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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to Radian's third-quarter earnings call.

(Operator Instructions)

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

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

Thank you and welcome to Radian's third-quarter 2015 conference call. Our press release, which contains Radian's financial results for the quarter, was issued earlier this morning and is posted to the investor section of our website at www.radian.biz.

This press release includes 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 E, F and G and on the investor section of our website.

During today's call you will hear from SA 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; Joe D'Urso, President of Clayton; 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 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 2014 Form 10-K and subsequent reports filed with the SEC. These are also available on our website.

Now I would like to call over to SA.

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

Thank you, Emily. Thank you all for joining us and for your interest in Radian. I'm pleased to report the results of our third quarter and highlight several topics and trends important to our businesses. Following my comments, Frank will cover the details of our financial position, then I will summarize a few key points before opening the call to your questions.

Turning to the quarter's results, earlier today we reported net income for the Q3 2015 of $70 million, or $0.29 per diluted share. This compares to net income for the Q3 2014 of $154 million, or $0.67 per diluted share. You will find the key drivers of our GAAP EPS on slide 8 of our webcast presentation.

Adjusted pretax operating income was $116 million for the Q3 2015, compared to the Q3 of last year of $126 million. Adjusted diluted net operating income per share for the Q3 2015 was $0.31.

As you may recall, there were several favorable significant items that impacted both premiums earned and incurred losses in the Q3 of last year. While this may make the comparisons of our year-over-year results more challenging, I'm pleased to report that in the 3Q of this year we successfully wrote more high-quality mortgage insurance business in the quarter and grew our mortgage insurance in force, continued to experience extremely low loss levels in our force 2008 MI books, made progress in further reducing our legacy MI exposure, and expanded the scope of services we offer to our fee-based businesses.

Now turning to the mortgage insurance segment, we continued to improve the composition of our mortgage insurance portfolio, which is the primary driver of future earnings for Radian. The high quality and profitable new business we wrote after 2008 now represents 83% of our total primary insurance risk in force, or 74% excluding HARP volume. You may find these details on webcast slide 12.

We wrote $11.2 billion of new MI business in the third quarter. Year to date, we wrote $32.3 billion, an 18% increase over the $27.3 billion written in the first three quarters of 2014. I'm pleased to report that we are on track to surpass the $37 billion in NIW we wrote in 2014.

While we expect the decline in refinancings in 2016 to impact overall mortgage origination volume, we expect increased penetration from purchase originations with private mortgage insurance, is three to four times more likely to be used than for refis. As a result, we are expecting lower refi and higher purchase volume next year; thus, projecting a total market for mortgage insurance that is comparable to this year.

There are many encouraging statistics that point to growth in household formation over the next several years. Mortgage rates remain below 4%. And we are seeing a shift in consumer attitude towards homeownership versus renting, particularly over the last 12 months. Single-family housing starts reached a seven-year high in 2015 and new home sales are also on the rise.

Let me take a moment now to address MI's price competition given the high level of interest we have seen within the investment community. At Radian, we are focused on writing as much high-quality new MI business as possible, while maintaining a well-balanced portfolio and business mix that we expect to generate after-tax returns in the low to mid-teens.

In order to maintain this return threshold we have opted not to compete with certain pricing discounts. While this decision has modestly impacted our market share, we have often been able to offset the impact with the addition of new customers, and by increasing the amount of business we receive from existing customers.

Notwithstanding competition this year, we are projecting that 2015 will be our second-best year for primary flow NIW, writing in excess of $40 billion. We continue to strive for the best balance of new business volume and returns on our capital.

At Radian we've had outstanding success in creating new business relationships and growing existing ones. Driven by a customer-focused culture, our sales team brought in 35 new customers in the third quarter and more than 100 total in 2015. We sharpened our focus on credit unions earlier this year, garnering a 19% increase in new business from this growing segment compared to the 3Q of last year.

We also continue to focus on expanding home ownership among low to moderate income borrowers, particularly first-time homebuyers. The volume of 97% LTV business we insured grew slightly in 3Q, representing 3.5% of NIW. Nearly 75% of that business utilizes our Mortgage Assure program which attracts new homebuyers by providing job loss protection for lenders and borrowers.

Turning to the credit environment, the positive credit trends from the first half of the year continued into the second half due to a strong economy, as did the favorable impact of our portfolio from both the legacy is well as newer businesses.

Slide 13 shows that for the nine months ended September 30, 2015, earned premiums, less incurred losses from our 2009 and later MI vintages, were $472 million, compared to $352 million for the first nine months ended September 30, 2014, and only $20 million lower than full-year 2014.

