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RDN - Q1 2014 Radian Group Inc. Earnings Conference Call

EVENT DATE/TIME: MAY 07, 2014 / 2:00PM GMT

OVERVIEW:

Co. reported 1Q14 net income of $203m or $0.94 per diluted share.

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to Radian's first-quarter 2014 earnings call. (Operator Instructions). As a reminder, today's conference is being recorded. (Operator Instructions). I would now like to turn the conference over to Emily Riley, Senior Vice President of Investor Relations and Corporate Communications.

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

Thank you, and welcome to Radian's first-quarter 2014 conference call.

Our press release, which contains Radian's financial results for the quarter, was issued yesterday and is posted to the investors section of our website at www.radian.biz. This press release includes a non-GAAP financial measure that will be discussed during today's call. The complete description of this measure and a reconciliation to GAAP may be found on press release Exhibit E 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 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; and Derek Brummer, Executive Vice President and Chief Risk Officer of Radian Group.

Before we begin, I would like to remind you that comments made during this call will include forward-looking statements. These statements are based on current expectations, estimates, projections, and assumptions that are subject to risks and uncertainties, which may cause actual results to differ materially. For a discussion of these risks, please review the cautionary statements regarding forward-looking statements included in our earnings release and the risk factors included in our 2013 Form 10-K, our first-quarter 10-Q, 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.

Today, I am excited to share our results for the first quarter of 2014, along with the strategic announcement of our plans to acquire Clayton Holdings, a leading provider of outsourced solutions to the mortgage industry. Next, Bob will cover the financial details of our first-quarter performance and the Clayton acquisition. Finally, I will summarize a few key points before opening the call to your questions.

Before we discuss our outstanding financial results and our exciting acquisition announcement, let me first remind you that our vision at Radian has been twofold -- to lead our Company out of the downturn by writing strong volumes of extremely profitable mortgage insurance business and to position Radian for future growth and success by expanding and broadening our customer base and strengthening our franchise with the addition of complementary products and services.

Radian strives to be a leader in providing the mortgage industry with mortgage insurance and other products that offer secondary market access, as well as services that enable success in originating, underwriting, servicing, and securitizing mortgage loans.

You have heard me talk about our top priorities of writing new high-quality mortgage insurance business and effectively reducing our legacy mortgage insurance and financial guaranty risk. We have had outstanding success in both of these areas, creating a strong foundation for future earnings at Radian.

Now, we are taking a step that will help us build on our success by adding a diversified, fee-based revenue business that leverages and complements our existing strength at Radian as we position ourselves for the next phase in the evolution of the US housing finance markets.

This acquisition will not distract or compromise our focus on our MI business. Clayton is an attractive and well-managed business with a strong reputation and management team. In the future, we expect to leverage the synergies between our two industry-leading businesses, which will be a competitive advantage for Radian in the market and another way that we differentiate ourselves from our mortgage insurance competitors.

There are four key points to note. First, as many of you know, Clayton provides due diligence, surveillance, compliance, and outsourcing solutions to the full spectrum of mortgage industry participants, including investors and issuers of mortgage-backed securities. This will help us enhance our own due diligence, surveillance, and underwriting capabilities.

Clayton has a highly regarded management team, including CEO Paul Bossidy and President and COO Joe D'Urso, who have built a market-leading franchise in each of the mortgage services areas worthy of respect. The team will focus on serving their clients and growing their business, reporting to me as a separate business line.

Second, the Clayton acquisition will provide Radian with multiple revenue streams, broadening our participation in the residential mortgage market value chain with services that complement our MI business. Clayton is a way for us to participate in the recovery of the nascent private-label RMBS market, the nonagency market which at its peak comprised $725 billion in securitization volume. It's currently only a fraction at about $30 billion.

We think there are strong catalysts in place for the reemergence of this market as banks will try to relieve capital pressures and engage in securitizations backed by strong investor demand. We expect this to both expand our franchise and deepen our customer relationships.

Third, both current and proposed mortgage reform are creating new compliance, operational, and reporting challenges for mortgage originators and services. We believe the combined capabilities of Radian and Clayton in areas such as training, due diligence to assess underwriting and compliance, and servicing surveillance will create products and services to help mortgage market participants, including our mortgage insurance customers, better address these new mortgage market challenges.

And in turn, Radian can add value to Clayton's franchise by cross-selling their services to Radian's large customer base. One clear example would be Clayton's compliance services, which are expected to be of interest to a broad base of regional bank customers.

Finally, we expect Clayton, as a subsidiary of Radian Group that is separate from our insurance entities, to provide unregulated cash flow to our holding company.

Given these factors, we believe this acquisition both diversifies as well as strengthens our Company with manageable risk and attractive revenue opportunities. And importantly, as we execute our growth and diversification strategy, it will be at a time when Radian Guaranty's positioned to generate meaningful earnings from its existing book.

Turning now to the financial results, Radian was profitable on a GAAP and operating basis in the first quarter. Yesterday, we reported net income for the first quarter of 2014 of $203 million, or $0.94 per diluted share. This compares favorably to a net loss for the first quarter of last year of $188 million, or $1.30 per diluted share.

Book value per share at March 31, 2014, was $6.10. Adjusted pretax operating income was $91 million for the first quarter.

Now let's turn to a few important highlights from the quarter. First, the quality and size of our mortgage insurance in force continued to improve. While the first-quarter NIW was impacted by the decline in recent HAMP activity, the return to a more normal seasonal pattern, and a slower-than-expected pickup in home purchases, we wrote nearly $7 billion of new MI business in the quarter. Importantly, we grew our in-force book, which is the driver of future earnings.

