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RDN - Q1 2016 Radian Group Inc Earnings Call

EVENT DATE/TIME: APRIL 27, 2016 / 2:00PM GMT

THOMSON REUTERS

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by and welcome to Radian's first-quarter 2016 earnings call.

(Operator Instructions)

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

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

Thank you and welcome to Radian's first-quarter 2016 conference call. Our press release, which contains Radian's financial results for the quarter, was issued earlier this morning and is posted to the investors section of our website at www.radian.biz. This press release includes certain non-GAAP measures which will be discussed during today's call.

A complete description of these measures and the reconciliation to GAAP may be found in press release exhibits F and G and on the investors section of our website. During today's 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; Derek Brummer, Executive Vice President and Chief Risk Officer of Radian Group; 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 certain 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 2015 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. Before we discuss our solid first-quarter results, let me provide a few highlights of our recent accomplishments. First we generated seasonally strong NIW as attractive returns, thereby extending our future earnings momentum. Keep in mind that during years with low refinance activity, the first quarter typically represents the lowest origination volume for the mortgage industry.

Second, building on our success in repositioning our Company to focus on our core strengths, we expanded our mortgage and real estate services offerings. Third, we continued to benefit from positive credit trends, and the credit quality of our new business remained strong. Fourth, not only have we satisfied the PMIERs but we did so using a surplus note that provides us with greater capital flexibility.

Fifth, we completed a series of transactions that strengthened our financial position and improved our debt maturity profile. And finally, we entered into a quota share reinsurance program that is the first of its kind, focused exclusively on single premium business. This program allows us to improve our return on required capital, increase financial flexibility and proactively manage our MI business mix.

Today we believe we're better positioned to drive long-term value than ever before. Our large and successful mortgage insurance business is expected to generate strong revenue from our existing high quality and profitable book of business for years to come. And we are successfully leveraging our customer relationships and increased capabilities through our Clayton family of companies to continue to diversify our revenues.

Turning to the quarter's results. Earlier today we reported net income for the first quarter of 2016 of $66 million or $0.29 per diluted share. Adjusted pretax operating income was $130 million for the first quarter of 2016, a 5% increase over last year. Adjusted diluted net operating income per share for the first quarter was $0.37, a 6% increase over last year. And book value per share grew 8% year over year to $12.42.

And now turning to the mortgage insurance segment. We continue to improve the quality of our large mortgage insurance in force book which drives future earnings for Radian. We wrote $8.1 billion in new MI business in the first quarter. This reflects an expected seasonal decrease in volume as well as lower volume from refinance and single premium business.

Looking ahead, we expect an increase in NIW during the second and third quarters, which are typically stronger from a seasonality perspective. Based on external and internal projections for mortgage origination volume this year, we expect NIW in 2016 to be at a similar level as the $41 billion written last year. Our insurance in force book remained flat in the quarter given the seasonally low volume of NIW, however we expect to grow our insured book this year and over time.

We also are seeing an increase in our persistency rate and expect that trend to continue this year. The high quality and profitable new business we wrote after 2008 now represent 85% of our total primary mortgage insurance risk in force, or 76% excluding HARP volume. You may find these details on webcast slide 11.

Slides 12 and 13 compare the loan characteristics of Radian's existing risk in force as of 2003, 2007, and 2011, with the business written in the first quarter of 2016. This is an important reminder that credit quality of today's portfolio is vastly superior to the business written prior to the housing and economic downturns.

At Radian we remain focused on writing as much high-quality new MI business as possible, while maintaining a well-balanced portfolio mix that we expect to generate a mid-teen levered return on required capital. In the first quarter we introduced new MI pricing designed to provide increased risk based granularity and to better align with the PMIERs and industry trends. While it is too early to see meaningful results from our new pricing, we are encouraged by the positive feedback we have received from our customers.