What's most important to remember is that the earned premium for the large and profitable books of business written after 2008 is expected to serve as the foundation for growth in profits over the next several years. And, as we grow our mortgage insurance in force with new profitable business, we are further strengthening and extending that foundation of future earnings growth.

Turning to our mortgage and real estate services segment,3Q total revenues were $43 million, compared to $45 million for 2Q 2015, and $42 million for the 3Q 2014. Exhibit E of the press release provides the five-quarter trend for this segment, and also includes the adjusted pretax operating income before corporate allocations of $5.7 million. You will find further historical details on slide 29.

As you may have seen earlier this month, Clayton announced its acquisition of ValuAmerica, a Pittsburgh-based national title agency, appraisal and management company and technology provider. The addition of ValuAmerica expands the scope of title and valuation services Clayton offers to our mortgage clients, and it is consistent with our strategy of being a complete solution provider to the mortgage and real estate industries. These services also bring new opportunity to differentiate Radian among its MI peers.

Turning to the regulatory and legislative topics important to mortgage insurance business, PMIERs will become effective on December 31, 2015. And we believe that these new capital rules will help instill even greater confidence in the long-term value and roll of the MI industry. At Radian, we expect to comply using only a portion of our Holding Company cash.

While housing policy discussions on Capitol Hill have not yet resulted in significant legislative change, we remain actively engaged with key policymakers and hear support for the important roll of private capital, including private mortgage insurance in the future of housing finance. Discussions continue regarding expanding our industry's role in front entrance sharing, including deeper MI coverage that would further protect the GSEs from risk and reduce borrower cost.

Last week an analysis prepared by Milliman on deeper MI coverage was issued by our industry trade Association, USMI. The study demonstrated how housing finance risks would be significantly reduced for the GSEs and for taxpayers through the use of private MI while also reducing borrower costs.

Now I would like to turn call over to Frank.

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

Thank you, SA. And good morning. Before I get into the details of our results, I would like to address a few points of clarification to aid in the analysis of these results. As a reminder, our segment income statements in Exhibit E present additional detail by segregating the allocated corporate expenses and interest expense into separate line items. This presentation is intended to provide more transparency into the direct cost and contributions of these segments. And we have also included a more conventional metric for our services business of earnings before interest, taxes, depreciation and amortization, or EBITDA.

You will also note some reduction in available Holding Company liquidity that will take place in the fourth quarter to support the redemption of convertible notes and the purchase of ValuAmerica. I will further discuss the capital and liquidity position and plans for Radian shortly.

Finally, you may note that our effective tax rate for the quarter is 39%. Our tax rate this quarter continues to be elevated due to the residual effects of the tax treatment of our capital transactions in a second quarter of 2015 and its impact on our annualized effective tax rate. Those items will continue to impact our annualized effective tax rate utilized for our tax provision estimate for 2015. The tax rate is expected to be closer to our statutory effective rate of 35% beginning in 2016.

Moving now to the drivers of our revenue, new insurance written was $11.2 billion during the quarter compared to $11.8 billion last quarter and $11.2 billion in the third quarter of 2014. Refinancing decreased again, as expected, to 13% of volume this quarter compared to 23% last quarter and 16% a year ago. We continue to expect our full-year 2015 NIW and insurance in force to be higher than the full-year 2014.

Single premium business represented 27% of our total NIW in 3Q, a decline from 32% in 2Q. This continued decline is consistent with both the market conditions of diminishing refinancings and our deliberate actions related to pricing.

Primary insurance in force increased to $174.9 billion during the quarter. Our twelve-month persistency declined from 80.1% in the 2Q 2015 to 79.2% in the 3Q 2015, as noted on Exhibit M.

To give more context with respect to how persistency is currently trending, our annualized three-month persistency increased from 76.2% in the 2Q 2015 to 80.5% in the 3Q. 2Q 2015 persistency was modestly impacted by our previously disclosed reconciliation with servicers, resulting in higher cancellations.

Earned premiums for the quarter were down approximately $10 million from 2Q, primarily related to a reduction in the acceleration of unearned premium recognition on single premium policy cancellations related to refinance activity. This acceleration contributed $13 million to unearned premium this quarter as compared to $25 million in 2Q. Acceleration of premiums enhances the returns on our book of single premiums business and is an illustration of why we prefer a mix of singles and monthlies in our portfolio. The current quarter also benefited from a reduction to our accrual for rescission related premium refunds of approximately $5 million.

Investment income increased slightly in the quarter due to the further deployment of liquidity from the sale of our financial guaranty business earlier in the year. Our portfolio yield increased to 2.1% at quarter end and is expected to increase further as we deploy this liquidity into longer-duration instruments. We expect our duration to extend from approximately 3.8 years to 4.8 years over the next several quarters.

