are not in a position to purchase a home with a 20% down payment. The availability of private mortgage insurance allows the buyer to purchase with as low as a 3% down payment. At the same time, it reduces the risk to the lender and the ultimate investor of the loan. In fact, it provides more protection than a 20% down payment because it typically ensures the first 30% to 35% of the loan based -- of the loss on the original price.

Also, there (technical difficulty) demand for home ownership. The vast majority of people under the age of 65 expect to buy in the future. And in particular, over 90% of consumers under the age of 45 expect to buy. I think to Cliff's point, we don't know the exact timing, but there is certainly an expectation that they will buy based on their own sentiments.

Many of these people will need low down payment loans. In fact, for the average American, it takes many years to save even a 10% down payment, half of the 20%. For the average nurse, it's 15 years. For the average middle school teacher, it's 18 years. 22 years for the average firefighter. The time is even longer if you are the average Latino at 26 years or an African-American at 31 years. No wonder down payment is one of the primary impediments to home ownership. Private MI changes the equation for those buyers by making it possible for them to put down a small down payment and get into that home now rather than 10-plus years later.

Not only does MI help borrowers as it was designed to do, it also reduces risk to the loan investor as it was also designed to do. In fact, MIs have paid over $50 billion in claims from 2007 to date. The vast majority of these claims payments benefited the GSEs and, thus, the taxpayers. While originations are projected to be lower in 2016 given lower refinance activity, the good news is that the purchase percentage is projected to be up, and that bodes well for MI penetration. MI penetration is about 3 to 4 times more in the purchase market than for refinances.

As Cliff mentioned, access to credit is inching up, which should also help newly formed households move from rent to buy. The rent-to-buy equation is also changing, with buying becoming a better choice in many markets, particularly in lower-cost markets. The share or purchase business originated by independent mortgage banks is climbing back after a dip in the latter half of 2014 into early 2015. And we have a large share of those customers. Portfolio lending at community banks is increasing, and that is one reason why we are continuing to have a focus on competing in the segment as well as the credit union segment.

The mortgage industry is also changing. Not only is the mix of business shifting amongst lenders, but how lenders acquire customers and order their MI is also changing. The mortgage broker is reemerging, and is being allowed to order MI given technology advancements with loan origination systems. Lenders have become so burdened with compliance and regulatory challenges that making it easy for them is almost important as price. Some lenders are also moving away from allocation models to allowing loan officers, processors and underwriters to order the MI directly.

This is also a major reason why we integrated with both Black Knight's Empower platform and the QB lending platform to enable lenders to check rate quotes and submit MI orders directly through their loan origination systems. We are continuing to work with other loan origination system providers to expand with their customers who have this streamlined service.

A growing number of lenders are focused on moving away from traditional loan officers to direct-to-consumer, which is a much more cost-efficient channel for them.

So, our vision is to be the first choice of the mortgage industry for mortgage risk solutions as we jointly promote access to affordable, sustainable home ownership with our customers.

One of our strategies is to be a top choice of lenders, thus becoming indispensable. We can achieve this by being a one-stop shop for many of the products and services they need. The addition of Clayton to the Radian family and the further expansion with Red Bell and ValuAmerica put us in the position to show customers how we can provide value in the life cycle of the loan -- origination, loan fulfillment, servicing, and securitization. As we have started to use the circle of value in sales costs, the level of engagement has increased as we help lenders solve some of their challenges with competitive MI products and services as well as products and services from Clayton.

In fact, the number of customers interested in discussing Clayton products continues to increase, particularly with respect to Red Bell and quality control services. The pipeline of potential customers looking at Clayton services is now over 150. We even gained a credit union as an MI customer after they saw the Red Bell demo.

We believe we are poised to grow our MI franchise and that there are many growth opportunities. First, we continue to focus on maintaining and growing share with our large group of existing customers. Given the success of the strategy, we continue to be laser focused on acquiring and growing new customers as well. We still have the opportunity to add some large banks as customers. Many of them are also Clayton customers.

Once Radian Guarantee is back to an investment-grade rating, there are a number of regional banks who would be willing to entertain adding Radian as an MI partner. Radian Guarantee is only one notch away from an investment-grade rating with Moody's. The largest drivers of our ability to grow and write NIW are the size of the mortgage market and the size -- or share of private MI loans. As a result, we have a number of initiatives focused on growing the share of first-time home buyers back to that historical 40% level. We are also focused on products and programs that help lenders and borrowers see the benefit of Radian MI. Mortgage Assure, Radian's job loss protection program, is a great example of enhancing the use of MI versus FHA. Furthermore, this product is currently unique to Radian. Finally, cross-selling products has the double benefit of making Radian a more valuable partner while at the same time growing fee-for-services revenues.

In order to attract first-time home buyers, we launched a website, Achievethedream.com, to help educate home buyers on the availability of low down payment financing. It also helps consumers understand the benefits of MI versus FHA, including the cancellation feature. While monthly borrower-paid MI premiums automatically cancel once the loan amortizes to 78%, the FHA insurance premium will be charged for the life of the loan. We continue to develop enhancements to this website that can educate first-time home buyers, realtors and loan officers.

National training continues to be a differentiator for Radian. We provide training on MI versus FHA as well as training on a variety of underwriting topics which help our clients continue to provide well-underwritten loans. We have trained over 33,000 individuals so far this year.

With realtors, our objective is to help them understand that MI may help their buyer obtain a lower monthly payment. We have had a particular focus on real estate agents that serve the diverse markets, where there has often been an assumption that FHA is a better option. As the exclusive MI partner for the National Association of Hispanic Real Estate Professionals, the National Association of Real Estate Brokers that focuses on the African-American community, and for the Asian Real Estate Association of America, we have been able to provide education on the use of private MI and Radian to the real estate agent. The real estate agent is a trusted advisor to the home purchaser. This partnership also puts us in the position to help lenders expand their reach into these fastest-growing demographic segments.

In addition to helping us support and grow the mortgage originations market, some of these strategies also help us to serve to defend and expand the role of private MI versus FHA. For instance, our timely rewards program for credit unions, combined with the Mortgage Assure program, really makes a compelling case for MI versus FHA. Under the Timely Rewards program, borrowers can receive a payment of $500 if they pay their mortgage timely for the first 60 months. We also continue to work with the GSEs to expand access to credit through conventional loans. Another area of focus is continuing to build our relationships with the Federal home loan banks and the state housing finance agencies as they increase their presence in the market.

Two years ago, we formed our first exclusive partnership with one of the diverse real estate groups, the National Association of Hispanic Real Estate Professionals, or NAHREP, given the growth of that market. In fact, between 2010 and 2015, 13 million of the 17 million new households formed will be members of diverse communities. 40% alone will be from the Hispanic community. Many of these diverse borrowers will need low-down-payment loans given the lack of family wealth, and we believe that these exclusive partnerships position Radian to be a preferred provider of MI. In fact, given our ability to help customers learn how to better expand their reach in the market, we have seen increased business from some of them. For instance, we received a boost in share from a large regional bank because of our work to assist their outreach efforts through NAHREP and NAAREP. We have also gained new customers that appreciate our partnership with NAHREP in particular.

This slide demonstrates that renters today have minimal savings and is even more so in the minority communities. As a result, these borrowers will need low-down-payment loans. In addition to educating consumers on the availability of privately insured low-down-payment loans, we are also focused on helping consumers understand the rent-versus-buy equation. Many of them still think that they need a 20% down payment. Given the lack of affordable rentals, the cost of renting has continued to rise, and, in certain markets, it is now cheaper to buy than rent.

Historically, it was just slightly better to own, but now there is a pronounced difference between the median rent representing 30% of income and the median house payment representing 15.3%. In addition, rents are projected to continue their rise. While buying allows a consumer to lock in their monthly payment with a fixed-rate loan such that the difference in savings will continue to grow over the coming years.

Helping prospective buyers get into a home sooner is one of the reasons we advocated for the return of the 97s. In 2013, about 4% to 5% of our new production was 97s. Given that these loans are fully documented and underwritten, they perform substantially like the 95s. The volume dropped precipitously in 2014 given Fannie Mae's exit from that product in November of 2013. As a result, the MI industry as well as many other housing and consumer groups asked the FHFA and the GSEs to add their product back. And over the course of this year, we have almost returned to our 2013 levels and would expect some additional growth in this area.

As has been widely reported, there is considerable interest by Congress and many other trade groups in having the GSEs do upfront risk sharing rather than back-end risk sharing. The concept of deeper cover is the first step for the MIs in participating in these upfront transactions. It does not require legislative action, just approval from the FHFA. Under deeper cover, the MIs expand the coverage on the loans we already ensure by covering the first 50% of loss. US MI, our industry trade group, engaged [Milliman] to prepare an analysis of how this could work. Milliman determined that expanding the coverage to this level would reduce the expected losses of the GSEs by 50% and would reduce the amount of capital they need to hold by 75%. This clearly meets the objectives of reducing the exposure taken on by the GSEs and, thus, the taxpayer.

Furthermore, it is also projected to provide a savings to the consumer, which does not happen with back-end risk sharing deals. While the consumer's monthly savings is small at $8, the overall savings for the life of the loan is approximately $2,300 since the MI premium cancels, and the guarantee fees charged by the GSEs are baked into the interest rate for the life of the loan. As an industry, we are engaging with the FHFA and the GSEs to hopefully have them start using this deeper-cover concept.

As you can see, we are focused on increasing our NIW and market share in a sustainable way for both the short term and the long term. We believe there is considerable opportunity given the demographic shifts and that there will be increasing demand for MI in the future. At Radian, we plan to be a leading player in that growing market.

Thank you. And I will take any questions that you have.