In an environment where pricing is similar throughout the industry we can more effectively compete on the value of our service, products and relationships. We continue to successfully add new customers, with 35 new lenders delivering business to Radian in the first quarter. And we remain focused on increasing our relationships and share of business from credit unions where we see opportunity for new high-quality business.

In fact, the amount of NIW from credit unions increased by 32% over last year and we signed 11 new credit union customers in the first quarter alone. We strive for the best the balance of new business volume and returns on our capital to create a strong mortgage insurance franchise and lasting shareholder value. I'm also pleased to report that Radian Guaranty has returned to investment grade ratings with upgrades by both Moody's and S&P during the first quarter.

Turning to the mortgage origination market, we expect the total MI market in 2016 to be comparable to 2015. This is based on a projected decline in refinancings this year that will impact overall origination volume. Yet we also continue to expect increased penetration from purchase originations, where private mortgage insurance is 3 to 4 times more likely to be used than for refis.

We have recently relaunched our consumer website, www.achievethedream.com, to help educate new homebuyers on the availability of low down payment financing. Since February the website has attracted more than 12,000 visitors who have found important homebuying information from a real estate agent and closing checklist, to a free credit score report and credit consultation. The website also highlights the benefit of private MI versus FHA, including the important cancellation feature for private MI compared to FHA's life of loan coverage.

Turning to the credit environment, the combined impact of the strong quality of NIW we're writing today along with an improving economy, resulted in a year-over-year decline in Radian's total number of primary delinquent loans of 24%. As you can see on slide 19. And, our primary default rate fell to 3.5%.

On slide 15 you can see the performance of our MI portfolio by vintage, noting that even our legacy books are contributing positively to our profitability. On slides 18 and 19 you will see the details on cures in the quarter, where our cure rate reach 19%, the highest level we have seen since mid 2007. Our mortgage and real estate services segment was impacted by a lack of activity from single-family rental securitization and reported first quarter 2016 total revenues of $32 million, which is a slight increase from over a year ago after including results from Red Bell and ValuAmerica. Frank will provide more details on the results and the important market dynamics.

What is most important to remember is that the services segment adds a diversified source of fee-based revenue for Radian and the Clayton family of companies broadens our participation in the residential mortgage value chain, with services that complement our MI business. We continue to make progress in deepening our customer relationships and differentiating Radian among our mortgage insurance peers through the services portfolio of products. This includes our more recent acquisitions of ValuAmerica and Red Bell Real Estate.

We have introduced hundreds of MI customers to the products from our services segment, and while the overall financial impact from cross-selling these services remains relatively small, we generated revenue from 44 customers in the first quarter 2016. Just to put the 44 customers in perspective, I believe that number was more like 4 customers not too long ago. We expect this interest and revenue to grow.

And finally, while there are no recent updates on the progress of housing reform, we remain actively engaged in discussions on Capitol Hill, including as a member of the MBA's new task force designed to address the future of the secondary mortgage market. We continue to hear support from key legislators for the important role of private capital, including private mortgage insurance in the future of housing finance. 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., and good morning. First I will discuss the drivers of our revenue. New insurance written was $8.1 billion during the quarter, compared to $9.1 billion last quarter and $9.4 billion in the first quarter of 2015. Refinancing increased slightly to 19% of volume this quarter compared to 17% last quarter, and was down from 33% a year ago.

Direct single premium business represented 29% of our total NIW in the first quarter, in line with the fourth quarter, and was 19% net of the reinsurance ceded with our recently announced singles only quota share reinsurance transaction. Primary insurance in force remained relatively flat at $175.4 billion during the quarter.

Our 12-month persistency increased from 78.8% in the fourth quarter of 2015 to 79.4% in the first quarter of 2016, as noted on exhibit M. With respect to how persistency is currently trending, our annualized three-month persistency increased from 81.8% in the fourth quarter of 2015 to 82.3% in the first quarter of 2016. We continue to expect our insurance in force to grow modestly in 2016.