Total services revenue for our mortgage and real estate services segment was $43 million for the quarter as compared to $45 million in 2Q. As we've mentioned previously, and as you can see on slide 29, we expect fluctuations in revenues in this business as the transactional nature of these businesses contributes to greater volatility and revenue. We have also enhanced our presentation on the services segment to include greater insights into the products and services and the range of historical percentage of revenue each of these components has contributed.

On slides 27 and 28 we have listed the five distinct business lines for our services segment. The slides illustrate the percentage of revenue for each business line since 2014, the market segments and clients we serve, and today's primary revenue drivers. In the last column you will see the potential future revenue drivers as the industry conditions may change and evolve.

Moving now to our loss provision and credit quality, the loss ratio was 28.2% this quarter as compared to 13.3% in the 2Q and 22.5% in 3Q of last year. We observed further improvement in new defaults on a net quarterly basis, which decreased 15% over new defaults in 3Q of last year.

We continued to see positive credit trends, such as a decrease in the number of new defaults and improved cure rates. However, we have determined to wait until actual results further substantiate these trends before we further reduce our estimated claim rate on new defaults from its current level of 14%. To the extent these trends continue as expected, we would also expect to further reduce our estimated claim rate on new defaults. As a reminder, we have experienced historical claim rates on new defaults as low as 10%.

Cumulative incurred loss ratios of business written after 2008 remain extremely low and are presented on webcast slide 15. The primary mortgage insurance delinquency rate was 4.1% in 3Q compared to 4.3% in the 2Q 2015. Our expected paid claims for the full-year 2015 are estimated to be approximately $700 million inclusive of the BofA settlement. Claims for 2016 are expected to be approximately $400 million to $450 million.

Moving now to expenses, other operating expenses for the quarter were $65.1 million as compared to $67.7 million last quarter and $51.2 million in 3Q 2014. Fully allocated operating expenses this quarter were comprised of approximately $52 million for our mortgage insurance segment and $13 million for our services segment. This should approximate a normalized operating expense run rate. We are continually evaluating opportunities for ongoing efficiencies and improvements in our expenses.

Finally, I will turn to a discussion on capital and liquidity. Currently, we have Holding Company available funds of approximately $710 million. The reduction from last quarter's available funds of $735 million is related to 4Q 2015 cash outflows for the exercise of the holder's conversion option on our 2019 convertible debt instrument, as well as a negotiated exchange on our 2017 convertible debt and cash proceeds utilized for the Clayton acquisition of ValuAmerica.

We continue to expect to be in compliance with PMIERs by utilizing approximately $320 million of Holding Company liquidity. This is needed for day one compliance. Also keep in mind that capital will continue to build organically at a strong rate within Radian Guaranty. Assumed in this statement is full PMIERs benefits of our only outstanding quota-share reinsurance arrangements.

Prior to December 31, we expect to have completed our evaluation of ways to optimize our compliance by maximizing the inclusion of available assets, such as our corporate owned life insurance and potential further optimization through additional reinsurance. We will also further evaluate the appropriate cushions to hold at Radian Group and Radian Guaranty to ensure both continual compliance with PMIERs and to support our organic growth expectations as we continue to write strong volumes of NIW. We will provide additional information on these cushions as we further refine our analysis.

I will now turn the call back over to SA.

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

Thank you, Frank. Before we open the call to your questions, let me emphasize, first, I'm pleased with our continued ability to write more high-quality MI business, while also growing our mortgage insurance in force, maintaining attractive returns, and delivering our second-best year in primary flow NIW volume.

Second, we are creating a diversified source of revenue and growing fee-based income through our services segment, while also deepening our relationship with our MI customers. Finally, I'm excited about the future prospects for Radian as we enhance and seek new opportunities for our existing products and services.

Now, operator, we would like to open the call to your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Eric Beardsley, Goldman Sachs.

Eric Beardsley - *Goldman Sachs - Analyst*

Hi, thank you. I just had a couple questions. First, on the premiums fyou mentioned a $13 million acceleration of unearned premiums from singles. How should we think about that moving forward? Is that something that goes to zero at some point? Presumably you have a little bit of a benefit moving forward.

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

Yes, I would not expect it to go zero. And I think it is correlated, obviously, to refinance activity and other metrics such as that. $13 million for the quarter, again, compared to $25 million last quarter, obviously our singles production is down from 32% to 27%, again correlated to refinance activity. It is hard to gauge what that number looks like going forward. I think, again, I would correlate it to what your expectations are around refinance activity, but I would not project zero.

