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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the Radian second-quarter 2015 earnings call. (Operator Instructions) And as a reminder, this conference is being recorded.

I would now like to turn the conference over to our host, Senior Vice President of Investor Relations and Corporate Communications, Ms. Emily Riley. Please go ahead.

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

Thank you, and welcome to Radian's second-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 exhibit F and G and on the investors section of our website.

During today's call, you will 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 Guarantee; 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 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 am pleased to share with you today the results of our second quarter, which includes strong performance for our two business segments. Following my comments, Frank will cover the details of our financial position, including our most recent actions to strengthen our capital structure. 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 second quarter of 2015 of $50 million, or $0.22 per diluted share. This compares to net income for the second quarter of 2014 of $175 million, or $0.78 per diluted share. You will find the key drivers of GAAP EPS on slide 8 of our webcast presentation.

Adjusted pre-tax operating income was $147 million for the second quarter of 2015, compared to the second quarter of last year of $74 million. Adjusted diluted net operating income per share for the second quarter of 2015 was $0.40, an increase of 74% over the same period last year.

Turning to the mortgage insurance segment, we continue to improve the composition of our mortgage insurance portfolio, which is a primary driver of future earnings for Radian. We wrote $11.8 billion of new MI business in the second quarter, an increase of 26% over the second quarter of last year. In the first half of 2015, we wrote a total of $21.1 billion in NIW, a 31% increase over the $16.1 billion written in the first half of 2014.

The composition of our mortgage insurance portfolio continues to improve, as the high quality and profitable new business we wrote since 2008 represents 82% of our total primary mortgage insurance risk enforced, or 72%, excluding HARP volume. You may find these details on slide 13.

We continue to successfully add new customers with 42 new lenders delivering business to Radian in the second quarter. To support business growth, we increased our sales team by 7 in 2015 and further expanded our focus on today's changing home buyer demographics. Nearly 75% of the new households formed over the next 10 years, I expected to come from diverse segments of America. Therefore, we entered into our current exclusive partnership with one of the trade associations focused on these growing communities.

Adding to our existing partnerships with the National Association of Hispanic Real Estate Professionals and the National Association of Real Estate Brokers, the nation's leading trade groups focused on future homebuyers in the Hispanic and African-American communities, Radian is now the only mortgage insurance partner for the Asian Real Estate Association of America. We added a dedicated consultant to our sales team focused solely on enhancing Radian's commitment to the Asian community.

In addition, we created a new support structure that is laser focused on the unique needs of our trade union customers, their members, and trade associations including two national account managers with extensive experience in credit union lending. This is an important and growing segment of Radian's business.

Turning to the current environment, the outstanding credit trends from the first quarter continued into the second due to a strong economy and impact of seasonality. The total number of primary delinquent loans declined by 7% from the first quarter of 2015 and by 23% from the same period last year.

On slide 22, you can see that our primary [deport] account decreased to 37,676 loans, and our primary deport rate fell to 4.3%, as noted on slide 23.

On slide 14, the one that many of you have heard me call my favorite slide, you will see that for the first six months ended June 30, 2015, earned premiums left incurred losses from our 2009 and later MI vintages were $318 million, compared to $227 million for the six months ended June 30, 2014. Importantly, the expected run rate for 2013 would far exceed performance of these newer books of business for even last year.

As you know, the earned premium for the large and profitable book to business written after 2008 is expected to serve as the foundation for growth in profits over the next several years.

Turning to our mortgage and real estate services segment, second-quarter total revenues were $45 million and gross profit was $19 million. Slide 29 provides a historical trend for the segment where you can see that this quarter's revenue was a record since the acquisition of Clayton and for the past two years. Revenue in the quarter included $5 million from Clayton's newest subsidiary, Red Bell Real Estate, a real estate brokerage that provides a variety of products and services including ADMs, broker price opinions, and advanced technology to value and sell residential real estates.

Clayton and its subsidiaries are strong stand-alone businesses that provide a diversified source of fee-based revenue for Radian. Clayton launched a new active representation reviewer service in the second quarter to help issuers of ABS comply with the requirements of the SEC's amendments to Regulation AB. This service allows the Company to expand into new asset classes including auto finance, credit cards, student loans, and equipment-facing issuers.

And while we remain in the early stages of this marketing effort, we are encouraged by the interest among our many MI customers in the many products offered by our services segment. We look forward to leveraging the value of our diversified product portfolio to a large and growing MI customer base.

Turning to the regulatory and legislative topics important to our mortgage insurance business, as we discussed during the last earnings call, the P Myers becomes effective on December 31, 2015. Under the P Myers, a private mortgage insurance available asset must meet or exceed its minimum required assets, and we estimate that Radian is positioned to immediately comply using only a portion of our holding company cash. By year end, we expect that the growth in Radian's available assets will outpace the projected increase in our minimum required assets. And therefore, the amount we would need to contribute should decrease.