Earned premiums for the quarter decreased from $226.4 million in the fourth quarter of 2015 to $221 million in the first quarter of 2016, primarily as a result of the approximate $6 million impact of net ceded premiums under the single premium QSR. It is noteworthy to mention that net premiums written for the first quarter were $26 million compared to $233 million in the fourth quarter of 2015. The significant decrease was driven by ceded premiums written on the single premium QSR, which was approximately $198 million.

Investment income increased 19% in the quarter due to the now full deployment of liquidity from the sale of our financial guaranty business. Our portfolio yield increased 31 basis points or 13.2% for the first quarter end from the fourth quarter end. Our portfolio duration also extended from approximately 4.3 years to 5 years. These changes are part of our long-term plan for investment management and take into consideration regulatory guidelines and the current risk appetite of the organization.

Total services revenue for our mortgage and real estate services segment was approximately $32 million for the quarter as compared to $38 million in the fourth quarter, and relatively flat to the first quarter of last year. Excluding the positive impact of revenue associated with our acquisitions of Red Bell and ValuAmerica, our revenue was approximately $5 million less than a year ago.

As we have mentioned previously and as you can see on slide 22, we expect fluctuations in revenues in this business as the transactional and seasonal nature of these businesses contributes to greater volatility in revenue. This quarter was impacted more notably by the lack of single-family rental securitization activity, which is served by several of our businesses within our valuation and component services business line, as well as a decrease in the already slow non-agency securitization.

Moving now to our loss provision and credit quality. The loss ratio was 19.6% this quarter as compared to 25.1% in the fourth quarter of 2015 and 20.4% in the first quarter of last year. We observed further improvements in new notices of default which decreased 7% over new defaults in the first quarter of last year and 18% over fourth quarter 2015. We continue to see positive credit trends such as a decrease in the number of new defaults and improved cure rates.

Given trends observed during the quarter and noted on slide 7, we modestly reduced our estimated claim rate on new defaults from approximately 13% to approximately 12.5%. As a reminder, we have seen lower historical claim rates on new defaults at around 10%. However we still do not expect more than a total 100 basis point decrease in 2016, inclusive of the reduction we realized in the first quarter. We also observed positive development of approximately $14 million on prior year defaults as a result of a reduction in observed claim rates on those defaults.

On slide 17 you will find a new presentation for the default impacting our loss provision. This separates the impact of losses on default notices received in the current year from the impact of reserve development on default notices received in prior years. This presentation better aligns with the components of our default roll forward disclosed on slide 19. As a result, we hope that this presentation helps you better understand the components and drivers of our provision for losses each quarter.

Generally, the impact of provision from current quarter defaults is driven by the number of new defaults as disclosed in our roll forward, multiplied both by our estimated default to claim roll rate for new defaults, and by our expected average claim paid. Cumulative incurred loss ratios of business written after 2008 remain extremely low and are presented on webcast slide 16.

The primary mortgage insurance delinquency rate improved to 3.5% of the first quarter compared to 4% in the fourth quarter of 2015, and 4.6% in the first quarter of 2015. Claims paid for 2016 are expected to decline significantly from recent years to approximately $400 million to $450 million.

Moving now to expenses, our reported operating expenses for the quarter were $59 million as compared to $59.6 million in the fourth quarter of 2015 and $53.8 million in the first quarter of 2015. On a linked quarter basis, core operating expenses were relatively flat after taking into account the benefit of the increased ceded commissions of approximately $3 million and other non-personnel decreases, offset by severance charges of a similar amount.

On a year-over-year basis, our quarterly core operating expenses have increased by approximately $5 million to approximately $60.3 million due to $2.8 million associated with the quarterly operating expenses of the acquired Red Bell and ValuAmerica businesses and the impact of corporate-wide annual merit increases. Other expenses in the first quarter such as the approximate $3 million in severance, the benefit of total ceding commissions of approximately $5.8 million and technology expenses associated with upgrading our systems of approximately $2.3 million, are considered to be non-core operating expenses.

