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PRESENTATION

Operator

Ladies and gentlemen, good morning. Thank you for standing by and welcome to Radian's First Quarter 2015 Earnings Conference Call.

At this time, all lines are in a listen-only mode. Later, there will be an opportunity for your questions and instructions will be given at that time. (Operator Instructions) As a reminder, today's conference is being recorded.

I'd now like to turn the conference over to our host, Senior Vice President of Investor Relations, Mrs. Emily Riley. Please go ahead.

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

Thank you and welcome to Radian's first 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 Investors section of our website at www.radian.biz. This press release includes certain non-GAAP measures, including a new non-GAAP measure introduced this quarter, which will be discussed during today's call. A complete description of these measures and a reconciliation to GAAP may be found in press release Exhibit F and on the Investors section of our website.

During today's call, you will hear from S.A. Ibrahim, Radian's Chief Executive Officer and Frank Hall, Chief Financial Officer. Also on hand for the Q&A portion of the call are Teresa Bryce Bazemore, President of Radian Guaranty; Joe D'Urso, President of Clayton; 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 2014 Form 10-K and subsequent reports filed with the SEC. These are also available on our website.

Now, I would like to turn the call over to S.A.

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

Thank you, Emily. Thank you all for joining us and for your interest in Radian.

I'm pleased to report today on our first quarter as a simplified company with a clear strategic focus on our core strengths. But let's begin by taking a look at what the last year has meant for Radian.

First, we achieved our first full year of profitability in 2014 since 2006 laying the groundwork for a strong first quarter and for future growth and profitability. Second, we acquired Clayton and successfully introduced our Mortgage and Real Estate Services segment. Third, we eliminated all of our exposure to financial guaranty credit risk with the sale of Radian Asset. And finally, just two weeks ago, we gained the clarity that the MI industry has been waiting for with the release of the final Private Mortgage Insurer Eligibility Requirements or PMIERs and importantly announced our ability to immediately comply. In addition to clarity, these rules also brought capital relief when compared to the draft rules issued in July.

All in all, the last 12 months have created a turning point for Radian. With a clear focus on our core strengths, we are better positioned to leave our legacy exposure behind and drive long-term value both from a large and successful mortgage insurance business as well as by leveraging our strong relationships and our increased capabilities in broadening our future sources of revenue.

Turning to the quarter's results. Earlier today, we reported net income from continuing operations for the first quarter of 2015 of $92 million or $0.39 per diluted share. This compares to net income from continuing operations for the first quarter of 2014 of a $146 million or $0.68 per diluted share. You will find the key driver of GAAP EPS from last quarter on slide 8 of our webcast presentation. Book value per share at March 31, 2015 was $11.53. Adjusted pre-tax operating income was a $124 million for the first quarter of 2015 compared to the first quarter of last year of $84 million. Adjusted diluted net operating income per share for the first quarter of 2015 was $0.35.

Turning to the Mortgage Insurance segment, we continued to grow and improve our mortgage insurance in force book, which is a primary driver of future earnings for Radian. We wrote $9.4 billion of new MI business in the first quarter, an increase of 38% over the first quarter of last year. While our insurance in force book grew only slightly in the quarter due primarily to high refi volume, we expect to grow our insured book this year and over time. The composition of our mortgage insurance portfolio continues to improve as the high quality and profitable new business we wrote since 2008 now represents 80% of our total mortgage primary mortgage insurance risk in force or 70% excluding HARP volume. You can find these details on slide 11. While it remains difficult to project future NIW, we are on track to write more new business in 2015 than we did in 2014 building on the higher first quarter 2015 NIW.

We continue successfully to add new customers with 33 new lenders delivering business to Radian in the first quarter. We focused our product development initiatives on the growing purchase market of new home buyers and earlier this month, we launched Mortgage-Assure, a job loss protection product that is designed to encourage qualified, but low down payment borrowers to make the leap to homeownership. Concern regarding job security is an important factor for borrowers in deciding whether to purchase a home and this product is intended to lessen this barrier to entry, which clearly will benefit borrowers and Radian as well as addressing the significant industry challenge of getting more qualified first-time buyers to participate in homeownership. We purchased insurance from a third party to provide this protection, therefore there is no added credit risk to Radian.