Chris Gamaitoni - *Autonomous Research LLP - Analyst*

Chris Gamaitoni from Autonomous.

Teresa Bazemore - *Radian Group Inc. - President Radian Guaranty Inc.*

Hi.

Chris Gamaitoni - *Autonomous Research LLP - Analyst*

I feel like I'm missing something on the credit availability part. Both yourself and Mr. Rossi spoke about expanding credit availability. But today, essentially all business is written above 680, with the rest being priced out from the FHA. So why does that really matter?

Teresa Bazemore - *Radian Group Inc. - President Radian Guaranty Inc.*

I think that what's happening -- and it's slow. I used the words inching up. I think what's happening is that we are not back to where we were, say, in 2001, which I would argue maybe that's about the right place to be ultimately. But I think we are seeing some changes with lenders who were willing to expand the box.

So if you look at what's happening, the GSEs have continued to expand the credit availability. But because of the rapid warrant framework that the lenders have had with the GSEs, they've been putting overlays on top of that. So we've seen that start to whittle away. I think there were a couple of really important things that happened.

One was that the GSEs updated their rep and warranty framework, and that was incredibly important. I participate -- I'm actually on the (inaudible) Board of Governors of the MBA. And that was a huge discussion point, if you can imagine, amongst lenders. And so what they were waiting for is that -- and I think we are starting to see those overlays whittle away. In addition, we had already done some of that in the MI industry, but we put out new master policies about a year ago. And so as a result of that, we've also seen some more comfort level around that.

The other interesting thing is that I think we have to watch what's going on with MI versus FHA because a lot of the large banks are starting to shy away from FHA. They are concerned about trouble damages. They are concerned about the rep and warrant framework that FHA has. And they are concerned that even if the folks at FHA say that they are more comfortable with what's being done, that they can't control the Department of Justice bringing troubled damages claims. So you are starting to see that, and I think the big banks have really been focused on that. But it's starting to trickle down -- that concern is starting to trickle down to some of the lenders that are not just big banks.

Donna Halverstadt - *Morgan Stanley - Analyst*

Donna Halverstadt, Morgan Stanley. Teresa, when you were speaking to your laser focus on growing new customers, you made the comment that once Radian Guarantee is IG again, that you could add another cohort of banks. Can you speak to what you think Radian Guarantee needs to accomplish and over what time frame before it can get back to IG?

Teresa Bazemore - *Radian Group Inc. - President Radian Guaranty Inc.*

Well, I think a lot is on the way there now. As I mentioned, we are one notch away with Moody's from that with Radian Guarantee. And, clearly, I think one of the things that will help us is being PMIERs compliant, and Derek will talk about that. But we are on the verge of that by the end of this year.

And so I think when you look at our credit quality, when you look at all the things we're doing, we think that that would be hopefully soon. But I think what's important is that there are still some regional banks that -- there was one particular bank who is very involved with NAHREP, as an example. And we are the exclusive MI partner for NAHREP, and they want to work with us. But their risk group in the bank is saying they've got to be at investment grade. And they are willing to sit down and talk to us when we're basically on the verge of investment grade. So, hopefully it's not very far down the road.

Mark DeVries - *Barclays Capital - Analyst*

Mark DeVries from Barclays. Just a follow-up on that question, can you help us quantify at all how big that opportunity set is of the lenders that are saying they would do business with you if you were investment grade? What do they represent as a percentage of total originations?

Teresa Bazemore - *Radian Group Inc. - President Radian Guaranty Inc.*

I can't really give you that number, Mark. But I would say that some of them are fairly sizable regional banks.

Mark DeVries - *Barclays Capital - Analyst*

Okay. And on a separate note, could you give us a sense of the dynamic in Washington around the deeper-cover and MI issue? Clearly, Fannie and Freddie are not big being advocates of it. They want to control the risk and do it on the back end. But I think the people at the FHFA get that and see the value at the front end. Can you just kind of talk to us about the feedback you guys are getting so far and the outlook there?

Teresa Bazemore - *Radian Group Inc. - President Radian Guaranty Inc.*

Sure. I think first -- you are absolutely right about that. Fannie and Freddie would rather control it on the back end. And that's why this Milliman report was so important, because we wanted to be able to show that not only is there a benefit to the taxpayer, which ought to be enough in the first place, but that if there's also a benefit to the consumer, that makes it even more compelling. So the FHFA, I think, gets that. I think director Watt gets that. And so there are continuing discussions with them about this concept.

There is also a lot of support in the industry. If you may recall, the MBA had really been a leader in advocating for this concept of the upfront risk share, and MI is participating in that upfront risk share in a robust way. And they have not gone anywhere but to stay laser focused on that.

I think we're seeing it from a number of other industry trade groups. And as you can imagine, a number of the consumer groups are also very interested in it because they believe at the end of the day, it's the right thing for the borrowers.

So hopefully, the FHFA will move forward with approving this. I think we've got some work to do certainly to get there, but the Milliman report was a great step in the right direction. Yes?

Chas Tyson - *Keefe, Bruyette & Woods - Analyst*

Chas Tyson with KBW. I wanted to ask a question on competition then market share. You built up your market share pretty significantly through the crisis. It seems like it's fallen a little bit over the last year or so, maybe on both the singles and the monthly side. I was wondering what's led to that, and what do you think the competitive dynamics in the space are right now?

Teresa Bazemore - *Radian Group Inc. - President Radian Guaranty Inc.*

Well, I think that -- S.A. talked a little bit about it in his comments. And I think what we've seen was a couple things. One is -- and Derek will talk about aggregated singles. But we made the decision, as we were balancing what we thought the right return was for the business, not to participate in that. So that's certainly a very focused decision we made.

I think with respect to market share, we've really been more focused on making sure we were writing a strong level of NIW at the right blended returns. And so the reality is while market share has come down, the interesting thing is the amount of NIW we were writing this year is the second largest amount that we've written.

So, that's really where our focus has been. And I think we believe that, over time, it will be interesting to see what happens next year because the PMIERs will go into effect for everyone. So if you are a new entrant and you are trying to compete on price, you're going to have different capital standards that you need to comply with come December 31. And I think from things that we are hearing, that may help moderate some things in the market going forward.

Chas Tyson - *Keefe, Bruyette & Woods - Analyst*

I wanted to ask one more. You mentioned credit unions as a target market a couple times in the last couple of quarters. What percentage of NIW do those make up, and what's that been historically?

Teresa Bazemore - *Radian Group Inc. - President Radian Guaranty Inc.*

I guess -- do we -- we don't give that percentage, but I would say there's an opportunity for us to increase probably a good amount there. When you look at what amount credit unions are of the overall mortgage market, we have some room to grow there. I can see that.

Unidentified Audience Member

Hi. I have two questions. On slide 38, the renting versus buying differential. I was curious, how sensitive to that is that differential to a bump in rates? So if rates were a point higher or 2 points higher, how much of that gap would be closed roughly?

Teresa Bazemore - *Radian Group Inc. - President Radian Guaranty Inc.*

I can't answer what the gap would be that would be closed. Clearly, it would change some of the gap, but it's also sensitive to how much the rents are increasing at the same time in those markets. And I think one of the important points is to remember that rates, even if they go up a little bit, are still going to be historically low. And when you are getting a fixed-rate loan, which pretty much everyone is or many people are today, that means you are locked in your house price or your monthly payment for housing. And the rents are just going to continue to escalate, or that's at least what is projected.

Unidentified Audience Member

Okay. My next question was if deep cover occurs, what sort of investment will Radian and other MIs have to make in the area of operational investment whether it's claims handling, loss mitigation, et cetera?

Teresa Bazemore - *Radian Group Inc. - President Radian Guaranty Inc.*

I don't think we have to for deeper cover because, remember, those are loans we are already insuring. So if you think about it, we already have the greatest risk on those loans today. We are really adding an incremental risk. So to the extent that loan was going to go to claim, there would be no difference. It would just be the amount or severity of the claim payment.

So that's why to me this is a good first step because it's loans that we are already insuring, but we're just taking a larger share of the risk. What it does is it makes the GSEs more remote because they are actually moving to us what was their most risky portion of the risks that they were on. So I wouldn't expect any of that.

It also might be worth noting that with respect to the PMIERs, there were a lot of requirements -- everyone is usually focused on the financial requirements, but under the PMIERs, there were a lot of also nonfinancial requirements around QC and claims and all of those things that we will be in compliance with. So --

Unidentified Audience Member

I'm sorry, just so I'm clear, if you have this increased exposure by way of deep cover, you're not going to seek greater degree of control in the claims handling process and loss mitigation process, whether it be contractually or operationally?

Teresa Bazemore - *Radian Group Inc. - President Radian Guaranty Inc.*

I guess what I'm saying is we already have that. So we wouldn't need something additional because these are loans that we already insure, and we already control the claims decision on those loans. So all we are really doing is taking that coverage from about 30% -- 33% down to 50%.

If we were to do -- go beyond that and do the next tranche, if you will, where we are insuring loans that we're not already insuring, then we would need to apply our claims processes and other QC requirements to those as well.

I think I'm out of time, but thank you very much for your time. Oh, I should also say that Emily asked me to tell you that the break is actually 15 minutes, not 30. So please be back by 10:45.

(break)

Unidentified Participant

Ladies and gentlemen, please welcome Joe D'Ursi, President of mortgage and real estate services. D'Urso; I'm sorry.