Our plans for further expense management are ongoing and in the first quarter we took action on approximately $4.9 million in annualized compensation and benefit expenses associated with the reduction in force, primarily in the services segment. We maintain our expectation that the fourth quarter 2016 core operating expenses are expected to be between 3% and 5% lower than our fourth quarter 2015 core operating expenses.

We continue to dig deeper and will provide you with updates, as we have made this one of our top priorities for the year. And we expect our future revenues to grow at a higher rate than our expenses after these steps are taken, thus providing the positive operating leverage we have targeted. Throughout 2016 there may be some modest seasonal increase in expenses by quarter, but the goal to the expense reduction initiative remain within sight and achievable.

Moving now to taxes. Our actual effective tax rate for the first quarter was 35.3%. We currently estimate our annualized effective tax rate for 2016 before discreet items to be approximately 38%, primarily because the material portion of the losses related to our convertible debt repurchases are non-deductible for tax purposes.

During the first quarter, the higher annualized effective tax rate was offset with the tax impact of discrete items, including investment gains and the accounting for uncertain tax positions. These discreet items are taxed at the statutory rate of 35%. Going forward, while discreet items in the future quarters could further impact the effective tax rate, our general expectation is that our effective tax rate will trend towards the estimated 38% annualized effective tax rate for 2016.

And now moving to the capital activities during the quarter. This was a busy quarter for Radian in the capital and reinsurance markets. Our capital activities for the quarter are indications of the improved outlook for both our Company and our industry. We have demonstrated discipline and prudence to date and will continue to be opportunistic and deliberate in our management of capital.

We have also largely completed the capital plan that we outlined late last year, whereby we sought to improve our capital structure by removing the convertible notes and distributing our debt maturities more evenly. We continue to move forward on our path to returning to investment grade at the holding company.

First I will discuss the capital actions within Radian Guaranty, then move to the parent company, Radian Group. Our capital and portfolio management activities for Radian Guaranty included the recently announced quota share reinsurance program for single premium MI business that we entered into with a panel of third-party reinsurance providers. As we have stated in the past, our primary use of reinsurance will be to manage the overall risk return profile of our portfolio.

This singles only transaction is evidence of that approach as it helped reduce our portfolio net risk in force of singles, down from 31% to approximately 25%, and helps manage our future NIW mix to a level that balances the potential market demand with our portfolio preference. This particular reinsurance transaction had the added benefit of a low cost of required capital. This transaction also enhances our ability to seek Pennsylvania approval to repay the $325 million surplus note as early as the second quarter of 2016. As a reminder, any repayment of the surplus note provides a dollar for dollar increase in holding company liquidity when it occurs.

Exhibit M detailed the impact of the single premium QSR which had a negligible impact on operating earnings per share, but did create some noise in individual financial statement line items. At the parent company Radian Group we completed a series of transactions to further strengthen our financial position. The combination of these actions had the impact of decreasing diluted shares outstanding and improving the maturity profile of our debt.

This series of transactions included the issuance of $350 million of five-year senior notes, the purchase of approximately $320 million of our outstanding convertible senior notes, due 2017 and 2019. And the purchase of an aggregate of $100 million of Radian Group common stock. In the aggregate, these recent transactions resulted in a net increase in available holding company liquidity of approximately $50.3 million, a net increase in long-term debt of approximately $62 million, and a net increase in stockholders equity of approximately $4.5 million.

The capital strengthening transactions listed above, including the share repurchase program, resulted in a net decrease in diluted shares outstanding of approximately 19.9 million shares, the full benefit of which will be realized in the second quarter weighted average diluted share count. Our plans for future capital actions will be in the context of positioning the company for future growth, while being mindful of rating agency upgrades and shareholder preferences. We do expect a significant improvement in our capital and liquidity position over time given the relative health of our mortgage insurance business, and we will keep investors well informed of our plans. I will now turn the call back over to S.A.