Eric Beardsley - *Goldman Sachs - Analyst*

Got it. All else equal, would you say the premium rate is stable here? And with that, how do evaluate reinsurance opportunities, the trade-off between ROE and earnings?

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

As far as the premium rate being stable, I think there were not too many influences of that premium rate this quarter so I think it is a normalized level right now. The impact on it going forward, of course, will depend on future pricing decisions, et cetera.

But as it relates to how we are thinking about reinsurance, we've said historically, at least over the last couple of quarters, we do not need reinsurance as part of our capital plan to comply with PMIERs, but we will look at it more strategically in the risk management context. It is something we are continually evaluating and looking for ways to utilize it to optimize our balance sheet.

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

And, Eric, I think I want to add in terms of how we think about reinsurance and how we utilize it as looking at it from a cost to capital perspective, and then also looking at, I would say, overall leverage with the Holding Company, and thinking about our future ratings. So that's the other thing I think I would factor into that.

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

We believe, particularly at this time there are many attractive reinsurance alternatives available. And we will evaluate the trade-off, specifically to your question, Eric, between returns and earnings, and look at those opportunities where they make sense. But it is great to be in a position where we have so many reinsurance alternatives available that can further strengthen our profitability going forward if we utilize them.

Eric Beardsley - *Goldman Sachs - Analyst*

Great. And then just really quickly, do you have any initial thoughts on what the cushion for PMIERs might be? If I think about this, you have $710 million of liquidity today, you expect to downstream $320 million, leaving you with $390 million. And you've talked about doing something with the 2019 converts early next year. Is that something that you use cash for or do you need to have a bigger cushion for that at the HoldCo?

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

Frank will answer that, but keep in mind at some point we're going to accrete capital within the mortgage insurance subsidiary.

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

That's right. The way that I would probably guide you at this point on the cushion is really in the context of the analysis that we are undertaking presently, which is to understand what the likely stress scenarios are, and also what the organic growth scenarios look like. Because PMIERs is a retrospective analysis, we need to always be in compliance. So, we need to have a fairly well-established forward look on both of those items, stress and growth. And of course we always need to be in compliance. Derek, I don't know if you have anything else to add on that?

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

I think philosophically the only thing I would add is, while we will try and get as close as possible to the cushion we need within the financial guaranty entity, our bias is to keep more of that cushion at the HoldCo level, if we can, to give us more flexibility.

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

That's right.

Eric Beardsley - *Goldman Sachs - Analyst*

Great, thank you.

Operator

Jeremy Campbell, Barclays.

Jeremy Campbell - *Barclays Capital - Analyst*

Thanks, guys. Just wanted to clarify a point on that previous question. The $320 million you guys talked about potentially downstreaming to the sub, that brings you basically just in line with required assets with PMIERs? That doesn't contemplate any kind of cushion?

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

That's correct.

Jeremy Campbell - *Barclays Capital - Analyst*

Okay, great. And then I think SA touched on pricing competition earlier. I think it was more on the lender paid space. We've seen some smaller competitors come out with the new pricing methodologies for the monthly product over the past couple months. Can you guys just share your thoughts on these recent competitive actions and the potential for future pricing pressure in the monthly product moving forward?

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

Sure. This is Teresa and I would be happy to take that question. First of all, I think the important thing is that, in particular, the recent approach by Arch is more of a black box model. And it is risk-based pricing. We are already have risk-based pricing in that we establish pricing levels and rate card granularity by evaluating applicable loan attributes and the resulting cash flow and loss sensitivities. And we've actually made those more granular over the last few years. We've also improved our risk analytic tools which allow us to have even more of a view on what we should be doing from a pricing point of view.

So, what that particular strategy does is to give even more granularity, but it also is more opaque to lenders and others in terms of what is happening in terms of that pricing model. We are going to continue to assess what are strategic position ought to be with respect to whether or not we do something more granular or a similar approach to that.

The other thing that we are evaluating is how this translates out for lenders because there are some concerns about the ability to use those types of models in a TRID-friendly way. So, we're having those conversations with lenders. But I think it is important to note, most importantly, that we already use risk-based pricing, and we have the tools to develop it in a more granular way, if we so choose to do so.

Jeremy Campbell - *Barclays Capital - Analyst*

Got it. So, broadly speaking, you don't foresee any near-term pricing pressure overall?

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

It is very difficult right now because we are still seeing competition from a pricing point of view in the market. But we also are hearing consistently from our customers that competitors are saying they are going to moderate their pricing as a result of the PMIERs.

We have done some filings related to that. We are continuing to make final decisions about where we are going to land because we want to make sure that we are competitive while also continuing to balance the returns that we're getting on the business. So, it is hard to say at this point. I think we will have more visibility into that over the next month or so.

