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RDN - Q4 2015 Radian Group Inc Earnings Call

EVENT DATE/TIME: JANUARY 28, 2016 / 3:00PM GMT

THOMSON REUTERS

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. And welcome to Radian's fourth-quarter earnings call.

(Operator Instructions)

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

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

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

This press release includes certain non-GAAP measures which will be discussed during today's call. A complete description of these measures and the reconciliation to GAAP may be found in press release exhibits E, F, and G and on the investor section of our website.

During today's call, you will hear from 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 Inc.; 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 discussion of these risks, please review the cautionary statements regarding forward-looking statements included in our earnings release, and the risk factors including in our 2014 form 10K and subsequent reports filed with the SEC. These are all available on our website.

Now I'd like to turn the call over to S.A.

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

Thank you. Thank you for joining us and for your interest in Radian.

Before we discuss the financial results for the fourth quarter, I would like to highlight what I believe 2015 has meant for Radian. Following my comments, Frank will cover the details of our financial position. Then I will summarize a few key points before opening the call to your questions.

2015 was a year when we delivered strong financial results, demonstrated our commitment to balance and discipline by writing high-quality flow MI business that is among the highest in our company's history, and positioned Radian for future success as a simplified company with a clear strategic focus on our core strengths.

First, we eliminated all of our exposure to financial guaranty credit risk with the sale of Radian Asset. Second, we grew our mortgage insurance in force. Including writing a high-volume of profitable mortgage insurance business. We expect our in force book to grow in 2016 and enhance a strong foundation for future earnings.

Third, we expanded our mortgage and real estate services offerings with the acquisitions of Red Bell Real Estate and of ValuAmerica. These offerings add fee-based revenue, help distinguish Radian among its peers, and position our company for future success in a mortgage financing environment that continues to evolve.

Fourth, we satisfied the Private Mortgage Insurer Eligibility Requirements. As part of our PMIER strategy we utilized a surplus note which is a creative solution that allows us the opportunity to quickly return liquidity to the holding company and provide greater capital flexibility. This has allowed us the opportunity to explore capital options including the $100 million share repurchase program recently authorized by our Board.

Today, we believe we are better positioned to drive long-term value than ever before. Our legacy exposure is largely behind us, and have a clear focus on our core strengths.

Our large and successful mortgage insurance business is expected to generate strong revenue from existing high quality and profitable book of business for years to come. And we are successfully leveraging our customer relationships and increased capabilities through our Clayton family of companies.

We believe this winning combination will further expand and strengthen our core businesses and drive long-term value for our shareholders.

Turning to the quarter and year-end results. Earlier today, we reported net income for the fourth quarter of 2015 of $75 million or $0.32 per diluted share. Adjusted pretax operating income was $124 million for the fourth quarter of 2015, which compares favorably to $58 million for the fourth quarter of 2014.

For the full year 2015, adjusted pre-tax operating income was $511 million, an increase of 49% over the $342 million reported for the full year 2014. These strong year-over-year results reflect the earnings power of our high-quality and growing mortgage insurance in force.

Adjusted net - diluted net operating income per share for the fourth quarter was $0.34 and $1.40 for the full year 2015. Book value per share grew 10% year over year to $12.07 at December 31, 2015.

And now turning to the mortgage insurance segment. We continue to grow and improve the composition of our mortgage insurance in force, which is expected to be the primary driver of future earnings for Radian. The high quality and profitable new business we wrote after 2008 now represents 84% of our total primary mortgage insurance risk in force, or 75% excluding HARP volume. You may find these details on webcast slide 11.

On webcast slides 12 and 13, you will find a new disclosure that compares the loan characteristics of Radian's existing risk in force as of 2015, 2011, 2007, and 2003. As you can see here, and as we discussed during our investor day in November, the credit quality of today's business is vastly superior to the business written pre-housing and economic downturn.

While the average FICO scores and LTV mix may be the most obvious differentiators, it's important to note that the 2015 book of business consists primarily of prime credit quality loans on purchase mortgages using a fixed rate product.

While all of our business written in 2015 is prime credit quality, nearly one-third of our book in 2003 consisted of exotic product such as sub prime, Alt A, or low doc loans combined in some cases with teaser ARMs. Today's NIW is not only better in terms of credit quality, but it also has a higher average premium rate.

We wrote $9 billion of new MI business in the fourth quarter. And $41 billion for the full year 2015. Which was an increase of 11% over 2014.

Let me now address MI industry competition. Which continues to attract attention in the investment community.

At Radian, we are focused on writing as much high-quality new MI business as possible while maintaining a well-balanced business mix that we expect to generate after-tax underwriting returns in the low to mid teens. This translates to a return on equity in the high teens. Frank will discuss the returns in more detail, but it is important to note that in order to maintain our return threshold, we have opted not to compete with certain pricing discounts in our industry. We believe this is a sensible strategy that is in the best long-term interest of our company.

As discussed during our investor day, MI pricing since 2009 has been one of increased granularity using a more risk-based approach than was used in pre-crisis years. As we also discussed during the investor day, we filed a lender-based singles rate card that is expected to increase returns and help us to remain competitive with the FHA. We plan to begin using this rate card in the first quarter.