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

Thank you, Frank. Let me summarize the important takeaways. I am pleased with our continued ability to write high-quality MI business at attractive returns, improve the credit quality of our existing MI portfolio, and to differentiate ourselves among our MI peers for our services offering and create a diversified source of fee-based income for our Company. We believe we are better-positioned today to drive long-term value than ever before. Now, operator, we would like to open the call to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Bose George, KBW.

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

The first question, the single premium quota share agreement, will that have any impact on the average premium margin going forward?

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

The impact is likely to be on the returns, but as far as if you are asking about the pricing of a particular product, no it should not impact that.

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

Also thinking about the nominal margin, whatever the 50-ish basis points, that number should stay pretty steady?

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

Yes, I think that we're going to describe it is more, again, in the context of the returns that we expect on a portfolio basis for the return pickup to be in the 100 to 200 basis point realm.

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

Could you repeat that, so the portfolio basis meaning that's the contribution to the ROE from the reinsurance, is that what you are saying?

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

That is correct, yes.

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

Okay, great, thanks. Switching over to the mortgage services segment, can you remind us is there a seasonality in there as well as the factors that you had mentioned in the commentary?

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

There is, and if you look at the slide that we have included in the information slide 22, you can see that the first quarter in particular is seasonably low.

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

Great. One last one on taxes, going past 2016, for the 2017 onwards should we go back to the 33%-ish tax rate?

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

I think what we have guided absent the debt transaction this quarter, we guided to the statutory rate of 35%. But again because we had some nondeductible items related to debt extinguishment this quarter, that is what is bumping it up to the 38%.

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

So 35% starting back in 2017.

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

That is correct, yes.

Operator

Mark DeVries, Barclays.

Mark DeVries - *Barclays Capital - Analyst*

Assuming you get approval to repay the surplus notes, could you give us some thoughts on what you would look to do with the excess cash? By our estimate even if you hold aside money for your $125 million or so remaining in your existing converts and $200 million for the debt maturity in 2017 you still have in excess of $4 million of cash at the hold company that you could deploy, should we expect some more material share buybacks there?

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

I will answer it in the broad context of our overall capital plans. The approach that we're taking obviously is to focus on the redemption of the surplus note in the near term and then, as you cited, focusing on the upcoming maturities that we have coming due. I will just tell you as an aside, I'm glad to be able to get this question because I think it does mark a shift in Radian's position and our outlook for the future. So that said, the PMIERs cushion is another attribute that we're taking into consideration as we look at redeeming the surplus note.

All of that being said, we are, and as a mentioned in the prepared comments, we are being mindful of our organic growth plans, the rating agency consideration and shareholder preferences as we make these capital plans going forward. All of that said, the rating agency confirmed, we mentioned in the past, we expect to maintain between $300 million to $350 million of parent company liquidity.

So for the foreseeable future we think we have the right level of cash and plans associated with the capital as it migrates via the surplus note from Radian Guaranty to Radian Group. What it looks like in the out years, it is too soon to say at this point. But again, we are mindful of shareholder preferences in that regard and we will continue to keep you posted as those forms solidify, or as those plans solidify.

Mark DeVries - *Barclays Capital - Analyst*

When you talk about needing to maintain $300 million to $350 million of parent company liquidity, is that net of near-term maturities, near-term being even as far out as 2017?

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

That really is on an ongoing basis. One of the things that we expect to maintain going forward into support increases in our credit rating that sort of investment grade, is a level of parent company cash sufficient to deal is any single year maturities. So it's part of the reason why we've sized our debt issuances the way we have, because we're trying to balance that relative to the cash that we would maintain at the parent company.

Mark DeVries - *Barclays Capital - Analyst*

One other question, have you had a chance to try and estimate how many loans you have that may be eligible for the FHFA principal forgiveness program?

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

There are many factors that go into calculating what could be eligible there. We expect the number, the impact on the financial statements to be relatively immaterial, albeit it would be a positive impact. But we're not expecting any material impact as a result of anything related to the reduction.