Joe D'Urso - *Radian Group Inc. - President Clayton Holdings LLC*

Thank you for that. All right, thank you all for joining us today, and thank you for the opportunity to give you some more insight into our mortgage and real estate services segment. Our real estate services segment is a business with annual expected revenues of $150 million. And our clients include a list of blue-chip firms, including the largest international investment banks and real estate and mortgage investors. The segment is comprised of Clayton and its subsidiaries, Green River Capital, Red Bell Real Estate and ValuAmerica. Clayton provides risk-based analytics, due diligence, surveillance and consulting services.

Green River Capital provides REO, outsourcing management, as well as single-family rental services. Red Bell Real Estate provides cutting-edge valuation technology and technology solutions, and is a licensed real estate broker in all 50 states. ValuAmerica is a licensed appraisal management company and title agent in all 50 states, and provides appraisals, title and closing services. And Euro Risk provides us with global reach and solutions and services for our clients throughout Europe.

On these two slides, what we're trying to do is show you a little bit more about how our businesses operate, the segments they operate in. In that second column, you'll see the approximate historical percentages of revenues across those business lines. The third column shows a sample of the market segments and the types of clients that each business line serves. And columns four and five highlight the current and future revenue drivers of each of the businesses.

As we look at the loan review and due diligence business, you will see that one of the significant areas that that business serves is the origination space. Specifically, how that business works with lenders is in two major ways. It provides contract underwriting services and staffing solutions, and it provides quality control reviews, both pre- and post-closing of the loan. The contract underwriting and staffing solutions helps our clients in a couple of different ways.

It helps them to manage through peaks and valleys and actually provides them with front-end underwriting folks that can actually originate loans for them and not have to hire to the peak and manage to those peak levels. Quality control reviews allow us to come in and help our clients ensure that they are making loans that are adherent to guidelines as well as compliant with regulations and loss.

One of the other things that our due diligence business does is it helps acquirers of mortgages and real estate assets. Our business works with all types of acquirers like trading desks from investment banks and hedge funds. And we will get hired to review through all the loan documents and provide objective assessments of the quality of the collateral, the credit, the compliance and the data, and allow our clients to have a good sense of the risk inherent in those loans and how they need to price those risks.

And so, in this way, Clayton is little bit like BASF, a chemical company. You may remember their commercials a couple of years back. The tagline was we don't make the products you buy, but we make the products you buy better. Clayton doesn't actually invest in these loans, but it helps our clients make sure that they understand the risks inherent in those loans and make better acquiring decisions and risk decisions.

Our surveillance business uses proprietary technology as well as servicing experts to take in large amounts of servicing data and put it through that technology, through roughly 1,000 filters and metrics, to make sure that our clients understand how their portfolios are performing, again, for all of those credit, collateral and compliance issues. And it allows them to make decisions on servicing and whether or not to sell those assets or not.

Historically, the way that business has operated is pre-2008. Our surveillance business was embedded in a lot of the non-GSE securitization trusts, and we provide feedback to investors, issuers and ratings agencies on the performance of those assets underlying that trust.

Today, many of our clients like big banks, originators and servicers in particular, as a response to the regulatory rules and requirements that require them to treat their service providers and vendors as if they are an extension of themselves and are fully compliant with rules and regulations. They utilize our surveillance business to monitor their sub-servicers and make sure that those servicers are compliant and also treating borrowers appropriately. So that's become a big business for our surveillance group recently.

Our valuation and component services business provides a variety of valuation tools and closing services to all participants across the mortgage and real estate sector. Some of those tools include AVMs, BPOs, as well as full appraisals. AVMs are technology-produced values of underlying properties so that they can understand those properties. And BPOs are broker price opinions. And we utilize our Green River Capital network of 10,000 agents across the country to actually help us provide those valuations.

It's important to note that we provide this to a lot of folks in the lending community as well. Because when you think about MI, every single MI policy that we write, the originator also had to provide an appraisal or purchase an appraisal and a title. So we believe there is lots of opportunities to provide our clients with some of these additional services. And also provide the same services even beyond the MI space and touch a larger universe of the mortgage assets out in the marketplace.

Our REO asset management business is a business where we are hired by the owners of assets who may have foreclosed on those assets or otherwise need to dispose of them, like large banks and GSEs, to manage the properties that they own and ultimately dispose of those properties effectively, trying to sell them as quickly as possible and for the most proceeds as possible. [GOC] does this not only with their proprietary technology, but with those 10,000 real estate agents in our network that I mentioned earlier.

In this bar chart, which many of you have seen before, we provide this so that you have a sense of the variability in our revenues. On the next couple of pages, we will talk about the transactional nature of some of our businesses. But we will have fluctuations in our revenues on a quarterly basis.

In each of these pie charts, what we want to do is show you, business by business, what the nature of those revenues are. It's important to note that we consider recurring revenue, in that footnote at the bottom, revenue from ongoing client engagements in which we receive regular flow on a monthly basis but in which the clients are not contractually obligated to give us any kind of minimum amount of volume. And so while we get regular recurring flow of business, that can also vary with client activity.

As you can see, the two most transactional businesses are our loan review and due diligence business, as well as our component services businesses. That happens to be two of our largest businesses. The loan review and due diligence, as we touched on earlier, will be based upon client originations and buying and selling and securitization activity in the marketplace, while component services is largely driven by services provided for our clients via their acquisition activity, specifically in single-family rental businesses.

What we thought might be helpful to put all this together would be a little case study. And this represents a sample transaction, but it is a composite transaction. So we might do each of these services, and I will walk you through those, but we might not do all of them in any one transaction. And so what this case study represents is many of you have read about some of the big financial institutions that have gone out and purchased properties with the intent of renting them out. And we participate all across that business in numerous aspects.

If we start with the Monopoly man, which represents the big institutions that have been buying the properties, the very first step for many of our clients is to come to us and utilize our Red Bell technology to actually find properties that they want to own. And so, utilizing Red Bell's 50 real estate brokerage licenses, we get all of the MLS data fed to our systems every 15 minutes. And our clients are able to utilize that in both the purchase and sale of real estate.

And so, they will use that technology to find that property. Once they find that property, they will then use some of our valuation tools. Whether that's an AVE, a BPO or an appraisal really depends on the client and the level of detail that they would like to see. And so they might use ValuAmerica or Red Bell for those valuation services.

One of the other things that our clients ask us to do as they are looking to acquire real estate is they ask our Green River Capital subsidiary to actually do a lease review and make sure that that lease is a traditional and customary lease for the local environment and the local markets. They also will want to make sure that it's appropriate, it's legal and that we have done a rental analysis that the rent that can be expected for that particular property matches what their expectations are for their own return thresholds. Of course, when somebody is buying real estate, they also want to make sure that they have clear title. And so they will order a title policy, and they do that with us now through ValuAmerica.

When they are actually ready to rent that property to an individual, they will hire us to do the credit review and due diligence on that particular renter and ensure that they have the ability to actually make their rent payments. And so we will also do QC. If some of our clients do that underwriting work themselves, they might also send it to us to do quality control and ensure that they have made good decisions on that.

Ultimately, when a client owns a portfolio of properties, they might ask us to do surveillance on that and monitor the property manager as well as the performance of their portfolio of assets.

Skipping back to the beginning of that process, each of these investors goes out and gets a warehouse line for the capital to make these investments in these properties, and we work with all of the warehouse lending banks in this particular space. Those warehouse lenders -- while the acquirer of the asset has gotten their own valuation, the lender wants to get a separate valuation so that they are comfortable that their advance rate on the loan against that property is appropriate. And so they might ask us to do one of any number of types of valuations on that.

They will also ask us to do a lien review and make sure that that property is in the appropriate name and that there are no extra liens on that property. And they might actually ask us to perfect and fix any title issues. And we do that with both our Green River Capital title folks and our ValuAmerica title policy business.

Ultimately, the desire of these investors is that they want to monetize those assets, and they do that in one of two ways. They are either going to sell those assets as individual homes, or they are going to securitize those assets. Once again, this is normally about six to 12 months after they've purchased these. And so, the ratings agencies and the investors in those securitizations would require that a new valuation is updated. And so, often times we get another bite at the apple and provide another valuation on those particular properties.

Once again, we need to review the lease to make sure the lease is still market. We will do another title review to make sure that they have title free and clear and can convey that title to the trust. And if they are looking to sell the asset, they will ask us to use Green River Capital to actually dispose of the asset to retail real estate buyers. We also have our surveillance business, which does actual rental property management embedded in those trusts and some of the ratings agencies have been talking to us about, including that type of surveillance in these trusts going forward.

As Teresa talked about earlier, the value circle is something that when we speak to our clients, they don't always fully appreciate but are starting to appreciate more all of the services and products that we have now brought under one roof and how we can help them throughout their entire business cycle. We are very proud about that, and we are very excited about the opportunities that we see in front of us. There are many, many opportunities which we are just beginning to tap, but there's been a significant amount of interest already in the six months that we've owned Red Bell, in the month or so that we've owned ValuAmerica. Our clients at both the MBA conference and in individual meetings have indicated that they are very interested in that and would like to see us provide a whole host of these services.

As regulatory bodies like the CFPB have required industry participants to really manage their vendor network, there's a real benefit today to our clients to narrow the number of vendors that they use from five, six or seven to one or two. It's less work for them to monitor, and they can get all of their services from one place. That already is starting to take hold. As Teresa has mentioned, we are seeing it through our sales force, and we're seeing it in all of the conversations that we have.

We believe these capabilities provide a higher value proposition to our clients and deepens our relationships with them. In the current regulatory environment, it's particularly important, and it narrows down the list of vendors for them. Offering our clients more of the services that they need allows them to do just that. And beyond the standalone revenue opportunities, the combined services also allow us to explore new opportunities with our clients and potentially capture more MI upstream as our clients utilize more and more of these services.

Any questions on mortgages and real estate services?

