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RDN - Q4 2014 Radian Group Inc Earnings Call

EVENT DATE/TIME: FEBRUARY 12, 2015 / 3:00PM GMT

THOMSON REUTERS

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to Radian's fourth quarter and full year end 2014 earnings conference call.

(Operator Instructions)

As a reminder, this conference is being recorded. I would now like to turn the conference over to our host, Senior Vice President of Investor Relations, Emily Riley. Please go ahead.

Emily Riley *- Radian Group, Inc. - SVP of IR*

Thank you, and welcome to Radian's fourth-quarter 2014 conference call. Our press release, which contains Radian's financial results for the quarter, was issued earlier this morning, and is posted to the investor section of our website at www.Radian.biz.

This press release includes a non-GAAP financial measure that will be discussed during today's call. The complete description of this measure and the reconciliation to GAAP may be found in press release exhibits E and F, and on the investor section of our website.

During the call, you will hear from S.A. Ibrahim, Radian's Chief Executive Officer, and Frank Hall, Chief Financial Officer. Also on hand for the Q&A portion of the call are Teresa Bryce Bazemore, President of Radian Guaranty; David Beidler, President of Radian Asset Assurance; Derek Brummer, Executive Vice President and Chief Risk Officer of Radian Group; Joe D'Urso, President of Clayton; and Cathy Jackson, Corporate Controller.

Before we begin, I would like to remind you that comments made during this call will include forward-looking statements. These statements are based on current expectations, estimates, projections, and assumptions that are subject to risks and uncertainties, which may cause actual results to differ materially.

For a discussion of these risks, please review the cautionary statements regarding forward-looking statements included in our earnings release, and the risk factors included in our 2013 Form 10-K and subsequent reports filed with the SEC. These are also available on our website. Now, I would like to turn the call over to S.A.

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

Thank you, Emily. Thank you all for joining us, and for your interest in Radian. I couldn't be more excited to share with you the progress we made in 2014, to reposition Radian for greater success in the future.

We have reduced our overall risk profile, putting much of our legacy exposure behind us. We introduced our new mortgage and real estate services segment to differentiate Radian and diversify our revenue sources, and we achieved our first full year of profitability since 2006, exiting the year with an announcement to sell our financial guaranty company, Radian Assets and eliminate our exposure to financial guaranty credit risk. All in all, it was quite a year.

After what has been a long road to recovery for Radian following the housing downturn, I am delighted to turn our attention away from the rear view mirror. I look forward to discussing our financial results and reviewing our major accomplishments during our call today, while also providing a look ahead at our plans to expand and strengthen our core businesses.

But first, let me introduce Frank Hall, our Chief Financial Officer, who joined Radian at the start of the year, and has quickly become a valuable member of our team. Frank will cover the details of our financial position, following my remarks today. As you know, our long time colleague and friend Bob Quint has retired as Radian's CFO, and is helping this year to transition Frank into his new role. I will close my remarks today with a few comments about Bob.

Turning to the quarter's results, earlier today, we reported net income for the fourth quarter of 2014 of $428 million, or $1.78 per diluted share. These results include two significant items: A net loss on discontinued operations of $450 million, or $1.85 per diluted share, which consists primarily of the loss on the sale of Radian Assets, our financial guaranty subsidiary. And the reversal of nearly all of our deferred tax valuation allowance, representing $816 million, or $3.36 per diluted share.

The fourth-quarter results compare favorably to net income for the quarter ended December 31, 2013 of $36 million, or $0.21 per diluted share.

For the full-year 2014, net income was $960 million, or $4.16 per diluted sure. The full year results compare favorably to a net loss for the year ended 2013 of $197 million, or $1.18 per diluted share.

Book value per share at December 31, 2014, was $10.98. Adjusted pre-tax income was $58 million for the fourth quarter of 2014, compared to an operating loss for the fourth quarter of last year of $13 million. For the 12 months, adjusted pre-tax operating income was $342 million, compared to a prior year operating loss of $67 million.

Achieving full-year profitability, meaningfully reducing Radian's overall risk profile, and introducing a new mortgage and real estate services segment were our most important accomplishments in 2014. The key drivers of these accomplishments were the improvement in the size and quality of our industry-leading mortgage insurance in force. The significant reduction in our legacy MI exposure, the successful acquisition of

Clayton Holdings, a leading provider of outsourced mortgage solutions, and the pending sale of Radian Assets, our financial guaranty subsidiary, to Assured Guaranty.

We are pleased to achieve these significant milestones, and effectively put many of the challenges of our legacy business behind us in 2014. And with the agreement to sell our financial guaranty business we are excited to focus on our core strengths in mortgage insurance, and mortgage and real estate services. By simplifying and focusing our business, we are better positioned to drive long-term value, both from our large and growing mortgage insurance portfolio, as well as by broadening our future sources of revenue.

Now, let's turn to a few highlights from the fourth quarter and the full-year 2014. Frank will discuss the financial impact of the two unusual and significant items in the quarter, the reversal of the DTA valuation allowance, and the sale of Radian Asset. You may find the EPS and book value impact on webcast slides 8 and 9.

What is most important is that these items mark an important turning point for our Company, as we leave a large portion of our legacy risk behind us. The reversal of the valuation allowance is the direct result of Radian's sustained and projected future profitability. And the planned sale of Radian Assets helps us to leverage the value of this non-core business as we prepare for the finalization of the PMIERs this year.