Mark DeVries - *Barclays Capital - Analyst*

No assessment yet of how many loans may benefit?

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

It is a small number I can tell you that, just because that drives the immaterial financial statement impact.

Operator

Eric Beardsley, Goldman Sachs.

Eric Beardsley - *Goldman Sachs - Analyst*

Back to the capital question, you mentioned needing to maintain a buffer for PMIERs, where do see that level being now that you have gone through the planning?

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

What we said last quarter was that we were comfortable keeping that level relatively low and so that is our expectation. And keep in mind after we redeem the surplus note, that would take our current level of roughly $500 million down to $175 million. That number will grow organically over time. It is difficult to predict at what amount it will grow, but again we haven't calibrated an exact number for what that cushion needs to be, but we are comfortable keeping it at a relatively small level.

Eric Beardsley - *Goldman Sachs - Analyst*

Going to the new disclosures of the components of the provision on slide 17, I guess if we were to -- I don't know how far back we could go with this, but if we were to look at the third quarter and fourth quarter in terms of increased reserve for prior default, is that something that we should expect based on seasonality? Or was anything specific you saw in those quarters in terms of thinking about the magnitude of something like that going forward?

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

No, I don't think there is anything of particular note to call out on that.

Eric Beardsley - *Goldman Sachs - Analyst*

Just in terms of that prior year default, I guess what you need to see on a go-forward basis to continue to have improvement there? Is this primarily a function of where the claim rates are coming in, in terms of migration, is there anything that we should note in terms of severities, if you could highlight what you have recently seen that caused the $13.5 million improvement in the first quarter?

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

Derek, I don't know if you want to answer that?

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

I think is going to be combination of looking at the roll rate, the percentage that ultimately rolled the claim and then the cure rates. Obviously in first quarter as Frank alluded to, the cure rate was very high. So to the extent we see those trends continue then there would be adjustments in future periods.

Eric Beardsley - *Goldman Sachs - Analyst*

What was different in the fourth quarter that you saw last year?

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

Seasonality.

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

There is going to be some seasonal impact that's going to drive that, so you're going to have some seasonal impact, we try to imbed that in terms of ultimately the projection. But that's going to have somewhat of an impact as well.

Operator

Jack Micenko, SIG.

Unidentified Participant - *SIG - Analyst*

This is Soham on for Jack. My first question was on credit unions, a couple of quarters back you guys came out and stated your focus around credit unions and that appears to be showing in a 32% increase in business and 11 new customers. What kind of competition are you seeing there today and how does that customer compare in terms of allocation of their business, versus the traditional lender. Could you give us an update there.

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

Teresa, do you want to provide some comment there?

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

As you said, we focused on growing our relationship with the credit unions. We have seen that, that's strong business over the course of the last number of years and it also tends to be heavily weighted on the borrower paid monthlies side.

I think what we have seen in the past is a couple of other MIs who have had strong relationships with credit unions, have continue to do so. But we've been able to get traction in that market and we have refocused some of our sales effort so that we have particular people, some who we've added to the Company, that have a lot of credit union experience. So that there is a focus on the credit union group in those relationships.

Unidentified Participant - *SIG - Analyst*

Just turning to your default inventory, I was wondering if you have any exposure to judicial states such as New York and New Jersey? Because looking at your loss ratios, the slower foreclosure rates in those states does not appear to be showing or hampering your loss ratio, so just wondering there?

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

Much of our default inventory is concentrated in judicial states at this point. That would be expected and that is part of the explanation for why our default inventory continues to age, is because of a significant percentage of the default inventory is in judicial state.

Unidentified Participant - *SIG - Analyst*

Okay, did that have any impact on the loss ratios this quarter versus last?

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

No, it is ultimately going to basically over time they are going to be paid out but we haven't seen a significant shift in terms of the way at which they are actually paying out or incurring losses.

Operator

Doug Harter, Credit Suisse.