Last month, the GSE issued an update to the P Myers that included increased capital charges for lender-paid mortgage insurance for LTMI business based on the lack of automatic cancellation for such loans. These changes go into effect next year on prospective business, and we are currently reviewing the impact on returns both for the LPMI product and the overall portfolio. Importantly, based on the P Myers capital requirements for the business we are writing today, we continue to expect to generate after-tax returns in the low to mid teens.

We also continue to actively engage with key policymakers in Washington and hear resounding support for the important role of private capital, including private mortgage insurance in the future of housing finance. Debate on GSE reform continues, as do discussions on front-end risk sharing, including deeper MI coverage, that could further protect the GSEs from risk and provide an opportunity to our industry to increase its level of credit protection.

While discussions are in early stages, we are encouraged by the support and opportunity that these risk-sharing options support the administration's goal of reducing the risk of the GSEs and ultimately the taxpayers, as well as lowering cost to borrowers.

Now, I would like to turn the call over to Frank.

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

Thank you, S.A., and good morning. First, I will share the financial results and highlights for the quarter and then close my remarks today with an overview of the capital actions we took in June, including a debt offering and accelerated share repurchase. Our objective for these capital actions was to lower Radian's overall cost of capital, simplify our capital structure, and ultimately facilitate future rating agency improvements.

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.

We recognized approximately $7.8 million of deferred investment gains in Radian assets, which generated additional income from discontinued operations which is not expected to occur. Our segment income statements in Exhibit E present additional detail by segregating the allocated corporate expenses and interest expense in the 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 higher this quarter at approximately 43.5% due to the tax treatment of certain debt extinguishment costs. Absent those items, the effective tax rate would've been approximately 35%, or equivalent to the statutory rate.

And lastly, the impact to our share count from our capital activities in the quarter will be an increase of approximately 2.8 million fully diluted shares, as shown on slide 11 of our earnings webcast, assuming the average share price under the accelerated share repurchase program is $18.68. If the average share price is higher, fewer shares will be delivered back to Radian; and if lower, more shares will be delivered back to Radian by the ASR counterpart.

Moving now to the drivers of our revenue, new insurance written was $11.8 billion during the quarter, compared to $9.4 billion last quarter and $9.3 billion in the second quarter of 2014. Refinancing decreased as expected to 23% of volume this quarter, compared to 33% last quarter and increased from 13% a year ago.

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 our strong NIW in the first half of this year.

Total single premium business represented 32% of our total NIW in the second quarter, a decline from 37% in the first quarter. We continue to monitor our product mix of singles versus monthly premium, and currently believe that singles production levels of approximately 1/3 or less of our NIW volume are well-absorbed into the portfolio over time and fit within the ranges of our target return and risk metrics.

Primary insurance enforced increased to $172.7 billion during the quarter as new insurance written was offset with runoffs due to refinancing and the $1.7 billion impact of a GSE servicer data reconciliation performed during the quarter to reconcile enforced policies with outstanding loans.

Our twelve-month persistency declined from 82.6% in the first quarter of 2015 to 80.1% in the second quarter of 2015, as noted on Exhibit M, primarily due to the prepayments of single-premium policies in the first and second quarter of 2015. Earned premiums again benefited from refinancing activity and from the acceleration of single premiums earned primarily from the previously mentioned servicer data reconciliation. Acceleration of premiums enhances the returns on our book value of single-premium business and is an illustration of why we prefer a mix of singles and monthlies in our portfolio.

Earned premiums were also positively impacted by an approximate $6 million accrual associated with the expected fourth-quarter clawback of an existing quota share reinsurance arrangement. Adjusting for these items, earned premiums were relatively flat to the first quarter of 2015.

Investment income was up due to the approximate $790 million of sale proceeds of Radian asset being utilized in our investment portfolio for a full quarter versus in prior quarters, where the investment income attributable to Radian asset remained in discontinued operations. The impact of this change was approximately $2 million. The overall yield in the investment portfolio decreased from 2.21% to 1.99% in the quarter, which reflects the short-term nature of the near-term reinvestment and the sale of dividend-paying equity securities to comply with the available asset requirements of P Myers. The portfolio yield is expected to increase in subsequent quarters as we reevaluate our portfolio in the context of a new operating environment.

Total services revenue for our mortgage and real estate services segment was $45 million for the quarter as compared to $32 million in the first quarter and, as illustrated on slide 29, increased approximately 23% from the same quarter a year ago. The increase in the quarter was partially due to the recent acquisition of Red Bell; but even excluding the Red Bell acquisition, services revenues were very strong. As we've mentioned previously, we expect fluctuations in revenues in this business as the transactional nature of these businesses contribute to greater volatility in revenue.

Moving now to loss provision and credit quality, the loss ratio was 13.3% this quarter as compared to 20.4% in the first quarter and 31.7% in the second quarter of last year. Approximately 80% of new notices in the quarter were repeat defaults.