Jeremy Campbell - *Barclays Capital - Analyst*

Great, thanks, guys.

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

I should add that we are pleased with the fact that in a competitive environment like this, again we can still right record amount of NIW at attractive returns, balancing all factors.

Operator

Mackenzie Kelley, Zelman & Associates.

Mackenzie Kelley - *Zelman & Associates - Analyst*

Thanks. Just one more question on the competition side. Are there other avenues that you are seeing that impact of the higher competition, whether it be just increased demand for contracts underwriting, or maybe any leniency in credit standards, or anything else that we should be aware of that might not necessarily show up just in price?

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

Hi, McKenzie. I think the first thing is we are not really seeing anything from a credit standards point of view. I think that's been relatively stable. I think we have seen some demand for contract underwriting over the course of the year, but as you would imagine, as refis have subsided, we started to see some of that demand reduce, as well.

I don't think there are major drivers. We continue to focus on bringing in new customers, we continue to focus on the credit union strategy that SA talked about, and we are continuing to focus on how do we add value. For instance, as we talked about all of the services that Clayton is able to provide, especially as those have grown over the last few quarters, we're really starting to see interest by our customers in having the opportunity to come to Radian and get not only the mortgage insurance but also other services. So, we think that is going to be important for us going forward.

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

We just came back, as you know, from the Mortgage Bankers Association Annual Convention, and we were encouraged to see continued interest, particularly on the part of some of the smaller customers, because the larger customers already use some Clayton services, on using some of the Clayton products, and, more importantly, use them on a subscription basis as opposed to a transaction basis. So, while this is in the very early stage we are encouraged by that because, in large measure, while we like Clayton for its fee revenue opportunities, it is very important to note that one of our majors strategic thrusts is to differentiate ourselves from our competition by offering, particularly our small customers who value that, a deeper relationship. And we are starting to see the beginnings of that.

Mackenzie Kelley - *Zelman & Associates - Analyst*

Great. And then also just on your market share, when you are looking at the success you've had been bringing on, I think it was 40 new lenders last quarter, and I don't know if you quantified it this quarter, and then the success on the credit union side, but balancing that against any changes in allocation from your existing accounts, do you think market share from here is still under pressure? And is that already baked into your estimates? Or how are you thinking going forward that market share, we should be thinking about that?

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

I think we certainly are focused on bringing in NIW that is profitable. And the good news is, again, that we are projecting this is going to be our second-best year in primary flow NIW, writing in excess of $40 billion. I think that's been essentially are primary focus.

In fact, what we are seeing is that these growth initiatives do have an impact. I think the sheer erosion that we've seen this year has been a lot of the price competition, particularly as it heated up during the year prior to PMIERs going into effect. And I think we will see some moderation in some of that competition. That's what we would expect based on what we are hearing in the marketplace.

We are going to continue to focus on those growth initiatives and making sure we are providing value to our customers. We've also been very focused on providing competitively differentiated service levels and we think that is also having traction in the marketplace. So, I think that is how we are looking at it, and we are really pleased with the amount of NIW that we are writing this year.

Mackenzie Kelley - *Zelman & Associates - Analyst*

Great, thank you.

Operator

Geoffrey Dunn, Dowling & Partners.

Geoffrey Dunn - *Dowling & Partners Securities - Analyst*

Thank you, good morning. SA, we keep referring to price competition in the market, but is this more just the natural evolution of MI pricing in a more sophisticated underwriting world, to get rid of the cross subsidization of the high FICO and actually price the business appropriately? And if that's the case, what else changes in the model if we have to adapt to that type of environment going forward?

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

Geoff, if you look at high FICO, as long as I know, even from having been a user of MI to being an offeror of MI, the industry's always priced better on high FICO products and higher credit quality products. So, I don't think there's anything new to that.

What is new is we have players who are coming into the market trying to garner a foothold. And in many cases the only way they can do it is through aggressive pricing strategies and we are dealing with that as an environment now. How long it lasts and how long it plays out remains to be seen, based and largely determined by access to capital and other factors that will drive the ability for that to continue.

But there's also the PMIERs related discipline we expect to come in. The important thing is we as a Company, that's kind of our strength, have been able to deal it in a manner where we've been able to still write record NIW, still maintain attractive returns, while dealing with that competitive environment. And we are building other tools, such as relation drivers, which will allow us to complete in that environment. Should pricing remain the way it is after PMIERs comes into effect, though, from everything we hear and believe it could be tempered after PMIERs goes into effect.