Turning to the mortgage insurance segment, we continued to grow and improve our mortgage insurance in force book, which is the largest in the industry, and is the primary driver of future earnings. We wrote $10 billion of new MI business in the fourth quarter, an increase of 8% over last year, and we wrote $37 billion for the full year.

The composition of our mortgage insurance portfolio continues to improve, as the high quality and profitable new business we wrote since 2008 represents 79% of our total primary insurance risk in force, or 69%, excluding HARP volume. And the fact that nearly 70% of our performing loans from 2005 to 2008 have never been in default, is an important example of the improvement in our legacy MI book. You may find these details on slide 12 of our webcast presentation.

While the overall mortgage origination market was nearly 40% smaller in 2014 than in 2013, our industry saw the benefit of increased MI penetration, both from a stronger purchase market, and from more borrowers choosing private mortgage insurance over FHA. At Radian, our strong relationships with existing customers, combined with business from 193 new customers during the year, produced new business volume within our expectations. We continued to strengthen our mortgage insurance franchise each year, by adding new lending partners, as those customers new to Radian represent not only early business written in 2014, but more future NIW opportunity for our company.

With low interest rates, low gas prices, and improving employment rates, many economists are projecting an increase in home sales in 2015. In addition to a fairly healthy purchase market, existing homeowners are expected to take advantage of lower interest rates in the first half of the year, which will result in increased refinance volume.

While it remains difficult to project future NIW, we expect to write more new business in 2015 than we did in 2014. The combined impact of an improving economy and our continued focus on proactively removing legacy MI business resulted in a year-over-year decline in Radian's total number of primary delinquent loans of 26%, as you can see on slide 22.

On slide 23, you can see that our primary default count decreased to 45,319 loans, and our primary default rate fell to 5.2%. Slide 13 shows that for the year ended December 31, 2014, the earned premium, less incurred losses from our 2009 and later MI vintages of $492 million, far exceeded the $108 million from the 2008 and prior vintages, and was even greater than the $345 million in 2011 and 2012 combined. Our substantial level of new insurance written in 2012 through 2014 would drive most of our premiums for the next few years, as we strive to continue to increase the level of earned premiums, less incurred losses, that is the foundation of our profitable growth.

Our mortgage and real estate services segment have fourth quarter total service revenues of $34 million, and gross profits from services of $15 million. As this revenue is transaction based, it lends itself to variability, depending on the volume of the underlying transactions. But what is most important is that the segment adds a diversified source of fee-based revenue for Radian. It also broadens our participation in the residential mortgage value market chain, with services that complement our MI business. We are seeking to deepen our customer relationships and differentiate Radian among our mortgage insurance peers, through this new portfolio of products.

In terms of future opportunity for this segment, we expect the ultimate return of private capital and the growth of the non-agency RMBS markets to play a key role in our growth, as customers take advantage of due diligence services. We also expect growth in our surveillance business, as the regulatory focus on servicing continues to increase, and investors and servicers seek to manage their risk.

Turning to two of the topics impacting our mortgage insurance business, as many of you know, the FHA announced a price decrease that went into effect last month. This move surprised many, based on the FHA's overall financial health, and the potential risk to the taxpayer. However, we believe that the administration continues to support its stated goal of increasing the role of private capital in the housing finance market.

As we await updates on several regulatory issues, including PMIERs, LLPAs and g-fees, we continue to expect that private mortgage insurance will play a significant role in increasing low income and first-time home ownership. Our product is competitive for the vast majority of businesses we write today, which is typically above a 700 FICO and at LTVs of 90% to 95%. From a home buyer's perspective, private mortgage insurance has the added benefit of being automatically canceled when the mortgage balance reaches 78% of the home's original value, versus FHA insurance, that is paid over the entire life of the loan.

In addition, the FHA's upfront premium increases the borrower's loan amount, which is another fixed life of loan cost, adding to the home purchase. The final PMIERs, or Private Mortgage Insurer Eligibility Requirements, are expected to be released in the coming months. While we do not have an update on the content of the rules or the timing of their release, we continue to expect to fully comply without a need to raise additional capital.

Before I turn the call over to Frank, let me emphasize that at Radian, we are laser-focused on the future. In 2014 we reduced Radian's overall risk profile in a meaningful way. With the majority of our legacy exposure behind us, we are able to simplify and streamline our company to drive long-term value from our core strengths.

Near term, we expect to benefit from the exceptional credit quality and earnings power of our existing mortgage insurance book of business. We have an in force book that is the largest in our industry, with outstanding credit quality, and shrinking legacy exposure that bodes well for future losses. We built this book of business on our excellent customer relationships, and we'll continue to grow our book that same way.

Longer term, we are laying the foundation for future earnings by combining our strong profitable mortgage insurance business with our new mortgage and real estate services platform. This allows us to provide exceptional value to our customers, and continue to differentiate Radian among our peers, and it directly aligns with our strategy to serve the entire mortgage finance market.

As you all know, the mortgage finance industry is ever changing. At Radian, we are well positioned to take advantage of the next phase of the evolving housing finance market. We look forward to reporting on our progress in the quarters ahead. Now, I would like to turn the call over to Frank for details of our financial position.