In terms of other pricing approaches announced recently within our industry, we take a measured approach to evaluate and consider each approach with the continued focus on balance and discipline with an eye towards achieving targeted returns. While a decision not to compete for certain business has impacted our market share, we have also been able to and expect to further mitigate the impact with the addition of new customers and by managing the amount of business we received from existing customers.

In fact, over the past 10 years we have successfully shifted our customer mix based on changing market dynamics. We've been successful in doing so, based on our customer relationships and our reputation as a respected and valued MI partner. Today we are focused on increasing our relationship and share of business from credit unions, where we see opportunity for new high-quality business, while also maintaining our strong relationships with banks and independent mortgage lenders.

We believe the success of our strategy is illustrated in our results. We wrote new flow MI business in 2015 that was among the highest in our company's nearly 40-year history, grew our mortgage insurance in force, and improved the credit quality of our MI portfolio. We continue to strive for the best balance of new business volume and return in our capital, to create a strong MI franchise and lasting shareholder value.

Turning to the mortgage origination market, we expect total MI market in 2016 to be comparable to 2015. This is based on a projected decline in refinancings this year that will impact overall origination volume, yet, we also continue to expect increased penetration from purchase origination, where private mortgage insurance is 3 to 4 times more likely to be used than for refis.

According to a recent Harris Poll the number of Americans who dream of owning a home increased again over last year with the largest jump among millennials. And according to a study conducted by RealtyTrac, buying remains a better financial decision than renting nationwide, even if mortgage rates increase. And both of these studies cited the greatest obstacle to homeownership as having enough money for a down payment. We believe that these further demonstrate the value of, and demand for private mortgage insurance in the foreseeable future.

Turning to the credit environment, the combined impact of an improving economy and a continued focus on proactively removing legacy MI business resulted in a year-over-year decline in Radian's total number of primary delinquent loans of 22%, as you can see on slide 21.

You can also see that our primary default count decreased to 35,303 loans and slide 22 shows that our primary default rate fell again to 4%. Based on positive experience in our default population, we reduced the default to claim rate on new notices to 13%.

Slide 14 shows that for the year ended December 31, 2015, the earned premiums less incurred losses from our 2009 and later MI vintages was $630 million handily outpacing 2014 and nearly doubling 2013.

Our substantial level of new insurance written in 2012 through 2014 will drive most of our premiums for the next few years. This was a driver of our strong 2015 financial results and is expected to be the foundation of our future profitable growth.

Our Mortgage and Real Estate Services segment had fourth-quarter 2015 total service revenues that increased to $38 million from $35 million in fourth-quarter 2014. For the full year 2015, service revenues were $157 million. What is most important to remember, is that the service segment adds a diversified source of fee-based revenue for Radian. And the Clayton family of companies broadens our participation in the residential mortgage market value chain with services that complement our MI business.

We continue to make progress in deepening our customer relationships and differentiating Radian among our mortgage insurance peers through the services portfolio products. You can see this more clearly on slide 30 in Radian's value circle, which is used by our sales teams to showcase the breadth and depth of products we offer across the spectrum of mortgage and real estate service. This includes our recent acquisitions of ValuAmerica, a title insurance and appraisal management company, along with continued growth within Red Bell Real Estate.

Turning to the regulatory and legislative topics important to our mortgage insurance business. PMIERs became effective on December 31, 2015 and we believe that these new capital rules will help instill even greater confidence in the long-term value and role of the MI industry. As I mentioned earlier, Radian was able to comply using only a portion of our holding company cash through the use of a surplus note. This creative solution provides us with financial flexibility for the future.

While housing policy discussions on Capitol Hill have not yet resulted in comprehensive reform, we remain actively engaged with key policymakers and hear support for the important role of private capital including private mortgage insurance in the future of housing finance.

Our industry achieved success in the fourth quarter of 2015, as Congress passed into law an extension of the mortgage insurance tax deduction that covers all premiums paid in 2015 through December 31, 2016.

In addition a Bill was introduced that could expand opportunity for millions of new potential homeowners by encouraging the GSEs to accept more moderate and alternative credit scoring models. That initiative is supported by dozens of consumer groups, diverse segment groups, and many real estate-related companies including Radian.

Our efforts to expand our industry's role in the GSEs credit risk transfer programs through front end deeper cover private MI were bolstered with letters of support from consumer groups and all three diverse segment real estate groups. This initiative would reduce GSE risk and potentially reduce costs for consumers as well.

The FHFA indicated they will examine front-end risk sharing in 2016, which will include an opportunity for us to share analysis and data as part of a public comment period.

And now I would like to turn the call over to Frank for details of our financial position.

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

Thank you, SA, and good morning.

Before I get into the details of our results, I would like to address a point of clarification to aid in the analysis of these results. The comparability of our GAAP net income 2015 and 2014 is materially impacted by two important 2014 events. First, the successful sale of Radian Asset and second, the reversal of our deferred tax asset valuation allowance. Please refer to our fourth quarter 2014 financial results and 10K for details of these two significant events. Our primary focus today will be on our operating results.