Douglas Harter - *Credit Suisse - Analyst*

I know you mentioned it was still early but can you give us a sense as to how the industry is responding to everyone cutting price and whether you think that might be, prices might stick around these levels?

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

Teresa?

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

I think what we are seeing is a trend back to getting to normalized pricing or where everybody's in the same area of pricing. And certainly I think that works better for the customers overall and hopefully we will see that continue, but that is where we seem to be at this point.

The great thing about that for us is that it really gives us an opportunity to really focus on the areas where we have been very strong which is our relationship with customers, our service levels, our products and programs. And we have been able to show in the past our ability to differentiate ourselves in that regard and that is how we are focusing our efforts.

Douglas Harter - *Credit Suisse - Analyst*

Got it. Just changing tacks a little bit here, the percentage of the intra-period cures has been increasing, is that something as credit normalizes we should expect or what is a normal if we were to go to a more normal period, what is a normalized level of cure, new notices that would cure in the same period?

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

I don't think I have a normalized level. You are going to see that with just the increase in the cure rate and that's going to be particularly high in the first quarter, you're going to have seasonal impact, I would say with respect to that. But one of the things we certainly saw in the first quarter is a high cure rate, particularly a high cure rate in the two to three months bucket in terms of missed payments, and that is also going to affect your intra, I would say, period cures as well, they are going to be elevated a little bit more in the first quarter.

Operator

(Operator Instructions)

Chris Gamaitoni, Autonomous Research.

Chris Gamaitoni - *Autonomous Research LLP - Analyst*

Could you give us some insight on the future direction of the services business following some management changes, and how you envision that business getting to breakeven or profitable over the next maybe year or two?

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

I will answer the first part of that. The goal of the acquisition was to provide Radian with a more diversified source of fee-based revenue, as well as to deepen our relationship with the customer. We continue to believe the -- and remain positive on that view and we believe we're making success -- as I cited in my cross-sell information while the numbers are in the early stages, we believe they're gaining traction.

In terms of the organizational changes, part of the benefit from the expense reduction that you heard from Frank is attributable to those changes and it streamlines the organization and links it better and closer with some of the synergies that we capture on the non-core business, the non-core business expenses such as benefits and so on. We have achieved that. Jeff, I do not know if you want to add anything more on the business side before we ask Frank to comment on the financial.

Jeff Tennyson - *Radian Group, Inc. - President of Clayton*

No, historically --

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

This is Jeff Tennyson, the President of Clayton.

Jeff Tennyson - *Radian Group, Inc. - President of Clayton*

Historically the first quarter has been soft. We've had a smooth transition in leadership change and believe we are in line for future growth and expansion.

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

This is Frank just, from a financial statement perspective, certainly there is some seasonality as we mentioned and I would say there is also a gradual mix shift in the businesses and where the revenue is coming from. It is very intentional and it is shifting where we can away from transactional and things that are more pinned to market dynamics and more towards subscription base.

Our two most recent acquisitions, Red Bell and Value America both position us well to continue that path forward. Some seasonality to it, some external factors influencing the quarter's revenues, things that we hope will cure over time, but again, we continue to evolve the business to be less reliant on those things.

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

So we continue to be positive, particularly in terms of the feedback we're getting from our customers.

Operator

Sean Dargan, Macquarie.

Sean Dargan - *Macquarie Research - Analyst*

I am getting some questions from investors, you and in another legacy MI both have a concentration of delinquent loans and judicial foreclosure states, yet your view favorable development is different. Is there anything intrinsically different in your book that would cause you to take a different look, or are you essentially just pulling earnings forward in an earlier period, how should we think about this?

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

We certainly can't speak for competitors, I would tell you that we take an independent view of our own portfolio and the factors that would influence our view related to our outlook for credit quality. We happen to see some very positive trends this quarter and made the appropriate adjustments.

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

I would urge you to look at that over time because there have been times when others have taken a different view that us, it's just the fact that we all think independently but are reacting to similar trends.