Frank Hall - *Radian Group, Inc. - CFO*

Thank you, S.A. It is a pleasure to be here, and I am truly honored to be part of the Radian team. I want to also thank my predecessor, Bob Quint, for his generosity of time in helping me transition into the role.

As S.A. mentioned in his remarks, in addition to the strong operating results for Radian for both the quarter and the year, the financial statements have been significantly impacted by the pending sale of our financial guaranty business, and the reversal of the valuation allowance held against our deferred tax assets. Our financial guaranty business, previously reported as a separate segment in our financial statements, is now accounted for as discontinued operations.

On our income statement and balance sheet, you will note single line items for the approximate $450 million after-tax loss from discontinued operations, $1.7 billion in assets held for sale, and $947 million for liabilities held for sale. Overall, we recognized a pre-tax loss on sale of approximately $468 million.

Our full presentation of this information is done so in a way to both comply with the GAAP requirements of discontinued operations, and to provide greater clarity around the moving parts. The required segment and financial reporting associated with discontinued operations does not permit all previously allocated corporate expenses to be contained within the discontinued operations. Additionally, we have elected not to allocate any interest expense previously allocated to the financial guaranty segment, to discontinued operations.

Accordingly, these expenses, which will continue after closing, have been reallocated to the mortgage insurance segment for financial reporting, for all periods presented. In press release exhibit E, we have also presented the impact of these reallocations on the mortgage insurance segment, to provide greater transparency and comparability to the prior periods. And likewise, exhibit D illustrates the detail of discontinued operations for financial guaranty. You will note on exhibit D, all of the line items that have now been removed from continuing operations and summarized into the single line items previously mentioned.

Given these recent changes to our business composition, we will be revisiting our internal management reporting for our business units, and accordingly, our segment reporting for future periods. You will also see that we have removed much of the exposure-related disclosures relating to the financial guaranty business, as the sale agreement provides for a fixed price transaction, where the most significant closing condition is regulatory approvals.

The performance of our financial guaranty business will not impact the purchase price under the agreement, and as such, our future results of operations are no longer expected to be impacted by financial guaranty. This transaction is still expected to close in the first half of 2015.

Our second significant item is associated with the deferred tax asset valuation allowance. This valuation allowance, which was previously established when there was uncertainty associated with our ability to utilize the deferred tax asset, has been reversed. The reason for this is that we have both demonstrated an ability to return to profitability, and have sufficient strength and quality of earnings to reasonably expect ongoing future profitability.

Nearly the entire valuation allowance held against our deferred tax asset was reversed this quarter, adding approximately $816 million to fourth-quarter earnings, and to book value. For the foreseeable future, you can expect us to book a tax rate close to 35%. Even though we will generate taxable earnings, we expect to pay minimal cash taxes for the next several years, as we utilize our net operating loss carry-forward, which stands today at approximately $1.5 billion.

Our net deferred tax asset for continuing operations at December 31, 2014 was approximately $700 million. And our mortgage insurance statutory surplus includes approximately $208 million of admitted deferred tax assets at December 31, 2014, of which approximately $171 million is related to the reversal of our statutory valuation allowance in the fourth quarter on Radian Guaranty. Over future periods, we expect Radian Guaranty's statutory surplus to fully benefit from the utilization of its approximate $1 billion net operating loss carry-forward.

There are also a few other unusual and material items in the quarter that I will speak to as I discuss the continuing operations of Radian. Our future results have expected to be much simpler and straightforward, as many of our legacy complexities will have been permanently resolved. As such, you will see that we did not include default statistics for the month of January in our press release this morning.

The Company previously reported these monthly numbers during a time when the legacy mortgage insurance portfolio performance was top of mind for investors. Today, with the majority of our business and financial results coming from the newer books of business, our results are more certain and predictable. We will continue to provide these details on a quarterly basis, where you may see the trends in our default population and NIW more clearly.

Our earnings per share calculation for the fourth quarter includes both the dilutive impact of our 2019 convertible debt, which adds 37.7 million shares to our share count, and adds back $3.6 million of interest expense to income for EPS calculation purposes. And additional EPS dilution relating to our 2017 convertible debt, of approximately 10.6 million shares. A table of our fully-diluted share count is presented in press release exhibit B.

We experienced growth in our primary mortgage insurance in force in the quarter of 1.5%, and year-over-year of 6.6%. This brings us to an industry-leading $172 billion in total primary insurance in force. Our expectations for 2015 are continued growth at a similar rate as 2014.

In addition to insurance in force growth, mortgage insurance premiums during the quarter were aided by an accrual of a $9.3 million profit commission earned, based on the performance of the business in a third party quota share reinsurance agreement. We have chosen not to exercise our option to claw back a portion of this business.

Instead, we have left the reinsurance in place, in return for the profit commission, and a supplemental upfront cash payment of $15 million, that will be recognized into earnings over the next several years. Leaving this reinsurance in place avoids an increase in PMIERs required assets, and the lump sum payment is a PMIERs eligible asset.

Our fourth quarter loss ratio was 36.9% which is an increase over the third quarter of 22.5% but significantly lower than 71.9% from the fourth quarter of 2013. It is expected that our loss ratio will continue to gradually decrease, as our higher quality new business continues to grow to a more significant portion of our portfolio. The loss ratio on the business we are writing today is expected to be approximately 20%, with recent book years developing even more favorably.