We continue to focus on our proven strategy of adding new customers, and our pipeline remains strong. 30% of our NIW in the first quarter came from customers new to Radian since 2011, and 54 customers began submitting business to us in the first quarter alone.

New business volume increased to $2.84 billion in April, along with increases in open commitments that indicate even higher NIW volume in May. While it remains difficult to project future NIW based on revised mortgage origination projections from the MBA and other sources, we now expect that our new business volume this year will be modestly lower than $40 billion. We continue to report NIW on a monthly basis and we remain encouraged by the favorable long-term outlook for the mortgage origination volume.

While market size and new business volume are obviously top of mind for our Company, it is important to note that we again led our industry in the first quarter as the largest mortgage insurance company, with $162 billion of insurance in force. Our ability to grow our insurance in force is paramount, and every 1% increase in persistency translates into approximately $1.6 billion of insurance in force remaining on our books each year.

Radian's persistency, which is the amount of business that remains on our books over a 12-month period, reached 82.3% in the first quarter, compared to 80.9% in the first quarter of 2013. We expect that persistency could increase to the mid-80%s by the end of the year.

Second, our continued success in writing new business improves the credit profile of our portfolio. The high-quality books of mortgage insurance business written after 2008, including loans completing a HARP refinance, represented 73% of our primary mortgage insurance portfolio as of March 31, 2014. And the most problematic 2006 and 2007 books are now down to less than 13% of the total portfolio, as you can see on slide 9. The impact of the legacy MI portfolio is shrinking, and we expect it to be a less important driver of our future financial results.

Third, slide 10 shows that for the quarter ended March 31, 2014, the earned premiums less incurred losses from our 2009 and later MI vintages of $109 million provides us with a strong start for the year. This compares with $78 million for the first quarter ended March 31, 2013.

And it's also noteworthy that for the first time on this chart, the 2008 and prior vintages are positive by $45 million. It's also important again to note that the highest premium level for any vintage is typically earned in its second year. Therefore, we expect a large 2013 book to produce substantial premiums in 2014 and beyond.

Fourth, our total number of primary delinquent loans dropped by 38% year over year, as seen on slide 21 of our webcast presentation, with the trend continuing in April 2014. Radian's default count of 50,994 loans at April end is now less than half the default count of 103,027 loans we reported at the end of the first quarter of 2012.

Our primary default rate has been declining steadily since its peak in 2009, as you can see on slide 22, and we ended the quarter at a rate of 6.3%, compared to our peak default rate of 18%.

The MI incurred loss ratio was 25% in the quarter, representing another positive trend we saw throughout 2013. This compares to a loss ratio of 72% in the first quarter of 2013.

And finally, our success in reducing the exposure in our financial guaranty business continues, with the reduction now at 80% since 2008, including in many of the riskier segments of our portfolio. As we proactively reduce our financial guaranty book of business, which decreased to $23 billion in the quarter, the credit performance remains stable.

Radian maintains strong holding company liquidity of approximately $615 million and Radian Guaranty's risk-to-capital ratio improved to 19.2 to 1 at March 31, 2014. If we were to downstream, say, $500 million of that $615 million as of March 31, 2014, to Radian Guaranty, it would reduce our risk to capital to 14 to 1.

The details of the new GSE eligibility capital requirements for the MIs are still unknown, but we do expect that they could be released for comment shortly or as early as the second quarter of this year. Once finalized, we expect there will be an implementation period before the new requirements go into effect. We fully expect to have the ability to comply with these requirements within the implementation timeframe.

Now, I would like to turn the call over to Bob for details of our financial position.

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

Thank you, S.A. I will be covering our P&L activity and trends for the first quarter of 2014, our capital and liquidity positions as of quarter-end, some updated expectations regarding the balance of 2014, and some initial observations about the financial implications of the Clayton acquisition.

We introduced non-GAAP measures last quarter to more closely align with the way we evaluate our business performance, and beginning this quarter for segment reporting, we will only be showing adjusted pretax operating income or loss. In addition to GAAP net income or loss and diluted net income or loss per share for consolidated purposes, we will be showing total adjusted pretax operating income or loss. A reconciliation of these consolidated numbers is presented in Exhibit E.

In order to compute diluted operating income per share, for as long as we have a valuation allowance, our tax rate is expected to be negligible. If and when the VA fully reverses, we would expect a tax rate close to the 35% statutory rate.

Our EPS calculation for the first 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 this quarter related to our 2017 convertible debt of approximately 9 million shares. A table of our fully diluted share count is presented on Exhibit B.

The MI provision for losses was $49 million this quarter, compared to $144 million last quarter and $132 million a year ago. Lower incurred losses continue to reflect improving trends, as new primary default totals were 18% better than the first quarter of last year and cure rates have increased. The reduction of new default in April was 18.5% year over year.

Many other important trends that we follow, such as claims submitted, which you can see on slide 24, continued to show improvements during the quarter. You can see on our incurred loss breakdown on slide 14 that there was positive loss development on the existing default line. This positive development included reduced severity assumptions on pool insurance defaults, significant actual severity benefits from claims paid being lower than the amounts reserved for, and higher cure rates.

While we are very pleased by the incurred loss results during the first quarter, which is usually the best from a seasonal standpoint, we would not expect similar levels of positive loss development in future quarters, unless trends continued to improve faster than expected.

Paid claims for the quarter were $307 million and, as disclosed, would have been approximately $50 million higher had we not entered into the Freddie Mac agreement in August of last year. We continue to expect 2014 claims paid to be between $900 million and $1 billion and to be more heavily weighted in the first half of the year.