Moving now to the drivers of our revenue. New insurance written was $9.1 billion during the quarter, compared to $11.2 billion last quarter and $10 billion in the fourth quarter of 2014.

Refinancing increased slightly to 17% of volume this quarter compared to 13% last quarter and 22% a year ago. We expect our insurance in force to grow in 2016 due to the increased mix of purchase volume relative to refinance.

Single premium business presented 29% of our total NIW in the fourth quarter up slightly from the third quarter. Primary insurance in force increased to $175.6 billion during the quarter.

Our twelve-month persistency declined from 79.2% in the third quarter of 2015 to 78.8% in the fourth quarter of 2015, as noted on exhibit M.

To give more context with respect to how persistency is currently trending, our annualized three-month persistency increased from 80.5% in the third quarter of 2015 to 81.8% in the fourth quarter.

Our twelve-month persistency was negatively impacted by our previously disclosed reconciliation with servicers, resulting in unusually high cancellations that still remain in the twelve-month persistency calculation.

Earned premiums for the quarter were relatively flat from the third quarter and included approximately $13 million related to single premium acceleration which is also similar to the third quarter of 2015.

Investment income increased 3% in the quarter due to the further deployment of liquidity from the sale of our financial guaranty business earlier in the year.

Our portfolio yield increased 28 basis points or 13.6% for the fourth quarter end from the third quarter end. Our portfolio duration also extended from approximately 3.8 years to 4.3 years.

Total service revenue for our mortgage and real estate services segment was approximately $38 million for the quarter, as compared to $43 million in the third quarter.

As we've mentioned previously, and as you can see on slide 29, we expect fluctuations in revenues in this business as the transactional and seasonal nature of these businesses contributes to greater volatility.

Moving now to our loss provision and credit quality. The loss ratio was 25.1% this quarter, as compared to 28.2% in the third quarter 2015 and 36.9% in the fourth quarter of last year.

We observed further improvements in new defaults which decreased 2% over new defaults in the fourth quarter of last year. Full-year 2015 new defaults were 13% lower than in 2014. And in 2016 we expect new defaults to decline at a similar rate.

We continue to see positive credit trends such as a decrease in the number of new defaults, improved cure rates, and a shift in composition of default inventory toward newer defaults.

Given trends observed during the quarter, and noted on slide 21, we reduced our estimated claim rate on new defaults from 14% to approximately 13%. As a reminder, we have seen historical claim rates on new defaults as low as 10%, though we do not expect more than a 100 basis point decrease in 2016.

The benefit of approximately $20 million from this positive development from the default to claim rate reduction was largely offset by the impact of a business decision related to our future loss mitigation practices. These changes do not impact our conclusions regarding overall positive trends and credits.

I would like to take this opportunity to provide some discussion on how loss assumptions impacts our new business returns. We have historically provided the unlevered returns which are estimated in the low to mid teens, using a loss assumption of approximately 20%, which represents through the cycle loss estimate. Adding leverage to this result enhances the returns to the high teens.

These results are on our actual quarterly blended production. The returns are less sensitive to loss assumption changes than some may appreciate.

As an illustration, if we assumed double the projected losses, which is more severe than what we would expect in a Moody's F-S moderate recession scenario, this would decrease projected unlevered returns by approximately 300 basis points, still keeping our levered returns in the teens and above our cost and capital.

The capital assumption used for all our returns calculations is the PMIERs capital.

Cumulative incurred loss ratios of business written after 2008 remain extremely low and are presented on webcast slide 16. The primary mortgage insurance delinquency rate was 4% in the fourth quarter compared with 4.1% in the third quarter of 2015.

Our paid claims for the full year 2015 were $765 million inclusive of the B of A settlement and were higher than we had anticipated mainly due to more efficient claims processing which created an acceleration of claim payments. Paid claims for 2016 are expected to decline to approximately $400 million to $450 million exclusive of any settlement related claims which are expected to be minimal in 2016.

Moving now to expenses. Our operating expenses for the quarter were $59.6 million as compared to $65.1 million in the third quarter of 2015, and $85.8 million in the fourth quarter of 2014.

The fourth quarter of 2014 included several unusual items, the most of significant of which was approximately $24 million related to long-term compensation expenses and other year-end bonus accruals. The expenses for the fourth quarter of 2015 were positively impacted by several items that were immaterial individually but aggregate to approximately $6 million.

Our plans for further expense management are ongoing, but to date we have identified approximately $12 million in annual expense reductions that are expected to be phased in throughout 2016.

We expect our fourth-quarter 2016 core operating expenses to be between 3% and 5% lower than our fourth quarter 2015 core operating expenses, excluding $6 million of technology expenses associated with a significant investment in upgrading our systems.

We will continue to dig deeper and update our investors and analysts as we made this one of our top priorities this year. Without providing specific guidance on our revenues, we do expect our revenue to grow at a rate much higher than our expenses after these steps are taken, thus providing the positive operating leverage we have targeted.

The reduction in our effective tax rate during the quarter was primarily driven by an increase in the estimated tax benefit associated with the June 2015 purchases of our convertible senior notes due 2017. During the quarter we recorded approximately $10 million of additional net tax benefit relating to this transaction which impacted our effective tax rate.

