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RDN - Q4 2013 Radian Group Inc. Earnings Conference Call

EVENT DATE/TIME: FEBRUARY 05, 2014 / 3:00PM GMT

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to Radian's fourth-quarter 2013 earnings call. At this time, all lines are in a listen-only mode. Later, we will conduct a question-and-answer session. Instructions will be given to you at that time. (Operator Instructions). As a reminder, today's conference call is being recorded.

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

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

Thank you, and welcome to Radian's fourth-quarter 2013 conference call. Our press release, which contains Radian's financial results for the quarter, was issued earlier today, and is posted to the Investors section of our website at www.radian.biz.

This press release includes non-GAAP measures that will be discussed during today's call. The complete description of these measures and the reconciliation to GAAP may be found in press release Exhibit O, and on the Investors section of our website.

During today's call, you will hear from S.A. Ibrahim, Radian's Chief Executive Officer; and Bob Quint, Chief Financial Officer. Also on hand for the Q&A portion of the call are Teresa Bryce Bazemore, President of Radian Guaranty; David Fiedler, President of Radian Asset Assurance; and Derek Brummer, Executive Vice President and Chief Risk Officer of Radian Group.

Before we begin, I would like to remind you that comments made during this call will include forward-looking statements. These statements are made on 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 2012 form 10-K; as well as subsequent quarterly and other reports and registration statements 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. This morning I will discuss our fourth-quarter and full-year financial results and review our major accomplishments for 2013. Following my remarks, Bob will cover the details of our financial position.

Achieving MI operating profitability in 2013, particularly after the challenging business environment we have navigated through in the recent years, has to be our most important accomplishment last year, as Radian moves closer to normalized earnings. This was the result of both the improvement in the quality and size of our MI insurance in force, as well as the significant reductions in our legacy MI exposure.

Let me first address the improvements in both of these areas.

Radian's large, high-quality MI portfolio is expected to create a strong foundation for future earnings, especially when combined with increasing persistency, primarily in business written in 2012 and 2013. We expect improved operating profitability in 2014, driven by the MI premium generated from the high-quality and profitable new business we wrote since 2008.

Today, this business represents 71% of our total primary mortgage insurance risk in force; or 60%, excluding HARP volume. The combined impact of an improving economy and our continued focus on loss mitigation in our MI portfolio has resulted in year-over-year decline in Radian's total number of primary delinquent lines of 35%, as seen on slide 14 of our webcast presentation, with the trend continuing in January 2014. We also saw a decline in our primary default rate in 2013, as you can see on slide 21, and we ended the year at a rate of 7.3%. The performance of our remaining legacy book has also improved significantly, which will further contribute to our future results.

Turning to the quarter's results, earlier today we reported net income for the fourth quarter of 2013 of $36 million, or $0.19 per diluted share, including $31 million of combined fair value and other financial instrument gains, and net losses on investments.

This compares favorably to a net loss for the quarter ended December 31, 2012, of $177 million, or $1.34 per diluted share. Book value per share at December 31, 2013, was $5.43.

In our press release this morning, we introduced new non-GAAP measures that we believe will help you better evaluate Radian's financial performance. Bob will discuss these measures in more detail, and you will find the full description and reconciliations in our press release Exhibit O, as well as on our website.

Using these measures, adjusted pre-tax operating income was $9.1 million for the fourth quarter, $1.7 million from the MI segment. And adjusted net operating income per diluted share was $0.03.

Now let's turn to a few important highlights from the fourth quarter and the full year 2013. First, in 2013, we continued to write a high volume of new mortgage insurance business in this extremely attractive market. While the fourth quarter and the beginning of 2014 have been impacted by the decline in refinance activity, as well as the effect of a return to more normal seasonal patterns, the volume of new business written in the second half of 2013 still was one of the highest in our Company's history. While it remains difficult to project future NIW, we anticipate that Radian will write more than $40 billion of new business in 2014.