Primary pending claims at March 31, 2014, were 7,969, down 26% from 10,701 last quarter, as we continue to efficiently work through our pending claim inventories. Our average claim paid was also down this quarter, due to a lower average loan balance on claims that were paid and also due to curtailments.

Financial guaranty loss performance has continued to be stable. In light of the substantial reduction in par exposure and FG, along with the strong capital and claims paying resources, we have gone to the New York State Department of Financial Services and requested approval for an extraordinary dividend to be paid to Radian Guaranty, which is Radian Asset's parent company. We have not yet received a formal response from New York and we cannot provide assurance if and when such an extraordinary dividend will be approved.

Net fair value gains on derivatives for the quarter of $50 million were caused mainly by improvement in collateral spreads, primarily relating to our TruP CDO exposure. Slide 12 depicts our current balance-sheet fair-value positions, along with the expected net credit losses or recoveries and fair valued exposures.

Based on our projections, we expect to add approximately $233 million, or $1.35 per share, to pretax book value from these positions over time as the exposures mature or are otherwise eliminated. That number is derived by taking the net balance-sheet liability of $165 million and adding the present value of expected credit loss recoveries of $68 million.

During the first quarter, operating expenses were impacted modestly by long-term incentive compensation expenses, which included the impact of a stock price change from $14.12 at year-end 2013 to $15.03 at March 31, 2014. This quarter's expense was approximately $14 million, compared to $12 million in the fourth quarter of 2013 and $38 million in the first quarter of 2013. The potential volatility in our results associated with stock price changes will be tempered after June 2014 when approximately half the awards mature, and substantially all such remaining awards mature in June 2015.

All other expenses during the quarter were generally in line with our expectations.

The valuation allowance against our deferred tax assets was $936.5 million this quarter, or approximately $5.41 per share, reduced from year-end due primarily to our pretax income of $202.5 million this quarter.

We still expect to be able to fully recover our valuation allowance by sometime in 2015, which is the same timeframe that we expect to reverse the remainder of our statutory valuation allowances and to start admitting the majority of our statutory DTA. The admission of our stat DTA will be limited to the lesser of a percentage of surplus, likely between 10% and 15%, or the amount of estimated DTAs that may be realized within a 1- to 3-year period.

Therefore, while we expect to realize the full surplus benefit of our NOLs for statutory purposes, that is expected to occur over the course of a few years. We will be updating our valuation allowance analysis each quarter and it is possible that positive developments could accelerate our current expected timeframe.

We are pleased by the pending Clayton acquisition and our future ability to upstream positive cash flow directly to the holding company. While the significant upside opportunities from the acquisition depend on many things, including the growth of the private securitization market, Clayton is already a strong and successful company on a standalone basis. Any cost synergy or revenue opportunity realization will only improve the financial outlook.

Initially, the transaction is expected to be about breakeven from an accretion/dilution standpoint, and even better than that when measured based on net income, excluding the non-cash amortization of intangible assets. That amortization will be based on a valuation of the Clayton business at closing, which will create an amortizable and tangible asset, as well as creating goodwill, which will not be amortized for GAAP purposes, only reviewed periodically for impairment.

We will likely show the future results of Clayton in a new Radian business segment. As we reported, the acquisition of Clayton will be funded through the issuance of a combination of debt and equity, which will also be used to call and redeem the remaining 2015 debt of $54.5 million; therefore, none of our remaining debt will mature before 2017.

I would 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 results for the first quarter and our exciting announcement of our acquisition of Clayton. Now, Operator, we would like to open the call to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Bose George, KBW.

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

This is actually Chas Tyson in for Bose. First question is just around Clayton. I wanted to get your guys' thoughts on a high level on the timing of the acquisition. Why now and what are you guys seeing in the private-label RMBS market that causes you to think this is the right time for this acquisition?

And then, just a follow-on to that, you guys mentioned the $135 million in revenues for 2013. Do you guys have a breakout in terms of how levered that is to private-label RMBS versus the REO-type services?

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

Okay, so I will take the first part of that. So looking at why Clayton and why now, strategically Radian -- if you look at the strategic premise for this, Radian is in the mortgage risk business and the mortgage industry participants typically deal with four types of risk. Interest rate and prepayment is one area. Credit risk is the other area. Operational risk, which deals with manufacturing and servicing defects, is the third area, and the fourth is regulatory and compliance risk.

We currently operate in the credit risk area, and that, too, was in the GSE footprint and that, too, was in the 80% and higher LCD portion of the GSE footprint.

So, Clayton provides services that primarily focus on the operational risk with manufacturing and servicing defects and the regulatory and compliance risk. Everything we have been hearing from the industry and our customers is those operational risks and regulatory and compliance risks are becoming more and more important as the industry tries to focus on producing at close to zero defect loss as possible, and in that process, we have been to some extent on our own, helping our customers with training. We believe that the Clayton acquisition will allow us to offer them other solutions to meet those needs.

As you know, many players in the industry got burned by loans that were not serviced properly, so we on our own had started looking at how do we get on top of how loans were being serviced, and we found that some of our customers were interested in accessing that service, that capability, and Clayton provides us that.

So I will let Teresa expand on that a little bit more before getting to Bob on the second part of your question.

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

So, Clayton really has four areas of their business. The first one that I think a lot of people are familiar with is the due diligence business, and that's been used in the past to support and currently to support the RMBS market. But in addition, over the last few years, it's also been expanded to focus on QC regulatory compliance, and so there has been demand in those areas.

The second area is the servicing surveillance business that S.A. just mentioned, and Clayton has pipes, if you will, to 60 servicers that they get data from on a monthly basis, and it allows them to monitor the performance at those books of business and also to look at individual loans to get feedback on what needs to happen with those loans.