Moving now to capital. We've made significant progress in enhancing our capital structure and complying with PMIERs all while continuing to plan for ways to create further shareholder value.

First I will speak to PMIERs and related actions surrounding our compliance. Radian Group transferred $325 million of cash and marketable securities to Radian Guaranty in exchange for a surplus note. Based on positive trends reflected in our capital projection, we expect to seek redemption of a portion and possibly the entire note in 2016 and any remaining amounts in 2017. Any amount redeemed will result in a corresponding increase to holding company liquidity.

While we could have satisfied the PMIERs financial requirement through a permanent capital contribution, the surplus note is an effective way to optimize our capital and liquidity positions. Early redemptions of the surplus note are subject to approval by the Pennsylvania Insurance Department.

Radian Group also contributed $50 million to an exclusive affiliated reinsurer of Radian Guaranty. This reinsurer was established as part of a legal entity simplification initiative and is intended to support only internal reinsurance activity.

The combination of the surplus note and capital contribution provides Radian Guaranty with its intended modest initial cushion, above the projected amount required to satisfy the PMIERs financial requirement. This cushion at the operating company level is expected to increase based in part on expected future financial performance at Radian Guaranty. Therefore, we expect that these capital contributions are the only contributions necessary to ensure future compliance.

In the unlikely event that further contributions from the holding company would be necessary, we would expect to satisfy those with our currently available liquidity of approximately $340 million exclusive of cash used for the share repurchase program.

Additionally, we have chosen to continue to expand our reinsurance strategies. Radian Guaranty had the option to recapture a portion of $1.3 billion of risk, ceded under its existing second quota share reinsurance transaction on December 31, 2015, and we chose not to recapture that risk.

We received a profit commission in 2015 of approximately $8 million based on performance of that reinsurance portfolio which has been recognized throughout 2015.

We also received an $8.5 million prepaid supplemental ceding commission, the recognition of which has been deferred, and expected to be amortized as a reduction to our other operating expenses over approximately the next five years.

Radian Guaranty is also actively pursuing a reinsurance transaction that is intended to reduce our exposure on single premium policies. While we continue to believe that single premium portfolio exposure of up to one third is manageable, the opportunity in this landscape of a strong reinsurance market makes this transaction an effective capital alternative and should help balance our single premium policy exposure.

The transaction could affect up to 25% of our primary risk in force. We will announce more details for this reinsurance program if and when it is completed which may be as early as the first quarter of 2016. It is also important to note that any PMIERs credit derived from this contemplated reinsurance transaction will provide additional cushion to the operating company.

The capital and liquidity flexibility that these actions have provided also gave us confidence in announcing the recent board authorized share repurchase program of $100 million. Given that our common stock has recently traded below our December 31, 2015 book value of $12.07, we believe that acquiring our own stock in the open market at these levels provides a better return for our shareholders than the alternative uses of capital.

We will look to complete the restructuring of our balance sheet when market conditions are appropriate.

As previously mentioned during our investor day, we would like to eliminate the convertible securities from our capital structure at a time when market conditions and our liquidity forecast would support such an action.

After giving affect to the aforementioned actions, we will target approximately $300 million of available liquidity of the holding company but may temporarily dip below the target depending on the actual timing of our capital management activities throughout 2016.

And now I would like to turn the call over to SA.

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

Thank you, Frank. Let me summarize the important takeaways of 2015. I am pleased with our continued ability to write more high-quality MI business, to maintain our price discipline to generate mid to upper teens return on equity, to improve the credit quality of existing MI portfolio, grow our mortgage insurance in force, and create a diversified source of fee-based income to our services segment that also deepens our relationship with our MI customers.

Our solid 2015 financial results and credit performance represent a powerful demonstration of our embedded strength. Most importantly, we believe we are better positioned today to drive long-term value than ever before. And now, operator, we would like to open the call to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

The first question comes from the line of Eric Beardsley of Goldman Sachs

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Eric Beardsley - *Goldman Sachs - Analyst*

Hello, thank you. I just wanted to clarify some of the credit commentary in terms of your expectations for new notice improvement.

Could you just repeat the percentage improvement that you expect next year? Is that consistent with the fourth-quarter levels or the full year 2015 levels as you look at the 2016 year notices?

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

Sure, so we stated that the full-year 2015 defaults were 13% lower than in 2014 and in 2016 we expect the new defaults to decline at a similar rate.

Eric Beardsley - *Goldman Sachs - Analyst*

Got it. As we look at the fourth quarter trends, obviously that pace was somewhat slower. Is there anything notable that we should think about there, and relative to what you saw in the quarter what else contributed to your decision to lower the claim rate?

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

I wouldn't say there was anything notable. In fact, again, on the annual basis it was consistent with our expectations.

What I would say about the reduction in the role rate is that it is wholly consistent with what we're seeing in the overall positive trends in credit quality. What you're seeing there is simply a reflection of that view.

Eric Beardsley - *Goldman Sachs - Analyst*

Okay. And then just quickly to clarify also the OpEx commentary.