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

This is Derek. I would add, I think the trends we're seeing in pricing is one towards increased granularity. Probably seeing the returns flatten out across the card, which also I think is probably a positive trend. I think the other thing you are seeing in some actions, for instance, taken by NMI and by us, in terms of increased rates on the single premium, is also probably compressing the differential on returns between monthlies and singles.

And the final factor I would point out, which SA alluded to, is that PMIERs also puts a floor in terms of capital and provides, I would say, a consistent capital framework to look at MI company versus MI company, which we also think provides probably a floor in terms of how far pricing can go down.

Geoffrey Dunn - *Dowling & Partners Securities - Analyst*

Okay. So, if I interpret that right, you're saying if you expect returns to flatten out across the card, you are expecting cross subsidization to go away from the high FICOs?

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

I think that where we have seen some competitors move in terms of flattening out those returns, yes, I would expect you probably would see that trend over time.

Geoffrey Dunn - *Dowling & Partners Securities - Analyst*

Okay. And then if you needed to adopt a black box option, because I don't think the regular rate card is ever going to go away, is Radian in a position to adopt that within a 6- to 12-month period?

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

We have, as Teresa mentioned, Geoff, the analytical tools, we have the frameworks to do that, and we always look at that option. The only thing now is to figure out whether it really is something that will help us achieve our objectives, and whether we can do it in light of the new TRID rules in a manner that makes us comfortable with it being TRID-friendly.

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

In short, yes.

Geoffrey Dunn - *Dowling & Partners Securities - Analyst*

Okay, great. Thank you.

Operator

Jack Micenko from SIG.

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

Good morning. I'm wondering if there's any pricing differential between credit union and regular customer. You had mentioned some nice growth in credit union and I'm wondering if that's just increased sales effort or if there is a broader pricing differential there?

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

There has been a separate rate card for credit units for quite some time, so there's no difference in that regard. I think when we talked about our credit union strategy we actually brought on more salespeople that are specifically focused on credit unions. And we also broadened the use of our Mortgage Assure product with credit unions. That's how we focused on that. But the pricing differential has been there for some time.

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

Okay. Then maybe a little surprised to hear extending duration on the investment portfolio at this point in the cycle. Frank, 2.1 yield here. You said you were going to extend about a year. How should we think about that on the yield for that book going forward with the extension?

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

I wouldn't want to guide you too much on precise number of basis points but I think you can estimate what that might look like. Again, the complexion and the composition of the investment portfolio I would not expect to change other than it would be more fully invested, is probably the best way to think about that.

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

Okay, great. And then just one last one, I think on slide 15, this quarter the 2010 and 2011 books have moved past that three-year window and appear to be continuing to move past peak loss ratios. Is there anything that you guys think changes that directional trend over time?

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

The only thing that would really change it is some sort of macroeconomic dislocation. I would say a recession would be the only thing that I would think would likely reverse that. And the guidance we've given in the past on this, I think, holds true. So, really that 2010 to 2012 book, we see those loss ratios settling out in the single digits. And then the 2013 and 2014, again, pretty early in the development but we see those trending, I would say, below 15%. But, again, that will take time to develop.

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

Okay, thank you.

Operator

Doug Harter, Credit Suisse.

Douglas Harter - *Credit Suisse - Analyst*

Thanks. I was just hoping you could clarify the comments you made around claim rates and what you are looking for before you would lower the expected claim rate.

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

Yes. This is Derek. In terms of the claim rate, I think what we saw over the last quarter, you get some seasonal impact when you move from second quarter to third quarter. So, you see, for instance four cure rates on our 2 to 3 missed payment bucket, and 4 to 11, decrease slightly. That's not atypical moving from second quarter to third quarter. So, really, what we are looking for is further development in terms of that, and seeing what, for instance, the impact is going to be in the fourth quarter.

I would say overall -- and Frank alluded to this -- if overall positive trends continue I would expect we'd see a reduction in future quarters. And historically in a normalized environment, where you had, I would say, an expanding economy, we have seen roll rates on new defaults as low as 10%. So, if you think about it over time that might be more of a baseline in a normalized environment.

Douglas Harter - *Credit Suisse - Analyst*

And if that comes through, would we expect to see that in more prior period development or would we see that in the current period?

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

I think you would see it in prior period development. And, again, that's what you saw in the past. For instance, in previous quarters, so fin first and second quarter, we actually decreased our roll to claim rates on our new defaults, and that flowed through that line. So, you would've seen that in the comparison in previous quarters.

Douglas Harter - *Credit Suisse - Analyst*

Great, thank you.

Operator

Bose George, KBW.

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

I just had a follow-up on the pricing. From what you see in terms of pricing by the competitors, does it look like the blended ROEs can end up in roughly the same place?