And there has been increased focus on that, in part because of the concerns related to servicing that we all know about, but also, as more servicers have also used sub-servicers, it has been an opportunity to help them understand what's going on with their sub-servicers.

The third area is Green River Capital, which has really two parts of their business. One is really giving services related to REO management and to short-sale management. The other part, which is an interesting part of the business, is giving services to investors in REO to rental or buy-to-rental markets. And those are a number of different services that they do, which help those investors finance those properties on warehouse lines or prepare those properties to be securitized.

So, that has been -- they've been a leader in really all of these areas.

And the last area is their European business. They have a company called EuroRisk. It's the leading provider of outsourcing services, including due diligence, in the UK and Europe. And that's the primary market for that business.

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

And just quickly on the revenues, they are pretty well divided among the businesses. Less than 30% of the revenue was the due diligence revenue in 2013, and that's on such a small base of private securitization, so there's a lot of upside there, clearly.

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

And to answer that question, the other part of the question was just why Clayton and why now? We believe Clayton is the strongest player in its industry with the largest share, the strongest reputation, highly respected by rating agencies, GSEs, and investors, and those kind of opportunities with a strong management team don't come about all the time.

And one of the things we have done at Radian is we've constantly focused on managing our existing business, but also in positioning us for the future in terms of growth and profitability and for the next phase of the market. We did that at the onset of the financial downturn by being the first to place an emphasis on expanding our sales force and growing our business, even by being challenged with our legacy business, and it has paid off.

So this is, again, positioning ourselves for what we believe is the next opportunity in the future of the housing finance system in an area where we have already started doing things, to a small extent, on our own.

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

Okay, thanks. That's helpful. And then, you guys talked about contributions from Clayton to the holding company in terms of cash. Do you have a cash flow metric for 2013 for Clayton?

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

We gave you some numbers. We gave the net income, which was $9.1 million, and then the non-cash expense of amortization, so if you add those two up -- there is a little bit of other stuff in there, but that's a good measure.

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

Okay. And then, one last one. It looked like to us that the premium margin might have ticked down a little bit in the first quarter. Do you guys have any color there around why that might've happened in terms of the product mix or anything else?

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

No, premiums really -- the margins really haven't changed and the premiums really haven't changed. What you are seeing from quarter to quarter sometimes is our rescission of refund accrual either is up or down, and that sometimes looks like the margins have changed, but that's not really the case.

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

Got it. Yes, we know it can be a little lumpy. Okay, thanks, guys.

Operator

Eric Beardsley, Goldman Sachs.

Eric Beardsley - *Goldman Sachs - Analyst*

I was wondering how we could expect the severities to move over the next year. There was quite strong improvement in the first quarter. I think you had mentioned some of that was because of just your lower loan balances. I'm just curious on how much of an impact that was versus lower losses on the actual loans.

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

It's really a combination. I think what we have seen is that the pay claims are being more dispersed. The past several years, they were coming from maybe some of the higher cost areas, so just the loan balances are lower and I think we saw that effect. As well, we have continued to curtail loans. So I think it's really a combination of those.

Eric Beardsley - *Goldman Sachs - Analyst*

Could we expect it to improve at a similar rate over the rest of the year?

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

I wouldn't expect -- I would expect a continuation. I would not expect continued improvement.

Eric Beardsley - *Goldman Sachs - Analyst*

Okay. And just on the OpEx, it looks like it came down a bit this past quarter. I guess some of that might've been due to just the actual benefit plans, but how can we see that trend developing over the rest of the year?

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

I think this is a pretty good run rate this quarter. We will always call out this variable comp item, and as we said, midway through this year the effect of stock price changes gets mitigated, and then as of about this time next year, that will go away. But I think other than that, you are seeing a fair run rate on our expense levels.

Eric Beardsley - *Goldman Sachs - Analyst*

Great, thank you.

Operator

Mark DeVries, Barclays.

Mark DeVries - *Barclays Capital - Analyst*

Bob, can you talk about whether this unregulated cash flow that you will get from Clayton will now allow you to manage cash at the HoldCo more aggressively, particularly after you've pushed out your next maturity to 2017?

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

Yes, I would say so, Mark. It creates flexibility for us.

So, Clayton doesn't need very much working capital to be running their business, so positive cash flows can come to the holding company and give us flexibility. Certainly, the money that is at HoldCo today is there to support the operating company and we plan to use it for that purpose. But yes, more flexibility and options, absolutely that's part of the benefit of the acquisition.

Mark DeVries - *Barclays Capital - Analyst*

Okay, and along those lines, I appreciate S.A.'s comment earlier that if you push down $500 million, that it gets you to 14 to 1, but given that flexibility and the relatively low cash burn you now have at the holding company and the unregulated cash flow, could you realistically push most of that cash down? And also, I guess, the incremental $50 million or so you'll be raising over and above what you need to buy Clayton and retire the 2015 maturity (multiple speakers)

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

I am sorry.

Mark DeVries - *Barclays Capital - Analyst*

I'm sorry. If so, where could that actually take -- are you closer to 12 to 1 or something like that?

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

Yes, it's certainly conceivable. We would always have a level of cash at HoldCo that we would require, and that would be subject to our management decision. But again, the flexibility is there, and yes, if we downstream $550 million or $600 million, it gets incrementally better than the numbers that S.A. put out there.

Mark DeVries - *Barclays Capital - Analyst*

Okay, great. And then, are there any assumptions you can share with us around revenue or expense synergies you are looking for from the acquisition?