Credit trends were outstanding in the first quarter due to a strong economy and the impact of seasonality. The total number of primary delinquent loans declined by 11% from the fourth quarter of 2014 and by 24% from the same period last year. On slide 20, you can see that our primary default count decreased to 40,440 loans and our primary default rate fell to 4.6% as noted on slide 21.

Slide 12 shows that for the first three months ended March 31, 2015, the earned premiums less incurred losses from our 2009 and later MI vintages of $150 million creates a strong start to the year with an expected run rate for the year that would exceed performance of these books even last year. The earned premium from the large and profitable books of business written after 2008 is expected to serve as the foundation for our profitable growth over the next several years.

Turning to our Mortgage and Real Estate Services segment. First quarter total service revenues were $30.7 million and gross profit on services was $12.3 million. Slide 26 provides a two-year trend for this business, where you can see the quarterly fluctuation in revenue. Overall, we're pleased with the performance of this new segment which adds a diversified source of fee-based income revenue for Radian. The products and services in our Mortgage and Real Estate Services segment broadened our participation in the residential mortgage market value chain with services that complement our MI business and deepen our relationships. While we are in the early stage, we are encouraged by customer response as we begin to gain traction in cross selling these services to our large and growing MI customer base.

In March, Clayton acquired Red Bell Real Estate, a real estate brokerage that provides products and services including AVMs, broker price opinions and advanced technology for monitoring loan portfolio performance and valuing residential real estate through a secure platform. The feedback from industry sources indicate that Red Bell is highly regarded and provides us with access to a wealth of data on real estate listings and sales that enhances the value of our mortgage and real estate services solutions.

Turning to several topics important to our mortgage insurance business. The PMIERs were finalized and published nearly two weeks ago. What's most important is that Radian would be able to immediately comply with the PMIERs using only a portion of the existing holding company cash. The PMIERs become effective on December 31, 2015, which is good news for our industry that has been long awaiting the certainty these rules help to provide. We are pleased that many of the comments made by our industry were heard and answered, including capital relief for the legacy loans that remained current through the worst economic downturn of our time.

Under the PMIERs, our private mortgage insurers available assets must meet or exceed its minimum required assets, and we estimate that if we were to comply today, we would need to contribute $330 million or less than half of our holding company cash. By year end, this amount is expected to decrease modestly. We are pleased to put this issue behind us. Importantly, we estimate that the PMIERs capital requirements for the business we're writing today would translate into a 14 to 1 risk-to-capital ratio for which we expect to generate an after-tax return in the low to mid teens.

Another topic for our industry has been expected changes to LLPAs and G-fees which were released in tandem with the PMIERs. We continue to expect that private mortgage insurance will play a significant role in increasing low income and first time homeownership and that our product is priced competitively for the vast majority of business we write today, that business is typically above a 700 FICO and at LTVs of 90% to 95%. The slight positive change made to the LLPAs with the removal of the Adverse Market Fee will do very little to close the gap in pricing between conventional loans with MI and FHA loans or higher LTV and lower FICO loans. However, we did see the credit blocks open slightly in the first quarter, and we continue to capture business where we either don't have a pricing advantage or the advantage is very small.

From a home buyer's perspective, private mortgage insurance has the added benefit of being automatically canceled when the mortgage balance reaches 78% of the home's original value versus FHA insurance that is paid over the entire life of the loan. In addition, the FHA's upfront premium increases the borrower's loan amount which is another fixed life of loan cost adding to the home purchase amount.

Before I turn the call over to Frank, let me emphasize. We had a strong first quarter as a simplified company with a clear strategic focus on our core strengths with adjusted diluted net operating income of $0.35 per share and a book value of $11.53. We received clarity in the regulatory environment with the release of the final PMIERs. Radian is able to immediately comply using only a portion of our current holding company cash. We acquired

Red Bell, a relatively small but data rich company that increases the breadth and depth of offerings for our Mortgage and Real Estate Services segment.

And now, I'd like to turn the call over to Frank.

Frank Hall - *Radian Group Inc. - EVP & CFO*

Thank you, S.A. and good morning.

As S.A. has mentioned, our message, strategy and financial performance are far simpler than in previous periods and will begin to illustrate our position of strength and excellence. But before I share the results of the quarter, I would like to address a few points of clarification to aid in the analysis of our results.