We observed further improvements in new defaults, which decreased 13% over new defaults in the second quarter of last year as well as positive development of approximately $28 million as a result of a decrease in our default-to-claim rate on new defaults from 15% down to 14%. 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 experiences has been observed to support the change. This results in either positive or negative developments in our reserves, which would also impact our loss provisions in the quarter of a change.

Cumulative incurred loss ratios of business written after 2008 remain extremely low and are presented on webcast slide 16. Primary mortgage insurance delinquency ratio was 4.3% in the second quarter, compared to 4.6% in the first quarter of 2015. We began implementation of our BofA settlement agreement in the first quarter of 2015. And in the second quarter, approximately $76 million of claims paid were related to the settlement, which is footnoted on slide 20.

For the first half of the year, we paid a total of $175 million related to the settlement of an estimated $250 million total. Our expected paid claims for the full year remain at $600 million to $700 million inclusive of the BofA settlement.

Moving now to expenses. Other operating expenses for the quarter were $68 million as compared to $54 million last quarter and $61 million in the second quarter of 2014. Operating expenses in the second quarter of 2015 were primarily driven by variable compensation expenses related to long-term incentive awards divested in June of 2015, operating expenses related to newly acquired Red Bell Real Estate, and an increase in mortgage insurance-related expense due to higher volumes. Both Red Bell and the mortgage insurance volume increases correspond with higher revenue. As a reminder, with the recent vesting in June of our last significant cash-based LTI award, variable compensation expenses tied to changes in our stock price should be very limited going forward.

We are continually evaluating opportunities for ongoing efficiencies and improvements in our expenses. And finally, I will turn to the discussion on capital.

The capital activities we undertook in the second quarter are part of our ongoing effort to reduce our overall cost of capital, improve our maturity profile, and head down a path toward improving our credit ratings. This series of transactions in the second quarter involve a new five-year debt offering of approximately $350 million with a coupon 5.25%, a series of negotiated redemptions of our 2017 convertible securities totaling approximately $390 million, and an accelerated share repurchase program. Collectively, these transactions enhanced our cost of capital by approximately 40 basis points and improved our overall capital position.

Included in our earnings release information on slide 11 is an overview of the transactions and their related impact on our financials. Most notably is the pre-tax loss of $92 million related to the early disposition of our convertible securities. This loss is comprised of two elements.

First, approximately $56 million that effectively represents an acceleration of the discount associated with the difference between a coupon of 3% on the redeemed 2017 convertible notes and the effective GAAP interest expense of 9.75%. The second component is the premium of $36 million paid to the holders of the convertible notes. From an economic perspective, the accelerated discount is simply a timing difference in recognition of effective interest expense. As for the premium, we evaluated the total impact of these transactions in the context of the increasing dilution that the 2017 convertible securities were likely to create as our share price increases. The premium paid represents a value to Radian shareholders if the common shares of Radian appreciate more than $1.00 between issue date and November 2017. As we are excited about our prospects, we are hopeful that will be the case.

The accelerated share repurchase program, or ASR, supported an efficient transaction for our convertible holders in that we were able to deliver shares in cash in an amount approximately equivalent to their hedged positions without materially increasing our share count. Simply stated, the combination of these transactions will reduce our ongoing interest expense by approximately $16 million per year and, as previously noted, would increase our share count by only 2.8 million shares.

Final P Myers financial requirements were released by FHSA on April 17, and, given the significant revisions from the proposed requirements, we expect to be able to immediately comply by utilizing a portion of our existing holding company liquidity of approximately $735 million. The additional guidance provided on lender-paid mortgage insurance is currently being evaluated, and we will provide more information on that recent development in the coming quarters.

I will now turn the call back over to S.A.

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 the strong operating performance of both of our business segments in the second quarter. Second, I am encouraged by the signs that the positive trends driving this strong performance should continue, creating opportunity for near-term growth. And finally, I'm excited about the future prospects for Radian, including the potential for our mortgage insurance segment to play a larger role as a proven private capital participant in the evolving future housing finance market and for our services segment to benefit from increased securitization activity in the future.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Eric Beardsley, Goldman Sachs.

Eric Beardsley - *Goldman Sachs - Analyst*

Just on the mortgage insurance operating expense, how much of the step up from first quarter would you attribute to the stock-based comp? And now (technical difficulty) gone away in terms of the incentive plan? And then how much was volume-driven?

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

Sure. So of the expenses, we consider about $7 million or so to be related to the operating expenses that are tied to the revenue. And the rest of it would be related to long-term incentive stock compensation and other compensation-related items.

Eric Beardsley - *Goldman Sachs - Analyst*

Got it. And the absolute dollar amount of the long-term incentive was how much this quarter?

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

All of the compensation-related items totaled about $7 million.

Eric Beardsley - *Goldman Sachs - Analyst*

Okay. Great. And then just on the Clayton and Red Bell business, what kind of pre-tax margin should we think about in that going forward?