If we were looking at the fourth quarter level adjusting for $6 million of the small items the improvement that we are looking at of that level is 3% to 5% which are also going to have an additional $6 million next year from a technology project, did that I understand that correctly?

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

That is correct. For the fourth quarter of 2015, the way to think about it is that we have, what I would call, core operating expenses. On a consolidated basis of roughly $65 million.

So that 3% to 5% reduction on a 4Q 2016 over 4Q 2015 would be off of that $65 million.

The OpEx, that I had mentioned about our modernization project, will be called out separately and as we mentioned in our investor day, the expenses associated with modernization are really duplicative to our existing platform. And therefore as we operate during this time period of redundancy, we'll call that out separately.

Eric Beardsley - *Goldman Sachs - Analyst*

Great, thank you.

Operator

Next question is from the line of Mark DeVries from Barclays.

Mark DeVries - *Barclays Capital - Analyst*

Thanks. First I want to clarify a point.

Frank, I think you indicated that the implied claims rate on new notices was 13%. But we are calculating at a lower number.

When I think about - I think the gross primary incurs were $59 million new notices and defaults were [11.7 thousand] so that gets you to an incurred new default of a little over $5,000, which versus a $49,000 average claim implies a claim rate closer to 10%.

What is the disconnect there? Where are we off in that calculation?

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

That is a great question. I would suggest is maybe we take that off-line and point you to some of our disclosures that can help highlight the difference.

Mark DeVries - *Barclays Capital - Analyst*

At a higher level, are you seeing -- if you think about -- you indicated you are at 13% now and you don't expect more than 100 basis point improvement this year. Are you seeing 10% on the truly new notices versus the higher level on some of the older vintages and therefore as that continues to burn down it's going to take time to get from 13 to 10?

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

Let me just make one quick comment and I'll turn it over to Derek for some details.

I think the overarching conclusion I want to make sure becomes very clear on this call is that our overall credit trends are positive. And so what you're seeing in all of our actions is consistent with that conclusion and consistent with the evidence we have.

But to your particular question, I will turn it to Derek.

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

In terms of the new vintages, generally what we're seeing is they tend to cure at a higher rate than the legacy portfolio. So one would expect as you see the book season and more of the default inventory moved to the newer vintages, you would probably see that rate decrease on a relative basis.

Mark DeVries - *Barclays Capital - Analyst*

And then finally, I just want to clarify a point.

I think you indicated, Frank, that you're going to target a minimum liquidity of $300 million at the Holdco. Given where you are now does that imply you're going to need more cash to the Holdco through the redemption of the surplus notes before you would be able to use the full $100 million stock repurchase authorization?

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

No. We maintain sufficient liquidity of the parent company to deal with the share repurchase program.

Mark DeVries - *Barclays Capital - Analyst*

So you could do that rapidly if you wanted? The stock is obviously at a pretty compelling level here that we hope will not persist for that long. And if you could front-end load that as opposed to spreading it out, I think it would be ideal for you guys.

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

Yes, obviously the share price is very attractive, but the timing of the actual purchases will depend on market and certain other conditions. But the current trading price certainly presents an attractive opportunity.

Mark DeVries - *Barclays Capital - Analyst*

But there are no liquidity issues that will impact the pace at which you are able to buy that back? Great, thank you.

Operator

The next question comes from Mackenzie Kelley of Zelman & Associates. Please go ahead.

Mackenzie Kelley - *Zelman & Associates - Analyst*

Thank you. Good morning. SA, with some of the industry moving away from [cross-subsidized] pricing, can we take your earlier comments to imply that at this time Radian does not intend to pursue a flatter pricing strategy, and at this point, what would prevent you from adopting a more risk-based model to better adjust to PMIERs?

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

As I said, we do follow a granular pricing approach which is in fact risk-based pricing.

If your question specifically is do we want to go further and look at some of the tools that others use, we will evaluate that. At this point, we believe we can use those tools if we wanted to but we have not made a decision.

In terms of the next part of your question, I'll ask Frank to answer that, but point to the fact that we take a very measured and disciplined approach to pricing.

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

And I would just add to that, as I said we are constantly evaluating a wide range of options in the context of the competitive landscape.

But when we have evidenced in the past with our LP singles card change here recently that will become effective in March, is that we have effectively flattened the card but increased the returns overall.

And so, as we are evaluating different options and opportunities, we are very mindful of and place great emphasis on the returns; and so as we look at potential future changes we will always be very mindful and place a heavy emphasis on the returns.

Mackenzie Kelley - *Zelman & Associates - Analyst*

Got it. Thanks for that. And Teresa, maybe this is for you. The three months now into TRID have you heard from customers any feedback regarding the pros and cons of the transparent rate card versus the black box strategy or is that really turned out to be a non-issue thus far?

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

Hello, Mackenzie, it actually has. We have not heard any issues at this point.

We've had some discussion with customers. I think they've been so focused on their own issues around this and the fact that it has slowed down closings a little bit that we have not heard that there is a differentiator there.

Mackenzie Kelley - *Zelman & Associates - Analyst*

Great, thank you.