First, we have introduced a new non-GAAP operating measure this quarter, adjusted diluted net operating income per share which was $0.35 for the first quarter and represents our adjusted pre-tax operating income from Exhibit E, tax effected using the quarter's effective tax rate of 33% for continuing operations. This compares to our GAAP earnings per share of $0.39. Our discontinued operations continued in the first quarter as the sale of our financial guaranty subsidiary closed on the first day of the second quarter, April 1. We reported approximately $500,000 in income from discontinued operations this quarter primarily as a result of adjustments to true up our estimated closing adjustments and transaction expenses.

Our segment income statements in Exhibit E have been enhanced and 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 costs and contributions of the segments.

Our effective tax rate on income from continuing operations, is close to the 35% statutory rate. Our blended tax rate on income from discontinued operations is close to 100%, as we currently receive no benefit from our loss on sale for the quarter of $14 million due to our election to limit the amount of capital loss generated from a tax perspective. And lastly, the impact of our share count due to our convertible bonds is 48.6 million shares as shown on Exhibit B.

Moving now to the drivers of our revenue. New insurance written was $9.4 billion during the quarter compared to $10 billion last quarter and $6.8 billion in the first quarter of 2014. NIW levels were higher than expected this quarter even after taking into account typical seasonal reduction in volume, but were improved primarily due to an increase in refinancing. Refinancing represented 33% of volume this quarter compared to 22% in the fourth quarter of 2014. This elevated level of refinancing also muted our insurance in force growth for the quarter. We expect this level of refinances to come down and continue to expect our full year 2015 NIW and insurance in force to be higher than the full year of 2014.

The elevated level of refinancing also contributed to an increase in our mix of singles this quarter, which were 37% of our total NIW. The mix of singles production is expected to vary over time as the market conditions that favor singles versus monthlies also varies. As we consider the impact of this mix shift, we are mindful of this production in the context of the total portfolio impact on returns and its risk characteristics. Generally, we have found that singles production levels of approximately one-third or less of our NIW volume are well absorbed into the portfolio and fit within the ranges of our target return and risk metrics.

If the market should demand a higher mix of singles over an extended period of time, we may evaluate potential risk mitigation techniques to deal with the extension risk associated with single premium production. With refinancing volume expected to decrease, we also expect the level of singles to decrease to a level below one-third of our total new volume.

Primary insurance in force increased slightly to $172 billion during the quarter, as new insurance written was mainly offset with run-off largely due to refinancing. Likewise, our 12-month persistency decreased from 84.2% in the fourth quarter of 2014 to 82.6% in the first quarter of 2015 as noted on Exhibit N. Annualized persistency for the quarter alone was approximately 80% and we expect persistency levels to increase from this quarterly low for the remainder of the year.

Earned premiums benefited significantly from refinancing activity, as acceleration of single premiums earned primarily from cancellations increased approximately $8 million this quarter. This acceleration of premiums enhanced the expected returns on our book of single premium business and is an illustration of why we prefer a mix of singles and monthlies in our portfolio. Adjusting for the non-recurring nature of this acceleration and the $9 million profit commission recognized on our fourth quarter reinsurance agreement amendment, earned premiums were flat relative to the fourth quarter of 2014.

Total services revenue from Mortgage and Real Estate Services segment was $31 million for the quarter as compared to $34 million in the fourth quarter and, as illustrated on slide 26, were up approximately 10% from the same quarter a year ago. The linked quarter decrease was partly driven by seasonality related to lower volumes in the first quarter and generally expected given fluctuations in revenues experienced in this business as presented in a broader historical context on slide 26. The transactional nature of these businesses contribute to greater volatility in revenue.

Moving now to our loss provision and credit quality. The loss ratio was 20% this quarter as compared to 37% in the fourth quarter of last year and 25% in the first quarter of last year. We observed typical first quarter seasonality improvement in new defaults, which decreased 15% over new defaults in the first quarter of last year, as well as positive development of approximately $20 million as a result of a decrease in our default to claim rate on new defaults from 16% to 15%. This decrease was driven by an observed decline in recent trends, and as a reminder, assumption adjustments to our reserve model are made after sufficient experience has been observed to support the change. This results in either positive or negative development in our reserves, which would also impact our loss provision in the quarter of the change.

Cumulative incurred loss ratios of business written after 2008 remained extremely low and are presented on new webcast slide 14. 2009 is less than 20% and the years 2010 and 2011, after significant developments, are still below 10%. Our newer books of business in 2012 and subsequent years still remain below 5%. And as noted in the table on slide 14, this trend continues into our most recent quarter.