Geoff Dunn - *Dowling & Partners Securities - Analyst*

Thanks. Geoff Dunn with Dowling. Two questions. First, does Clayton have any MSAs?

Joe D'Urso - *Radian Group Inc. - President Clayton Holdings LLC*

No.

Geoff Dunn - *Dowling & Partners Securities - Analyst*

Okay. And then second, just playing devil's advocate, with the surveillance in the REO business, it looks like a lot of the revenue opportunity is borne out of residual benefit from the crisis. Why should't we view effectively a third of the business is facing a cyclical downturn and creating a headwind to overall revenue growth?

Joe D'Urso - *Radian Group Inc. - President Clayton Holdings LLC*

Sure. Fair question. I'll answer that in two ways. First, there's no question that the REO in the general market is declining. What we've actually seen is as that has been happening, we have actually garnered more market share from clients. And so our business has not only been stable, but our REO business has actually been growing.

As a former distressed asset trader on Wall Street at Goldman and Merrill, I would also tell you that even in the best markets in 2004, 2005 and 2006, there were plenty of REO because when people lose jobs, when they get sick, when they have other issues, they stop paying their mortgages. And so while we don't expect REOs to continue at the same elevated levels that they are today, we do believe that there is still a long runway in terms of REO. And we will be one of the last players standing because of our size and breadth and the depth of our business.

In terms of the surveillance business, we would actually say that as the business gets better when we move into a better cycle, that actually plays well for our surveillance business. Because if you remember the comment about pre-2008, as we get better, healthier mortgage market and Private Label securitizations in particular, but non-GSE generally, that's where we had the biggest demand for our surveillance businesses embedded in those trusts. And so as we start to see more activity in a healthier market, that business will actually grow. We actually feel really good about that. And when we think about our longer-term growth plans, not so much in the shorter term, but our longer-term growth plans will actually be hinged a lot on that -- the surveillance business. As well as the loan review and due diligence business will grow dramatically in those markets.

Doug Harter - *Credit Suisse - Analyst*

It's Doug Harter from Credit Suisse. When you look at your product offering, do you feel there are any holes in that that you might want to add either organically or through acquisition?

Joe D'Urso - *Radian Group Inc. - President Clayton Holdings LLC*

Today I think the answer is no, we don't see any big holes. We made a couple of acquisitions. We thought they were unique opportunities with great companies, very technology enabled, but they were small and didn't have the capital and the resources behind them. And so we think there's a tremendous upside for those businesses given the capital and the resources behind those businesses now with Radian.

I don't think that there is anything that we are missing. Our clients don't tell us that there's a whole lot that's missing. ValuAmerica and Title was actually directly a response to clients telling us, hey, it would be great -- given the other things that you guys do, it would be great if you guys had title capability, and so we added that.

But I guess the one thing that we probably would like to add -- but it will be an organic add; it won't be an acquisition -- is given all of the pieces that we have across the sector, we would like to take all of that data -- and we have all of that data meticulously catalogued in our data warehouses. And we would like to offer a data-specific business so that we can compete with folks like CoreLogic and Black Knight. And we actually have some folks working on that within the Company today, but really that's more of an internal build as opposed to an acquisition.

Manny Ramirez - *Bayview Asset Management - Analyst*

Manny Ramirez, Bayview Asset Management. Could you go back to the slide where you break down your components revenues and, just back to the earlier question, maybe just go through each component and say this one should be growing cyclically, and this one should be declining cyclically so we can get a better picture of what the overall business looks like?

Joe D'Urso - *Radian Group Inc. - President Clayton Holdings LLC*

Sure. This one?

Manny Ramirez - *Bayview Asset Management - Analyst*

Yes, those two. The next ones.

Joe D'Urso - *Radian Group Inc. - President Clayton Holdings LLC*

Okay. Clearly in our loan review and due diligence business, that has actually been very, very slow over the last bunch of years. Where that business just goes completely gangbusters is in a high originations environment and in a high securitization environment. So we believe that cyclically, as the markets return to health, that this business will grow dramatically. And once again, relative to things like the private label securitization market, that's when we see a hockey stick type return in this business.

That's also true in surveillance. As I mentioned to Geoff, historically, when we had those good and healthy cyclical markets, lots of originations, lots of securitizations, our securitization -- I mean, our surveillance business grew dramatically and was very large.

In terms of valuation and component services, I think there's two things about that. I think, once again, each of these services, while some of them are -- on the component services are specifically pegged to single-family rental, we think as single-family rental slows -- and we don't expect it to die because many of these big institutions are now moving lower and providing capital to smaller landlords as opposed to being a landlord themselves, so we think that shift -- I think the big institutions have bought somewhere around 200,000 rental properties. There's an estimated 14 million rental properties in the US, and those big institutions are now providing capital to the smaller landlords to attack that market. So while I would normally say cyclically and given where this business has been that that might come down a little bit, dependent upon the success of the big institutions in lending to smaller landlords, we could see growth in that business as well.

In terms of the valuation component, once again, all of those valuation businesses as origination picks up -- again, lenders need to do appraisals. They need to do values. As people are buying assets, as they are securitizing assets, they need valuation. So, cyclically, we would expect the valuation component of this to go up.

REO, no question: over time, we absolutely cyclically expect that to drop. But as I said to Geoff earlier, what we've seen to date is that we've picked up market share. Many of our competitors have gone out of business, and we have picked up that business. But certainly we believe that that is going to be coming down, and we would model it that way.

Our Euro Risk business is a relatively small business, even for Clayton. They focus specifically on file review and due diligence, but we are expanding that business to provide all of the same services that Clayton provides in the US. Many of our clients are some of the big institutions that actually have business both in the US and in Europe, and they've asked us to provide many of those services for them in Europe. And so cyclically, this business being a file review business -- again, as we saw origination generally and acquisition and securitization activity increase, we would expect this business to grow as well.

Chas Tyson - *Keefe, Bruyette & Woods - Analyst*

Chas Tyson with KBW. Can you do something similar? You talked about possible market share gains in the REO segment. Can you talk about where your market share stands by line of business as well as who your biggest competitors are?

Joe D'Urso - *Radian Group Inc. - President Clayton Holdings LLC*

Sure. So in loan review and due diligence, we break that up into a couple of different markets, and we track that actually very closely. We do single-family rental securitizations in this business and we have 100% market share. So we're not going to gain anything more there. On jumbo securitizations, I think over the last quarter or this year to date, we are at about 58%. But, frankly, there was a new entrant into the market that wasn't using us. They now are using us, so we should see our market share grow there.

And so you can see in that particular business, that really is highly levered to the activity levels in the market. Once those markets pick back up, we do dominate that business. We have just had a very anemic market over the last couple of years, but those are significant in terms of size and market share.

Surveillance, I think, is a little bit more difficult. But my guess is in the surveillance business, we probably have close to a 50% market share. I would have to really check on that because it depends on the type of surveillance that you are doing, whether that's rental or non-rental surveillance. But we could get that and we will produce that in the future presentations.

Our biggest competitors on the loan review is a small company called AMC down in Florida. They have about a 5% to 7% market share in the company called JC three which is probably right around the same. On surveillance, there's a couple of businesses like Opus Global. Again, much smaller. There's nobody that -- no one individual company that has close to our market share in that particular business. Valuation in component services, on the component services side, because that is specific to single-family rental today, we have about 100% market share in that particular business. And so anything that happens in that single-family rental today, we get that business. On the valuation side, we have many competitors, much smaller market share, folks like Clear Capital and ProTeck actually have a much larger share of the market, but we're going to catch up quickly and some of the things that we've talked about in the value circle are actually giving us lots of opportunities that those guys don't have because they only provide valuation services. But we would be really, really low probably is my guess. I don't even know, but it would probably be single digits they are, so we expect a lot of growth there.

In REO, that's a little bit of a difficult thing to really measure because as a standalone REO outsourcer, we are by far the biggest but services also have a bunch of REO management that they do. And so if you compare this to the servicers, we would be a little bit smaller. But even relative to folks like solutions*and also source, we manage roughly the same amount of assets on the REO side. So we are a pretty good healthy player there. And Euro Risk, there's only two competitors and we have probably 50% to 60% market share in Europe on the diligence business.

Geoff Dunn - *Dowling & Partners Securities - Analyst*

Geoff Dunn, Dowling. Sorry Joe, I've got a follow-up. I'm having trouble framing the organic revenue growth opportunity. I understand there is a number of businesses that will benefit when volumes get better, when our MBS comes back, and I think that was understood from day one with the acquisition. But I think the latest forecasts have volume flat to down through 2018, and I don't think anybody's getting too excited about the non-agency or MBS market. So can you frame the organic revenue growth opportunity? If we are a sub-135 market through 2020 and don't see much development in the RMBS side, what are the organic prospects for the Company? Because I don't think the environment is reflecting what you're talking about.

Joe D'Urso - *Radian Group Inc. - President Clayton Holdings LLC*

No, I think that's right. And we have no idea when that PLS market is going to come back, and that shows in our projections in our numbers. We are not betting on that in the short and medium term. What we are betting on, and it's still early stages, we put together this series of businesses. And really that value circle is where we are pinning a lot of our growth in that we believe things like cross-selling to Radian clients -- Radian has 1,500 or so mortgage origination clients. They can benefit from all of our services. They already order those same services from somebody and other companies, so we believe that's a really big opportunity. And we are only now starting to really get into that.

So it's clearly a growth story. We are also seeing that our ability to bundle the services is having a big impact. And so we have -- it's probably a couple of hundred NBAs that have been signed with our clients to go through some of these businesses. A whole bunch are in varying stages of the legal process to actually get contracts in place. A little tough right now at these early stages to give you more detailed numbers, but that's where the organic growth is going to come from, and we think that could be significant but we've got to prove that out.

