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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by and welcome to the Radian third-quarter 2014 earnings conference call.

(Operator Instructions)

As a reminder, today's conference is being recorded. I would now like to turn the conference over to our host, Ms. Emily Riley, Senior Vice President of Investor Relations and Corporate Communications. Please go ahead.

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

Thank you and welcome to Radian's third0quarter 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 contains a non-GAAP 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 Exhibit E and on the Investor section of our website.

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

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 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 today and for your interest in Radian. Our third-quarter financial results were outstanding and I'm delighted to share the highlights with you today. The primary drivers of our results were the strong credit performance of both our legacy Mortgage Insurance and Financial Guaranty books and the growing positive impact of our large and profitable MI book of business written after 2008.

Our strong quarter included Clayton's excellent results, illustrating the important benefit of our diversification strategy. Following my comments today, Bob will cover the details of our financial position and then we will open the call to your questions.

In the third quarter, Radian increased its profits, with net income of $154 million or $0.67 per diluted share. This compares favorably to a net loss for the third quarter of last year of $13 million or $0.07 per diluted share.

Book value per share at September 30, 2014 was $9.08. Adjusted pre-tax operating income was $147 million for the third quarter of 2014 compared to an operating loss for the third quarter of last year of $12 million.

Now I'd like to review several highlights from the quarter. First, we continued to grow and improve our high-quality and industry-leading Mortgage Insurance in force, which is a primary driver of future earnings. We wrote more than $11 billion of new MI business in the third quarter, an increase of 20% from last quarter.

While overall, the national mortgage origination volume has declined from the same period last year, we have seen business shift during that period from the FHA. Purchase volume has outweighed refinance volume, which is positive for our business, since purchase transactions are more likely to use Mortgage Insurance than refi.

At the recent Mortgage Bankers Association annual convention, we received positive feedback from our customers on how they value the new ideas and initiatives we bring to the table. For example, we launched a new community program earlier this month called Ready, Set, Own! to increase homeownership in Tucson. The program, which is supported by the mayor of Tucson, as well as housing, lending, and credit counseling groups in the area, received local and national attention for its unique approach to home buyer education and credit counseling.

Our sales team, both in the field, as well as enhanced sales located in our offices, continues to succeed in attracting new business. We signed 39 new customers in the third quarter alone, who have already begun submitting business, and we signed a total of 151 new customers year-to-date.

As we've mentioned over the past several years, we have had tremendous success at Radian in strengthening our Mortgage Insurance franchise by adding new customers. In fact, more than one third of our NIW in the third quarter came from customers new to Radian since 2011.

It's also important to note that we believe approximately 20% of mortgage originators today are not yet Radian customers, including a few in the top [20]. This is a good thing, because it creates opportunities for future growth that we are actively pursuing.

Turning to product mix, while I mentioned that home purchase volume has outweighed refinance volume recently, mortgage rates have also begun coming down, and industry experts believe this may encourage refinancing activity. Regardless of the type of mortgage business being written, purchase or refi, Radian is ready to support our customers with the products they need in any lending environment.

We continue to pursue a proven balanced and diversified product mix of single versus monthly premium business. This strategy has been successful for us in several ways: for recapturing business from the FHA; for minimizing interest rate volatility with product diversification; and, with regard to credit performance; and in delivering acceptable returns on our business. While the percentage of singles we wrote in the third quarter increased slightly, we expect to return to our target of approximately one-quarter of our business coming from singles over time.

While new business volume remains a top priority, our ability to grow our Mortgage Insurance in force is a paramount to Radian's success and earnings power. Our persistency, which is the amount of business that remains on our books over a 12-month period, reached 83.5% in the third quarter compared to 80.5% in the third quarter of 2013. Our insurance in force grew 7% from the third quarter of last year, and we once again led our industry as the largest mortgage insurance company, with $169 billion of insurance in force.

Second, our continued success in writing new business improves the credit profile of our portfolio. As you can see on slide 11 of our webcast presentation, the high-quality books of Mortgage Insurance business written after 2008, including loans completing a HARP refinance, represented the overwhelming majority of our primary Mortgage Insurance portfolio, 78% as of September 30, 2014. This, again, is one of the key drivers of our future financial results.