I am also pleased to report that we ended 2013 ranking as the largest mortgage insurance company, with $161 billion of insurance in force.

Second, this high volume of new business written improved the credit profile of our portfolio. As I mentioned, the high-quality books of mortgage insurance business written after 2008, including loans completing a HARP refinance, represented 71% of our primary mortgage insurance portfolio at the end of 2013. And the most problematic 2006 and 2007 books are now down to less than 14% of the total portfolio. As you can see on slide 8, the impact of the legacy MI portfolio is shrinking, and we expect it to be a less important driver of our future financial results.

Third, slide 9 shows that for the year ended December 31, 2013, the earned premiums -- less incurred losses from our 2009 and later MI vintages of $337 million -- far exceeded the comparable negative sum from the 2008 and prior vintages. In fact, this amount was nearly equal to the $345 million in 2011 and 2012 combined. It is also important to note that the highest premium level for any vintage is typically earned in its second year; therefore, we expect our large 2013 book to produce substantial premiums in 2014 and beyond.

Fourth, the MI incurred loss ratio was 72% in the quarter, representing another positive trend we saw throughout 2013. This compares to a loss ratio of 171% in the fourth quarter of 2012.

Finally, we successfully reduced the exposure in our Financial Guaranty business by 29% in 2013 alone, and by 79% since 2008, including in many of the riskier segments of our portfolio. Radian maintains strong holding company liquidity of approximately $615 million, and Radian Guaranty's risk-to-capital ratio was 19.4 to 1 at December 31, 2013. Bob will provide more detail on our capital contribution in the quarter.

The details of the new GSE eligibility capital requirements for MI are still unknown, but we do expect them to be released for comment sometime in the first half of 2014. Based on our conversations with the FHFA, we expect the state regulators to receive the proposed requirements first, and be given a six-week comment period. The FHFA will then consider any changes the state regulator suggests before releasing the new proposal for public comment. This comment period will be a minimum of 90 days. Once finalized, we expect there will be an implementation period before the new requirements go into effect. We fully expect to have the ability to comply with the requirements within the implementation timeframe.

As I mentioned earlier, primary insurance in force now stands at an industry-leading $161 billion, an increase of 15% from a year ago. This insurance in force growth represents the success we have had at Radian, in writing new, high-quality mortgage insurance business for the past few years. This success was the result of our focused effort on attracting new customers across a wider cross-section of the mortgage industry, including community banks, credit unions, regional banks, and independent mortgage lenders, while also retaining a meaningful share of business from the nation's largest lenders.

According to Inside Mortgage Finance, smaller mortgage players held a 60% market share of the US origination market in 2013, up from 39% in 2009. This shift in mortgage originations, coupled with our targeted new business strategy, is what has helped Radian to write a large volume of high-quality new business that is expected to generate attractive returns. In fact, nearly half of our NIW in 2013 came from customers new to Radian beginning in 2009.

We signed on 214 new customers in 2013, including two large national lenders in the second half, which represents future NIW growth. We continue to broaden our franchise by adding new lending partners, and the pipeline of prospective customers remains strong. We believe we have the opportunity to further expand our customer base, and continue to strengthen our franchise, as we estimate that nearly one-third of the MI market vests with lenders we don't currently do business with, including a few mortgage originators ranked in the top 20. We have clearly demonstrated our success in bringing on new customers in each of the last few years, and are focused on doing it again.

One of the ways we support our customers -- both new and existing -- is through our value-added training programs led by Radian mortgage banking experts. We trained more than 24,000 mortgage professionals last year, both in person and online, requiring the addition of more resources to support the growing demand for our courses, which increased 60% from 2012 to 2013.

Leading up to the January 2014 implementation, our QM education courses include so much in popularity that we added new dates and offered on-demand training options. We work closely with our lending partners to have their teams develop the necessary skills for today's changing market demands.