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

Joe?

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

Sure. I think the margins that we are showing now in that 40 range is a good range to be thinking about for that business. As we have increased the revenues and had better utilization of our employees across the new business, I think that's a pretty stable range for those margins to be in.

Eric Beardsley - *Goldman Sachs - Analyst*

Got it. And then just lastly, is there any impact that we will see from the 4Q 2015 callback of the reinsurance?

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

Beyond the accrual that we recognized this quarter?

Eric Beardsley - *Goldman Sachs - Analyst*

Yes. In terms of go forward, I know it's actually a relatively small piece of reinsurance. I was just wondering if there was any financial impact we should be aware of moving forward. Also if there's any other opportunities to do that.

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

Yes. There is an expected ongoing benefit of that of roughly $2 million or so.

Eric Beardsley - *Goldman Sachs - Analyst*

Okay, great. Thank you.

Operator

Mark DeVries, Barclays.

Mark DeVries - *Barclays Capital - Analyst*

Sorry if I missed this, but the average premium for the quarter had jumped up. I'm assuming that's related to elevated prepaids on the singles and accelerated realization. Is that accurate? And if so, could you give us a sense of what the run rate should be going forward?

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

Yes, it certainly impacted the premium rate in the quarter. We can't give you much guidance on the run rate going forward. That's just not a number that we have historically disclosed. But I think you could expect to see some reversion to the mean as the refis abate a bit, and the refi would lessen over time.

Mark DeVries - *Barclays Capital - Analyst*

Okay. But was that the cause of most of the sequential quarter increase in the average premium?

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

Yes, it was.

Mark DeVries - *Barclays Capital - Analyst*

Okay. And then the second question, just trying to get a sense of remaining holdco cash after you push down the [$330 million] to meet P Myers. Is there additional dry powder there to take some more accretive capital actions?

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

Well, we certainly only need a portion of the holding company liquidity to address P Myers. And the capital accretion, if you will, I would say is evaluated in the context of our overall capital planning activity. So I wouldn't expect anything to remain status quo especially in the context of our 2019 convertibles on a potential call date in March of 2016.

Mark DeVries - *Barclays Capital - Analyst*

Okay. So that would be your -- it sounds like that's your priority for use of additional excess cash at the holdco.

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

Well, keep in mind also as we evaluate P Myers compliance, we need to look at cushions both at the operating company and also the holding company. So I wouldn't want to lead you to believe that we will utilize the holding company cash down to zero. We do expect to maintain a cushion, as we have said in the past, for strategic opportunities and just for management of the business and dealing with any potential capital needs at the subsidiaries.

Mark DeVries - *Barclays Capital - Analyst*

Okay. And any updated thoughts you can share on how big of a cushion you think you need to have at both the holdco and the writing companies?

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

Not at this time for P Myers, and we're still working through some of those calculations. In the measurement data, P Myers compliance is a little bit unusual in that we need to be compliant as of the date. So we do need to hold a cushion at the operating subsidiary. For the parent company, again, there are broader considerations that we think about maintaining a cushion. Again, for strategic needs for just managing our debt maturities and other things.

Mark DeVries - *Barclays Capital - Analyst*

Okay. Thank you.

Operator

Bose George, KBW.

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

In terms of the single premium market share for the industry, do you think there was any change? Or was this decline that was seen just driven by the decline in refis?

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

I think what we saw -- the decline on a linked quarter basis was primarily refi-driven as we saw the refis come down as well.

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

And then just switching to the comment you guys made on future yields on the portfolio, can you just elaborate on that? Could you be considering changes in the duration or just any cost there?

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

Yes, so what we said, Bose, on that is expected returns in the low to mid teens -- sorry, just on the investment portfolio yield. Oh, I'm sorry. Yes, I would expect to see an increase, especially as we extend duration a little bit there as expected. Wouldn't want to guide you too much on a specific number.

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

Okay. Then just actually one follow-up just on the deep MI comment. Do you think we could see a pilot program business unit?

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

Let's have Teresa address that question, Bose. I think she's the closest to it.

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

Yes, Bose. There's a lot of work going on around this, but I don't know that we would expect to see one this year. It's possible. Certainly the FHSA has asked the GSEs to do more to expand what they are doing from a risk-sharing perspective, and work is being done to look at what that might look like. But given the fact that we are almost into August, I think it's probably a fairly low probability for this year, maybe more for next year.

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

Okay, great. Thanks.

Operator

MacKenzie Kelley, Zelman and Associates.

MacKenzie Kelley - *Zelman & Associates - Analyst*

Just wanted to go back to the operating expense. How much of that was driven by the increase in the sales force? And going forward, do you think that there is room for additional fixed-cost expenses as you continue to add to the sales force to gain market share, do business with new lenders?

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

Sure. The way that I described it -- again, the operating expense used to support the revenue was about $7 million. The specific split on how much of that was related to the sales force, I don't have the split, but I would expect most of that $7 million would be compensation-related expenses to support the sales staff.