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

Are you asking if based on how does everybody --?

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

Just to clarify -- the returns on the higher cycle loans are going down. Is there a corresponding offset to the returns on the lower credit quality loans where pricing is going to be increased by some of the competitors?

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

The question I think is, if the cross subsidization is going down, what is the offset to lower pricing at the higher FICO levels that will still achieve the blended return target.

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

Obviously when we are setting the returns, what you're going to look at is the volume. So, obviously, you have higher volume in those higher FICO buckets. But what you're going to try to do is set the rates taking account your volume to keep your overall return somewhat stable. So, that would be the objective. And over time I think what we'd expect to see, and we've seen this trend to some extent, is have the book of business from a FICO perspective decrease a bit over time. That's been a pretty steady decrease but we would factor that in in terms of our projections and our projected returns.

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

Okay, great, thanks. One unrelated question -- when you recapture the 50% of your seated premium in 2016, does that work out to around $15 million a year of premiums?

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

Last quarter we had recognized $6 million into the premium. Bear with me just a moment.

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

Bose, we may need to get back on that.

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

I don't think we have that number at hand.

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

No problem.

Operator

Sean Dargan, Macquarie.

Sean Dargan - *Macquarie Research - Analyst*

Hi, thank you. I just wanted to follow-up on the reserve development in existing defaults. If I heard correctly, we should expect to see favorable development in that line if you reset your assumptions around default to claim rate. And seasonally the third quarter tends to be unfavorable. Is that the way to think about it?

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

It is unfavorable. So, what you have to look at is really factoring in the seasonal impact versus, I would say, the more secular, and really try to disaggregate those and make a determination as to where it's going from a secular perspective.

Sean Dargan - *Macquarie Research - Analyst*

Okay. And can you just remind us what your secular perspective is?

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

Meaning that really looking at it factoring out the seasonality impact. Again, what you're going to see when you go from second quarter into third quarter and third quarter to fourth quarter is you're going to see some natural deterioration. And the question you always have to analyze is how much of that is purely given by seasonal factors versus, I would say, just the general trajectory of the book of business. What we said with respect to third quarter is, looking at that, we took a pause in terms of actually reducing that rate. Again, we look at that each quarter.

Sean Dargan - *Macquarie Research - Analyst*

Okay, thanks. Just shifting gears, what are the TRID issues or potential issues with TRID with risk-based pricing?

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

When you think about using a lot of different pricing scenarios, which is what you would see in a black box situation, under TRID, when you disclose at the beginning of the loan, there are a lot more requirements around redisclosure and the timing around disclosures. One of the questions is whether or not -- you could have something relatively small occur that changes one of the parameters of the loan, which takes you to a different price and triggers redisclosure.

Part of the question is how -- lenders are just getting their arms around TRID, and we don't even yet know what this is going to look like as they start to close loans. Is that something that enough lenders have an appetite for from a process and operations and customer impact point of view to use, or whether or not it is better to have the more transparent pricing that we currently have in the market, but potentially giving more granularity there.

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

That's why if you go back, while there was one lender who has been offering black box pricing for many years, they came out with a parallel, more transparent pricing. And not all customers prefer block box pricing, so you've got different customers who have different levels of preference. That said, we are in a position to adopt black box pricing if we think it is going to be helpful relatively fast.

Sean Dargan - *Macquarie Research - Analyst*

Thank you.

Operator

We have a follow-up question from Geoffrey Dunn, Dowling & Partners.

Geoffrey Dunn - *Dowling & Partners Securities - Analyst*

Thanks, I had a couple of follow-ups. First, what percent of the NIW market comes from the large national lenders that won't take risk-based pricing and need the right cards?

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

I don't think we've looked at that number, Geoff.

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

And, Geoff, what makes it difficult is the large lenders numbers also include loans they aggregate from the smaller lenders. So, if you are looking at a pure number it would be difficult to guess.

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

Yes. And, again, I think we are using risk-based pricing so I think what you are asking is who uses the black box and who does not use the black box. And a lot of that depends on whether the lender uses an allocation model. It depends on whether or not they let the loan officer select the pricing. So, it is very difficult to say that. I think as a general proposition what we see is the largest lenders tend to not use black box, they tend to use more of a rate card approach. But I couldn't give you a percentage.

Geoffrey Dunn - *Dowling & Partners Securities - Analyst*

Okay. And then, Derek, I think you mentioned historically if cross subsidization went away, you would look at your business mix. But if you raised the lower end cycle, you're probably losing a bit more to FHA. So, I wanted to ask the question again -- in today's marketplace, if cross subsidization goes away, can you maintain your targeted returns, because by definition your ROE on the mix of business today would go down.