Our primary mortgage insurance delinquency rate decreased to 5.2% in the fourth quarter from 5.4% in the third quarter of 2014, and we are expecting this trend to continue over time. The mortgage insurance provision for losses was $84 million this quarter, compared to $49 million last quarter, and $144 million a year ago. New primary default totals were significantly better than last year, and cure rates have remained strong.

While in the first three quarters of 2014, we experienced a benefit related to existing defaults, we did not experience a similar benefit in the fourth quarter and therefore had no positive reserve development. As a reminder, incurred losses should typically be based primarily on new defaults during any quarter, with any positive or negative development generally coming from unanticipated items.

Claims paid were less than expected in the fourth quarter, due to the implementation date of our recent settlement with Bank of America not occurring until the first quarter of 2015. Excluding approximately $250 million of projected B of A settlement claims in the first and second quarters of 2015, we expect claims paid for the year 2015 to be between $350 million and $450 million, down substantially from actual claims paid of $838 million, in 2014.

Our other operating expenses were $85.8 million in the fourth quarter, including $24.4 million related to long-term compensation expenses and other year-end bonus accruals, a significant portion of which was driven by the variable compensation expense related to the $2.46 per share increase in the Company's stock price during the quarter to $16.72, which compares to a $0.55 per share decrease during the third quarter. Other operating expenses during the fourth quarter also included an $11.2 million lender settlement of remedies, related to contract underwriting services provided on legacy business. While this settlement impacts expenses in the fourth quarter, we believe this settlement effectively resolves all disputed remedies related to services on this legacy exposure.

We are still anticipating PMIERs compliance without any need to raise external capital, as we are expecting to have completed our number-one priority to transform the economic value of Radian Asset into nearly $800 million of liquid assets. While we wait for the final rules to be published, we are also exploring various reinsurance possibilities on all parts of our book of business.

While we will likely wait until the final rules are published, the use of some kind of reinsurance within the PMIERs framework is likely. We remain confident in our ability to meet the requirements. We currently have $670 million in holding company cash, after consideration of the $100 million capital contribution to Radian Guaranty in February of 2015, but effective as of December 31, 2014, for statutory capital.

And our mortgage and real estate services results for the quarter were as expected, despite the scale-down of a large due diligence project in the third quarter. The results of operations are in line with our initial performance estimates, and we are beginning to develop our cross-selling capabilities among the acquired and legacy businesses. Keep in mind that the adjusted pre-tax operating income of the mortgage and real estate services segment includes all of the interest associated with the $300 million debt offering that was completed in conjunction with the purchase. Now, I would like to turn the call back over to S.A.

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

Thank you, Frank. Let me summarize three important take-aways for 2014. First, we achieved our first full year of profitability since 2006, and meaningfully reduced Radian's overall risk profile, including the sale of Radian assets, putting many of the challenges of our legacy business behind us.

Second, we acquired Clayton and introduced our mortgage and real estate services segment. With a clear path for growth ahead, we are driving long-term value from our existing and growing portfolio, while diversifying our future sources of revenue. Third, as we look to 2015 and beyond, our top priority is to continue to leverage our ability to expand and strengthen our core businesses, and to build on our 2014 accomplishments.

Before we open the call to your questions, I would like to remind you that I will come back after the Q&A, to say a few words about Bob Quint. Now, I would like to open the call to your questions. Operator?

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions)

Our first question comes from the line of Eric Beardsley with Goldman Sachs. Please go ahead.

Eric Beardsley - *Goldman Sachs - Analyst*

Congrats, Frank, on the new role. Welcome to the Company.

Frank Hall - *Radian Group, Inc. - CFO*

Thank you.

Eric Beardsley - *Goldman Sachs - Analyst*

Just had some questions about the provision trends in the quarter. If, looking at the provision dollars, per new notice of default, it looks like it ticked up a bit from the third quarter. Was wondering what was behind that.

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

This is Derek. I mean to some extent are you going to see natural seasonal trends so that is going to have a marginal impact. I think overall, looking at it, it continues the trend we have been seeing, which is generally a decrease in new defaults, claims submitted are down and cures are up. And it really continue that trend. We would expect to continue to see. You just saw a little bit of a seasonable impact probably in the fourth quarter.

Eric Beardsley - *Goldman Sachs - Analyst*

So there is no change in terms of the ultimate claim rate assumptions on your new notices?

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

We did tick that down from 17% to 16%, and the trend on that, we would expect to probably see that decrease over time.

Eric Beardsley - *Goldman Sachs - Analyst*

Okay. And then just on OpEx, I didn't catch it, but how much was the impact of stop comps relative to the third quarter? And then how should we think about that OpEx run rate moving forward from here?

Frank Hall - *Radian Group, Inc. - CFO*

So in the -- are you talking about the third quarter or the fourth quarter?

Eric Beardsley - *Goldman Sachs - Analyst*

In the fourth quarter.

Frank Hall - *Radian Group, Inc. - CFO*

Okay. So in the fourth quarter, the total comp-related expense was $24.4 million, and of that, roughly $10 million of it was attributable to stock price increase.