Operator

The next question is from the line of Bose George of KBW.

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

Good morning. Just another follow-up on the pricing.

Obviously there are several rate cards out there from competitors with the flatter pricing. Is it fair to say that you think returns on those from those rate cards don't meet your hurdle rate which is the driver of not adopting something similar?

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

I'm not going to speak specifically to our competitors rate cards but just frame it in the context of what I described, which is that we are placing an emphasis on the returns.

We think that the returns that SA mentioned of low to mid teens are very achievable and that is what we will be targeting as we evaluate any future pricing actions.

I think you would notice by our recent actions is that we maintain a very high level of discipline here and we have not been quick to change so that we can see what the reaction is from the competitive landscape.

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

Okay, great. And then actually your comment about the market share impact of the pricing position, has that already been seen in the data or are you speaking prospectively? Do you think there could be further market share impact going forward?

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

The market share impact we referenced is historical. Again, further evidence of our discipline.

And so we have let a little bit of market share slip, we have maintained strong returns. And we are certainly mindful of that historic experience.

But what we are looking to in the future are different ways to grow our market share. And are confident we will be able to do that.

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

Okay, great. And just actually one more on the pricing. In terms of discussions with lenders, how are lenders managing multiple rate cards from people with the black box et cetera. How are they seeing the process?

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

Teresa?

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

I think each lender is taking their own approach to that. Some lenders are using the black box along with rate cards.

Others have opted not to use the black box at all. So it really does vary by lender in terms of their own operations and systems and their own strategy of how they want to approach it.

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

Okay, great. Let me just sneak in one more - on the buybacks, has an accelerated share repurchase been one of the considerations?

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

What we spoke to in our press release was more of an open market approach to the share repurchase program.

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

Okay great thanks.

Operator

The next question is from the line of Doug Harter of Credit Suisse.

Doug Harter - *Credit Suisse - Analyst*

Just one more on the holding company liquidity. When you think about debt maturities, how far out will you sort of account for those and factor that into your $300 million liquidity target?

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

Sure, so I will answer that question in the context of some of our previously stated goals of returning to investment grade. And one of the factors that they look at is your ability to deal with upcoming maturities. And so when we targeted that $300 million, it's within the context of what we expect our future debt maturity schedule to look like.

Doug Harter - *Credit Suisse - Analyst*

Okay. And then have you started to have conversations or do you expect to have conversations with Pennsylvania about the ability to -- when you might be able to get starting regular dividends of the insurance subsidiary?

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

That is something again, our approach to managing liquidity of the parent company from the operating company was handled through the surplus note.

The ordinary dividends as far as what the map - the required map is for that to take place, we are many years away from having that positive unassigned surplus.

We don't feel at this time that there is a need to request any special dividend, if that is your question. And expect that ordinary dividend ability to return to us in six or so years.

Doug Harter - *Credit Suisse - Analyst*

Great, thank you.

Operator

Next question from Geoffrey Dunn of Dowling & Partners.

Geoffrey Dunn - *Dowling & Partners Securities - Analyst*

Good morning. First question is on singles pricing. Obviously, you and others in the industry have increased pricing in response to the higher capital charges. Any color on lenders, particularly the non-bank's initial reactions to the higher costs?

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

I will ask Teresa for some commentary on that. But I don't get the sense that there has been. Teresa?

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

I think that frankly, with PMIERs changes particularly with the changes that happened in June with higher capital charges, for singles, there was already a lot of discussion with lenders about the fact that there would need to be some adjustment there. So frankly, I don't think they are surprised. Or we certainly haven't seen any surprise.

Geoffrey Dunn - *Dowling & Partners Securities - Analyst*

Okay. And then, with respect to BPMI pricing, you have risk-based capital charges on a much more granular level from PMIERs such that against higher rate cards it just doesn't align and ends getting progressively more expensive (inaudible) for the higher FICOs.

Why isn't a realignment of the BPMI rate card basically inevitable here across the entire industry? It seems like you're now dealing with apples and oranges given how the capital charges are laid out under PMIERs.

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

Jeff, I would point you to the comments that we made about expected returns in the midteens. And just highlight that that is on PMIER's capital.

From our vantage point we don't think there is a technical need to change the BP card now. Certainly the competitive landscape may dictate some change in the future but we don't see a technical reason to need to change that.

Geoffrey Dunn - *Dowling & Partners Securities - Analyst*

But as I think you said on the lender card you can get more granularity in pricing and still maintain or improve returns, right?

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

That is correct. We are seeing improved returns with the flattened rate card, that is correct.

Geoffrey Dunn - *Dowling & Partners Securities - Analyst*

Okay, thank you.

Operator

Vivek Agrawal of Wells Fargo Securities.

Vivek Agrawal - *Wells Fargo Securities, LLC - Analyst*

Morning, thanks. Given that the FICO scores are above pre-crisis levels, and the calculations seem to have been eased on the margin with things like the past missed medical payments having forgiven -- in calculations.

From a risk management standpoint, how do you look at FICO score improvements due to items such as this, relative to the passage of time where the improvement in the underlying borrowers?

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

Great question.