Primary mortgage insurance delinquency ratio was 4.6% in the first quarter compared to 5.2% in the fourth quarter of 2014. After receiving GSE approval of our BofA Settlement Agreement, we began implementation of the settlement on February 1. Approximately $99 million of claims paid were related to this settlement and are footnoted on slide 20. We expect a total of approximately $250 million to be paid out in the first half of the year related to the settlement. Our expected paid claims for the full year remain at $600 million to $700 million.

Moving now to expenses. Other operating expenses for the quarter were $55 million as compared to $86 million last quarter and $55 million in the first quarter of 2014. The fourth quarter included several items related to compensation accruals, including an increase in the stock price that affected our cash-settled stock-based awards, and an $11 million settlement of remedies related to services provided on legacy business. We are continually evaluating opportunities for ongoing efficiency and improvements in our expenses. And finally, I will turn to a discussion on capital.

Final PMIERs financial requirements were released by FHFA on April 17 and given the significant revisions from the proposed requirements, we expect to be able to immediately comply by utilizing approximately $330 million of our existing holding company liquidity of approximately $700 million. The improvement in the PMIERs financial requirements was primarily related to legacy loans originated in 2005 through 2008 and not on requirements for new business. We continue to expect our after-tax returns to be in the low to mid-teens on new business. Our return estimates are based on among other factors, the use of reinsurance, investment returns, our capital structure, loss estimates, expected mix of business and the level of delinquencies. Keep in mind that while the utilization of reinsurance can enhance the percentage returns on our insurance business, it is detrimental to both top line revenue and overall earnings per share for our shareholders. Therefore, we will be selective on when and how to utilize reinsurance as an enhancement to returns versus as a risk mitigation strategy to address concentrations in our portfolio.

The clarity provided by PMIERs has an impact on our ongoing capital planning and will provide valuable insights when optimizing our plans. Reinsurance, we'll focus on optimizing risk exposure in the overall portfolio. Our corporate capital structure, will focus on lowering the overall cost of capital and enhancements that may facilitate rating agency improvements. We expect to maintain sufficient holding company liquidity to address strategic priorities. And additionally, we expect to receive modest dividends from our services segment after funding of the interest expense on our 2019 senior debt. But as these are growth businesses by nature, they may require some further support to the extent they pursue additional growth initiatives either organically or through acquisition.

As a reminder, our fee-based businesses are an important part of our strategy and represent a diversification of our revenues and are more capital efficient than our legacy insurance businesses. We have been very pleased with the performance of our services segment on a standalone basis, and additionally, by the way in which we are able to leverage our relationships with our institutional clients both with mortgage insurance and other services.

And now, we will open up the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Mark DeVries, Barclays.

Mark DeVries - *Barclays Capital - Analyst*

Could you talk about what if any buffer you don't want to hold on day one kind of over your minimum acquired assets?

Frank Hall - *Radian Group Inc. - EVP & CFO*

That's a great question. And I would tell you that, that question among others are going to be addressed in the context of the overall capital planning exercise that I spoke of. So that is certainly something that we'll keep in mind and something that is important as we look at the final PMIERs rules and the expected timing on which they may adjust some of their requirements. So it will all be included in that overall capital planning exercise, but a great question.

Mark DeVries - *Barclays Capital - Analyst*

Okay, fair enough. Given how firm the reinsurance markets are here, are you thinking at all about potentially -- comments aside about how reinsurance is kind of dilutive to the top line about potentially adding a little bit more reinsurance as opposed to having to push cash down at the Holdco that you could use for other purposes?

Frank Hall - *Radian Group Inc. - EVP & CFO*

I would again put that in the context of the overall capital planning, but as we do have a significant relief from the final PMIERs rules, really the way we're looking at reinsurance is really a risk optimization process in our portfolio, but it's certainly something that we will evaluate and not take off the table.

Mark DeVries - *Barclays Capital - Analyst*

Okay. And then finally, perhaps a -- what if anything that you're hearing about potential that the FHFA will be launching a pilot program for deeper MI?

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

Yes, and we've been hearing that and Teresa will answer that more fully.

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

Certainly there have been continued discussions with the FHFA and the GSEs, and one of the important pieces for having that further discussion has been getting the PMIERs behind us, so that there would be no question about the ability of MIs to support deeper cover. The MBA has continued to really advance this and they've said they're going to continue to do that, particularly now that the final PMIERs are out.