Turning to the mortgage market and trends affecting our business, it is encouraging that household formations are on the rise again from the lows of 2008 in 2009. Many of these households include those who will not make a 20% down payment on their home; and, therefore, will likely need mortgage insurance. According to housing experts, much of this growth will be driven by minority groups seeking to fulfill their dream of becoming homeowners.

The Harvard Joint Center for Housing Studies reports that minorities will constitute 70% of the 17 million new households projected to be formed from 2010 to 2025. Hispanics alone are expected to represent 40% of this number. Recently, Radian entered into a two-year exclusive partnership with the National Association of Hispanic Real Estate Professionals, allowing Radian to work directly with the Association membership to provide information, tools, and resources to make the right choices for sustainable home ownership.

Turning to more general housing trends, while interest rates have risen, they still remain at historically low levels, and national home prices are halfway back to their peak from 2007. Home price appreciation is important, both for our legacy book of business and the negative equity that has plagued many homeowners during the downturn. It's also an important consideration for future home buyers who represent our future growth.

As expected, the recent drive in interest rates have led to a significant decline in refinance volumes, which is a trend we believe will continue this year. While the waning refi volume has impacted our new business volume, particularly in the second half of 2013 into January 2014, it is important to note that it has also helped increase our persistency rates, particularly on our large 2012 and 2013 books of business which will help us continue to grow insurance in force. Every 1% increase in persistency translates into approximately $1.6 billion of insurance in force remaining on our books each year, and our persistency was 81.1% at December 31, 2013.

While industry experts continue to forecast a smaller overall origination market this year, the effect of this reduction on our volumes is projected to be offset by growing purchase market where MI penetration is about 3 to 4 times greater than for refi loans. This purchase market shift, combined with the continued benefit of more lenders choosing private MI over FHA, is illustrated by the estimated 12% penetration of the insured market by our industry in the third quarter of 2013, representing a gradual yet steady increase since 2009, and translating into an impressive jump of more than 70% from the third quarter of 2012.

We continue to benefit from FHA actions, such as the elimination last year of FHA premium cancellation on most loans, and the new FHA loan limits for 2014. We believe that one-third to one-half of the business the FHA is writing today meets our credit standards, representing additional new business opportunity in the future.

Turning to the regulation and legislation affecting our industry, we continue to actively engage with the key policymakers in Washington. From a regulatory perspective, we welcome the appointment of Director Mel Watt to his new position at the FHFA. We look forward to engaging the FHFA on a number of quality fronts, and have already seen some early signs of the new Director's focus on affordable home ownership, which is positive for our industry.

On the legislative front, the debate on GSE reform continues, with new bills being discussed by the House along with Senate proposals. A revised Senate proposal bearing the input of the administration is expected to be released in the coming weeks. While we anticipate that there may be delays in action on these bills, given the upcoming midterm election season, we remain confident that our industry is demonstrating it is important for all in the future of housing finance.

Now, I would like to turn the call over to Bob for details of the financial position.

Bob Quint - *Radian Group Inc - EVP, CFO*

Thanks, S.A. I will be updating you on our P&L activity and trends for the fourth quarter of 2013, our capital and liquidity positions as of year-end, and some updated expectations regarding 2014.

We have introduced non-GAAP measures to our disclosures this quarter to more closely align with the way we currently evaluate our business performance. For our two business segments, we show adjusted pre-tax operating income; and on a consolidated basis, we show adjusted net operating income and adjusted diluted net operating income per share.

The complete description of these measures and the reconciliation to GAAP is presented in Exhibit O of our earnings release, which is also posted to our website. Our calculation essentially eliminates all gains and losses on investments and derivatives, which are contained in four separate lines in our income statement, and adds back the operating components for the fair value line, which are: premiums earned on Financial Guaranty derivative contracts, and the change in the present value of losses expected to be paid on derivative contracts, which is akin to losses incurred.

Please note that our EPS calculation for the fourth quarter includes the dilutive impact of our 2019 convertible debt, which adds 37.7 million shares to our share count, and adds back $3.5 million of after-tax interest expense to income for EPS calculation purposes.