Yes, sorry about that. All right. Well, thank you very much. I appreciate time. And now Derek Brummer, our Chief Risk Officer.

Derek Brummer - *Radian Group Inc. - EVP and Chief Risk Officer*

Thank you. We're not done with the nerd portion of the presentation. I'm nerd number two. But this nerd is going to talk about pricing, which seems to be the topic du jour. So take a lot of questions on that.

But first, what I'm going to start with, I'm going to give a quick overview of risk management at Radian. I'm going to focus on our vision, our approach to enterprise risk management and some of the tools we utilize on the risk management side. I will then discuss MI portfolio trends, which continue to be very strong. And finally, I will touch on a couple of commonly misunderstood topics that are top of mind: PMIERs, and MI pricing.

Now, I clearly drew the short straw in pricing for discussing that. But in all seriousness, what I want to point out with respect to mortgage insurance pricing, it's competitive. This industry has always been competitive. But we think the returns we've achieved and the returns we expect to achieve going forward are very attractive returns. Of course, there's going to be some competition around the edges. That's not new, and that's to be expected going forward. And we think we are very well-positioned as an organization to deal with that.

Now, I'll get back to pricing later. But I'm going to torture you a bit first because I'm going to make you listen to me talk about enterprise risk management and, more importantly, risk culture, which is vitally important to us at Radian.

So starting with this slide, this slide provides an overview of some of the important areas that fall within the umbrella of risk management at Radian. At the top of the list is enterprise risk management. And enterprise risk management at Radian is all-encompassing. It covers not only all mortgage insurance risks; it covers all risks throughout the entire organization. However, most of these other areas -- from a risk management perspective, our primary focus continues to be our mortgage insurance portfolio. So, all these other areas are really focused on those areas.

But first, I want to talk about our vision, our risk management vision. As any vision should be, it's very simple, and that is to be the industry-leading risk management organization in terms of identifying, assessing and managing risks. I start with vision and goals for good reason. A clear and simple statement of risk management goals and vision is extremely important to a strong risk culture. Now it's said that culture eats strategy for breakfast. When it comes to a credit-focused business in the financial services industry, such as banking or mortgage insurance, I would say it eats it for breakfast, for lunch and for dinner.

The failure of these organizations or these types of organizations, the type of issues in the financial crisis, and what separates these type of organizations from each other today, it's not one of data, it's not one of analytics. When it comes down to it, it's one of culture, and it's one of risk culture. That is why risk management's top priority this year, next year and every single year will be to embed and reinforce a strong and consistent risk culture throughout Radian. Specifically, a culture that is focused on ensuring the long-term profitability of the enterprise and through the cycle sustainability of the organization, making sure that after the next downturn, we come out looking good. This is something we continually emphasize at Radian.

So moving on to the enterprise risk management framework, as I mentioned, we take culture and risk governance very seriously, as seen in our strong and extensive enterprise risk management program, with risk culture sitting at the apex of that framework. Now, our ERM framework provides the foundation upon which we identify, categorize, assess and manage all risk throughout Radian Group and all our subsidiaries. And this encompasses every type of risk in the organization, not only credit risk. It covers financial, operational, strategic, legal and compliance risk. It's all-encompassing. The other important point is it involves input and feedback from every level of the organization. That's all the way from the individual employee risk owners at the bottom all the way to our Board of Directors, and that feedback goes both ways.

This next slide simply sets forth our quarterly enterprise risk management process, and the culmination of that process on a quarterly basis is a report that I provide to our entire Board outlining the top risks within the Company, how we're viewing it, how we're mitigating it, how we are assessing it. So with that, now let's turn to some risk management tools.

Now, Radian has a unique business model among MI companies, as our focus is on providing risk management services and solutions throughout the entire mortgage lifecycle. We do this by leveraging a variety of risk management tools we have developed internally. First, I'm going to start with one of the key tools we have developed; it's our Radian default and risk model, which we refer to as RADAR. RADAR is our proprietary suite of statistically based prepayment -- I said I was going to be nerdy, but our statistically based default and prepayment models developed internally, developed post crisis, and we base that upon publicly available GSC data and our own historical data. It leverages key borrower, loan, product and macroeconomic factors such as home prices, interest rates and unemployment rates to project credit losses over time. RADAR is the engine that drives much of our analytics on the risk management side.

The other thing I would point out is risk management also benefits substantially by having Clayton, Green River Capital and Red Bell as part of the Radian family of companies. Clayton provides us insights in terms of underwriting and quality control and best practices on that side of the house. Green River provides us insights into the local real estate markets at a very granular level and can help us make better property acquisition decisions in terms of our salvage rights. Finally, Red Bell provides us a tremendous source of property valuation data and tools which we can leverage in both RADAR and our own underwriting process.

So (inaudible) -- I'm going to turn now to another tool we utilize on the risk management front. This is our lender dashboard. And here's a sample of one of our lender dashboards, and what this does is it summarizes key lender metrics and information on a comprehensive basis. So all the key information regarding a lender is in the dashboard, and lenders are actually graded on each metric within the dashboard. You can see that on the right of the page. It is truly comprehensive. It takes into account sales, operations, risk, quality control, pricing and lost development. So the information within the dashboards allows us to easily segment lenders within our portfolio and, most importantly, identify and to address underperforming lenders. Our dashboards are utilized as inputs into every lender level decision that we make as an organization.

So now I'm going to move on to the mortgage insurance portfolio. And as I mentioned earlier, the portfolio performance and trends continue to be very strong. Default inventory, new defaults, claims submitted continue to decrease; cures continue to increase. So any metric we look at in terms of the portfolio is pointing in a very positive direction.

And this positive trend is really driven by three primary factors. The first, which Cliff talked about earlier, are the positive economic trends in the portfolio and the economy overall. The second one is the ongoing shift of the portfolio towards the high-quality post-2008 portfolio, which is what you see here. And including HAARP, that makes up now 83% of our overall portfolio.

And the third factor that's driving it, I refer to as credit burnout in the legacy portfolio. And what this means is that for the most part, the bad loans in our portfolio have identified themselves as a result of the stress seen in the financial crisis. And much of what remains in the portfolio are much better or higher-quality loans and loans that have reflected continued performance throughout the financial crisis.

Now, focus -- this slide shows how significantly different our portfolio is post 2008. And how different it is not only from the portfolio we wrote in 2005 to 2008, but even the portfolio we wrote in the early 2000s. So for instance, the portfolio today is obviously 100% prime portfolio. It's full dock. On the upper right here, you have FICO distribution. And looking at the right there, the 2009 forward portfolio -- the portion that is below 680 FICO is only at 5%. If you compare that to the mid-2000s or even the early 2000s, the portion of low FICO that we are writing was around 35% to 45%. And you can look at that on many kind of single dimensional risk elements.

But Cliff touched on an important point earlier in his presentation. In addition, layered risk, or the combining of risky attributes within one loan, has decreased significantly. Some examples are actually listed on the bottom of this page. So for instance, the percentage of less than 680 FICOs combined with cash out refis has decreased from 11% of what we were writing in the mid-2000s to less than 10 basis points post 2008.

And this is significant. Layered risk was a significant issue in the financial crisis. And the reason that is is because it led to product morphing. So an important lesson I think we learned in the financial crisis is that risk layering creates a gap in our understanding of the risk profile of the loans. So, many product combinations, once they are put together, it's difficult to understand exactly how they are going to behave in a downturn. And that, we saw in a big way in the downturn. And risk layering -- not only just the poor manufacturing quality in terms of the loans being underwritten, but that risk layering led to significant losses in the crisis. In some cases, this risk layering actually exponentially increases the risk of the loans.

Now I'm going to turn to loan manufacturing quality. So I just talked about the improved credit characteristics of the loans and borrowers we have been insuring post 2008. Look at a couple of things when we look at loan manufacturing quality or underwriting quality. One thing we look at is our early default experience, and that's what you see at the top. So at the top, what we have here are six- and 12-month rates of default following origination. And what you can see is the rates that we've seen post 2009 are very low levels. So the portion of loans that default in the first six to 12 months is running at less than 10 basis points. And that's not only significantly below where we were in the mid-2000s, that's actually significantly below where we were in the early 2000s. So, again, an indication of very good manufacturing quality.

Another indicator of manufacturing quality is our quality control or audit results. And one of the things we've done post crisis at Radian and really throughout the mortgage industry is really we've increased the portion and the scale of our quality control or audit function. And what we're seeing in the portfolio are the defect rates within the portfolio continue to be extraordinarily low, and we have really seen no slippage with respect to that. So, again, you really see both of those factors trending in the right direction. Inherent credit quality, and also loan manufacturing quality.

And what this translates into is what you're going to see here. Those two factors have been translating into very low cumulative incurred loss ratios for a post-2008 portfolio. So this slide shows the cumulative incurred loss trends for our post-2008 vintages, many of which are turning out to the best books of business we've ever written. In fact, we see some of these vintages are already passed, I would say, their peak default curves. And what I would say is some of those are actually settling into the upper single digits, which is extraordinarily low loss ratios for the book.

This next one really focuses in large part on the legacy portfolio. What this slide shows is our quarterly new default rates. The blue line at the bottom shows the default rates for the post-2008 business, and what it shows is those have remained consistently very low since they've been originated. At the top, what you see is the new default rate for the overall book. And what you are seeing over time is that is actually trending down, and that's a function of a couple of things. One, it's a function of the credit burnout I talked about in the legacy portfolio. And two, it's a function of much more of the portfolio is now concentrated in a higher-quality portfolio, the post-2008 portfolio, and that's what's causing that line to actually trend down over time.