As our legacy portfolios shrinks and improves, an important indicator of its resiliency is the fact that approximately 70% of our performing loans from 2005 to 2008 have never been in default. Our total number of primary delinquent loans dropped by 28% year-over-year as you can see on slide 23. Our primary default count decreased to 46,843 loans and our primary default rate, which has been declining steadily since its 2009 peak fell to 5.4%.

In addition, the MI incurred loss was 22.5% in the quarter, representing another positive trend. This compares to a loss ratio of 74.8% in the third quarter of 2013. While we are pleased with the outstanding credit trends this quarter, we do expect the fourth quarter to show more typical signs of seasonality expected in our business where new defaults tend to increase later in the year.

Third, slide 12 shows that for the nine months ended September 30, 2014, the earned premiums less incurred losses from our 2009 and later MI vintages were $352 million, which was higher for the first nine months of this year than the $337 million for all of last year. This illustrates the steadily increasing positive impact of our business mix. It's also noteworthy to mention that the 2008 and prior vintages are positive year-to-date by $111 million.

Fourth, we continue to make progress in reducing our legacy Mortgage Insurance exposure, further minimizing the risk of future losses for Radian. We entered into a settlement agreement with Bank of America countrywide in September, which is another important step in managing our legacy MI exposure and in creating even greater certainty around the reserves held against our legacy loans. When implemented, this agreement will resolve any future claims and disputes regarding rescissions, denials, and curtailments on our Bank of America legacy loans. This agreement remains subject to GSE approval.

Fifth, our financial results this quarter include our recent acquisition of Clayton, a leading provider of outsourced mortgage and real estate solutions. Clayton adds a diversified source of fee-based revenue for Radian and also broadens our participation in the residential mortgage market value chain with services that complement our MI business. Clayton had an excellent third quarter, which Bob will discuss in more detail. Importantly, our Clayton and Radian teams are making valuable introductions to new potential customers and we are taking our first steps down a road that we believe for provides a competitive advantage and another way to differentiate the Radian from our mortgage insurance peers.

Also, as we reported in our press release this morning, I'm pleased to announce that Joe D'Urso will assume leadership of Clayton. Joe has been Chief Operating Officer at Clayton, managing all of the line business units. As President reporting directly to me, Joe will be responsible for the overall strategic direction of the Company.

Previously Joe was President and Chief Operating Officer of Green River Capital, a Clayton subsidiary. He has an impressive background and an outstanding reputation, with 23 years in the financial services industry, primarily in the mortgage and real estate capital market sectors. I'm confident that Joe will continue to strengthen Clayton's position in the market and will be a valuable member of the Radian executive team.

Sixth, our success in reducing the exposure in our Financial Guaranty business continues, with the reduction now at 83% since 2008, including in many of the riskiest segments of the portfolio. Adjusted pre-tax operating income for the Financial Guaranty segment was $9.3 million for the quarter, and as we've said before, we believe Radian Asset is a solid over-capitalized company, with strong economic value. We are actively working on a number of alternatives to monetize or to otherwise utilize Radian Asset in a way that will maximize its value, consistent with PMIERs.

Finally, Radian submitted its letter during the public comment period last month to the FHFA on the draft PMIERs. Other private MIs, the state insurance departments, the mortgage and real estate community, and various housing and consumer groups also provided comment letters, with many consistent themes. What's most of point to remember is we expect to have the ability to fully comply with PMIERs within the applicable transition period, without a need to raise external capital. Now I would like to turn the call over to Bob for details of our financial position.

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

Thank you, S.A. I'll be covering our P&L activity and trends for the third quarter of 2014, some updated expectations regarding the balance of 2014 into 2015. Our financial results this quarter were excellent, led by continued strong credit performance in both Mortgage Insurance and Financial Guaranty; top-line growth in MI, driven by growth in insurance in force, which is up 2.6% for the quarter and 5% year-to-date; and expenses that were in line with expectations.

As we utilized our deferred tax assets, our effective tax rate remains negligible. There were a few favorable nonrecurring items this quarter, that impacted both premiums earned and incurred losses that I will describe in detail later. In addition to our Mortgage Insurance and Financial Guaranty segments, our P&L this quarter includes a third business segment, Mortgage and Real Estate Services, which represents the results of Clayton.

Our EPS calculation for the third quarter includes both the dilutive impact of our 2019 convertible debt, which adds 37.7 million shares to our share count and adds back $5.5 million of interest expense to income for EPS calculation purposes and additional EPS dilution relating to our 2017 convertible debt of approximately 6.3 million shares. Our table of fully diluted share count is presented in Exhibit B.