So that dialog is continuing. I don't know at this point what the next step will be yet, but we are certainly continuing to have those discussions.

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

And Mark, as you know, we've been advancing the argument for MIs to play a bigger role in terms of deeper coverage and broader role in the industry. Now with the counterparty strength issues for MIs being -- having been addressed with the PMIERs, we are in a stronger position to keep advancing that argument and hopefully we'll see progress in Washington, harder to predict.

Mark DeVries - *Barclays Capital - Analyst*

Okay. But no sense that anything is imminent here?

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

I wouldn't say that there is anything imminent at this point.

Operator

Bose George, KBW.

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

First just on operating expenses, can you talk about the run rate for the expense ratio? Also just the number this quarter was -- was there any reallocation, the comment you mentioned earlier that from segments that impacted the expense ratio?

Frank Hall - *Radian Group Inc. - EVP & CFO*

I'll address the first question as far as expected run rate. Absent the unusual items that we called out on a quarter-over-quarter comparison, this is about where we'll be operating with some, I would say, slight fluctuation perhaps up or down depending on the results of our efficiency evaluation initiatives, but it is a fairly normalized quarter than we expect. And then your question on segments again, please.

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

Just wondering whether there was any corporate reallocation of expenses that drove the low expense ratio at all or was it just the same as last quarter?

Frank Hall - *Radian Group Inc. - EVP & CFO*

Now, the present -- I mean, the allocation methodologies remained unchanged this quarter relative to the prior quarter.

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

Great, thanks. And then actually just going over to slide 14, if I just look at that it looks like, I mean some of the years pretty seasoned stuff like 2010 is, it seems to be peaking at very low loss ratios. Can we sort of extrapolate from that at least for the 2010 to 2014 books in terms of those loss ratios presumably remaining very low?

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

Derek can answer that, Bose. We're very encouraged by that trend, Derek.

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

Yes, I agree. I mean looking at those trends, obviously there has been a benefit there in terms of rapidly appreciating home prices and interest rates being low, which actually impacts prepays, but looking at that and kind of assuming in this current economic environment, when I look at 2010 to 2012, I think those trend into probably the upper single-digit, certainly the single digits. And 2013 to 2014 is still early in its development, but looking at that, I see that trending below 15% and those could be also as low, I would say in the upper single digits. Again, that's going to be dependent upon economic development obviously, to see a downturn that's going to put some stress on those.

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

And Bose, we added this slide, because we were hearing from our investors and from people like you that you needed more information to see how these trends were developing.

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

Great, yes, absolutely, that's extremely useful, thanks. And actually just last one, just on the FHA. When the price reduction happened earlier in the year, I think you guys had said, something like 20% of your volume was kind of on the cards for FHA might have an advantage and now it's several months of competition being at the new prices, I mean do you have a feel for what the real impact has been over the last couple of months?

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

Teresa?

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

We haven't seen much of an impact in fact at this point and based on sort of the market intelligence we've been able to get, it seems as if the focus has been on refinancing, existing FHA loans. I think the fact that -- as S.A. mentioned in his remarks, the fact that there is still cancellation with respect to the MI, which gives the consumer an advantage later in the loan cycle and the fact that it was especially with conventional MI you can move forward with not having additional MI piece factored into your loan amount, which you're going to pay over the life of the loan. I think those things are helping us, but so far, it doesn't appear that there has been any major impact at all from that change.

Operator

Eric Beardsley, Goldman Sachs.

Eric Beardsley - *Goldman Sachs - Analyst*

Just one follow-up on some of the commentary about the premium this quarter, I think you mentioned that there is a $8 million benefit from single premium cancellation and perhaps a $9 million profit commission that you had in this quarter. So I was curious what the, I guess, run rate for the premium rate would be going forward, if I adjust for those, I guess, somewhere closer to 48 basis points.

Frank Hall - *Radian Group Inc. - EVP & CFO*

So, keep in mind that $9 million was a fourth quarter last year event. So that would be (technical difficulty) the $8 million is the adjustment you would make to the current quarter.

Eric Beardsley - *Goldman Sachs - Analyst*

Got it, okay. So in terms of the quarter-to-quarter fluctuation going forward, is this then just -- if we have to adjust for the $8 million in this quarter, that's a pretty good run rate?

Frank Hall - *Radian Group Inc. - EVP & CFO*

I think so. Yes.

