Radian Guaranty Inc.

RADIAN

Proposed GSE Private Mortgage Insurer Eligibility Requirements (PMIERs)

Frequently Asked Questions

July 10, 2014

What's happening?

On Thursday, July 10th the Federal Housing Finance Agency (FHFA) proposed new Private Mortgage Insurer Eligibility Requirements (PMIERs) for public comment. The proposed PMIERs which were developed by Fannie Mae and Freddie Mac (GSEs) are intended to provide revised requirements that the GSEs will impose on private mortgage insurers (MIs), including Radian Guaranty, to remain eligible insurers of loans purchased by the GSEs.

As the new PMIERs will serve as an important set of national requirements that MI companies will be required to meet, Radian will provide input to the FHFA during the public comment period.

What eligibility requirements are in effect today?

Radian is an eligible mortgage insurer with the GSEs. The GSE eligibility requirements currently in effect, among other things, impose limitations on the type of risk that may be insured, standards for the diversification of risk, procedures for claims handling, standards for acceptable underwriting practices, standards for certain reinsurance cessions and financial and capital requirements. Because Radian Guaranty, similar to certain other MIs, does not meet the rating agency requirements specified in the GSEs' eligibility guidelines (historically the GSEs required an insurer financial strength rating of AA- or Aa3 from at least two of the three ratings agencies) Radian Guaranty and certain other MIs are currently operating as eligible insurers under approved remediation plans with Freddie Mac and Fannie Mae.

Mortgage insurers including Radian Guaranty also operate under licenses issued by state insurance departments. Radian complies with all applicable state insurance department requirements.

What is the timeline for the PMIERs?

The public comment period is expected to end on Monday, September 8th. After the public comment period ends, the FHFA is expected to review and consider input before publishing the final PMIERs. All aspects of the PMIERs are expected to become effective 180 days after their final publication. Approved insurers will be given an extended transition period of up to two years from the final publication date to be in compliance with the financial requirements of the PMIERs.

Based upon an estimated final publication date of the end of 2014, Radian expects a transition period through January 1, 2017.

Will Radian be able to comply with the PMIERs?

Yes, we expect to be able to fully comply with the PMIERs within the transition period. Based upon an estimated final publication date of the end of 2014, Radian expects a transition period through January 1, 2017.

Radian has approximately $800 million of currently available liquidity and the potential to monetize or utilize its financial guaranty business, which had $1.2 billion of statutory capital and an additional $376 million in claims-paying resources as of March 31, 2014. Radian Asset received approval from the New York Department of Financial Services to pay an extraordinary dividend to Radian Guaranty of $150 million, and we expect to request an additional dividend in 2015. We have also retained an advisor to help us maximize the value of Radian Asset within the transition period.

In addition, if necessary, Radian expects to have the ability to leverage various other options, including external reinsurance.

When should we expect Radian to take action to comply with the PMIERs?

It is important to note that these PMIERs are in draft form, and Radian and others will provide input to the FHFA during the public comment period. Based upon an estimated final publication date of the end of 2014, Radian expects a transition period through January 1, 2017, therefore there is no need to take immediate action to comply.

Did Radian comment on the proposed PMIERs before they were made public?

The proposed PMIERs reflect limited initial input from Radian. We have discussed several concerns with the FHFA and GSEs over the past few weeks before the PMIERs were issued for public comment.

We will continue to discuss our concerns and provide additional commentary to the FHFA on several areas of the proposed PMIERs during the public comment period, which will end on Monday, September 8th. We plan to provide input on several aspects of the proposed PMIERs, including capital requirements that are more onerous than Radian's historical default experience suggests would be needed to withstand a severe stress event. Our comments will also outline how the proposed PMIERs are inconsistent with the FHFA's stated goals of expanding access to mortgage credit and reducing taxpayer risk by increasing the role of private capital in the mortgage market.

Will Radian need to raise capital to comply with the PMIERs?

Based on our $800 million of currently available liquidity, the potential to monetize or utilize our financial guaranty business, and, if needed, the potential to leverage various other options, including external reinsurance, we do not expect compliance with the PMIERs to require us to raise external capital.