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

As far as expense synergies, we really haven't built very much in. We think we will have some opportunity over time, but they will be modest from an expense standpoint.

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

And then with respect to revenues, we think there is an opportunity, given the services that Clayton provides, to market those services in a cross-sell way, using our sales force, and so we've been thinking about how do we package those services so that our sales force can introduce them, and we think that's upside to the transaction.

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

And remember, over the last few years, we expanded our customer base quite significantly and we have customers -- in addition to large banks, we have got medium-sized banks, independent mortgage companies of all sizes, community banks, credit unions, and they all have to deal with some of these compliance challenges and they may all participate in some way in selling loans to investors.

Mark DeVries - *Barclays Capital - Analyst*

Okay, and I am sorry if I missed this. Did you talk about what your customer overlap and how much of an opportunity there is to cross-sell to your existing customer base, to people they may not have reached out to?

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

Our customer base is significantly larger than their customer base, so there is a large portion of our customer base that we would be able to cross-sell their services to.

Mark DeVries - *Barclays Capital - Analyst*

Okay, great. And then, just one last question. Any thoughts on where your loss ratio can get to when we just think about the quality of the recent book, whether it be normalized or a below normalized level in the next several years?

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

I think the current level is pretty good. No, look, I think we have said on a consistent basis our book of business would end up with a loss ratio in the 35% range, give or take. If you're growing your business and you have got a lot of business that is young, you can see overall loss ratios lower than 30%, into the 20%s, but this quarter was a very, very good quarter from a loss ratio standpoint and we would sign up for it, for sure.

Mark DeVries - *Barclays Capital - Analyst*

Okay, thanks for your comment.

Operator

Sean Dargan, Macquarie.

Sean Dargan - *Macquarie Research - Analyst*

If we look at slide 14 and the components of the loss provision, and you mentioned the $27.8 million of favorable development, is that net of any bad guys? Last week when Genworth reported, they said that they modestly increased reserve factors to reflect higher severity expectations for late-stage delinquencies.

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

That number is always going to be net and there are a number of things in there, so yes, there are some things in there that go the other way.

We called out -- I called out the three main reasons it's negative this quarter, but we haven't made any changes to our roll rate assumptions for quite some time and we didn't this quarter, so there was nothing like that that was incorporated.

Sean Dargan - *Macquarie Research - Analyst*

Okay, but would it be fair to say that you are feeling incrementally better about late-stage delinquencies now?

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

As delinquencies decline, as claims submitted continue to decrease, we absolutely feel better. There is still uncertainty, but we feel better.

Sean Dargan - *Macquarie Research - Analyst*

Okay, great. And then, I don't know if you had called out the amounts of the extraordinary dividend that you're asking the New York DFS for.

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

No, this is Dave Beidler. We're not going to disclose that while it is still pending with the department, but one way to get a general perspective on it is that our ordinary dividend this year would have been within the range of $30 million, approximately, and you can assume that this request is materially in excess of that.

Sean Dargan - *Macquarie Research - Analyst*

Okay. Can you frame what you think the excess capital you have at Radian Asset is?

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

We think Radian Asset is substantially overcapitalized, given the reduction in risk that we have executed over the last four or five years.

Sean Dargan - *Macquarie Research - Analyst*

You can't put a number on it?

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

No.

Sean Dargan - *Macquarie Research - Analyst*

Okay, thank you.

Operator

Douglas Harter, Credit Suisse.

Douglas Harter - *Credit Suisse - Analyst*

I was wondering if -- help us with thoughts around the growth potential for Clayton, whether it's what 2012 revenues were or a quarterly breakdown, just to see where they are relative to 2013 full year.

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

The opportunities are really within the different business lines, depending on -- the good example is the private securitization market, which could grow the due diligence side of the business. There are other opportunities in other parts of the business, so we are not really talking about projections, per se, but we gave the 2013 revenues and then cited a number of ways to have upside and to grow that over time.

Douglas Harter - *Credit Suisse - Analyst*

Got it. Is that -- the securitization market is clearly a longer-term opportunity. I guess when you see the opportunities, is there a balance between near-term opportunities and longer term? I guess how do you -- or are they all the longer term, like the securitization market?

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

I think there are certainly diligence and surveillance opportunities that are more near term and that they've been building on those opportunities over the last few years.

I think the securitization market will grow a lot more slowly, but having said that, we think that the requirements with respect to the diligence that has to be done for those pools alone will be -- and what we have seen recently is that they have been much more extensive where a much larger number of loans, whether it's 100% or something just less than that, have to be reviewed in order for a deal to go forward. So we think that the securitization market doesn't have to get back to the levels that it had been before in order for Clayton to benefit.

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

And the recent increases in revenues have come a lot from the rents on securitization market, which we think has some legs left in it.

Douglas Harter - *Credit Suisse - Analyst*

Great. And then, if you can give any color on what applications for May, new insurance, is looking like, what type of pickup you are seeing relative to April?

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

I think we're just seeing that it is growing and we have seen the commitments for our insurance continue to grow since the early part of the year.

Douglas Harter - *Credit Suisse - Analyst*

Okay, thank you.

Operator

Geoffrey Dunn, Dowling & Partners.

Geoffrey Dunn - *Dowling & Partners Securities - Analyst*

Two questions here. Bob, I wanted to follow up on your comments on the expense line first. If you back out ceding commission and the performance comp, it looks like your core expense is down from $53 million to $40 million this quarter. I think last quarter you indicated maybe a mid-40s number was more appropriate. So just to be clear, is the $40 million a good run rate or should we still be gravitating to that $45 million level on a core base?