Eric Beardsley - *Goldman Sachs - Analyst*

Okay, great. And then I guess as you think about the profitability of Clayton moving forward, how could we see the margins of that business develop either as a non-agency market comes back or as you work through some of these efficiency processes?

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

Joe, why don't you answer that?

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

I think that certainly the non-agency market coming back would significantly impact both a growth in revenue as well as kind of the overall efficiencies. We think that that's not coming this year, maybe not any time soon, but certainly, that will be a significant impact. We also have a number of internal processes around technology and process improvement that we think will increase our margins and make us more efficient. And certainly the acquisition of Red Bell and some of the great technology that they have will certainly help Clayton's processes around some of our REO management as well as some of our evaluation management. And that will also make us more efficient and increase our margins.

Frank Hall - *Radian Group Inc. - EVP & CFO*

I would just also add to that, keep in mind that, that particular segment has more of a variable cost structure associated with it. So, as revenues grow, you will see the margin expand in that business a bit, as is the incremental expenses are associated with incremental revenue as well.

Eric Beardsley - *Goldman Sachs - Analyst*

Okay, great. And then just lastly, is there any that you can share on the competitive environment you're seeing on the single premium business and what the discount might have been [versus your rate card] this quarter?

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

Teresa?

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

I think that we've continued to see some competitiveness in this regard. And it'll be interesting to see what happens as the FHFA and the GSEs have indicated that, they're going to make some adjustment to the PMIERs for business going forward in respect to single premium business. But we don't comment on sort of the amount of the discount.

Operator

MacKenzie Kelley, Zelman & Associates.

MacKenzie Kelley - *Zelman & Associates - Analyst*

I wanted to talk about Radian's market share overall in the industry. It looks like all of the growth was strong, it was -- maybe not as robust as some of the other companies that have reported thus far have shown. So just kind of want to get your perspective on how you think Radian's market share developed during this quarter, and more importantly going forward coming off of last year's share loss, is it a priority to grow market share at this point and how do you think about that going forward?

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

It's hard to estimate market share, because I don't believe everybody has reported yet, but from what we can tell, we should be stable to better than we were, and we'll find out when the market share numbers come out. Our philosophy in terms of market share is really it's one of the things we look at, but our philosophy is more to act on what we believe is in the best interest of our shareholders and that comes to -- that goes towards finding the right balance between the business to be right in terms of short-term profitability as well as the long-term profitability of the relationships we have. We want to continue to deliver long-term value of our relationships and be mindful of short-term profitability.

And as you saw in the last quarter, we actually did a pretty good job of balancing that. We have very -- comparatively, very decent short-term profitability and we have very strong relationships [which tend] to benefit us in the future.

MacKenzie Kelley - *Zelman & Associates - Analyst*

Okay, great. And just a follow-up on that, on the 33 new lenders that you noted where new to delivering business is quite a -- are those what type of lenders, are those kind of small or regional, or can you give any color there?

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

Teresa, do you want to answer that?

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

We continue to focus on everything from large to small lenders. So that is kind of a combination of different sizes and as we continue that, we see a mix of what we're adding on a quarter-to-quarter basis, it might change, but we continue to focus on their large prospects as well as smaller prospects.

Operator

Geoffrey Dunn, Dowling & Partners.

Geoffrey Dunn - *Dowling & Partners - Analyst*

The first question, do you have any relationships where your singles business is more than 50% of the business you are getting from a customer?

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

Maybe a very small number, but that's it.

Frank Hall - *Radian Group Inc. - EVP & CFO*

And Geoff, we don't generally comment on anything relationship specific there. So the color we've given is probably the best we can do for you.

Geoffrey Dunn - *Dowling & Partners - Analyst*

Okay. I just wonder if you could talk about it being a balanced portfolio of business, but it's low ROE business. So I just wanted to make sure that if you had a sizable amount of customers with that was the case, I'd want to understand more how you approach that portfolio balancing.

The other question in the pool business, I think you saw some more positive development this quarter and you saw pretty material development last year, what continues to drive that positive development?

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

In terms of the pool, some of that is just natural runoff. We also had a reduction in just the pool exposure. Again looking at pool exposure, it's predominantly pre-2005, so again that experienced a lot of credit burnout and we continue to reduce the size of it and over time it runs off.