Based upon an estimated final publication date of the end of 2014, Radian expects a transition period through January 1, 2017.

Do you expect these proposed rules to impact the future returns on your MI business?

We estimate that the PMIERs, as proposed, would increase the amount of capital Radian would be required to hold. For example, we estimate that if the draft PMIERs were applied to the business we have written thus far in 2014, we would be held to a risk-to-capital requirement of approximately 14 to 1 on that business, without taking into account the increased capital requirements for any of these loans that become delinquent. Overall, we believe the scale of these increases to the capital requirements is inconsistent with the FHFA's stated goals of expanding access to mortgage credit and reducing taxpayer risk by increasing the role of private capital in the mortgage market. To the extent that the PMIERs are not modified and assuming no changes in our current pricing, we project the returns on our mortgage insurance business could be negatively impacted.

Will Radian need to raise mortgage insurance prices?

We don't expect an immediate need to raise mortgage insurance prices based on the proposed PMIERs, in particular given that the requirements may change before final publication (estimated for the end of 2014), and the expected transition period through January 1, 2017.

However, if the PMIERs were adopted in their current proposed form, we estimate that it would increase the amount of capital Radian would be required to hold. The capital requirements are greatest for higher LTV loans and for borrowers with lower FICO scores, which means that the cost of borrowing for many deserving, low- to-moderate-income future homebuyers could increase significantly. As we have commented to the FHFA and we will continue to highlight as a primary concern, the proposed capital charges could restrict credit access for many future homebuyers, and ultimately slow the recovery of the housing market.

Do you expect new business volume for the MI industry to be impacted by the proposed PMIERs?

Radian expects to continue writing as much new, high-quality mortgage insurance business as possible and, as an industry leader with a strong financial and competitive position, we believe we are in a strong position to do so.

However, there is a risk that if the PMIERs are adopted in their current form, it could increase the cost of borrowing and restrict access for many deserving, low- to moderate-income future homebuyers. This could drive new business origination from the private mortgage insurance industry to the FHA, or result in the emergence of risky alternatives to mortgage insurance, such as "piggyback" loans, which were prevalent prior to the financial crisis, either of which could place U.S. taxpayers at much greater risk.

Is capital for Radian Asset, your financial guaranty subsidiary, included as an Available Asset in the proposed PMIERs?

No. The proposed PMIERs adopt a different capital adequacy framework focused primarily on minimum required assets, rather than the statutory capital framework currently used by state regulatory authorities. The $1.2 billion of statutory capital of

Radian Asset and the additional $376 million in claims-paying resources as of March 31, 2014 are not included as Available Assets in the PMIERs as proposed.

That said, we expect to be able to fully comply with the PMIERs within the transition period (which we expect through January 1, 2017) which provides us a significant period of time to do so, including time to monetize Radian Asset or otherwise find alternatives for utilizing the capital of Radian Asset in a way that is given credit under the PMIERs. We believe that Radian Asset has significant value, and we are committed to deriving maximum value from the company.

Radian Asset has served as a valuable source of capital, approved by the GSEs, since 2008. Radian Asset stopped writing new business in June 2008, and since that time has successfully reduced its exposure by 80%. The majority of our structured finance portfolio, which represents nearly half of the remaining exposure, will mature by the end of 2017. Radian Asset has improved its statutory capital levels by more than 25% and paid approximately $420 million in dividends to Radian Guaranty. Radian Asset received approval from the New York Department of Financial Services to pay an extraordinary dividend to Radian Guaranty of $150 million, and expects to request an additional dividend in 2015.

Are there other statutory assets not included in the proposed PMIERs?

Yes. The proposed PMIERs adopt a different capital adequacy framework focused primarily on minimum required assets, rather than the statutory capital framework currently used by state regulatory authorities. Most notably, in addition to the treatment of subsidiary capital discussed above, Available Assets are calculated in such a way that they also would exclude statutory assets such as Radian's Deferred Tax Asset (DTA). However, we expect that nearly all of this benefit will be realized before the end of the two-year transition period that is expected through January 1, 2017.