MacKenzie Kelley - *Zelman & Associates - Analyst*

Okay. And so those -- do you feel like the sales force at this point is appropriate for the growth goals that you have in mind, or if there will be additional hires?

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

Yes, I certainly think that it's appropriate for the business that we are producing now. But keep in mind, too, if the demand is there, I would expect us to staff up accordingly as well.

Unidentified Company Representative

And as you -- McKenzie as you know, the market is transitioning from the refi to a purchase market. And so we have to take into consideration short-term changes in the market and what that means from a sales and customer focus. As well as longer-term, we've talked about the fact that we have these strategic alliances with various segments of the population which we think in the longer-term will dominate the demand for housing.

So we are a Company that always looks at taking actions that benefit us in the near future, but we believe we have the strength and have to have the strategic foresight to also invest beyond that for the longer-term.

MacKenzie Kelley - *Zelman & Associates - Analyst*

Okay. And just a follow-up on that, on the new lenders that were added this quarter and last, are they meaningful contributors to volume at this point? Or how are they in terms of spending volume?

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

Teresa, to answer that -- and keep in mind the first year we see small impact and then it builds up. Teresa?

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

Yes, we typically look at the customers once they start to -- and talk about them once they start to generate business. And the customers tend to be -- because we are focused on having a diversified view of customers so that we have both credit union, community bank, and then larger -- both bank and independent customers, so they are sort of a variety.

Typically, it's a relatively small percent of what we see when they first come on board, and then we work with them to build. And, as you have seen from this strategy over time, that builds into a much bigger portion of NIW over time.

MacKenzie Kelley - *Zelman & Associates - Analyst*

Great. Thanks.

Operator

Doug Harter, Credit Suisse.

Doug Harter - *Credit Suisse - Analyst*

Was hoping you could just give a little more clarity around the $1.7 billion reconciliation. Was that adjusted for in the persistency number, or was that a drag on the persistency reported this quarter?

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

It was a drag on the persistency number.

Doug Harter - *Credit Suisse - Analyst*

So I guess with that and higher rates and your commentary about refis slowing, how do you think about the persistency in the coming quarters and where you think that could hit?

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

Sure. So, as you mentioned, the key drivers there, the lower persistency, we would expect to see an increase back to, call it, approximately 83%.

Doug Harter - *Credit Suisse - Analyst*

Great. Thank you.

Operator

Jack Micenko, SIG.

Jack Micenko - *Susquehanna Financial Group - Analyst*

Frank, I guess my first question -- the security gains -- obviously the sale of Radian asset, you repositioned the book there. I guess I'm just wondering is there an opportunity to harvest more gains there? Or going forward as you guided to that yield improvement and maybe going out on duration, is it more about reinvestment going forward? How do we think about security gains on a quarterly basis here going forward?

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

Yes, so the -- let me just clarify. The gains that I was speaking about related to Radian asset were not associated necessarily with the investment portfolio. As we think about the investment portfolio going forward, again, we do expect to stretch the duration a little bit. Call it anywhere from half a year to a year and would expect to see that yield climb accordingly.

Jack Micenko - *Susquehanna Financial Group - Analyst*

But the outsized gains you've taken in the last couple of quarters, do you think that continues as well or is that largely behind you?

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

I would not expect to see much of that going forward.

Jack Micenko - *Susquehanna Financial Group - Analyst*

Okay, great. And then looking at the loss ratios on the newer vintages -- I think it's slide 16 or 14, I'm not sure -- the 10 or 11 loss ratios, they are holding that three-year peak trend coming back down. I guess is that the new normal, or is that the right way to think about those 10 or 11 and maybe more recent vintages given that we have pretty much seasoned those portfolios?

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

Yes, this is Derek. I think with respect to those portfolios, I think a couple of things. One is in terms of the first couple of quarters this year, you have some seasonal impact. Obviously we have more favorable (technical difficulty) early in the year. Also, we have made adjustments with respect to our new default to claim rate which also impacted incurred losses.

I would say in terms of the 2011, that's hitting your peak loss ratios. So I think at this point, we wouldn't really change our guidance from what I gave probably last quarter, which is really seeing those vintages meeting the 2010 to 2012, probably trending into the single-digit -- perhaps the upper single digits. And then with respect to 2013 and 2014, I would still think it's very early to tell with respect to that experience. And again, that's also going to depend on the macro environment. Those vintages have benefited from very favorable conditions. So if you see a reversal on that, you could see those loss ratios move back up.

Jack Micenko - *Susquehanna Financial Group - Analyst*

Sure. Okay. All right. Thanks. And then I guess if you could just -- one last question, if you had any comments on the AIG note pass-through issuance that's in the marketplace.

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

Yes, it's a very interesting development. We need to evaluate it further, but we think it's a very interesting and encouraging development.

Jack Micenko - *Susquehanna Financial Group - Analyst*

Okay. Thank you.