The MI provision for losses was $49 million this quarter compared to $65 million last quarter and $150 million a year ago. Lower incurred losses have become a trend and continue to reflect improving default experience, as new primary default totals were 20% better than the third quarter of last year and cure rates have gone up.

As S.A. mentioned, we entered into a settlement with Bank of America in September, which is expected to provide resolution on a substantial portion of our legacy loss mitigation activity and exposure. There are various items that were impacted by the terms of this settlement, including a significant reduction in our IBNR reserve, due to lower expected reinstatements of prior rescissions and denials, which was offset by an increase in case reserves to reflect lower future rescission and denial rates on BofA settlement loans. The net impact of this and our quarterly updates to our gross and net roll rates and severity rates was immaterial to loss reserve.

In our loss reserve estimate, we are now focusing more on early stage versus foreclosure stage defaults, as a default-to-claim our roll rate predictor. Regardless of age, an early stage default is one for which a foreclosure sale has not been scheduled or held. Of note, the estimated roll rate we now use on a new delinquent loan is approximately 17%, down from our previous estimate of 20%.

The current estimated roll rate for a foreclosure stage default, for which a foreclosure sale has been scheduled or held is approximately 81%. We have made some changes to our breakdown of defaults on slide 17 to present what we think are the most important drivers of ultimate claims on our defaulted population.

There was a current period benefit of approximately $15 million in the quarter for a loss mitigation credit we expect to receive within the BofA settlement for loans that are currently performing. Because of this nonrecurring benefit and the typical fourth-quarter seasonal factors in which a defaults are typically higher, we expected an increased MI loss provision in the fourth quarter compared to this quarter.

While claims paid have trended down, as anticipated, we expect them to rise in the fourth quarter and possibly into the first quarter of 2015 due to the loan reinstatements and associated claim payments resulting from our recent settlement with Bank of America. We still expect full-year 2014 claims paid to be between $900 million and $1 billion, and we expect claims paid in 2015 to be down materially from this year. We will be providing further guidance on our expectations for 2015 claims paid next quarter.

In addition to insurance in force growth, MI premiums during the quarter were aided by two nonrecurring items related to the BofA settlement that had an aggregate impact of approximately $10 million. First, there is an expected return of Radian's premiums refunded to BofA on previously rescinded loans that we expect to reinstate and pay. Second, there was a related reduction of our accrual for future expected premium refi.

Losses in the Financial Guaranty segment continue to be modest as the book runs down. The negative incurred loss for the quarter related primarily to a direct public finance exposure that was resolved more favorably than we had anticipated, further demonstrating our successful loss mitigation track record. Expectations regarding potential credit losses on our Puerto Rico credits and the [second-to-pay] CLO exposure that we've been talking about, remained essentially unchanged from June 30, 2014 levels.

Clayton results for the quarter were strong, led by due diligence revenues, which included a large single project, and component services revenues from a strong market for single-family rental securitization. The broad product offerings from Clayton allow us to take advantage of opportunities in almost any mortgage or real estate market. For example, while the origination market and non-GSE RMBS market is lower than expected this year, opportunities have arisen in the compliance and single-family rental securitization areas.

We're allocating all of the interest associated with our recent $300 million debt issuance to the Clayton segment. Therefore, any adjusted pre-tax operating income, and that was $5.3 million this quarter, represents earnings generated by Clayton in excess of fully allocated cost. The primary differences between our operating metric for Clayton, adjusted pre-tax operating income, and EBITDA is that we include interest expense and normal depreciation of tangible assets in our measure.

We're expecting to upstream approximately $5 million of cash from Clayton to Radian Group during the fourth quarter. Keep in mind that certain revenues of Clayton can be lumpy because they are transaction-driven and we are not expecting quite as strong a fourth quarter due to the anticipated timing for certain projects. We are excited about the 2015 prospects for Clayton, during which we expect to begin to realize certain synergies with the MI business that are currently being carefully planned before they are executed.

Slide 12 depicts our current balance sheet fair value positions, along with expected net credit losses or recoveries on fair-valued exposures. Based on our projections, we expect to add approximately $141 million, or $0.74 per share to pre-tax book value from these positions over time, as the exposures mature or are otherwise eliminated. That numbers is derived by taking the net balance sheet liability of $82 million and adding the present value of expected credit loss recoveries of $59 million.