This next slide shows our quarterly cure rates. So this shows the percentage of defaulted loans that have been curing in each quarter broken down into several buckets based on the number of missed payments. And so what you see, the blue line and the red line, those represents -- that represents the cure rates for borrowers that have missed fewer than 12 payments.

And so what we've seen is that has been steadily increasing over the last several years. Again, a function of that credit burnout and proven macroeconomy. The one thing I would point out is the green line at the bottom -- that is actually showing the cure rates on those borrowers that have missed at least 12 payments. And I would point out one thing in the most recent quarter, that actually ticked up to 5.6%, and that's significant. That's the highest rate we've actually observed since the financial crisis. So this is definitely an encouraging sign that even those borrowers have been delinquent for a long period of time can come back in cure. And they are doing it at increasing rates.

This next slide shows the percentage of new defaults occurring in a given quarter which eventually result in a claim for us. And what you can see is that the percentage has been gradually decreasing. The top line is showing those loans that went into default in 2011, what percentage will declaim, and you can see it was nearer 25%. But as you go down each line, 2012 and further down, you can see that continues to decrease. Now, one of the things we decided and others is that 10%, which is that black dotted line, is often cited as a historical normalized level in terms of the percentage of loans or new defaults that eventually result in a claim. And you can see that is the level at which defaults occurring from 2002 to 2005 -- it eventually ended up at about that 10% level. So again, you would expect to see those old declaim rates on new defaults eventually trend towards that.

The final slide in terms of the MI portfolio -- this slide shows the percentage of new defaults that are repeat versus first-time defaults. And you can see that the vast majority of new defaults today are repeat defaults, so that's that lighter shade of blue. This is important. Because repeat defaults are significantly more likely to cure and less likely to result in a claim than our first-time defaults. So as we see that trend in the portfolio, that's a positive sign. The repeat defaults, you tend to have borrowers who go in and out of default, but they might not eventually result in a claim for us.

So now let me turn to, I guess, my couple of hot topics. The first is the PMIERs. So the PMIERs again, just as a reminder, are the private mortgage insurer eligibility requirements which are the counterparty requirements imposed on MI companies by the GSEs. And these go into effect at the end of this year. As we have previously said, we are in a financial position to be able to immediately comply with the PMIERs financial requirements by utilizing existing holding company liquidity.

Now, thankfully, for everyone, I'm not going to go into a lot of detail on the PMIERs other than to point out that the PMIERs provide a robust, risk-based capital framework that is applied at the loan level, which requires MIs to withstand a significant stress scenario. And given the increased capital requirements under the PMIERs, MIs would be significantly stronger counterparties going forward, as all MIs will be required to maintain adequate liquidity and claims-paying resources to withstand a significant stress scenario. As a result, what we think the PMIERs helped achieve is it solidifies and provides a strong foundation to the central place of mortgage insurance in the housing market and the GSEs business platforms going forward. Also from a risk management perspective, I believe the PMIERs provide standards that ensure industry discipline and that we remain very risk focused.

They also, which S.A. alluded to earlier, provide a common set of binding and transparent capital requirements across all MIs, which is extremely significant insofar as it provides a level capital playing field for the industry and, in my mind, helps prevent a repeat of what I think happened in terms of the lead-up to the financial crisis, as you saw a race to the bottom. The PMIERs, I think, provides a floor with respect to that.

So now, let's actually turn to the topic that I think people are particularly interested, and that is MI pricing. As S.A. mentioned, Radian continues to target overall returns in the low to mid teens. There are a number of considerations that go into pricing decisions. Frank is going to discuss a lot of these in a few minutes. I, on the other hand, am actually going to focus on pricing terminology. So I'm going to try to explain some commonly misunderstood concepts, or at least I will try to, that can be a bit confusing. So let's flip over to the next slide.

The one thing I want to point out is that, post crisis, the trend in Radian's and the MI industry's pricing has been one of increased granularity and risk-based pricing. And Radian has been able to do that without decreasing returns or NIW. And as an example of this increased granularity, this slide shows the progression in the use of FICO stores in Radian's lender-paid singles rate card. And just to let people know, a rate card is simply a schedule that sets forth premium levels we charge on various risk attributes. It's eventually a sheet; you can see it on our website. As you can see, we moved from not even using FICO in 2005 to using three FICO scores or three segments of FICO stores in 2011. And then today what we actually use are we have seven different FICO buckets that we utilize to basically determine what premium levels we charge for the risk. So what this has allowed us to do is to better calibrate the premium rates that we charge for the risk we are taking.

This next slide shows the impact of increased granularity and risk-based pricing on average single premium levels by comparing 2015 premium levels to 2007 levels. And as you can see, the premium levels have increased significantly. So at the lower right, you have looking at the multiple on the overall book, it's about double the premium levels. And again, this increased granularity and risk-based pricing -- what it does is it actually allows us in this case to be more focused in terms of what we're charging for the risk. And in this case we actually increase the returns. So, again, increased granularity and risk-based pricing does not necessarily mean decreased premiums or decreased returns. It simply depends on how you actually implement it.

The next concept I want to talk about is flattening of the rate card. What does flattening a rate card actually mean? This is often, I think, a misunderstood concept.

Flattening a rate card does not mean you are decreasing overall returns or NIW. It could certainly mean that. It depends on how you actually flatten the rate card. In a perfectly flat rate card, the expected risk-adjusted return would be exactly the same regardless of how risky the loan is across the spectrum. What flattening a rate card means simply is adjusting premium levels to provide more consistent expected returns across the full credit spectrum. The impact that flattening has on overall returns and NIW depends on how, where, and to what extent you actually flatten a rate card. Expected returns could go up; they could go down; they could remain the same. Is it very dependent upon how you flatten the card? It depends on where your business volume is today. And so, again, it's tough to draw a conclusion by simply flattening the card.

Now, Radian's recently filed lender-paid singles rate card, that's an example of how a rate card can be flattened while in fact increasing expected returns and remaining competitive with the FHA. So, again, emphasize this point again -- flattening is not the same as decreasing returns. It all depends upon the particular situation.

Another topic I was asked about was black box pricing. We view black box pricing as simply an alternative form of delivering pricing to customers. It implies a continuation of the trend I already talked about, that trend being one of increased granularity and increased risk-based pricing. Just as I discussed in the case of flattening and as I discussed in the case of the granularity and risk-based pricing, the impact of black box pricing and returns depends on how it's implemented. It could either increase returns or it could lower returns or they can stay the same. Again, it's going to be very dependent upon how you actually implement the black box and what risk you are actually taking in the portfolio.

The last point, which S.A. also alluded to, Radian is clearly in a position that if we think it makes strategic sense to actually implement a black box, we can certainly do so.

Finally, I wanted to point out that a result of what we view as overly aggressive pricing levels, and Teresa touched upon this earlier, Radian has not been participating in the so-called aggregated LP singles market, which currently makes up about 5% to 6% of the overall market. And that is certainly having an impact on market share. But this is a reflection of the risk culture I spoke about earlier and our discipline around returns. We will continue to take a disciplined approach to pricing. And as S.A. mentioned, we will continue to target overall returns in the low to mid teens, and this is an example of how we do that.

With that, I would like to introduce our Chief Financial Officer, Frank Hall.

Frank Hall - *Radian Group Inc. - EVP and CFO*

Thank you, Derek. Good morning, everyone. It's nice to see some familiar faces here. And to those of you that are new to the Radian story, welcome.

Noted here is the agenda for the topics that I will cover in wrapping up our day today, including some financial highlights. A discussion on how Radian approaches mortgage, insurance, pricing and returns. A discussion on our mortgage and real estate services segment and our performance expectations for that segment. A discussion on expense management, our long-term aspirations and some steps we're taking to become more efficient. I will then share some brief observations about our investment portfolio and then conclude with an overview and commentary on our capital structure.

Before we get into the details of the presentation, though, I do want to emphasize several key themes that I hope stick with you. First is that Radian is financially strong. This is evidenced by our ability to grow our earnings, our increasingly stronger capital position, our ability to immediately comply with PMIERs without the need to raise additional capital, our proven ability to raise capital on investment-grade terms.

The second key theme is building a culture of greater efficiency. This will be evidenced by how we manage our franchise and where we choose to invest. And the third key theme is that we will build a franchise that supports growth.

Building further on the theme of financial strength, I want to put this concept in more operational terms. Organic growth and our highly profitable existing book of business continues, and that builds capital over time in retained earnings. The mix and form of capital that we are evolving toward is another sign of strength. We do not expect to see any more convertible debt in our capital structure, and we do expect to see straight debt when we choose to use leverage. The mix of debt in our capital structure should evolve toward a 30% or less leverage ratio. This shift in our sources and mix of capital convey greater strength. And from that, we will have increased optionality in what lies ahead for Radian's businesses.

Periodically, we are asked the question why would you want to return to investment grade. I look at it from a very logical point of view in that having greater optionality is valuable. The investment-grade rating enhances our ability to develop other risk-based businesses and could help lower our overall cost of capital.

Noted on this slide are some financial highlights that many of you I'm sure are familiar with, continuing the theme of strength. I wanted to highlight our book value, holding company liquidity and statutory capital. All of these measures are strong and have been getting stronger over time. These are also at sufficient levels to support our expected future growth.

Moving now to mortgage insurance returns in pricing and following up further on the topic that Derek introduced, I've noted here the balancing act that we manage between growing our market share and earnings per share while maintaining strong returns on capital. Our market share may fluctuate period to period due to many of the reasons that Teresa cited earlier in her discussion. We also are disciplined in our pricing and are mindful of achieving our target returns of the low to mid-teens. That is an unlevered low- to mid-teens number. Applying leverage takes that return to the mid- to high teens.