Eric Beardsley - *Goldman Sachs - Analyst*

Okay. And that was relative to the third quarter, the $10 million?

Frank Hall - *Radian Group, Inc. - CFO*

That's correct. In the third quarter, it was the opposite direction.

Eric Beardsley - *Goldman Sachs - Analyst*

Got it. And how should we think about, I guess the total OpEx moving forward from here?

Frank Hall - *Radian Group, Inc. - CFO*

Sure. I think as you normalize for the items that we've called out in the press release, that reflects probably a pretty good run rate going forward,. But keep in mind as we continue to invest in new products, sales force, and systems, there may be a slight uptick there. But balanced with what I would call an overarching discipline of looking for continual efficiency opportunities for the organization.

Eric Beardsley - *Goldman Sachs - Analyst*

Great. Thank you.

Operator

Thank you. Our next question comes from the line of Bose George with KBW. Please go ahead.

Bose George - *Keefe, Bruyette & Woods, Inc. - Analyst*

Thank you. Just to follow up on that stock comp question, going forward, is there a good run rate for that number? Like if the stock price is up, whatever, so that the $2 you increase this quarter versus the $10 million, is that kind of a good ratio to look at?

Frank Hall - *Radian Group, Inc. - CFO*

So the calculation is approximately $4 million for every $1 in stock price rise. But keep in mind, too, that expense will be completed in June.

Bose George - *Keefe, Bruyette & Woods, Inc. - Analyst*

Okay. So after that, the stock comp expense is gone?

Frank Hall - *Radian Group, Inc. - CFO*

That's correct.

Bose George - *Keefe, Bruyette & Woods, Inc. - Analyst*

Okay. Great. And then you noted that there were some expenses reallocated. I was just wondering, is there room to cut some of those expenses?

Frank Hall - *Radian Group, Inc. - CFO*

Absolutely. I mean, most of the expenses that were reallocated were corporate overhead expenses, and that's something that we are always mindful of, as we review the performance of the organization, so don't have a hard dollar on that, at this time. But certainly, we will be re-evaluating the support costs going forward.

Bose George - *Keefe, Bruyette & Woods, Inc. - Analyst*

Okay. Great. And then so the interest expense, I guess also, was reallocated. Is there, I guess, that changes, only if you delever, just your thoughts on interest expense going forward?

Frank Hall - *Radian Group, Inc. - CFO*

So the interest expense that you're looking at, which may have previously been allocated to FG, because we -- because of the way that we accounted for discontinued operations, the full burden of that now resides within MI.

Bose George - *Keefe, Bruyette & Woods, Inc. - Analyst*

Okay, that makes sense. Great. Thanks very much.

Operator

Thank you our next question, comes from the line of Sean Dargan with Macquarie. Please go ahead.

Sean Dargan - *Macquarie Research - Analyst*

I apologize if I missed this, but were the provisions for existing delinquencies, was that impacted at all by the B of A settlement?

Cathy Jackson - *Radian Group, Inc. - Corporate Controller*

No, it wasn't. We are fully reserved for the B of A settlement. We have yet to effect the settlement, but we are fully reserved, and it will have no impact on the provision of losses going forward.

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

That was Cathy Jackson, our Controller.

Sean Dargan - *Macquarie Research - Analyst*

Thank you. And regarding FHA pricing, a competitor quantified the amount of business written last year that would be cheaper under the new FHA guidelines this year, to the borrower. I was wondering if you could give us a similar sensitivity here, or just what that number was, if you know it?

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

Teresa?

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

Well, I would say that we believe we can still be competitive with the FHA, because actually, if you look back, and look at certain buckets of business, where the FHA has had a pricing advantage, we still have been able to win business in those buckets. So it doesn't follow with sort of perfect execution, if you will. And I think there are a number of reasons for that.

One is lender preference. One is lender capacity for FHA. One is cancelability of the MI versus the FHA which stays on.

And even the upfront premium that FHA charges, which then usually rolls into the loan amount. And we are still waiting to see what happens with respect to the g-fees and the LLPAs, because that will have an impact on this as well. But I think at the end of the day, we believe the effect will be somewhat in the mid single digits.

Sean Dargan - *Macquarie Research - Analyst*

Okay. And that is net of changes that you may expect to happen to LLPAs and g-fees?

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

It is actually sort of just taking a look at how this has worked in the past, and saying where can we still compete. And taking in these other factors, we think the g-fees and the LLPAs could have some additional effect on that.

Sean Dargan - *Macquarie Research - Analyst*

Okay. Thank you.

Operator

Thank you. Our next question comes from the line of Geoffrey Dunn with Dowling & Partners.

Geoffrey Dunn - *Dowling & Partners Securities - Analyst*

31% of your business from singles this quarter. Competitors saying time to back away from that market. It is too competitive pricing-wise. What are the unit returns on your singles business versus your monthly? And why is this a business we should be comfortable with, you having such a high mix involved?

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

Well, let me first say that, you know, we have always been comfortable writing a portion of our business to singles as a competitive product with FHA, and also to balance the duration risk in our portfolio, and while the singles have a lower expected return than monthlies, that return is based on duration assumptions that are difficult to estimate. In fact, in some of the recent vintages, where loan durations were much shorter than originally anticipated, particularly in any heavy refinance environment, they have resulted in higher-than-expected returns for singles. In addition, the singles have historically contained marginally better credit quality than monthlies, which has also helped their results, so we are carefully managing the overall returns that are generated by our business on a blended basis, and we will continue to do so, while providing our MI customers with a wide array of products and services that help their business succeed.