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

I think you are right in that range, Geoff. I think this quarter is a fair run rate, but sometimes we have quarters where there might be a little bit higher, so I would look at that range and say that's a fair run rate.

Geoffrey Dunn - *Dowling & Partners Securities - Analyst*

Okay, and then jumping on expenses from a Clayton perspective, under the new master policy there was going to be, it sounds like, a fair amount of incremental underwriting if lenders opted into the 12-month rescission program. How much money does this save you, maybe, on a go-forward basis having Clayton in house for those underwriting needs? Is it something material to the expense line or is it something that was probably more of a rounding error?

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

I wouldn't call it a savings, so to speak, because obviously we will have an arm's-length transaction between the insurance company and Clayton.

But it certainly is an opportunity to keep those revenues within Radian Group, and so as a result, as we see a need to increase the amount of services that we are using, or even to transition some of what we are doing now to them, we will see that benefit within the full holding company.

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

So Geoff, that would be characterized as taking what is today a Radian expense, pure expense, and turning it into a revenue for Clayton and earnings which potentially could get the benefit of Clayton multiples.

Geoffrey Dunn - *Dowling & Partners Securities - Analyst*

Is that -- I guess to qualify it, is that a material expense over time or is that more of a rounding error in your expense base?

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

I think it's really hard for us to be able to determine that at this point.

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

I don't think it's material, Geoff.

Geoffrey Dunn - *Dowling & Partners Securities - Analyst*

Okay, great. Bob, another question on the stat DTA, why are you or Pennsylvania waiting for 2015 when we have seen other peers get 10%, 15% admittance already? Is there anything different or is it just your approach or PA's approach versus other states?

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

No, it's not. We are doing it exactly the way that we are prescribed. So, it is really the GAAP analysis that drives, then, the stat recovery, so you have got to have the GAAP analysis done first. We haven't gone to Pennsylvania to request anything in advance of that and we don't plan to at this point. So that's the time schedule that we gave.

Now we have gotten some stat DTAs back in some of the smaller subs within Radian, but Radian Guaranty, where most of it exists, is going to pretty much follow the timeline I set for it.

Geoffrey Dunn - *Dowling & Partners Securities - Analyst*

Okay. And then, last question for NIW. December, you noted you had fallen lower in certain rotations, but you had a couple new lenders coming on. Can you talk about the development this quarter, pros and cons versus what you were expecting, and how you think maybe the market-share deltas trend from here?

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

I think that what we have seen is that we have continued to do well with customers. We have seen a little bit of risk allocation, but we have also seen new customers coming on and NIW coming in from those new customers, and there continues to be a significant pipeline of potential new customers to bring on.

We think that we are serving about 70% of the mortgage lenders that are out there, so we think there is some considerable opportunity at this point with respect to that. We think that most of the impact in what we saw in the first quarter had to do with the size of the market, and so when you look at the re-forecast from the MBA and the GSEs, they really had the largest impact on what we wrote.

Geoffrey Dunn - *Dowling & Partners Securities - Analyst*

Okay, and any update on the timeline of the new two big customers coming on that you mentioned in December?

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

I think the two customers that we referred to at that time we are now doing business with.

Geoffrey Dunn - *Dowling & Partners Securities - Analyst*

So they are fully on and running?

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

I'm not -- I think those two are, and there are other customers that we are working with that may be coming on over the course of -- there is another customer that we are working on that would be coming on over the course of this year that is not up and running yet.

Geoffrey Dunn - *Dowling & Partners Securities - Analyst*

Okay, great. Thank you.

Operator

Chris Gamaitoni, Autonomous Research.

Chris Gamaitoni - *Autonomous Research - Analyst*

Most of my questions have been answered. The only remaining question I have is it looked like there was a big pickup in 12-month-plus cures. I think it went from 4% to 7% quarter over quarter. Could you just talk about what's driving that? Is that home price recovery, ability to sale, or some were just cured for other reasons?

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

No, it -- okay.

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

We haven't seen a big pickup in terms of cures on the 12-month buckets. We have seen more substantial pickups in cure rates, quite frankly, on the three or fewer missed payment bucket in the four to the 11 is where we have seen the most substantial pickup. For the most part, the 12-month bucket in terms of [roll] the claim rates and cure rates have been somewhat stable over the year.

Chris Gamaitoni - *Autonomous Research - Analyst*

Okay. And then, you mentioned that you hadn't changed any of your assumptions as far as delinquency to claim rates for the buckets. At what point as we move through this cycle do you change that for the early stage to (multiple speakers) be more towards traditional levels?

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

I'm sorry. I think generally the development we are seeing on the early stage is consistent with what others have recognized in the industry.

I would say over time in terms of the newly delinquent loans, I think we could maybe see a rate, a cure rate, of ultimately 85%. We are continuing to watch the development, and there's been some seasonal effects here in the first quarter, so I think throughout this year, we will continue to watch it and, based upon the data, make an adjustment potentially further on in the year.

Chris Gamaitoni - *Autonomous Research - Analyst*

Okay, great, thank you.

Operator

Jordan Hymowitz, Philadelphia Financial.

Jordan Hymowitz - *Philadelphia Financial - Analyst*

First of all, congratulations on a very good deal on Clayton. Could we get the numbers -- this used to be a public company, if I remember right. Could we get the net income the past couple of years or is there going to be filing with that on it?

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

As we start to disclose numbers, we will have to do comparisons, so you will see a lot more over time.

Jordan Hymowitz - *Philadelphia Financial - Analyst*

Is it possible we could just get the net income the past couple years as opposed to just a general breakeven?

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

That's all we have given. So far, all we have given is what you see, and when we do more, it will be done in a public way.