Geoffrey Dunn - *Dowling & Partners - Analyst*

And then last question, as we think about the pace of potential incidents, assumption improvement on the new notices, what do you think is a reasonable assumption given the trends you've seen, you've lowered I think by a point this quarter, on an annual basis, what's a reasonable shift [in that -- GSE] credit improvement?

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

Looking at past history I think that you could see potential assuming, you see that trend developing as we've seen in the past, I would say over an annual basis, 1 percentage point, maybe 2 percentage points, you could see on kind of the high end.

Operator

Chris Gamaitoni, Autonomous Research.

Chris Gamaitoni - *Autonomous Research - Analyst*

On the return commentary, the mid to low teens, is that at the insurance company and does it take into account any potential Holdco leverage?

Frank Hall - *Radian Group Inc. - EVP & CFO*

Generally, what we've -- the list of considerations that we've mentioned certainly does consider the capital structure of the organization and potential reinsurance, which is why we're comfortable with that range, the low to mid teens really varies widely based on your assumptions there.

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

But it's not factoring in leverage at the Holdco.

Frank Hall - *Radian Group Inc. - EVP & CFO*

That's correct.

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

It is not at this point.

Chris Gamaitoni - *Autonomous Research - Analyst*

And on reserving -- reserve per net new development increased again this quarter, I believe to [11.8000] and we look at the reserving per -- [delinquent bucket] in the early stage, it had I believe [13,000] which is the highest since you began reporting. Is there anything going on on that, and that is separately the Bank of America settlement, it's just at this point of cycle, you would think the reserve per initial default would be declining not increasing?

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

So in terms of looking at new defaults, overall our reserve per default has been increasing, what that have to do with is the distribution of the defaults. So, over time the distribution of the defaults you have relatively more of them that have been delinquent for a longer period of time or that are in foreclosure stage, which means they have higher default to claim rate, so that's driving the average up.

In terms of new defaults that point out that 15% that we disclosed better points to brand new defaults. So in this case, essentially March default and then what you do is that's an ultimate rate and then you adjust the conditional rate each month. And so as the distribution of defaults become more aged, it just increases over time the per default reserve.

Chris Gamaitoni - *Autonomous Research - Analyst*

Right, but if I look at reserves per delinquency on three months or less, that's increased [consistently about 13.9000] which is the highest since --.

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

That's right. And what's driving that, again that has a blended rate. So what we're seeing with respect to that is you have a pretty high cure rate on the brand new defaults, particularly in the first quarter, which you'll kind of see in our chart in terms of kind of the two to three mispayment bucket. So then what you have to do, we're still applying a new conditional rate for those that have been in default maybe for a month or two and that increases. So again it's going, even in that bucket, the new defaults you have a distribution, you have some that have been in default for one month, two months and three months. So it's that distribution that could change. And also you have to some extent just the size of the loans that are coming into basically the defaults stage, there can be some variability with respect to that.

Chris Gamaitoni - *Autonomous Research - Analyst*

Okay that makes sense. Thanks for taking my questions.

Operator

Sean Dargan, Macquarie.

Sean Dargan - *Macquarie Securities Group - Analyst*

I have a question about your severely aged primary loans and defaults, the 12 payment or more bucket. I am just wondering if you could qualitatively describe what's going on there, because it seems that, that number has stayed elevated for a long time and just wondering what you're seeing in terms of claims. Do you think these are going to be paid at a slower rate than historically or lenders is not presenting claims, I am just wondering what's going on there?

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

You have a combination again with respect to that, have new loans moving in there. Generally, I think the foreclosure process has been elongated, so I would expect over time looking at it at least historically you are going to probably have more of your default distribution probably in that 12 month bucket.

I would say in terms of trend, it's been pretty stable I would say over the last two years and when we look at kind of at incremental defaults and incremental cures, and again you see cures coming out of that bucket, I mean this quarter in terms of the 12 plus, it was 4.5% and that's been a pretty steady trend and really are reserves based upon that. So what we're seeing in terms of defaults and cures coming out of that bucket, so that's like I said been pretty stable.

Sean Dargan - *Macquarie Securities Group - Analyst*

Okay, and just if I could come back to singles one more time, so I could summarize your thinking in the first quarter singles made up a larger percentage than you would want to have over a longer term. It's a little more than a third. But because you expect the pace of refis to decline you expect the relative contribution of singles to decline?

Frank Hall - *Radian Group Inc. - EVP & CFO*

That's correct.