Geoffrey Dunn - *Dowling & Partners Securities - Analyst*

Given where pricing is currently, is this a double digit return product?

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

Geoff, it has been a product like we have always said in the single digit, high single digits, but the better way to look at it is on a blended basis, because pretty much most of the singles business we do is with customers who give us a variety of business, and so we look at it on a blended return basis. And our historical experience, like Teresa said, with singles, has been that the best strategy we pursue is a blended strategy, of some singles and some monthlies. That said, of course, any competitive actions that reduce the -- they are going after singles aggressively, will hopefully change the market profile to benefit all of us.

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

The only other thing I would just note is that we tend to see a bit more singles in a re-fi environment. So given that we are in one right now, we may see a little bit of an uptick as a result of that.

Geoffrey Dunn - *Dowling & Partners Securities - Analyst*

And then a question on the PMIERs delta, now down to I think you cited $350 million as a June 2015 estimate, obviously you have a two-year implementation period. How much do you think that $350 million can narrow over the two-year to date period if we say these things are finalized by the end of the second quarter?

Dave Beidler - *Radian Group, Inc. - President Radian Asset Assurance Inc.*

I mean over the two-year period, the estimate is it will go away entirely. So the short fall will be entirely closed.

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

And that is with no changes.

Geoffrey Dunn - *Dowling & Partners Securities - Analyst*

Okay. Great. That's all I had. Thank you very much.

Operator

Thank you our next question comes from the line of Jack Micenko with SIG. Please go ahead.

Jack Micenko - *Susquehanna Financial Group / SIG - Analyst*

The investment income line, was that, I'm assuming that was all driven by the reduction of FG, or was there any other portfolio positioning at play on the investment yields?

Frank Hall - *Radian Group, Inc. - CFO*

Yes, so the investment income, yes, excludes FG, and if you look at exhibit D, and add that together with what you are seeing in MI, you should see a more normalized income item or revenue item there.

Jack Micenko - *Susquehanna Financial Group / SIG - Analyst*

Okay, great. And then on clayton, I mean obviously, there is a play here on the private label market coming back. You know, 15 this quarter, 18 last, is that 15 to 18 range, is that closer to 18 or closer to 15, as we think about the business ex a meaningful recovery on securitization for 2015 and 2016?

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

Thanks, Jack, this is Joe D'Urso. The fourth quarter was definitely a little bit slow. There are some seasonal factors that played into that. Having said that, the third quarter was a particularly strong quarter. So I think somewhere in the middle is a normal run rate, absent the return of the RMBS market, in any significant way.

Jack Micenko - *Susquehanna Financial Group / SIG - Analyst*

Okay. Great. And then just real quick, S.A., you had mentioned in your prepared comments you thought NIW could grow year-over-year. Wondering if you are willing to put a percent magnitude on that prediction? Thanks.

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

Jack, there are so many things happening in this market, as you know, it is hard to put a percent number on it. However, the expectation is that the originations this year will be larger. We basically have all of these new customers that we signed up last year, whose impact is only tiny in the year in which we signed them up, and the great impact next year. So a number of things that go into it, but we feel good that starting this year out, that we will be able to beat last year.

Jack Micenko - *Susquehanna Financial Group / SIG - Analyst*

Okay. That's fair. Worth a try anyway. Thanks, guys.

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

Hey, after last time, you can't get me to put a number.

Operator

Thank you. Our next question comes from the line of Mark DeVries with Barclays. Please go ahead.

Mark DeVries - *Barclays Capital - Analyst*

Yes, thanks. My first question is actually a follow-up on that. While I understand are you not going to put a scale the size of the NIW increase, just wondering, trying to get a sense for the implications of growth and risk. What percentage of that do you thin comes from re-fi transactions that may be last, and how much of that may be just from expansion of the market and growth in the purchase market driving risks higher?

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

Well, this is Teresa, while there might be some increase from a re-fi point of view at the early part of this year, we really think that the focus is on purchase growth. There is a lot of focus on buyers starting to come back into the market, formation of households starting to ramp up again, and so, we are really looking at it in terms of the purchase volume. And if you look at the demographics as well, a lot of the households that are coming into the market, we would expect to be in need of low down payment mortgages. Does that answer your question?

Mark DeVries - *Barclays Capital - Analyst*

Yes. So the reason I assume, this kind of implies you can see growth and risk in force year after year, that is better than what you saw in 2014 then?

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

Well I think what we're saying is we think we would do better than last year, but not giving any magnitude on that.

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

And this 2014 thing, as well as longer term things to keep in mind when you're talking about the purchase market, while the purchase market has been off to a slower start, particularly in 2014, the long-term demographics are still very favorable, with the expectation that a lot of the future purchase volume will come from the Hispanic, the African-American, the Asian segments, and as you know, we have been making investments and positioning ourselves with connections to put us in a better spot in dealing with those segments.