Jordan Hymowitz - *Philadelphia Financial - Analyst*

Okay. Second is, does Clayton at all compete against the LPSes of the world at this point? And given the potential conflict of interest with some of the [offering] companies, is that a potential business channel you could get?

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

When we have reviewed with Clayton who their main competitors are, and it varies depending on the line of business that you're talking about, neither of those have come up as really significant competitors with respect to the services that they offer.

Jordan Hymowitz - *Philadelphia Financial - Analyst*

Got it. And last question is with a couple more players entering the market, have you seen any market-share shifts in any way? I know the numbers are out slowly so we can start to compute the market share, but have you seen any shift?

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

We did see some shift in the market share from the third quarter of last year until now. That's one of the reasons why we continue to be very focused on bringing on new customers.

Jordan Hymowitz - *Philadelphia Financial - Analyst*

And do you have an estimate of what your share was in the quarter? We can [sub] estimate it, but do you have your estimate at this point?

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

I think our share may be down a little bit, and then once we get reliable numbers with so many new players, it is harder to get the market-share numbers that we used to get more easily in the past. But we believe it's down a little bit from where it was, but still we are very happy with what it is.

Jordan Hymowitz - *Philadelphia Financial - Analyst*

Thanks, guys. Much appreciated.

Operator

Rick Sherman, Oppenheimer.

Rick Sherman - *Oppenheimer & Co. - Analyst*

My question is about your legacy business, Radian Asset Assurance. Over the many years, basically, it upstreamed some dividends up to the holding company to help support it. Hypothetically, if you are a retail municipal bond owner that has a bond that is insured by you, how should they think about it in terms of if, hypothetically, you had a tremendous amount of defaults or whatever? Would the holding company subsequently come back the other way and support that company to honor those bonds, or not?

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

Radian Asset has more than enough capital to pay its claims and we are quite confident of that.

Rick Sherman - *Oppenheimer & Co. - Analyst*

Okay, but I am just saying if there was an outlier, is there anything that would -- since it's in -- is the capital requirements of the Company, because it isn't writing any more business and it's basically in runoff, are those capital requirements much lower than a company that is still is in business, like Assured Guaranty or something, in terms of statutory capital and maintenance capital?

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

The statutory capital requirements are exactly the same, and from a rating agency perspective, the capital requirements are the same.

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

Based on exposure, a lot of them would be writing business [or not].

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

Correct.

Rick Sherman - *Oppenheimer & Co. - Analyst*

Okay, but -- are you not willing to say that if the -- if you had a black-swan event in that segment that overwhelmed the current -- the fact that you are properly capitalized, but it required more additional cash, would cash flow back -- since cash has always seemed to go up to the holding company, would it ever go the other way, if necessary, to honor those commitments?

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

There are no guarantees from the holding company upon the obligations of Radian Asset.

Rick Sherman - *Oppenheimer & Co. - Analyst*

Okay. Thank you very much.

Operator

[Seth Glazener], Decade Capital.

Seth Glazener - *Decade Capital - Analyst*

I wanted to ask -- I guess drill into a little more detail around the statutory DTA. Is that number still around $500 million?

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

It is in that range. The NOLs are $1.8 billion, so it sounds like you are in that range.

Seth Glazener - *Decade Capital - Analyst*

Okay. And so, based on the stat accounting rules, once you reach the minimum level of capital where you can start readmitting DTAs, it looks like you would be able to readmit around $200 million in 2015 and another $200 million, plus, in 2016. Am I thinking about that right?

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

The first one is right. I think then it's a continuous re-looking at the surplus. So you're going to be between 10% and 15% of the surplus, depending on your risk of capital level. So it's a formula, but I don't know that the second year would be that much because that's going to depend on how fast your surplus is growing.

Seth Glazener - *Decade Capital - Analyst*

Right, so -- but it would grow by $200 million-ish in 2015 just due to the readmittance of the DTA, so then I would think in 2016, you would actually have an even higher number that you would be able to let back in, but I guess it depends on some other things, as well (multiple speakers)

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

Yes, yes, if you are talking about an incremental $200 million, I think that sounds high, but there will be something incremental. That (multiple speakers)

Seth Glazener - *Decade Capital - Analyst*

Right, okay.

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

That we do expect.

Seth Glazener - *Decade Capital - Analyst*

Okay, so basically right in the middle of this likely phase-in period for whatever the new FHFA rules are, you will be adding another $200 million to stack capital, just based on -- at some point during 2015, just based on the DTA issue, and then over the next, say, two to three years, you will be adding about the same dollar amount to stat capital as the $500 million cash downstream that you were discussing earlier? Is that -- that's basically what is going to happen, right?

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

Yes, directionally, certainly we expect to add -- based on projections, we expect to add to our stat surplus via admission of stat DTAs.

Seth Glazener - *Decade Capital - Analyst*

Right, okay. And so if you took today's risk in force and you assumed the full readmittance of the full DTA amount, including that $500 million cash downstream, that actually would take your leverage to well under 10 times. It would be probably something like 8 or 9 times, right?

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

Sounds right.

Seth Glazener - *Decade Capital - Analyst*

Okay, okay, great. Thanks very much, guys.

Operator

Steve Stelmach, FBR.

Steve Stelmach - *FBR & Co. - Analyst*

Congrats on the quarter and the acquisition. Looking at Clayton from a return on capital perspective and the numbers that you provided, just back of the envelope, it looks like it's a return on capital a little bit lower than the traditional MI business, yet, Bob, you talked about Clayton being capital light -- or not as capital-intensive business, implying maybe your return is a little bit better. How should I think about return on capital relative to legacy MIs?