In subsequent quarters, if our stock price exceeds $14.11, there would be potential additional EPS dilution related to our 2017 convertible debt, with the estimated calculation as follows.

Take the new stock price, minus $14.11, and multiply the difference by 38.5 million shares. That is the net value of the premium to be delivered to bondholders, less the value of the capped call to Radian. That net value, divided by the new stock price, would be the additional shares we would use for fully diluted EPS purposes. It comes to a little over 1 million incremental shares for every $0.50 of stock price above $14.11.

In terms of actually settling that convertible debt at maturity, the $450 million principal is due in cash, and any incremental premium can be settled at our option in cash or stock, or a combination.

The MI provision for losses was $144 million this quarter compared to $152 million last quarter, and $307 million a year ago. Lower incurred losses continue to reflect improving delinquency trends that outperformed some of the seasonal expectations this quarter, and declining claims submission. While our roll rate expectations have not change this year, we have seen a steady decline in estimated future denial and rescission rates as our default population has aged. Included in our fourth-quarter and current losses is approximately $27 million, representing a reduction in expected future denials and rescission.

Our December 31, 2013, loss reserve assumes $247 million for future denials and rescissions, down from $291 million last quarter, and $455 million last year at this time. While rescissions and denials in 2014 are still expected to remain elevated compared to historic levels, they should continue to decline and become an even smaller component of loss reserve in 2015.

Last quarter we added a meaningful new disclosure -- submitted claims. Slide 23 shows the quarterly trend on newly submitted claims, demonstrating that they have been down consistently for the past year. This trend further supports our roll rate estimates, and is one that we expect to continue.

Paid claims for the quarter were $283 million; and, as we disclosed, would have been approximately $50 million higher had we not entered into the Freddie Mac agreement. While claims submissions on loans contained within the agreement will be processed in the normal course over the next several years, we will not pay anything further on them, thereby reducing the ongoing run rate of claims paid compared to what would have occurred.

We currently expect 2014 claims paid to be between $900 million and $1 billion, and to be more heavily weighted in the first half of the year. Primary pending claims at year-end were 10,701, down 39% from 17,625 a year ago, and they were down a further 11% in January.

Beginning April 1, 2013, we reduced the quota share percentage for new business ceded to our external reinsurance partner from 20% to 5%. By around April 1 this year, we expect to have the ability to eliminate all future NIW ceded in this agreement, which would allow us to retain 100% of the profits on new business from that point on.

In addition, we will have the option to recapture a portion of the ceded quota share risk at year-end 2014 and 2015. At year-end 2013, ceded risk eligible to be recaptured in the future was approximately $1.5 billion. This consists of two-thirds of the initial quota share transaction, and half of the second transaction. Obviously, some of this risk will run off by the time these options are available to us.

Net fair value gains for the quarter of $38.6 million were caused primarily by an improvement in collateral spreads, particularly in CMBS; and by rating upgrades in our derivative contracts, offset by a further tightening of Radian's credit spreads.

Slide 11 depicts our current balance sheet fair value positions, along with the expected net credit losses or recoveries on fair valued exposures. Based on our projections we expect to add approximately $280 million, or $1.62 per share, to pre-tax book value from these positions over time, as the exposures mature or are otherwise eliminated. That number is derived by taking the net balance sheet liability of $212 million and adding the present value of expected credit loss recoveries of $68 million.

During the fourth quarter, operating expenses were impacted relatively less by the long-term incentive compensation expenses, due to the very small change in our stock price. This quarter's expense was approximately $12 million compared to $38 million in the first quarter, $19 million in the second quarter, and $28 million in the third quarter. As we reported last quarter, the potential volatility in our results associated with stock price changes will be tempered after June of 2014, when approximately half of the awards mature; and substantially all of such remaining awards mature in June of 2015. The balance of our equity incentive awards are valued at grant date and amortized over their lives in a much more predictable manner.