Operator

(Operator Instructions) Chris Gamaitoni, Autonomous Research.

Chris Gamaitoni - *Autonomous Research - Analyst*

I think this is for Teresa. In a normal period, maybe pre-crisis, where with that 14% claim rate on new notices go to?

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

Yes, this is Derek. That's probably a better question for me. I think in a normalized environment, what you would see could be reduced to I would say maybe the 10% to 11% range. I think is what we've seen perhaps looking at their early 2000 vintages.

Chris Gamaitoni - *Autonomous Research - Analyst*

Sure. And then if I just look at the reserves for delinquency, excluding that at the NR and LAE, it looks like the three-months-or-less bucket declined from $13,900 to $12,100 and the four to 11 months from $19,200 to $16,900. Were the claim rate changes in that, or is that just a mix within those buckets? Or really, what drove the change?

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

Yes, it would be -- those would be a mix in terms of the buckets. So it's really -- we changed the enroll rate with respect to the new delinquents, so those that are first delinquent. And then what you'll see in terms of the way it rolls up, it's going to be largely a distribution in terms of how long they have been in default. So you'll see some variability on that quarter to quarter's results.

Chris Gamaitoni - *Autonomous Research - Analyst*

Sure. And then my only other question is do you give an updated outlook of NIW for the rest of the year?

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

Well, as we have said, it's hard to forecast what's going to happen in the market over the next six months. All we can say is based on the strong NIW that we've written for the first six months significantly ahead of last year, we stand by our statement to meet or exceed the NIW totals from last year.

Chris Gamaitoni - *Autonomous Research - Analyst*

Sure. And then finally, what impact does recouping the reinsurance agreement have on the required available assets? Do you have an estimated number?

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

We don't offhand here. I think -- no.

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

We don't have it at this point on this subject.

Chris Gamaitoni - *Autonomous Research - Analyst*

Okay. Thank you so much.

Operator

Al Copersino, Columbia Management.

Al Copersino - *Columbia Management - Analyst*

Quick question. You mentioned that you are going to be reviewing the additional capital required under P Myers for LMPI singles business. I wonder if you can just give us some more comments there, what you're thinking about that business. You mentioned it quickly, but I'm curious what your thoughts there are in terms of your required ROE for that business, the secondary benefits it gives you in terms of more monthly volume. What are you thinking about as far as the single business goes?

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

Teresa?

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

Well, I think at this point we're still looking at what our options are. We don't really talk about the returns on that business. We think about it in terms of a blended return overall. And so we are continuing to look at that as well as to understand what the competitive landscape may be. That, of course, goes into effect at the beginning of next year, and it is perspective -- not on business that we are writing right now. So we are taking some time to understand what all our options are, so we're not really in a position to elaborate more than that at this point.

Al Copersino - *Columbia Management - Analyst*

That's fair. One other question if I can real quickly. A bit of the nitpicky question, so I apologize. But on slide 16, there just may not be enough data points to make any statement at all. But does it appear on slide 16 -- I'm looking at the graph, not the table -- that the 2013 and 2014 years have shown some slight deterioration versus 2012? Or am I looking at that incorrectly?

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

In terms of the vintages? The 2013 and 2014?

Al Copersino - *Columbia Management - Analyst*

Yes.

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

With respect to those, you're (technical difficulty) see in terms of just where they are in their seasoning cycle. You should see those pick up because essentially they are kind of starting to move up in terms of the normal peak in terms of losses. So that would be expected.

Al Copersino - *Columbia Management - Analyst*

But are we running better than or worse than the 2012 vintage? Or, again, is it just simply too early to say?

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

I think it's too early to say with respect to those. And, again, some of that is going to be also driven by premium numbers. But, again, when you're looking at those numbers and the loss ratios we're talking about, they are pretty close. There's going to be some variability, but I don't see significant differences.

Al Copersino - *Columbia Management - Analyst*

Yes, 3% versus 4% is not --

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

Yes, that's too close. That's so small in terms of the difference we're talking. So I think it's hard to look at that and say there's really, I think, a difference in performance. It's still early to tell with those vintages, so I wouldn't draw conclusion on that.

Al Copersino - *Columbia Management - Analyst*

Okay, fair enough. Thank you.

Operator

Geoffrey Dunn, Dowling and Partners.

Geoffrey Dunn - *Dowling & Partners - Analyst*

I want to understand your premium rate a little bit better. This quarter you had nearly $10 million of refundings quarter; I think you said it $8 million. Is that a fair estimate of the full impact there that's subject to variability refis, or is it more than that cumulative $18 million we should consider?

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

That's about right, Geoff.

Geoffrey Dunn - *Dowling & Partners - Analyst*

Okay. And as you go forward, obviously you had the 14 rate cut on BPMI, and then maybe you have mix shift going forward. What are your thoughts in terms of the direction of that core rate? Is it something that could be stable as we think about more mix from the lower 14-and-after rate, or is it something that we could see deteriorate as maybe mix doesn't shift as quickly?