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

I think you have to look at this business on a little bit different basis than we look at our MI business, which is pure return on allocated capital.

We are looking at the cash flow it can provide to the HoldCo. We are looking at some of the expenses being non-cash expenses, but we think the returns by any measure are fair and can improve over time and certainly present a really good complement to the MI business historically, and I think even today, businesses like this are valued differently than financial services businesses that have a lot of capital requirements.

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

And this business does not [hold] credit risk, unlike Radian mortgage insurance, so typically these businesses, if you look at the industry, are measured more on EBITDA and then they trade at a multiple of EBITDA, so it's a very -- it's apples to oranges comparison. Quite frankly, I've been envious at the kind of multiples those businesses get.

Steve Stelmach - *FBR & Co. - Analyst*

And also lastly on Clayton, at least, do you know -- are any of your MI competitors current customers of Clayton, and if so, are there any implementation issues there?

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

It's a very small amount of their revenues are generated from the MI industry.

Steve Stelmach - *FBR & Co. - Analyst*

Got it. And then, lastly, S.A., you mentioned persistency and how that perhaps trending towards the mid-80s. Just via normal amortization of the loan back down to 78 LTV, how good can persistency get? Where do we cap off at that number?

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

As you said, maybe 80s. I don't know, Bob, if you have got the historical high water mark for persistency?

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

Yes, I think mid-80s is fair, Steve, and that's why we said it. There is a lot of other factors besides just interest rates playing into it, but I think that's what we are seeing.

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

Yes, the interesting thing, though, is having written a leading share of the business over the last four years, that persistency benefits us in a meaningful way.

Steve Stelmach - *FBR & Co. - Analyst*

Understood, great. Thanks, guys.

Operator

Jim Fowler, Harvest Capital.

Jim Fowler - *Harvest Capital - Analyst*

You provided some of the detail, but I wanted to ask a couple of questions on the revenue mix at Clayton. You said that less than 30% was due diligence. I would be interested to know if you would provide the Green River percentage, but more specifically, is the large portion of the revenue

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related to the servicing surveillance and what percentage of that is contractual in the waterfall of the deals that they are surveilling and approximately how much longer, in average, are those deals expected to remain outstanding? Thank you.

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

Yes, so it is about one-third of the revenues are Green River and about one-third -- in 2013 were the surveillance, and in terms of the surveillance revenues that are coming directly from the waterfall, it's a smaller amount. It's kind of a shrinking amount. A lot of the surveillance is coming from other kinds of projects, like sub-servicer reviews and compliance kinds of things. So we are confident that is an area that will continue to be strong.

Jim Fowler - *Harvest Capital - Analyst*

Got it. So if the servicing transfer activity isn't as robust, looking forward, as it has been and if the REO rental isn't as robust as it has been, is there still a breakeven opportunity? Or are you thinking that those two segments will recover from some of the overhang that they have had recently, and specifically in the servicing segment?

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

I think what we have done is we have built the accretion/dilution statement on the 2014 projections, which are fairly visible at this time, based on the fact that we are halfway through the year.

Certainly some of the -- they do so many things and they have got so many different ways to generate revenue. Some of them may fall off over time, but then there are opportunities to grow some of the others. We think that the REO to rent -- rental is a good one for the next few years and maybe for many years. So, we're pretty confident that the revenues that are generated will hold up and grow over time as we seek these opportunities.

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

And the servicing business is not just dependent on servicing transfers.

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

Yes, I think there is a lot of focus now when you think about the regulatory compliance situation where people are really very focused on how the servicing is performing in terms of their own compliance issues. And I think we will continue to see sub-servicing being done in the marketplace as well, so there is a lot of opportunity there.

Jim Fowler - *Harvest Capital - Analyst*

Thank you very much. Appreciate it.

Operator

Jack Micenko, SIG.

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

Comparing slide 15 for this quarter to slide 15 from last quarter and looking at the net claim rate numbers, obviously the pending number came in and drove some of the (inaudible) a bit. I guess what we've been looking for, and I think there is some gas in the tank on the early stage, that's still at 22%, and I know some others have brought the number in a bit on their assumptions. What does it take for you guys to see that number come down, as opposed to the loss incurred number?

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

Yes, I think it's just watching continued developments, and as I had indicated earlier, the developments we have been seeing on the early-stage delinquencies has been positive. They have been trending particularly positive, I would say, since the second half of 2013.

You had some seasonal affect in the first quarter, I think, which made that development even more favorable, so I think we will continue to watch it to see if it holds up in the second and third quarter and make a determination based upon the data at that point in time.

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

Is there a noticeable vintage breakdown, some of the [3600] plus claims, is there a vintage breakdown in that number that is noteworthy?

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

Generally in terms of vintage, it is still the case that the default inventory is predominantly from the legacy portfolio. That's in terms of claims paid, reserves, and incremental defaults are still predominantly coming from that.

I think as you see a shift in the portfolio of defaulted loans to newer vintages, that will also have an effect in terms of probably driving down that roll rate over time. But I don't think there has been a substantial enough movement for that in and of itself to cause a change in the roll rate at this point in time.

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

Which is a good thing because the newer vintages are performing well.

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

Right, right. And then, the New York State request, is there any handicapping on timing of a potential announcement on that?

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

We hope that it is soon, but it's completely within the department's discretion.

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

Okay, thank you.

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

With that, I would like to thank everybody for participating on our call and talk to you next quarter.

Operator

Ladies and gentlemen, that does conclude our conference for today. Thank you for your participation and for using AT&T teleconference. You may now disconnect.