The valuation allowance against our deferred tax asset was $834 million this quarter, or approximately $4.37 per share, and has been reduced each quarter this year based on our pre-tax income. As we make money, we utilize our DTA and reduce the valuation allowance. We still expect to recover our valuation allowance by some time in 2015, although we are carefully assessing the increasing possibility of a recovery at year-end 2014.

With regard to PMIERs, our first priority is to activate evaluate opportunities to transform the economic value of Radian Asset, our Financial Guaranty company, in a manner that is consistent with the PMIERs framework. We are also exploring various mortgage insurance reinsurance possibilities. We expect more clarity with regard to our future plans for Financial Guaranty in the relatively near future, which will enable us to provide more specific PMIERs capital plans. I'd now like to turn the call back over to S.A.

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

Thanks, Bob. Once again, we are pleased to share with you our outstanding financial performance in the third quarter. We believe that there is continued growth and opportunity ahead for Radian, through continued success in our Mortgage Insurance business, further leveraging our risk management expertise, and through Clayton's industry-leading mortgage and real estate services. Together, we have a strong foundation that should drive Radian's success through the next phase in the evolution of the US housing finance markets.

In closing, I would like to once again remind you that as we face the opportunities and challenges that lie ahead, we do so with the benefit of the growing positive impact from our large, profitable, post-downturn MI book; continued credit improvement in our legacy MI book; a strongly capitalized Financial Guaranty business; and greater strategic opportunities from the Clayton acquisition. Now operator, we would like to open the call to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Eric Beardsley, Goldman Sachs.

Eric Beardsley - *Goldman Sachs - Analyst*

Just wondering if you could update us on any progress you've made in looking at strategic alternatives for the Financial Guaranty business. And if you were to seek reinsurance on that, would that hypothetically free up capital that your regulator would let you upstream?

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

First, again, as we said, we believe Radian Asset is a solid over-capitalized company with strong economic value. As we have said before, we are working with an advisor to monetize or otherwise utilize Radian Asset that will maximize its value consistent with PMIERs. In addition to a potential sale of the business, we are considering a variety of other options, including continuing to take dividends and combining that with reinsurance or surplus notes.

I will ask Bob to comment on your reinsurance part of the question in a minute. All I want to say, in addition to that, is that we are pleased with our progress in exploring all the alternatives with the help of our advisor.

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

With regard to reinsurance, it is a possibility, so it is one of the alternatives we are exploring. It would need to be a substantial or all-of-the-book reinsurance in order to be able to take substantial dividends in the near future.

Eric Beardsley - *Goldman Sachs - Analyst*

Got it. Is there any possibility that you could dividend up the entire amount of capital, if you reinsured the whole business?

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

It is conceivable, if the reinsurer had the credibility and the stability. It would still be something we would need to get approval from New York from, but it is a possibility, certainly.

Eric Beardsley - *Goldman Sachs - Analyst*

Okay. Just on the updated claim rate expectation, just wondering if you could walk us through how that could progress from here and what drove you to do it in this quarter?

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

Claim rate expectations.

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

The changes in estimates that we make, we always look at historical experience and we try to do things that are consistent with trends. The change in estimates this quarter related in part to using this early stage, late stage as a significant role rate predictor. That's something we've been looking at for quite some time and we think it is a very valid role rate predictor.

You saw the change in the brand-new delinquencies to 17%. That's something that Derek has mentioned previously, has been something we have been observing, and we made that change. Then some of the later stage, where a foreclosure sale has been scheduled or held, there were also changes in those buckets.

So we always update based on historical experience. We've said in the past that we really like to see trends. We don't like to do things immediately. We like to see things develop over time and it was time to make these changes and we think they are better estimates with regard to roll rates.

Eric Beardsley - *Goldman Sachs - Analyst*

Great. Thank you.

Operator

Mark DeVries, Barclays.

Mark DeVries - *Barclays Capital - Analyst*

First, I have a question -- just a follow-up question on the reserves. I was just trying to figure out whether there was actually an impact on the provision in the quarter. While the reserve per delinquent loan ex-IBNR went up, if you actually included it, it went down a fair amount in the quarter. I assume it's related to that, the change you just discussing in the factors, but was there any one-time impact that flowed through the provision?