Mark DeVries - *Barclays Capital - Analyst*

Great. And just one other question. I wanted to dig a little bit into the comment that you expect 20% loss ratios on newer business that you are writing. Is that 20% loss ratio expectation, does that reflect the better-than-expected performance that I think you also would include, or is it simply a reflection of kind of the loss ratios you would expect to see given the LTVs and the high flag growth in the business that you been writing, and may not necessarily apply to the fact that the performance could come in ever better than what you would have modeled when you priced that business.

Dave Beidler - *Radian Group, Inc. - President Radian Asset Assurance Inc.*

The 20% is really focused upon the new business. So Frank alluded to the fact that some of the recent vintages could be better than that. So for instance the 2010 to 2012 vintages, I think the development is looking better than that, so you would probably see a loss ratio of 20%. The 20% is kind of referencing the new business production, based on FICO and LTV that we are seeing in the market.

Mark DeVries - *Barclays Capital - Analyst*

Okay. Thank you.

Operator

Thank you. The next question comes from the line of Doug Harter with Credit Suisse. Please go ahead.

Doug Harter - *Credit Suisse - Analyst*

Recognizing that it is early, just wondering if have you heard any anecdotes from any of your originator partners, how they are viewing the FHA premium cut, and if you are seeing any shift of business or non-shift of business in a couple of weeks?

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

I can answer that. All I have been hearing is they are so swamped with refinance volume that I don't know that they have been able to focus on that.

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

I think that is certainly what we have been hearing. I think a couple of important points.

One is, the focus really seems to be on re-fi-ing the current FHA business. And so everyone is concerned about that, they are concerned about the value of their MSRs, and trying to at least recapture them, even if it is at a lower coupon. So that seems to be where the focus is, as opposed to it really sort of cannibalizing any of the business that we would typically see.

I think the other thing is for many lenders, they are still concerned about the actions that have been taken against them by the Department of Justice. And they are reluctant to increase the amount of FHA lending they have done. So I have heard from a number of lenders that while they will continue to participate in the FHA market, they don't have a lot of appetite to increase the amount of FHA lending that they are doing.

Doug Harter - *Credit Suisse - Analyst*

Great. That's very helpful. Thank you.

Operator

Thank you. Our next question comes from the line of Chris Gamaitoni with Autonomous. Please go ahead.

Chris Gamaitoni - *Autonomous Research LLP - Analyst*

Good morning. Thanks for taking my call. On the -- there was a $10 million quarter over quarter IBNR increase. Was that related to the Bank of America settlement? You would think having been experienced in the recent path, those decisions and denials moved to actual new delinquencies, that would go down, not up.

Cathy Jackson - *Radian Group, Inc. - Corporate Controller*

This is Cathy Jackson. That is exactly what it is related to. It is related to decisions and denials related to the population of loans that are increased in settlement agreement with Bank of America, so they will be paid out in the future, but there is no --we're fully reserved, so there is no P&L impact.

Chris Gamaitoni - *Autonomous Research LLP - Analyst*

So barring some adverse development, which we haven't seen, we can think of that more as like a one-time, because of the settlement, rather than something that is a larger issue? Barring changes in the previous development?

Cathy Jackson - *Radian Group, Inc. - Corporate Controller*

You will see that come down significantly.

Chris Gamaitoni - *Autonomous Research LLP - Analyst*

Okay, perfect. And then on the new default reserving, I just had a follow-up question. If I look at the net new defaults, the new defaults minus intra-quarter cures, it looked like the reserve went from 9.4000 to 10.7, and with the commentary of 17% default probably to 16%, it implies that the average NIW increased by over $11,000. It just seems like a lot to me, more than seasonally driven.

Dave Beidler - *Radian Group, Inc. - President Radian Asset Assurance Inc.*

I don't know about the exact math there. The other thing that offset the decrease in the default, picked up the severity from 103% to 104%, so that has some potential impact.

Chris Gamaitoni - *Autonomous Research LLP - Analyst*

Okay. Well, thanks for taking my call.

Operator

Thank you. Our next question comes from the line of Geoffrey Dunn with Dowling & Partners. Please go ahead.

Geoffrey Dunn - *Dowling & Partners Securities - Analyst*

Thanks for the follow-up. Strategically, we saw Arch talk about creating a subsidiary to do all non-GSC business. What you think about that and strategically, is that something you think Radian could move towards as well, both for non-performing jumbo but also kind of alternative credit enhancement opportunities?

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

Geoff, as you know, one of the things at Radian that characterizes us, and even did during the downturn is we operate with one foot in the present and one foot in the future. So we did not shy away from making investments in our future, even during the downturn. And we continue to do that.

So we will look at all of the opportunities related to positioning ourselves even more strongly to benefit from the private label RMBS market coming back. Those are top players and team members who went to the ABS conference in Las Vegas came back feeling that the mood was very positive. That said those people always have a positive mood, but more a question of when than if.

Right now we have the capacity to write that business from our existing entities, but we will continue to look at whether that opportunity is best served through new entities. And as you know, we are a company that looks at the opportunity from private label as a very attractive opportunity, and our whole creation strategy is predicated on playing a big role in that.

Geoffrey Dunn - *Dowling & Partners Securities - Analyst*

Thank you.

Operator

Thank you. Our next question comes from the line of Amy DeBone with Compass Point. Please go ahead.