While the long-term incentive compensation expenses were down this quarter, this reduction was fully offset by additional outside legal and consulting expenses; other year-end compensation expenses; and IT expenses relating to a major technology project that we have begun. Our expectation for expenses in 2014 is between 10% and 15% lower than the fourth quarter run rate.

The valuation allowance against our deferred tax asset was just over $1 billion this quarter, or approximately $5.91 per share. We still expect to be able to fully recover this valuation allowance sometime in 2015, which is the same timeframe that we expect to start admitting the majority of our statutory DTA.

Our risk-to-capital ratio ended the year at 19.4 to 1. We grew our net risk in force by about $1.2 billion in the quarter, as the decline in mortgage volume was offset by an increase in persistency. Hence, we made a capital contribution of $100 million from Radian Group to Radian Guaranty, leaving the holding company with approximately $615 million of available liquidity.

I would now like to turn the call back over to S.A.

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

Thank you, Bob. Let me summarize three important takeaways for 2013. First, we achieved operating profitability in our mortgage insurance business and expect improved levels of operating profitability in 2014.

Second, we wrote 27% more new MI business in 2013 than 2012, and grew insurance in force by 15% to an industry-leading $161 billion, the future benefits from which will be further enhanced by increased persistency. In January of 2014, we wrote $2.4 billion in NIW.

Third, our Financial Guaranty business serves as an important source of capital for Radian Guaranty. We have successfully reduced our Financial Guaranty exposure from a peak of $115 billion in June, 2008, when Radian Asset stopped writing new business, to $24 billion at the end of 2013.

Over the same time period, statutory surplus increased from approximately $950 million to $1.2 billion. Radian assets have additional claims-paying resources of $400 million, including $264 million of contingency reserves as of December 31, 2013.

As we look ahead to 2014, our top priority is to continue to leverage our ability to expand our franchise and build on our accomplishments of 2013, as well as opportunities for new MI business from the FHA pullback in order to drive Radian's future earnings.

Now I would like to open the call to your questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Jack Micenko, SIG.

Jack Micenko - *Susquehanna Financial Group - Analyst*

I wanted to look first at the claim rate assumptions. Obviously, peers have moved that number down. Your credit quality continues to get better. I think 63% of your defaults this quarter were defaulters three or more times. When can we think about that number moving down? Is it a 2014 event? Any color you can give there would be helpful.

Bob Quint - *Radian Group Inc - EVP, CFO*

Jack, I think when we see defaults coming from the newer vintages, I think our roll rates on those vintages will likely be lower. The existing defaults are still from the older vintages. We really haven't changed our roll rate assumptions in quite some time. Although we are seeing the same signs that everyone else is in terms of the improvements, that really hasn't manifested itself in our roll rates because so many of our delinquencies are still older delinquencies at this point.

Jack Micenko - *Susquehanna Financial Group - Analyst*

Okay. And then looking on page 19 at the denial reinstatement -- Bob, we have spoken, I know, a few times about the timeframe of reinstatements falling off in the back half of 2013. It appears to have fallen off pretty steeply. Is that a more normal reinstatement percentage now we should think about going forward? You have come down from the 60s to the 40s, and now you are sort of at 15. How do we think about that percentage going forward?

Bob Quint - *Radian Group Inc - EVP, CFO*

That is really artificial, because that has only been outstanding for one quarter. We would expect 60% -- approximately 60% to be the accurate number. We have seen a number of quarters settle in at that level. And we would expect the last two quarters on this chart, on 19, to eventually be in that same range.

Jack Micenko - *Susquehanna Financial Group - Analyst*

Okay. And just real quick -- do you have any indications if the states have yet received the draft proposal from the FHFA?

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

At least as of a couple of weeks ago, they had not yet received it. Our understanding was that they had received an agreement from the FHA regarding the confidentiality around that proposal, and they were starting to look at that. We haven't heard anything -- that's an update from that point.

Operator

Bose George, KBW.