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

No, I think -- I would expect to see it stabilize as the refinancings decrease over time, and I would expect the mix to stabilize. So those two elements being the key drivers of what will cause variability in that number, I think, should help it level off.

Geoffrey Dunn - *Dowling & Partners - Analyst*

Okay. Then on the expense front, I guess I'm having trouble getting my hands around the extent of the increase we have seen. I understand it's more business, but you did a similar level of business in 3Q 2014. Obviously you have wage pressure naturally, but it seems like there's more variability in your cost base even though we are losing this performance-based stock comp expense. So can you give us a little bit better feel for how we should think about run rate expense level in the MI business? Is it something that's closer to $55 million? Is it something closer to $45 million? I just -- see the last two quarters, I don't have a great feel for that.

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

I think the range that you should think about for our operating expenses are between $55 million and $60 million. Part of what you're seeing on the variability there has a lot to do with our mortgage and real estate services segment. And, again, as you see expenses increase there, that's actually a good thing because of the variable nature. And as the revenue was volatile, so too will their expenses be.

So, much of what you saw there as far as the other operating expense increase for the core business, if you will -- much of it was related to mortgage and real estate services particularly with the acquisition of Red Bell.

Geoffrey Dunn - *Dowling & Partners - Analyst*

How about just on the MI side? What's the core run rate there?

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

Again, I'm just talking about the total from $55 million to $60 million. So, ex what the operating expenses were for the mortgage in real estate business, call it, last quarter would be the number I would go with.

Geoffrey Dunn - *Dowling & Partners - Analyst*

Okay. And then lastly, every MI company is talking about evaluating the new LTMI capital charges. It seems -- charges are going up 10% to 35%. And we know the rate cards price to kind of low-teen ROEs before any discounts. Why isn't anybody admitting that rate has to go up in order to preserve returns?

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

I think mathematically that's correct. I think what we're commenting on, though, is it's too early to tell what the competitive landscape is going to look like there. And so, again, as you know, we evaluate our pricing on a blended basis both on a customer basis and a portfolio basis. So we don't have enough information at this time to, I think, really speak to it. But you are factually correct on the math that if pricing stays the same and capital charges increase, the returns will go down.

Geoffrey Dunn - *Dowling & Partners - Analyst*

Yes -- what are you implying by the competitive comment? Meaning that maybe competitive considerations don't make rate go up as much as it necessarily needs to in order to preserve current returns?

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

No, Geoff, what we're saying is that when it comes to the competitive landscape, we have to be careful in not paying anything that is leading or directing the competitive environment. We will act based on what we think is best for us, and the competition -- individually, each competitor will decide what's best for them.

But we can't make statements about we expect or hope something of the other half will react on our basis. So for example, in terms of us taking our own actions in terms of price discipline, we basically last quarter didn't do any aggregated singles. But that was our decision. I can't tell you what others did or didn't do.

So we will make a decision based on the competitive landscape actions. And based on whether there are any or not any, based on what our individual appetite and direction is, and in order to manage it to a blended return, that is acceptable to us. And each competitor will decide what's right for them.

That's why we are being careful. Not because (laughter) (inaudible).

Geoffrey Dunn - *Dowling & Partners - Analyst*

Thanks.

Operator

Eric Beardsley, Goldman Sachs.

Eric Beardsley - *Goldman Sachs - Analyst*

Just a quick follow-up on that point. Have you seen any early changes in competitive behavior, whether it's the level or frequency of discounting in terms of single-premium business?

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

We -- here, Frank, help me.

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

Sure. As it relates to discount -- and Teresa can comment more on the frequency of what she is seeing there -- but as it relates to discounts from our standard card rate, the impact of the average discount on the card rate premium on our total NIW in the second quarter was only about 2.6%. So the effect of it was relatively negligible for us.

But Teresa, I don't know if you want to comment on where you are seeing it or how much you are seeing it.

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

And keep in mind, every competitor has their own strategy. So Teresa --.

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

Yes, I think that we haven't seen much of a change yet in terms of what anyone is doing. And so we don't have much insight into where people might be going yet with respect to what they're going to do for 2016. But I would say that as a general proposition, strategies seem to be pretty much the same as they were prior to the announcement.

Eric Beardsley - *Goldman Sachs - Analyst*

Got it. So you haven't seen anyone pull back on discounting or talk of any competitors not offering the same rates anymore?

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

No. I think everybody has been -- obviously, that's something we can't talk to each other about. So we're in a situation where it's just maybe what we hear from customers and what have you, and I really haven't seen anyone make a move in regards to the capital changes yet.

Eric Beardsley - *Goldman Sachs - Analyst*

Got it. Great. Thank you.

Operator

Jack Micenko, SIG.