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

Again, I think that's going to depend upon where competitors ultimately price it. And I think right now we are in a state of flux. I think we've seen again, parties out there with a black box, parties putting forward certain rate cards. So, it is difficult to say, quite honestly, at this point in time where it shakes out.

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

I would just add that what we are hearing in the marketplace, and what you are seeing is there's actually concerns that a lot of lenders have, particularly the large lenders, not just Chase, with respect to moving away from FHA. And there's a lot of concern about what they feel like they cannot control in terms of their risk, particularly actions by the DOJ with respect to treble damages.

The encouraging thing from an MI point of view is that we're starting to see lenders look at how they can increase the amount of conventional financing that they are doing and potentially reduce what they are doing from an FHA perspective. And I think the larger the lender, the more you hear that.

Geoffrey Dunn - *Dowling & Partners Securities - Analyst*

Okay. And my last follow-up, Frank, the allocated expenses, at the end of the day they are just expenses that belong to the Company. And I would think at the size of the MI book we would probably want to see the expense ratio in MI come down towards 20%. So, are there any initiatives underway to try to trim that number down and get an expense ratio that might be more fitting of the size of your book?

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

Yes, certainly we are always looking at ways to be more efficient, et cetera. We've got a modernization project underway that is intended to do just that. I think what's sometimes a little misleading about that is, as we transition from one system to another, there is the potential to, in essence, have some duplication in certain costs. But, no, we certainly mindful of what that expense ratio should be, needs to be, and are continually working on ways to get there.

Geoffrey Dunn - *Dowling & Partners Securities - Analyst*

Okay. And in terms of just how we should think about the number going forward? Is the 12 to 14 level where it should stick?

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

I'm sorry -- 12 to 14?

Geoffrey Dunn - *Dowling & Partners Securities - Analyst*

In the MI allocation?

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

Yes. I think that's -- again, as I indicated, I think what we have right now you should expect to see on an ongoing basis. There is some positives and negatives in the quarter that are somewhat one-time in nature, but I think on a net basis that would be a reasonable expectation.

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

But, Geoff, to your point, we have undertaken a major initiative which is called modernization, which is well underway and maybe halfway through. The purpose of the initiative is, one, to substitute technology for labor cost and make not only reduce the cost but increase the amount of customer service and turnaround time and customer the flexibility we provide. And the projected outcome of that is to give us a benefit in terms of our expense ratio. Also keep in mind that the ratio alone can move significantly based on the level of reinsurance that you use or not.

Geoffrey Dunn - *Dowling & Partners Securities - Analyst*

Okay, thanks.

Operator

Chris Gamaitoni, Autonomous Research.

Chris Gamaitoni - *Autonomous Research LLP - Analyst*

Thanks. I wanted to follow-up on the later stage delinquencies. It looked like the reserve per delinquency in the 12 month in the pending bucket was up in the quarter. I was just wondering what's driving that and is that something we are going to see moving forward or was it one-time in nature?

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

I think one of the things you are seeing with respect to the impact is on severity. One of the things we are seeing is, when we look at our pending inventory in terms of default inventory, those that have been in default for a longer period of time tend to have a higher severity.

So, one of the things we have looked at is basically allocating our severity where those that have been in default for shorter period of time have a lower severity. Those that have been in default for a longer period of time have a relatively high severity. What's really driving that is the longer a loan has been in default, you are racking up more fees in terms of taxes and ancillary fees. So, I think that's maybe what you are seeing a bit of.

Chris Gamaitoni - *Autonomous Research LLP - Analyst*

The follow-up is, is that a trend we are going to see continue in the future? And is there any way to limit that increasing severity from services not hitting their foreclosure time lines?

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

I think what you're going to see over time as compared to recent development, I think our expectation is claims will be resolved and paid faster. Again, looking back over the last several years you've certainly had a large number of defaults in the pipeline. So, I think what we are going to expect to see going forward is those to clear our faster. So, I think over time you would see that wash out.

Chris Gamaitoni - *Autonomous Research LLP - Analyst*

Okay. Thank you.

Operator

I would now like to turn the call back into the hands of Chief Executive Officer, SA Ibrahim. Please go ahead.

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

Thank you, operator. Thank you all for joining us today. For those interested in learning more about Radian and spending time with us figuring out why we are so excited about Radian and our opportunities, we would like to invite you to our Investor Day on Tuesday, November 17 in New York City. We look forward to seeing you there. And please visit our website for more information. With that, I would like to end the call and hope to see most of you in New York City on November 17. Thank you.

Operator

That does conclude our conference for today. Thank you for your participation. You may now disconnect.