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

In terms of our portfolio, the GSEs haven't converted over to utilizing that newer FICO system. So it's not really impacting. So from a modeling perspective, what we used on a historical basis for FICO still applies.

Vivek Agrawal - *Wells Fargo Securities, LLC - Analyst*

Okay. And then moving on, are you seeing any weakness from energy related geographies in your missed payments?

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

This is Derek. I will take that one.

We haven't seen any impact in terms of the portfolio. Obviously, we're monitoring the situation closely.

When we look at it I would separate two things. The impact on the overall economy, and we think for consumers nationwide it is probably a positive. You'll need to see that bleed in over time.

When you look at the concentration I would say in oil-related states and we want to make a couple of points. One is, I think the economy in oil-related states are less dependent from a job perspective -- on the oil industry. We have certainly seen that also I would say home prices are more in line with fundamentals than what we saw in the 80s in the oil patch crisis.

The other important point is we look at it on an MSA level, so what we look at is MSAs where there are concentrations in the oil related jobs, which we define as more than three percent, and we look at that in our portfolio exposure to those oil-concentrated MSAs is less than 4% of our overall portfolio.

We run various stress test through the portfolio, oil-related stresses, and when we do that, given the relatively low concentration to those MSAs it doesn't really materially impact our projected losses for the overall portfolio.

Vivek Agrawal - *Wells Fargo Securities, LLC - Analyst*

Thank you.

Operator

Chris Gamaitoni of Autonomous Research

Chris Gamaitoni - *Autonomous Research LLP - Analyst*

Good morning, thanks for taking my call. Just one clarifying point. I was wondering what the future loss mitigation practices that you said you changed were? And how exactly that impacted the reserve this quarter?

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

Yes, so the loss mitigation practices really just impacts our assumptions around rescissions and denials.

I think what you'll notice in that in any quarter where you make a assumption change the largest impact is in the quarter of change. So we would expect to see on that, on a go forward basis is relatively small changes in that.

Chris Gamaitoni - *Autonomous Research LLP - Analyst*

Okay that is perfect. And then on the BPMI rate card discussion relative to market share. So if you don't make a change, why would you not be adversely selected, where other competitors may have lower prices at the very high FICO scores leading to a mix of business to the more 680 to 720 area?

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

That is a great question and really what we're saying is we've not reached a conclusion as it relates to how to address the competitive landscape for BPMI. What we'll continue to say and continue to illustrate and demonstrate is that pricing discipline is the focus on returns and that's the approach that we'll take.

Chris Gamaitoni - *Autonomous Research LLP - Analyst*

Perfect. And can you remind us what the structure of the remaining 2019 converts are, if you were to do something with those? Is it a call premium? I just don't remember what you would have to do the technical aspects of dealing with those?

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

So there is a call feature if the share price is above a certain strike price. $13.78. It is our option as to the mix of consideration related to how we settle those. But during the quarter, our share price is averaged at a price below that.

Chris Gamaitoni - *Autonomous Research LLP - Analyst*

Certainly. Thank you so much for my call.

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

Thank you.

Operator

Al Copersino of Columbia Management.

Al Copersino - *Columbia Management - Analyst*

Thanks very much. I wanted to also get a clarifying question in if I could.

I believe you said the sub is now at the intended cushion level above PMIERs, but that cushion will increase as you generate earnings.

I know it's very early days and you probably haven't come to a final decision on this, but have you come close to deciding where that cushion should be, how large it should be? Beyond the $300 million of liquidity at the holdco, what the sub cushion should be?

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

Yes, so what we have described is initially we wanted to have a modest cushion, which we achieved at year-end. And that was really the purpose of utilizing the surplus note.

Because the surplus note provides us with a faster opportunity to return cash to the holding company once that cushion builds.

So we can expect a cushion to grow organically over time. The good news is once a cushion builds to a sufficient level, we have the opportunity to return capital and cash back up to the parent company.

Al Copersino - *Columbia Management - Analyst*

But as a percentage of required PMIERs capital at the sub you haven't decided specifically that we want to keep a 10% cushion or 15% cushion or what have you?

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

No, we have not. Again our primary purpose for year-end -- our primary goal is to make sure that it was modest at the operating company because it will build organically.

And then as we think about cushions and managing cushions on an ongoing basis, we will be maintaining that approximate $300 million at the Holdco, which is really the cushion if you will that we manage to.

Al Copersino - *Columbia Management - Analyst*

Right. One follow up on that. The PMIERs capital requirements are pro-cyclical. Do you envision the size of your buffer changing over time as well throughout the cycle?

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

Yes, I would describe it as any buffer that we would need, would be accounted for when we do the calculations for the excess on each quarter.

So again we don't expect to need to push down any further capital into the operating company. And any of those buffers, if you will, will be accommodated through organic means.

Al Copersino - *Columbia Management - Analyst*

Right, okay. One last if I could sneak that one in on pricing.

Just to make sure I understand, you referenced what I think are two different things.

You referenced some, what has been some competitive pricing at times in the industry. I can think of particular, few months ago I believe one competitor cut prices, but it seems that the conversation that we've been having on this call about rate cards is a separate issue.