Jack Micenko - *Susquehanna Financial Group - Analyst*

Wanted to just ask about, as a follow-up, on the 97. It looks like you almost doubled, this quarter, that set off a very low base. I guess the question -- given the timing of when it rolled out, are we on our way from 1.8% to 3.2% to something greater? Or do you feel like the 3% -- 3.2% is sort of where the market is right now? Just trying to gauge a sense of the opportunity there as it relates to volume and premium rates.

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

This is Derek, and Teresa can jump in too. Looking at when both GSEs offered the 97 products, I think we were running around 4% to 5%. So I would expect it to go up, so I would expect it to probably settle in kind in that range, maybe around 5%. Somewhere in kind of the mid-single digits.

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

I would agree with that. That's what we historically have seen. Obviously as we see the growth in first-time homebuyers and the growth in new households in the millennial segment, there may be some additional demand for the lower down-payment products. But I think we would expect to see some pickup from where we are right now, but it's hard to say what that would look like.

Jack Micenko - *Susquehanna Financial Group - Analyst*

Okay. Thank you.

Operator

Sean Dargan, Macquarie.

Sean Dargan - *Macquarie Securities Group - Analyst*

The insurance in force that you reported in June 30 -- correct me if I'm wrong, but that was lower than what you had in May as disclosed in the debt offering statement?

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

Relative to the previous quarter, it was up. It may have been down slightly relative to May, but it's impacted by the reconciliation process that I mentioned previously. That's the big driver there.

Sean Dargan - *Macquarie Securities Group - Analyst*

Understood, but it seems like we are nearing an inflection point where despite the heavy NIW volumes that you've been putting up this year, you are going to be struggling to keep insurance in force growing. So I guess my question is given the capital charges coming against lender-paid singles in 2016, are you willing to protect your returns at the expense of growing insurance in force?

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

First off, I don't know if we agree with your comment that insurance in force went down because, as you see, the refis come down, in particular, the persistency rate is likely to go up. But that aside, a separate question on what we may or may not do to -- in terms of trading off in growing insurance in force versus premiums. Our earnings are driven by multiplying insurance in force times premiums, and we are always sensitive to taking into consideration what's the best strategy to follow in that regard. And our goal is to more focus not -- insurance and premium is only a driver of future earnings, not the end goal in itself. It's really the combination of the two, and that's what we look at driving.

Sean Dargan - *Macquarie Securities Group - Analyst*

Understood. But if the industry does not increase pricing on lender paid in 2016, would it be safe to say that you would no longer want to write as much as one-third of new production in that product?

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

I'm not going to comment on what we do in the future. If you want to, judge us based on actions we've already taken. What we've said was in this quarter, we did not write any aggregated singles business because we didn't think the returns are acceptable. And I don't know what others did or not, but we basically will do what we think is right for us to manage to an acceptable return that we want to realize.

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

And I would just add to it there is, as I said, there are many variables in the equation there as we analyze this. To isolate one without assuming any variation in the other variables would be difficult for us to do.

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

The challenge to answer hypothetical question like that -- the big assumption there is nobody's going to do anything in response to this fairly dramatic capital increase. So we really have to monitor competitive dynamics. We have to look at our franchise value, and we have to look at short-term as though it was long-term opportunity to generate revenues and returns. And we try and balance all of those considerations. And if you judge by our history, I think we've done a pretty good job of balancing all of those factors.

Sean Dargan - *Macquarie Securities Group - Analyst*

Thank you.

Operator

Geoffrey Dunn, Dowling and Partners.

Geoffrey Dunn - *Dowling & Partners - Analyst*

I just wanted to clarify a number you mentioned before. You said your average discount was 2.6%. Is that on the aggregate book?

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

Yes.

Geoffrey Dunn - *Dowling & Partners - Analyst*

All right. What is the discount specifically on your lender product versus the rate card?

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

Jeff, I think, as you know, for competitive reasons, we don't disclose either customer-level or product-level pricing information.

Geoffrey Dunn - *Dowling & Partners - Analyst*

Your competitor did the other day. Could you give an idea if it's plus or minus to that 11%?

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

Yes, I'm really not comfortable commenting on a competitor.

Geoffrey Dunn - *Dowling & Partners - Analyst*

Okay. Thanks.

Operator

Since there are no further questions, I will turn it back over to CEO S.A. Ibrahim.

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

Right. Before I close, Frank will make a clarifying comment on capital.

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

Sure. Thanks, S.A. I wanted to circle back to a question that was asked earlier about the capital required on the clawback action. In the P Myers, required capital increase on that clawback is roughly $40 million. And that is already included in our estimate of $330 million needed to be P Myers compliant. So thank you, S.A.

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

Okay. Thanks, Frank. And with that, I would like to thank you all for joining us and for your interest in Radian. And we look forward to reporting to you on our progress in the next quarter. So until then --. Thanks, operator.

Operator

Ladies and gentlemen, that does conclude our conference today. We would like to thank you for your purchase patient and for using AT&T teleconference. You may now disconnect.