It is because of this tension that we have been able to make the right long-term decisions of where we choose to compete and have had an ability to withstand irrationality and competitive pricing. We have remained balanced.

I did want to comment briefly on another frequent question on returns. I've illustrated here the last four quarters of our expected returns for our NIW in each quarter. While we have not noted the specific number, you can see the positive trend line over that time horizon. This is not intended to suggest that this upward trend will continue because we don't know the future. But rather, to illustrate that over this time horizon, and perhaps contrary to what many of you may suspect given the hot topics that Derek discussed, our expected returns of increased.

The increase depicted in this illustration represents approximately 80 basis points from low to high and falls well within our target returns of low to mid-teens. The key variables that influence our expected returns are premiums and capital levels. These are the most sensitive variables in the calculation. We have assumed a PMIERs level of capital for our analysis. Loss experience and expenses also contribute to our expected returns, and we remain diligent in managing both.

Moving now to the services segment, I want to remind investors that our GAAP earnings for this segment are a fully allocated number that include corporate allocations of shared services and administration, which will also include a charge for this event for instance. It also includes the interest expense associated with the debt financing used for the acquisition of the Company in 2014. We provide details on these allocations in our quarterly disclosures, but we measure each of our segments on the performance of the overall business based on the adjusted pre-tax operating income.

We also review the estimated EBITDA for the services segment which excludes allocations, as it is on this basis that similar companies are valued. Quarterly EBITDA for the services segment has been between $4 million and $10 million since joining Radian in 2014.

Strategically, the services segment provides optionality as we both expand the services of the organization and create stronger MI relationships that are further differentiated in a highly competitive market. On a standalone basis, this segment is also expected to have a revenue and earnings growth rate that is approximately 3 times that of MI, albeit on a lower base. As Joe discussed, the nature of their revenue is both transactional and recurring, recurring meaning that we have established clients for which a flow of business has been maintained. As we develop new products and services over time, it is our expectation that the recurring revenue becomes more significant.

We have noted previously that the services segment is an efficient user of capital and that there are no regulatory capital requirements, and an incremental dollar of revenue is not dependent on an incremental dollar of capital. We measure the success of this segment by the absolute growth of the revenue and earnings, taking into account both organic and acquisition. Keep in mind that the recent acquisitions have been very small and have greatly enhanced the capabilities, and that by making them part of Radian on a percentage basis, we have created substantial revenue synergies.

We also monitor the margins of the various revenue components of the segment and, based on the current mix of business, expect gross margins between 40% and 45%. We also monitor the growth rate of revenues relative to expenses and the cost structure to ensure that we have as much variable expense as possible.

I will now turn to expense management. Our approach to expense management is to have, at a minimum, a revenue growth rate faster than an expense growth rate. This is a simple starting point, but one that is important to achieve.

As it relates to the operating segments, our target core expense ratio for the MI segment is 20%. I've noted here what it would take to achieve this from our current operating level if achieved solely through either expense reduction or revenue growth, and I've also noted that our expectation is it that the right answer is likely somewhere in between.

We will be mindful of our operating expenses but will not sacrifice growth of our core franchise as we manage our business for the future. A good example of this commitment to our franchise is our modernization initiative. This initiative is a multi-year project which began in the latter half of 2013 and is a comprehensive overhaul of our core technology systems. This will create some operational redundancies as we implement this ambitious and crucial project. We estimate between $3 million and $6 million in annual redundancies between now and 2017 and will begin highlighting those costs in our quarterly earnings.

We will also see an uptick in depreciation expense in the coming years. But this initiative is a critical component of how we will become more efficient in the future and will help us realize our target of 20%. Near-term, however, we have begun to identify more actionable cost savings, and we will discuss these further in our fourth-quarter earnings release. As Teresa mentioned, technology improvements are not only important in serving our clients; it also helps ensure positive operating leverage.

Shifting now to our investment portfolio, I've noted here the composition of our portfolio for the purpose of highlighting its quality. We expect to be more fully invested in the coming quarters as we continue to deploy the proceeds from our sale of the financial guarantee business. This further deployment is expected to increase our returns and duration.

Noted on this slide is our current capital structure with the key points being that our credit ratings have been improving with upgrades from both S&P and Moody's earlier this year. It is important to note that our recent debt issuance in June was done on investment-grade terms. As I noted earlier, the types of securities that we have recently issued and would expect to issue in the future will be indicative of our strength and will be in the context of our goal to return to investment grade.

Our capital planning activities include reviewing available structures, market trends, but are primarily guided by maintaining a position of readiness.

And finally in summary, I want to reemphasize several key messages from today. We have high-quality mortgage insurance in force that is expected to grow with high-quality, profitable NIW. We have expected strong earnings from improving performance of the legacy MI portfolio and profitable NIW. We are using pricing discipline to achieve strong targeted returns on NIW. We have continued improvement in delinquency trends. We have a strong capital position and getting stronger. We have strong holding company liquidity. We have fee-based businesses to add future flexibility and deepen MI relationships and a conservative investment portfolio. And in conclusion, Radian is strong.

So with that, I think Derek and I are going to take some questions.

Jasper Burch - *Bayview Asset Management - Analyst*

Jasper Burch, Bayview Asset Management. I guess starting off with on the target ROEs and the ROEs on new business that you are writing, are you using normalized loss ratios when you say that the target -- the ROEs on new business is in the target range? And can you give us what your expected loss ratios on the current business mix of NIW is?

Frank Hall - *Radian Group Inc. - EVP and CFO*

Yes, I think -- I will answer first and Derek can add in a detail. But we try to avoid getting into too much detail on the assumptions that we are using in the model. But to say generally, normalized loss ratios, I think, is a fair --

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Derek Brummer - *Radian Group Inc. - EVP and Chief Risk Officer*

It is. It's a through-the-cycle loss ratio, so that's what we're utilizing. And as we've talked about in the -- before, that is about 20% in a through-the-cycle loss ratio.

Jasper Burch - *Bayview Asset Management - Analyst*

That's helpful. Sorry. And then just one more. On your -- this might be more for Derek. On your current reserve levels and the reserve expectation going forward, could you just give us a little bit more color on how conservative you think reserve levels are and whether there's any sort of expectation of HPA or something else in there that we might not be seeing?

Derek Brummer - *Radian Group Inc. - EVP and Chief Risk Officer*

Well, in terms of -- I wouldn't describe it as conservative. Our reserves are a best estimate at any point in time. And so when we look at that, I am always leery of giving guidance on where reserves are heading because of the integrity of our reserving process. And so in terms of looking at that, what we tend to look at are trends we are actually seeing in the portfolio.

So when you look at -- and the chart I looked at before for new defaults -- now, if those trends revert to what you actually saw in the early 2000s, one would expect that to decrease over time. But I wouldn't try to project exactly the time frame or what level that would be because we are really going to look at the development that we see. And, again, that development will be aided by HPA to the extent you see home prices, and those early 2000 vintages were aided by that.

Geoff Dunn - *Dowling & Partners Securities - Analyst*

Geoff Dunn with Dowling. Frank, what is your definition of a core -- first core expense ratio? What does that mean?

Frank Hall - *Radian Group Inc. - EVP and CFO*

It is the expenses that are needed to operate the business on an ongoing basis. It would exclude one-time items. It will exclude the duplicative monetization costs. It really is just what we expect to need to operate the business.

Geoff Dunn - *Dowling & Partners Securities - Analyst*

I guess I'm trying to -- how does that compare to the 24% in the last quarter? Is it seating commissions? What adjustments are you making so we can tell how far away you are from it? And then the second half is, it sounds like that's not achievable until 2019, 2020 type of time frame.

Frank Hall - *Radian Group Inc. - EVP and CFO*

Again, on this slide, we calculated what the delta is from our current level if we just looked at it from an expense-only perspective, which is roughly $30 million in annual expenses. Keep in mind, the 20% is a target, and it's a long-term target. And that's something that we hope to achieve over the coming years, and it will happen both through expense reductions, which we'll talk about more in the fourth-quarter earnings release, and also revenue growth.

Seth Glasser - *Decade Millennium - Analyst*

Seth Glasser, Decade Millennium. I guess I just want to go back to the initial question that I asked S.A. earlier at the start regarding ROEs. I guess my first question would be is it -- while I realize that you guys look at the metrics for Clayton on -- in terms of EBITDA, in terms of the different growth metrics, could you give us a ballpark ROE, levered ROE for what you think that business does and can do?

Frank Hall - *Radian Group Inc. - EVP and CFO*

Sure. I would really look at it more in the context of the growth and what we expect to influence our ROE going forward. And our GAAP ROE, just for those of you who may not know, is roughly 11.7% last quarter.

And so, as I said, the incremental dollar of revenue in earnings from the Clayton businesses don't require an incremental dollar of capital. So that becomes more capital or return accretive over the longer-term time horizon.

But I think the best way to think about our Clayton businesses is really the platform that we have from which to grow not just their own revenues and earnings, but also the synergies that exist with the MI business as well. So it's both financially and strategically attractive to us. And so as I mentioned, the growth rate assumptions and expectations that we have for the Clayton businesses are 3 times that of the MI business. Again, smaller base. But as you think about how efficiently that capital is being utilized, your expectations should be that that would continue to grow.

Seth Glasser - *Decade Millennium - Analyst*

Right. So I guess what I'm trying to get at here is I think there is somewhat of a misunderstanding in the market is that you are guiding to low- to mid-teens ROEs on your core -- on your NIW, your new business written in the MI space. Now you are telling us actually that's an unlevered number. So on a GAAP basis, we really might be talking about something like 16%, 17%. Then, if Clayton is able to actually grow into 20%, 25% of this Company, and you are talking about another few points on top of that, that's taking you to very high-teens ROE. And then you are talking about presumably a three- to five-year period where loss ratios will be well below normalized. So are we really talking about a 20% ROE here for the foreseeable future?