That you are finding an ability to change your rate card while increasing your expected returns. So I see you doing that, that element of what some competitors have done but I see you also, secondly not responding to the one-off price cuts that we've seen in the past.

Have I summarized that correctly, those two different pieces of the pricing dynamic?

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

Let me restate it a little bit to describe what we've actually done.

So historically, we have operated in a competitive landscape given what I have called historic pricing actions from our competitors. And that has been reflected in our previous statements, our previous results and our discussion around returns et cetera.

What some of the discussion today has been around, is both the lender-paid singles and also borrower-paid monthlies.

We have made a change on the lender paid to increase the overall returns of the card, even though we flattened it, if you will, and we have not yet concluded any pricing change will be necessary for the borrower-paid.

Al Copersino - *Columbia Management - Analyst*

Okay. Got it, thank you.

Operator

The next question is from Sean Dargan of Macquarie.

Sean Dargan - *Macquarie Research - Analyst*

I'm giving the statement you just made on not changing the borrower-paid rate card. All else being equal would you expect new insurance written to be higher or lower in 2016 versus 2015?

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

I will answer your last question first. For new insurance written we expect it to be comparable to 2015.

What I said about the borrower paid is that we have not yet concluded whether any action will be required or action we will take.

Sean Dargan - *Macquarie Research - Analyst*

Okay. And then I will try to speak in general terms here.

If there was a mortgage insurance company that was part of a larger well-capitalized parent, that is no longer going to get the full capital support of that parent, do you think would make sense that that company raised pricing to achieve adequate returns, or do you have any thoughts on what the impact of a new publicly traded mortgage insurer could be?

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

Actually we find that very positive -- we would find a very positive for us in the industry for any company that was private to be a public company, publicly traded company. It would level the playing field, increase transparency, and hopefully potentially increase pricing discipline.

Sean Dargan - *Macquarie Research - Analyst*

Okay. Thanks, and one last question. It seems like you're striving for an investment-grade rating. Do you get the sense that investment-grade financial strength ratings of the insurance subs are becoming more important to your lender partners?

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

It is certainly something we think is very important.

And there have been some instances of, I will call it, mid-sized financial institutions that we deal with where it is important, and candidly that is one of the levers that we expect to be able to pull in the not-too-distant future For regaining some market shares.

So for some it is important but it hasn't practically impaired our ability to successfully write new business.

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

It has not - it does not impede us from doing the business we are doing today. But on the margin, it could be a plus in doing more business going forward if we have investment-grade rate.

Sean Dargan - *Macquarie Research - Analyst*

Got it thank you. The reason I ask is I think there's a real possibility that parent of another mortgage insurer could have its credit ratings downgraded, and there can only be so many notches in between the insurance sub financial strength ratings and that of the parent and if it's downgraded, I wonder if it's impairing them or take them off some platforms.

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

Again, level playing field and transparency are good for all of us.

And therefore we welcome any developmentS that would take privately held companies and make them public and put them under the same scrutiny and same capital standards that the rest of us operate under.

Sean Dargan - *Macquarie Research - Analyst*

Okay, thank you.

Operator

The final question is from Patrick Keeley of FBR.

Patrick Kealey - *FBR & Co. - Analyst*

Most of my questions have been answered, but just wanted to talk about I know in the past you've talked about the potential for cross selling with your Clayton products to existing MI customers and using that as a means to deepen your relationship.

So just an update there and if you have any numbers to put around that I think would be very helpful.

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

Joe, do you want to take that?

Joe D'Urso - *Clayton Holdings LLC - President*

Sure. Thanks, Patrick. I think we are very heartened by the progress and the traction that we've made so far in 2015.

We put in our presentation that value circle, we share that with all of our Radian Insurance clients. That always has a positive impact.

And we are really looking forward to 2016. We think that we're going to continue to pick up traction and will start to see a meaningful revenue impact in that.

Patrick Kealey - *FBR & Co. - Analyst*

Okay and maybe just sticking with Clayton and the value circle, as we look at the market in 2016 and how things that shaped up so far, maybe where do you see the biggest revenue opportunities for Clayton and maybe what is a difference there as opposed to when Clayton was acquired by Radian?

Joe D'Urso - *Clayton Holdings LLC - President*

Sure. While there is no doubt that the follow-on acquisitions that we have done, were done with the purpose of providing our clients with more products and services across the value chain. That clearly has started to take hold.

Our clients when they talk to us about the value circle, they now say that now you can do more things with us and for us. That has become important. As the regulations have forced people to really be fully aware of who their vendors are and how that works.

And so while I wouldn't say that there is any one particular area within that value circle, where we will see more or less business, the sum total of all of those services I think will make us much more meaningful to our clients and we should see a broad impact on that, over time.

Patrick Kealey - *FBR & Co. - Analyst*

Thank you.

Operator

Thank you and now back to Chief Executive Officer S.A. Ibrahim for closing comments.

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

Thank you operator. And I thank you all for participating in today's call. We look forward to seeing you again on the next call. Thank you.

Operator

That concludes our conference for today. Thank you for your participation. And for using AT& T Executive Teleconference Services. You may now disconnect.