Amy DeBone - *Compass Point Research & Trading - Analyst*

Thank you for taking my questions. What drove the $16 million decline in the projected net shortfall available assets by December 2015 from $400 million to $350 million?

Cathy Jackson - *Radian Group, Inc. - Corporate Controller*

Mainly that's related to the additional eligible assets, $24 million, that Frank mentioned in his script, related to the reinsurance agreement, and both the profit commission and the upfront fee commission, which are eligible PMIERs assets. That's most of it.

Amy DeBone - *Compass Point Research & Trading - Analyst*

Great. And in terms of Clayton, how much cash is allocated to Radian Group from Clayton in the fourth quarter?

Frank Hall - *Radian Group, Inc. - CFO*

So from Clayton to Radian Group, approximately $4 million came from Clayton to Radian, and that's assuming that they bore the full burden of the interest expense on their debt.

Amy DeBone - *Compass Point Research & Trading - Analyst*

Okay. And then it looks like cash assets remained in the $10 million range since the middle of last year. Is that -- should we expect capital requirements or cash requirements to increase as the business scales, or is that a run rate for the operating level at this time over the near term?

Frank Hall - *Radian Group, Inc. - CFO*

Are you asking how much cash we expect to receive from Clayton?

Amy DeBone - *Compass Point Research & Trading - Analyst*

How much cash is required.

Frank Hall - *Radian Group, Inc. - CFO*

I think that is -- well, as far as a requirement, there is no requirement. We obviously have a debt service that is allocated to them. But any amount beyond that will really depend on their business results and needs.

Amy DeBone - *Compass Point Research & Trading - Analyst*

Okay. So generally, though, it is not a capital intensive business?

Frank Hall - *Radian Group, Inc. - CFO*

That's correct.

Amy DeBone - *Compass Point Research & Trading - Analyst*

Okay. Thank you.

Operator

Thank you. And our last question, our last question comes from the line of Steve Stelmach with FBR. Please go ahead.

Steve Stelmach - *FBR & Co. - Analyst*

Teresa, I think I heard you mention that in respect to FHA premium cuts, that the private MIs still win a decent chunk of business despite being higher-priced because you offer better execution to the originator. To the extent that the Supreme Court may codify the spread impact this term, if that does in fact happen, does it make it harder to compete on service, on the execution and forcing the industry to compete solely on premium vis-a-vis FHA.

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

I think Steve, I'm not sure I am familiar with the Supreme Court decision that you are referencing. Could you maybe elaborate a little bit?

Steve Stelmach - *FBR & Co. - Analyst*

Yes, I think there is a disparate impact challenge to HUD, the disparate impact rule, this term, that should be decided sometime this spring, from the last we've heard. So to the extent that they sort of codify that rule, does it make it harder to sort of compete on services, instead, the borrower has to get the absolutely cheapest execution, not necessarily the quickest or best, they just have to get the cheapest? Is that a risk?

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

I don't think that results in the borrower necessarily having to get the cheapest, because I think there are a number of things that go into that. So for instance, if I am a borrower, and I am looking at what my loan options are, I am going to be thinking about the fact that at some point, my premium is going to cancel, if it is an MI loan, and I am not going to -- and my payment is actually going to go down, right?

So there are a number of different factors that could create a situation where a borrower may choose that they want to go that way. A borrower could also say I want to put down 3%, not 3.5%. A borrower could say I don't want to pay the upfront premium, which is going to get financed in, and now I am going to pay interest on it for the life of the loan. So I think there are a number of different judgments and dynamics that a borrower could make, and I don't think that a decision on disparate impact is going to affect the ability for the borrower to choose the right product for him or her.

Steve Stelmach - *FBR & Co. - Analyst*

Great. Thank you. And just a follow-up on the singles. You mentioned you like a mix of singles and monthlies. How much of that is being, your current risk being driven by the originator's preferences as well as your own?

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

There is no question that it is largely, I think, driven by the originator's preference. So you have some, you have some originators that use them very sparingly. You have others that, that is a big part of the business that they have.

Sometimes that relates to the amount of re-fis that those lenders typically do, versus purchase business. So I think it is driven by that quite a bit. Having said that, we consistently talk to lenders about the use of BP and having a balance.

Steve Stelmach - *FBR & Co. - Analyst*

Great. Thank you, Teresa.

Operator

Thank you, ladies and gentlemen, that is the last question in the queue. We are turning the conference back over to S.A. Ibrahim. Please go ahead.

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

Thank you all for your questions. And now, I would like to, before we end the call, take a moment to thank Bob for his exceptional contribution to Radian, over a career that has spanned Radian's entire life. For the last 10 years, Bob worked at my side as our CFO, in what can in historical terms be considered the most challenging times we have faced.

Through all this, Bob's loyalty and dedication to Radian, his commitment to putting our shareholders first, his understanding of our customers and counter-parties, and his deep empathy for Radian employees, helped us overcome our challenges, and seize opportunities that made us who we are today. Throughout all of this, Bob's sense of humor kept us from getting discouraged. I don't know how we could have made it without Bob.

I take comfort in knowing that Bob will be thoroughly enjoying more free time, and that his legacy of building lasting relationships based on trust and unfaltering integrity will always be with us at Radian. Thank you, Bob. We will surely miss you. And thank you all for participating in our call.

Operator

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