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

The one thing that I mentioned was the $15 million, which was the current period benefit for -- with regard to the BofA settlement and it pertained to performing loans. The insurance accounting requires us to take that as a current period benefit. That would be one thing to highlight as a nonrecurring item. The other things, you're right, had offsetting impacts and were immaterial to the overall.

Mark DeVries - *Barclays Capital - Analyst*

Okay. Then just to make sure I have got it all, in addition to the $15 million, you also said -- is there a $10 million nonrecurring benefit to premiums, as well, from that BofA settlement?

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

That is right. Yes. We mentioned that. That is related to refunds of premiums that, as our rescission denial rates, or really rescission rates go up, then we get refunded premium, so it has the opposite effect. If future rescission rates go down, then we would refund less premium. So yes, that was an impact from the settlement, and it was nonrecurring.

Mark DeVries - *Barclays Capital - Analyst*

Okay. Are those the only two nonrecurring items worth calling out in the quarter?

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

Yes. Those are the ones we mentioned and yes.

Mark DeVries - *Barclays Capital - Analyst*

Okay, great. Then just one other question. Is there any color you can provide on the synergies between the MI and Clayton that you are planning?

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

Sure, Mark, and that's a very good question. When we made the Clayton acquisition, we made it for the -- we did so for the following reasons. First, on a standalone basis, we believe Clayton is a very strong company, which as you saw, continues to perform [profitability] and while we -- and in addition to profitability, gives us an opportunity to take advantage of the private label securitization market, whenever it comes back strongly.

Second, on top of that, we believe that with the large customer footprint that Radian MI now has, in dealing with 80% of all the lenders out there including many independent, midsize, and small lenders, they have the opportunity to use Clayton services, as well some of the large vendors, in terms of contract underwriting, some of the other kinds of operational services that they need, particularly in a highly important compliance environment, where they need to be on top of the loans at they originate and the servicing of those loans.

Third, we believe there's opportunities that Bob talked about, as we thoughtfully look at, to take some of the services we utilize from other third-party vendors and transfer that business in a systematic manner to Clayton on arms-length basis. We just received the approval for our insurance department, in terms of Master Services Agreements to do that.

Fourth, beyond that, there's opportunities to look at how to optimize our operations platform more efficiently, use technology more efficiently across the broader operating footprint in multiple locations that Clayton and Radian have. And fifth, finally there's an opportunity to launch new products and services directed at our customers and deal with, exploit opportunities in the changing housing finance environment that leverage Radian's risk management and insurance [taking] capabilities, with Clayton's operational and due diligence capabilities. I hope that addresses your question.

Mark DeVries - *Barclays Capital - Analyst*

Yes. Absolutely. Are you in a position to give us a sense of what you think the revenue opportunity is here and what the incremental margins on those revenues might be?

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

All I can say is we are excited about this opportunities, but as you can imagine, some of these will take time to execute, which is great.

Mark DeVries - *Barclays Capital - Analyst*

Okay. Fair enough. Then just one last question. It sounds like there's some lumpiness to the earnings at Clayton. Bob, you referenced there was a big project this quarter. Is there any seasonality to that or anything you can help us to think through as we try and model those earnings?

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

Yes. This is Joe D'Urso, President of Clayton. There is definitely some seasonality when it comes to the REO portion of the business. With the rest of the business, it is not so much seasonality as much as it is activity in the marketplace for loans and securitizations. There's definitely lumpiness. We've had that throughout our history and it is based on the levels of activity that you see in the asset markets.

Mark DeVries - *Barclays Capital - Analyst*

Okay. For the REO portion, how does the seasonality work?

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

We will slow down as we come into the fourth quarter, marginally, as fewer people go out and buy homes. That starts to pick up slowly throughout the first quarter and then into the spring in the second quarter, where it really starts to pick up significantly.

Mark DeVries - *Barclays Capital - Analyst*

Great. Thank you.

Operator

Jack Micenko, SIG.

Jack Micenko - *Susquehanna Financial Group - Analyst*

Looking at the roll and the claim rate assumptions, the old slide 15 is now gone with the new slide deck, but Bob, you talked about 17% on the early stage, 81% on the late. I'm try to reconcile because I got 53% net default claim rate on this book, last quarter it was 47%, so did the middle buckets go up on the assumptions, and -- or what are those numbers? They were 43% and 50% last quarter for the four to 11, and the 12 plus. I'm just trying to reconcile the sequential change?