Frank Hall - *Radian Group Inc. - EVP and CFO*

I understand your question and your observations. And I would say individually, they are all accurate. The one clarifying point that I would make is that when we say low- to mid-teen returns, that is unlevered; that is on capital, not equity. The distinction being the levers that we put on it. So you're right; when we factor in leverage, we are looking at mid- to high-teen returns on the equity associated with that business. And your other observations about the growth rates of the business, efficient use of capital, et cetera -- would I want to guide to a number? No. But trajectory and trend line, I would absolutely agree with.

Eric Beardsley - *Goldman Sachs - Analyst*

Eric Beardsley, Goldman Sachs. Appreciate some of the clarity on pricing. I just wanted to delve a little bit more into it. I think on page 72 and 73, you talked about some of the changes you've made in single premiums. I guess the question that we have been getting a lot is do you see pricing flattening on the -- returns flattening on the borrower-paid business in the future.

Derek Brummer - *Radian Group Inc. - EVP and Chief Risk Officer*

Tough to say. It really depends on what competitors do. We've seen one competitor take certain actions. But, again, I think you have to be careful reading too much into that. You are going to see, I think, competitors experiment with rate cards, make some changes, try to flatten it out, normalize I think where they see returns. But I really wouldn't be in a position to speculate as to where things are going.

Eric Beardsley - *Goldman Sachs - Analyst*

Got it. I guess in terms of that competition, do you expect that to have any impact on the business in terms of your share or your pricing?

Frank Hall - *Radian Group Inc. - EVP and CFO*

I think -- what Derek has described are, I would say, nuanced, detailed questions about a very competitive industry. But at the end of the day, all of these things have had a de minimis impact on the blended returns of the portfolio and the new business. And I think it's important to keep that in the proper context because while it may get a lot of discussion, it really hasn't impacted the returns.

Eric Beardsley - *Goldman Sachs - Analyst*

Got it. And then just lastly, I guess, on page 72, curious if you have any context of what that will look like for borrower-paid business in terms of the pricing. Or maybe it's page 73, apologies.

Derek Brummer - *Radian Group Inc. - EVP and Chief Risk Officer*

I don't have the -- you mean in terms of the multiple?

Eric Beardsley - *Goldman Sachs - Analyst*

Yes.

Derek Brummer - *Radian Group Inc. - EVP and Chief Risk Officer*

It's going to be up over time, but I don't have at hand what the actual multiples would be. Are you talking about basically the breakdown in terms of FICO buckets? Yes, that's become more granular -- or do you mean this one? Yes, I don't have that offhand. Obviously the pricing today that you're going to see is going to be higher than what you would have seen in 2007. So -- and again, the trend is going to be, I think, the same, which is going to be a multiple. It's going to be a bit more granular, and it's going to be more risk-based.

Frank Bamberger - *F.B. Asset Management - Analyst*

Frank Bamberger, F.B. Asset Management. Can you give us some idea what your profit for the first three quarters of this year compares to a previous period in 2014? Also, how do the revenues compare for the two periods?

Frank Hall - *Radian Group Inc. - EVP and CFO*

Sure. Both have increased substantially. In our quarterly filings, I think you can find the details on that. But suffice it to say that we have turned a corner, and I think the important theme that we've been talking about internally is that we really have pivoted from a period of defense and survival to a period of offense, and we really have turned the corner. You can look at some things like the reversal of our DTA valuation allowance as a key indicator of what the future prospects of the organization look like. So qualitatively, I would tell you that it's much improved, and we are optimistic about our future.

Frank Bamberger - *F.B. Asset Management - Analyst*

Thank you.

Mark DeVries - *Barclays Capital - Analyst*

Mark DeVries from Barclays. First question, when you think about pricing through the cycle -- returns, which is going to be based on historic experience, but now you are getting a bunch of loans where the experience is pretty extraordinary. How do you resist the temptation to reset what your loss expectations are? I imagine you're going to get a lot of pressure from your sales organization saying, look, we are writing this stuff to 9% loss ratios. We're not going to be competitive.

Derek Brummer - *Radian Group Inc. - EVP and Chief Risk Officer*

Right. How do we deal with that? Risk culture. Ultimately, in terms of those assumptions, I'm the keeper of those assumptions. And so having that consistent risk culture, that's exactly what I'm talking about. And one of the failures I think we saw in the financial crisis is seeing people on the risk and management succumb to that. So ultimately, that's going to be the proof and that's why something we complete -- we continually harken back to is that risk culture. Ultimately, it's also making sure you have good corporate governance and making sure that that actually resides in the parts of the organization where the compensation and incentives are not tied just to doing business. It's focused, and our focus is on long-term profitability and that through-the-cycle profitability. So again, it really is fundamentally going to come back to culture, and it always does.

Mark DeVries - *Barclays Capital - Analyst*

Okay. And my next question flips that on its head. If you look at slide 62 where the manufacturing quality is so high, you get the sense that the industry is leaving money on the table. We don't need losses to be that low for you to generate attractive returns. I guess the question is is there more the mortgage insurance industry can be doing to loosen underwriting, or is this a product of what's happening at the originator level where overlays are so significant that there's just not enough risk that's being --

Derek Brummer - *Radian Group Inc. - EVP and Chief Risk Officer*

Yes, I think there is room to actually grow with respect to that. And so Teresa talked about it, Cliff talked about it from a mortgage availability perspective. And I think we do have room to grow. And the way we are actually priced today. And that risk-based pricing I talked about, we're well-positioned for that.

And so one of the problems you had in the financial crisis -- also the pricing wasn't risk-adjusted. So when you actually had on the credit front actually I would say moving down the credit box, we weren't adequately priced to deal with that. I think we are adequately priced to deal with that today. I think from a manufacturing quality perspective, I think there is some room probably, right, to be -- to push on that a bit. But, again, you just have to be careful. And it is a balancing act. I think we want to continue to see those defect rates at those levels. What you want to do is find ways to officially underwrite while keeping those manufacturing defect rates at those low levels.

And I think the other thing that I would say in terms of providing stability in the market overall is just a focus in terms of not only on the MI side, but also the mortgage originators focused on manufacturing quality. And so I think we are -- that's something we track, so when we start seeing slippage, our concern is seeing that in the margin with particular lenders. So what we will do, talking about that dashboard before, is we will flag those lenders and deal with that. So our bigger concern is not on a macro; it's really finding those marginal borrowers and making sure that they are not pushing too quickly ahead of the pack.

Sean Dargan - *Macquarie Research - Analyst*

Sean Dargan, Macquarie. I have a couple questions about sources and uses of cash. I think Genworth on their call said that they don't expect to take dividends out of US MI to the holdco until 2017. Is that roughly where you think you are?

Frank Hall - *Radian Group Inc. - EVP and CFO*

It's probably a little bit further for us. But when you think about sources and uses of cash, keep in mind that we do have expense-sharing arrangements, and we do receive interest payments from the subsidiaries as we allocate that to them. So practically speaking, the sources of cash absent a dividend, but they do cover the operating expenses and the interest expense.

Sean Dargan - *Macquarie Research - Analyst*

Okay. And then I think one thing that's a little differentiated is that you do have the services business which allows you to generate free cash flow to the holdco. What are your priorities in terms of buying back stock above book value versus increasing the common dividend versus paying down some of this debt early, which might help you obtain that investment-grade rating?

Frank Hall - *Radian Group Inc. - EVP and CFO*

Sure. The great news about being in a position of strength is that we can actually have those conversations now in our capital planning discussions. And those are active topics in our capital planning conversations, how and when to manage the leverage in the individual securities. And also dividends -- stock repurchase, all of the things that you would naturally associate with good, robust capital planning are included in those discussions.

Chas Tyson - *Keefe, Bruyette & Woods - Analyst*

Chas Tyson with KBW. On the expense ratio gain from 25% to 20%, is there a way to think about how much of that might come through expense saves and how much is inherent in the modernization program and how much might come from operating leverage?

Frank Hall - *Radian Group Inc. - EVP and CFO*

Sure. We've talked about the right answer being somewhere between -- and I think it's probably too early to tell how much, from each of those levers. But I would say near-term, we do see opportunities, and I alluded to some more clarity in the fourth-quarter earnings call. We do see some opportunity for -- I hate to call it low-hanging fruit, but opportunity to trim some expenses. So that's what you should expect near term.

Okay. All right, well great. Thank you, everyone. I'm going to turn it back over to S.A. for some closing remarks.

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

Thanks, Frank and Eric, and thank you all for joining us today. I hope, as I said earlier, now you understand how -- why I'm so excited about Radian's future. So while we use today to clarify a lot of the questions you had and talk about today, I hope we did do justice to talking about our future and our future opportunities.

So, once again, we have two very strong businesses. Our mortgage insurance business is a leader in its own right. It generates high-quality business, generates high-return business, and we expect to write this year the second-highest NIW that we've ever written. Our services business is strong in its own right. But what makes us excited -- what makes me really excited is the fact that by connecting the two, we expect to create even more value for our shareholders.

And you saw also one of the things that makes me most proud about being at Radian, which is you got a sense of our team. And I hope you take the opportunity after the lunch to go visit the booths in the expo and get to see even more of our team and get to learn about the businesses that make Radian what it is.

And with that again, thank you for coming here, and thank you for participating in our session. And hopefully, you will take advantage of the opportunity to visit the booths and talk to some of our people. Enjoy your lunch.