Operator

Geoffrey Dunn, Dowling & Partners.

Geoffrey Dunn - *Dowling & Partners Securities - Analyst*

With respect to your outlook for a fairly stable year-over-year industry NIW, does that outlook assume any additional loss share to the FHA due to the change in low FICO pricing?

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

Teresa?

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

I think at this point we think there could be some reduction, but to be honest what we are seeing in the marketplace is still a concern with particularly some of the larger lenders, but maybe some spillover effect from that of concerns with doing business with the FHA. Particularly as you have seen, the continued reporting of large settlements over rapid warranty and that kind of thing.

We're continuing to see lenders that are more focused on wanting to increase or maintain the level of conventional lending that they are doing. So we -- a bigger driver I think is also the fact that we are going to see more purchase business this year than refi business, that, that is going to continue to trend down we think, and as a result of that we get a higher penetration there as well.

Geoffrey Dunn - *Dowling & Partners Securities - Analyst*

With respect to BPMI, it sounds that there was to be a bit of discounting on the lender single side in the marketplace, is Radian committed to sticking the BPMI rate card?

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

I think we have shown that we have been consistent in pricing and consistently with our rate card, and we would expect to continue doing that. That is what we have been doing in the past.

Geoffrey Dunn - *Dowling & Partners Securities - Analyst*

Okay. For the last two months your 19 converts are back in the money for, I believe for forced convert now, is there any reason the company would wait on pushing that conversion?

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

Yes, Jeff actually the soft call price for the 2019 converts is $13.78 and we need to be there for 20 out of 30 days.

Geoffrey Dunn - *Dowling & Partners Securities - Analyst*

The 2017 or the 2019?

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

The 2019s

Geoffrey Dunn - *Dowling & Partners Securities - Analyst*

Okay, I will go check that out again. Last question, Frank, can you give us the actual MRA and available assets for premieres this quarter?

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

We will be sharing that information in the Q in detail, but right now we are just disclosing what the cushion is which is the $504 million.

Operator

Mackenzie Kelley, Zelman & Associates.

Mackenzie Kelley - *Zelman & Associates - Analyst*

On the mix of business now that the reinsurance gives the benefit to the single premiums, does that change the optical mix of business from, I think historically has been 70/30 is now their room for singles to be a bigger share of volume?

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

I think the way that we are viewing the reinsurance transaction is really increasing the optionality. And as I mentioned in my comments, the market is going to demand what it demands and whatever that mix maybe. We've just positioned ourselves to manage the portfolio risk return attributes to meet what that market demand is.

Mackenzie Kelley - *Zelman & Associates - Analyst*

Following up to that, has the market demand in the first quarter now that the lender paid pricing has gone up, have you been surprised that the demand has remained stable for the single premiums? And what you think is driving that?

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

I think what we are seeing again in the single premium is a result of both pricing and also a result of what the refinance activity is overall.

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

The pricing just kicked in very recently, so it is probably to early to tell what impact if any it would have.

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

Really the second week of April that it will kick in.

Mackenzie Kelley - *Zelman & Associates - Analyst*

Just lastly on the claims paid guidance, what kind of average claim payment is that assuming? It looks at the average claim increased about 11% year over year, but was pretty stable on a sequential basis, so just wondering how to think about that going forward and whether that year-over-year trend should continue.

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

Derek, do you want to take that?

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

Sure, in terms of the claim paid it is going to move around a bit. We increased our severity assumption ever so slightly and some of that has to do with, I would say the distribution of claims paid more to judicial states. I do not think we have a projection in terms of where it is heading.

Operator

I have no questions in the queue. I will turn it back over to you for any closing remarks.

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

Thank you operator. Thank you all for participating in our call and for your interest in Radian and we look forward to talking to you again with our second-quarter results. Thank you.

Operator

Ladies and gentlemen thank you for using AT&T executive teleconference service. You may now disconnect.