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

Jack, what you have seen is that we've made changes in a variety of buckets, the early one going down, some of the later ones going up and overall it did go up. The offset to that is severity, where we have been seeing for quite some time that severity has been less than we had previously estimated, so that was offsetting factor. But in terms of just of those rates, overall they went up, but in the early stage they went down and this foreclosure state, which is really a driver of roll rates went up.

Jack Micenko - *Susquehanna Financial Group - Analyst*

Okay. Then one of the things we've been seeing from the banking industry for probably better part of the year-plus is actually negative reserving. When I look at 78%, 79% HARP plus post 2008, these changes being made, severity coming down, is it foreseeable at some point that we actually see a negative loss incurred number? Is that possible and would that require regulatory -- how would that all play out, if at all possible?

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

What you would have to have is -- we break up our incurred loss into two components. One, into new default. There are going to be new defaults in any given quarter and there's going to be an incurred losses associated with that new default. That's going to be a positive incurred loss. Any negative would be in the second line, which is the existing default, so if we are over-reserved on the existing default and there is a reason to make an adjustment then that could go the other way.

You've seen for the first three quarters of 2014, that incurred loss has been negative. It hasn't been negative enough to drive an overall negative number. It would have to be quite negative to be that way. It's conceivable, but that's the way you would get there. Prior to this year, we had upward adjustments in that existing default because estimating reserves is very difficult, and as you've seen, we always try to use the information to get it right. That's what it would take. In an improving environment term, you are more likely to see those negative adjustments, but we think every quarter, the reserve that we have is the best estimate, and ideally, if that's the case you would have a [zero] in that line next quarter.

Jack Micenko - *Susquehanna Financial Group - Analyst*

Okay, great. Then, just bigger picture. How much of your business historically in a normal -- defining normal as a 2000, 2003 window -- is 95% plus. With the talk about coming back to doing more 97%s outside the state authorities, how should be think about that as a future opportunity.

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

This is Teresa. It is about 50% of the business, if you go back to that time frame, would have been in that category. Obviously, the other thing I just would add is that, up until last November, we saw some activity in that 95% to 97% LTV bucket until Fannie Mae pulled back from that. We saw that decline to almost -- it's very negligible at this point. So we are looking forward to seeing the GSEs come back with a 97% product.

Jack Micenko - *Susquehanna Financial Group - Analyst*

All right. Great. Thank you.

Operator

Bose George, KBW.

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

Actually, just a follow-up on the question on the 97%s. With PMIERs the way it is written, it looks somewhat challenging in terms of the capital requirement of the 97%. So if the 97%s are rolled out, does it have to be in conjunction with some adjustment to PMIERs?

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

It will obviously, this is Derek, it will obviously be intensive from a capitalization perspective, looking at the current grid. But in terms of its exact impact, we'll have to wait to see what the final PMIERs grids look like.

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

Okay. Fair enough. Actually switching to the Financial Guaranty piece, you noted the benefit from that on the losses incurred, but the expenses were lower as well. Was there anything one-time there or just are expenses coming down?

David Beidler - *Radian Group, Inc. - President of Radian Asset Assurance*

No, it is just, we obviously have -- this is Dave -- we obviously have a continued close scrutiny on our expenses, and our operating expenses have been trending lower.

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

Okay, great. Then actually just going back to the question about the $15 million benefit from the BAC settlement, is that going through the reserve release for this quarter? I didn't fully understand that?

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

It will run through incurred losses, so does impact incurred losses this quarter, so yes.

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

So that [$70 million] -- that number just would have been $15 million higher (multiple speakers)?

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

Yes, had we not recognized that, had we essentially differed it. Because remember, we haven't reserved for loans that are performing, so the loans that --some of these performing loans will become delinquent in the future and we will reserve against them and we will have already taken the rescission denial benefit related to those loans.

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

Okay. That makes sense. Just in terms of the timing on doing anything strategic on Radian Financial Guaranty, will that be only after you get the final PMIERs or could you take some actions before that?

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

Both. We are looking -- we continue to evaluate all alternatives and I can't answer whether we would do something before or after. Clearly, the more insight we get into PMIERs, the better off we are, but there are actions possible that would give us the PMIERs benefit in any scenario.

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

Okay. Great. Thank you.

Operator

Douglas Harter, Credit Suisse.

Douglas Harter - *Credit Suisse - Analyst*

You mentioned that you were taking a -- or upstreaming some cash from Clayton in the fourth quarter. Is that something that you expect to be regular and is that $5 million an expected size?