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

Given your comments about the capital, and that you expect to meet the capital standards within the timeline for compliance, is it fair to say that you are not considering any quota share agreements? That would also be, with your discussions with FHFA, the subsidiary capital levels you feel will be within the framework that is set out.

Bob Quint - *Radian Group Inc - EVP, CFO*

Bose, we really don't know what they will look like. I think our statement is strong in terms of our confidence in being able to comply for a variety of reasons. We have a lot of options available to us if necessary. We have our holding company cash, which is obviously available. The reinsurance market, which we have all seen examples of reinsurance transactions done in the MI space to help the capital levels -- that is certainly an option. The implementation period is a big deal because as we start to earn money and generate internal capital, that could go a long way. We really don't know if there will be a haircut; and, if there is one, what the size will be. Nonetheless, I think in any of the potential scenarios we are confident in our ability to comply.

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

The other thing to keep in mind, Bose, is that with our improving business trends, there are even more alternatives available to us. It puts us in a stronger position going forward.

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

Okay. Great. Makes sense. Thanks. And then just switching to the premium this quarter, was there much of a change in the average premium in the fourth quarter versus the third quarter?

Bob Quint - *Radian Group Inc - EVP, CFO*

Not really. Sometimes, if you calculate the quarter's average earned premium rate, it could be impacted by things like rescission changes that impact the accrual for premium refunds. We have seen sort of certain quarters that premiums earned a much higher because we have taken our rescission rate estimates down. This quarter, there was a little bit less of that impact. I would say, look at the premium rate over a longer time period. There was a reduction of 5 basis points, which will start bleeding into the results over time. You are not going to see that dramatically in any one of them.

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

Okay. Great. Thanks. And then just on the Financial Guaranty segment, you guys took a reserve release. I was just curious if there is anything we can read into that in terms of what happens there going forward?

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

Hi, this is Derek. The reserve releases really had to do with several credits where we have reduced reserves, for instance, on Jefferson County. In light of the settlement, we have reduced reserves there. Then, for the most part, we didn't see a lot of negative reserve development in the fourth quarter.

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

Okay. Great. Thanks.

Operator

Mark DeVries, Barclays.

Mark DeVries - *Barclays Capital - Analyst*

Are you seeing any signs that originators are starting to reduce overlays as they put back risk [debates]? And if so, can you discuss any implications for outlook for your business?

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

This is Teresa. I think we are just starting to see a bit of that. Lenders are still a bit concerned about that. I think also with the advent of the QM, a lot of them have been focused on putting those changes in place. They would indicate, at least initially, they haven't seen a big change in the amount of business that they are doing as a result of that. I think as people get more comfortable with settling in in terms of the new compliance requirements, we may see some more of that, but I think it is too early.

Mark DeVries - *Barclays Capital - Analyst*

Okay. Great. Have there been any changes to the business that you are doing with builders, which you seem to be doing a lot more higher LTV, 95% of those transactions in their sales.

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

We have had some good relationships with builders and their mortgage companies for quite some time. I think there is some lift as you can see in the numbers for the building industry. They are starting to bring on more units, and they are expected to bring on more units. We think that is going to be a growing segment of the purchase market, but we have been very focused on continuing to have strong relationships in that segment.

Mark DeVries - *Barclays Capital - Analyst*

Okay. But have there been any changes to the amount of risk you are willing to take from them, moving up a little bit into the higher LTVs?

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

We are already at the high LTVs, so I think we don't see that there is a need for that. We certainly haven't yet gotten any indication from them that there is a need for that in order to support them.

Mark DeVries - *Barclays Capital - Analyst*

Okay. Finally, any updates you can provide on thoughts around risks of any kind of claims from your Puerto Rico exposure?

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

This is Derek. In terms of risk of claims, we have been watching the situation closely. Generally, our view of the risk has been heightened recently. And that has been driven more by questions as to their market access and whether they can fund themselves at a reasonable cost.