Operator

Doug Harter, Credit Suisse.

Doug Harter - *Credit Suisse - Analyst*

Thanks. My questions have been asked and answered.

Operator

(Operator Instructions) Jack Micenko, SIG.

Jack Micenko - *Susquehanna Financial Group - Analyst*

Frank, why don't you -- if you could talk about the assumption on the loss ratio underlying that low-to mid-teens ROE comment you made, I'm looking at slide 14, which I thank you for including by the way, pretty wide disparity of outcomes there. So wondering what the sort of rule of thumb number you guys are using in that commentary.

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

In terms of our loss ratio that baked into that return, essentially in terms of new business, it's roughly 15% to 20%. Again, these trends on recent vintages are developing below that. And when we're looking at our loss ratio, we're looking at it a little more through the cycle basis. So again these -- more vintages had benefited from I think a very strong economic environment, but kind of a run rate on new business, I would say, roughly in the 15% to 20% range.

Jack Micenko - *Susquehanna Financial Group - Analyst*

Okay, thank you. And then now the PMIERs are behind us and assuming capital buffer, a lot of other stuff, can you remind us of the converts if there is anything you can do there with cash and would you be willing potentially to do something prospectively around those issues to maybe decrease some of the dilution impact?

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

We are looking at all options and Frank?

Frank Hall - *Radian Group Inc. - EVP & CFO*

Right, that's exactly right. And looking at all the options associated with converts, we're talking about the premium settlement, there is the option to settle in shares or cash. But all of those variables are being considered in the overall planning exercise.

Operator

Steve Stelmach, FBR.

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Steve Stelmach - *FBR Capital Markets - Analyst*

Maybe last question on the singles, but to the extent that the FHFA and the GSEs come out with a rule in June that just makes that product uneconomic for the industry or uneconomically attractive for the industry. How much of your single premium would toggle over to monthlies, and how much of that production in percentage terms with toggle over to FHA or some other form of credit enhancement, any ideas on that?

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

The specifics of that are hard to project. There is a likely scenario where the FHFA comes out with thoughtful guidelines, we could see a reduction in the availability of singles in the industry, and the likelihood that some of that business would turn into monthlies, because the lenders would then not have the same access to singles from the insurers.

Steve Stelmach - *FBR Capital Markets - Analyst*

The assumption that the majority of those singles would convert to monthlies or would they sort of convert to FHA or similar form of credit enhancement, what's the view?

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

It is hard to answer that specifically, but there is a scenario under which there could be a meaningful conversion, which we are hopeful for.

Operator

Darren Marcus, MKM Partners.

Darren Marcus - *MKM Partners - Analyst*

I'm just curious, first on the effective tax rate of about 33.3%, is that a good rate to use going forward or is there anything that you guys are thinking about to potentially lower that?

Frank Hall - *Radian Group Inc. - EVP & CFO*

I think generally that's a good rate, certainly for the foreseeable future.

Darren Marcus - *MKM Partners - Analyst*

Okay. And then with respect to holding company cash, you guys have a lot more now than you might have thought you would have had, several months ago before PMIERs. So just wondering on what your thoughts are there and how to deploy that or anything?

Frank Hall - *Radian Group Inc. - EVP & CFO*

Sure. So, as I mentioned in the comments, it's something that that we're considering in the overall capital planning exercise, want to be mindful of, maintaining enough holding company liquidity to take advantage of strategic opportunities, but sensitive to the impact of [PMIERs on the] returns of the business overall.

Darren Marcus - *MKM Partners - Analyst*

Okay, thank you. And then one final one, I think, Frank, you mentioned in the prepared remarks that there were potential risk mitigating techniques on the singles risk extension. Can you elaborate on that, I'm just wondering what that entails?

Frank Hall - *Radian Group Inc. - EVP & CFO*

Sure. So we're looking at a couple of different things, but I would say the most obvious one is reinsurance and so we would evaluate that, perhaps other things, but generally, that would be that.

Operator

There are no further questions in queue, I'll turn the call back over to the speakers for closing remarks.

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

Thank you all for joining us today. The last 12 months have been a turning point for Radian as I mentioned earlier. Our strong results in the quarter are an excellent start as we pursue our path as a simplified company with a clear strategic focus on our core strengths and relationships. We look forward to reporting our progress in the quarters ahead. Thank you for joining us today.

Operator

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