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

We will size it each quarter, but yes, the expectation is that if Clayton continues to earn money and generate positive cash flow, we would regularly upstream to the holding company.

Douglas Harter - *Credit Suisse - Analyst*

Is there any cash or capital needs at Clayton or it's pretty much all cash generation be available to put up -- to bring up to the parent?

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

Generally it's a very low -- it's a low capital intensive business. However, there could be capital expenditures, there could be other needs for the cash at Clayton, so I wouldn't say always, but generally, the positive cash flow generated can be used by the hold co.

Douglas Harter - *Credit Suisse - Analyst*

Great. Then just to clarify on Bose's question, the $15 million benefit, does that come on the new default line or the prior period adjustment line?

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

It is on the second. It is on the existing default line. It's not on the new default line, because that wouldn't be -- new defaults are just for new defaults during the quarter.

Douglas Harter - *Credit Suisse - Analyst*

Got it. So that, $24 million, $15 million of that was from the settlement?

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

That is correct.

Douglas Harter - *Credit Suisse - Analyst*

Great. Thank you.

Operator

Chris Gamaitoni, Autonomous.

Chris Gamaitoni - *Autonomous Research LLP - Analyst*

There was pretty good improvement in the operating cost for the MI side. Was there anything one-time in that or how should we think about the go-forward cost structure of the MI business?

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

We tried in the press release, and you can see it, we tried to reconcile for you, because there are some moving pieces there. You will see that, if you normalize it, it was essentially, it was down just a little bit and in line with expectations. So this quarter, we had the Clayton operating expenses, which drove some of the number. The long-term comp is always something we use to disclose, because it has gone up and down with the stock price, so if you normalize it, I would say the MI expenses are down just slightly from last quarter.

Chris Gamaitoni - *Autonomous Research LLP - Analyst*

Okay. Perfect. Then I'm just trying to reconcile the existing defaults, they had a benefit of $25 million, which you disclosed $15 million of that was due to the settlement, so the [$7 million] benefit how does that jive with the increase in later stage claim rates?

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

It's going to be in there. So the increase in later stage is going to be a positive number in there but there are other things in there. That's where we put loans that are aging and IBNR changes, so there are a lot of things that are going through that line, and all in all, the net impact, other than the $15 million, was still a little bit negative, but there were some positive items in there as well, such as the claim rates that you're talking about.

Chris Gamaitoni - *Autonomous Research LLP - Analyst*

Okay. Then are there any thoughts around the news that the HUD is asking MIs to do more VA loans and what the opportunity structure would look like, market size, how you would price that [second loss challenge] would be?

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

We are having conversations about this. Really the conversation is more with Ginnie Mae. The idea is really for us to potentially come in and insure the lender beyond the 25% that the VA insures. So we're taking a look at that, really trying to understand what the lenders are interested in, and how much of a market there is for that, so that we can then figure out what the right structure would be on a go-forward basis.

Chris Gamaitoni - *Autonomous Research LLP - Analyst*

Okay, perfect. What are the thoughts around the opportunity for 97%s, assuming the PMIERs don't change, just that the 97%s seem to be in the most penalizing bucket from the available asset ratio size?

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

Derek can add to that. Obviously, depending on where the PMIERs are, will depend on what amount of 97%s we would be willing to have in our overall portfolio, as well as what the pricing would need to be on a go-forward basis, to have an appropriate return, so we would be evaluating that. The other critical piece of information that you need is what the parameters are going to be, that the GSEs establish, and they are still working through what those are going to be.

Chris Gamaitoni - *Autonomous Research LLP - Analyst*

Okay. Perfect. Thank you so much.

Operator

Geoffrey Dunn, Dowling & Partners.

Geoffrey Dunn - *Dowling & Partners Securities - Analyst*

Teresa, I wanted to actually follow up on that question. There's a lot of rhetoric about expanding the mortgage market, talking 97%s, talking MI participating in VA. But at the same time, you have to consider the lender side of it, and there's also been a lot of articles talking about the lenders not necessarily buying into this, because there's still a lot of unresolved risk out there. What is the risk at all this talk about expanding the market and potentially the private MI world? It ends up just being that. That it is just talk and you can't reach an appropriate product at the appropriate pricing?

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

That's a great question. And on the 97%s, a lot of that also is connected to the changes in how the GSEs are going to approach rep and warranty. As you know, from the reporting out there and the comments from Director Watt at the MBA, there's a lot of focus, and the MBA has been very involved in working through tightening up rep and warranty so that lenders feel more comfortable with the risk that they have on an ongoing basis.

That's going to be critical to how they view their willingness to do 97%s. Having said that, they were willing to do them, at least at a small percentage until Fannie stopped buying them last year. That would say to me there's going to be some ongoing appetite for that, on a go-forward basis.

With respect to the VA piece, that's a little bit more difficult, because when it first came out, it was characterized more as something that the government would be buying, but it is really something more that they are saying, there might be an interest in lenders getting this coverage. That's a tougher one to answer because it really depends on how lenders are reserving for that and whether there's an opportunity to help them in terms of the risk that they feel like they have currently. That's something that's going to take a little bit of time to get our arms around.

Geoffrey Dunn - *Dowling & Partners Securities - Analyst*

Okay. Then probably for Bob. You have a piece of reinsurance you can claw back as of December 31. Who knows if PMIERs will be finalized by then? How are you approaching that? Do you have an option that you can wait until PMIERs, if it ends up being January or February or do you have to make a decision before year-end?

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

We would likely make a decision before year-end, Geoff. At this point, we're inclined to potentially claw back some or all of what we are allowed to, but we will make that decision prior to year-end.

Geoffrey Dunn - *Dowling & Partners Securities - Analyst*

Okay, great. Thank you.

Operator

Sean Dargan, Macquarie.

Sean Dargan - *Macquarie Research - Analyst*

Bob, you mentioned that there's a possibility that the NOL valuation allowance might be reversed in the fourth quarter. Can you just remind us, using the expected share count, what the impact of book value per share would be?

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

Today it is $4.37 per share, the valuation allowance per share.

Sean Dargan - *Macquarie Research - Analyst*

Okay, thanks, and--

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

That would change if -- based on the fourth quarter.

Sean Dargan - *Macquarie Research - Analyst*

Right. Okay. And that is a determination that your auditors will come to?

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

It is our determination, based on an analysis that, obviously, we're already started, and we would get [buy-in] from the auditors, they would do it alongside us, but it is our decision.

Sean Dargan - *Macquarie Research - Analyst*

At that point, your GAAP results would showing you paying the statutory tax rate?

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

Yes. If we get -- at the point in time where we get the valuation allowance reversed and the DTA comes back on the books, then we would be booking taxes as per normal.

Sean Dargan - *Macquarie Research - Analyst*

Okay, great. Then, just as we model out Clayton, you have given us some historical gross profit on services, which before, I thought, was going to be the operating earnings metric, but should we think that the interest expense and operating expenses that you reported this quarter will more or less be steady-state going forward?

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

Certainly interest expense is based on the -- it is at $300 million, so that is not going to change, but in terms of operating expenses, it depends on the -- it's going to be less directly variable with revenues, but if the business grows a lot, you might see that grow, and vice versa, but I would say generally in the range.

Sean Dargan - *Macquarie Research - Analyst*

Great. Thank you.

Operator

Bose George, KBW.

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

Just one follow-up on the BAC settlement. Can you just remind us, what did you say about the impact next quarter on the loss provision?

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

There wouldn't be any impact next quarter.

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

Okay, so it's really just what happened this quarter and that's -- the impact is over?

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

Yes, we called out the -- a lot of it was done prior or this quarter and there wouldn't be any impact unless we see some sort of change in anything or it's still subject to approval and things like that. Okay. Perfect. Thank you.

Operator

Steve Stelmach, FBR.

Steve Stelmach - *FBR & Company - Analyst*

Bob, just to clarify the tax issue post the NOL or the DTA recovery, you talked about taxes going back to normal, it's been a while since we've seen normal. What's a good normal, the high 20%s or low 30%s, with tax rate?

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

It is close to 35%. At this point, our portfolio is taxable. In the past, way back when the earnings were very consistent, we had a big muni portfolio, so if that changes down the road, that could impact our effective rate, but right off the bat, pretty much the statutory rate.

Steve Stelmach - *FBR & Company - Analyst*

Great. Thanks, guys.

Operator

At this time, there are no further questions. It would to turn the conference call back over to S.A. Ibrahim.

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

Thank you, operator. Thank you all for participating in our third-quarter earnings call. Look forward to seeing you again for our full-year, year-end operating call next quarter.

Operator

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