In terms of the fundamentals on Puerto Rico, they seem to be taking the right actions in terms of their fiscal situation. The question is whether they are going to have enough time to let that play out. One of the things we are watching closely is just their ability to fund themselves, and what the rates are going to be when they try to fund themselves in the next couple of months. So, again, we are watching that closely, and we think the risk is marginally increasing.

Mark DeVries - *Barclays Capital - Analyst*

Okay. Is that exposure still in the $450 million range?

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

It is. It is $452 million as of 12/31.

Mark DeVries - *Barclays Capital - Analyst*

Got it. Thank you.

Operator

Geoffrey Dunn, Dowling and Partners.

Geoffrey Dunn - *Dowling & Partners Securities - Analyst*

Bob, first I wanted to clarify your expense guidance. When you say 10% to 15% improvement off of this quarter, what is the starting rate? Are you splitting the performance-based comp?

Bob Quint - *Radian Group Inc - EVP, CFO*

No. I am just taking the numbers.

Geoffrey Dunn - *Dowling & Partners Securities - Analyst*

So, if we held that static, you are thinking 10% to 15% improvement?

Bob Quint - *Radian Group Inc - EVP, CFO*

Yes. And, of course, Jeff, we don't contemplate further stock price changes. That would be incremental benefit, or it could go either way, but we don't typically forecast that.

Geoffrey Dunn - *Dowling & Partners Securities - Analyst*

And then second -- I appreciate the comments about new business opportunities, but this quarter it looks like -- and we don't know the denominator yet -- but it looks like your share eroded further in the quarter. Was that mostly just the single premium business coming down, or was there any kind of notable shift in your client base, in light of the -- helped that number?

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

I think, Geoff, we think the market shares continue to be strong, particularly given the competitive environment. We still have very strong customer relationships. We saw, as we always do, some re-allocation of share, particularly with some customers that we had very high shares with. That is also the reason why we continue to do new business development.

As you heard, we brought on two top-20 customers actually in the fourth quarter, and we started seeing NIW related to those relationships in December; 214 new customers in 2013; and a lot of significant prospects that we are still working with.

The other thing that is worth noting is that for our new customers we actually see a higher share of a higher market share with those new customers. We continue to be very positive and optimistic about our ability to continue writing a lot of this high profitable business.

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

Also, Jeff, this is not the first time we've seen some fluctuations in the customer allocations. We experienced that I guess about three years ago, when in that case, we actually stopped doing business with two of our top 10 customers. And in couple of quarters, with the new business we added in from new customers, we replaced that. And since then, one of those customers that we had then stopped doing business with us is back doing business with us, and I believe we are the number-one partner for that customer.

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

That's right.

Geoffrey Dunn - *Dowling & Partners Securities - Analyst*

So when you evaluate the two new lenders that came on in December, do you think that their addition, on a full-quarter basis, offsets the loss of your national lender reductions in the 4Q?

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

I think that is difficult to say, because obviously a lot of that depends on how much business they write and what allocation we get. I think it is that combined with the ramp-up of business for the customers that we have brought on, which came across the year, and the pipeline of customers that we also have.

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

That is a dynamic thing, Jeff. The biggest thing we have going for us is the ability to keep bringing on new customers. You have to remember that customers can change their allocations in the opposite direction in the future. I continue to feel very positive about the strong franchise position we have achieved. And I think if anything else, that franchise position will get even stronger in time. And that will give us the resilience and the strength to deal with fluctuation in allocations, as we have already demonstrated.

Geoffrey Dunn - *Dowling & Partners Securities - Analyst*

Okay. Last question -- I appreciate there is a lot of options that you have on the capital front. But when you think about your various plans, how much waiting do you give kind of an extreme scenario, where there is a significant subsidiary haircut and/or a very short implementation period? How do you -- as you approach managing this whole issue, how much waiting do you give to an off-the-wall extreme adjustment by the GSEs?

Bob Quint - *Radian Group Inc - EVP, CFO*

I think you have to consider that that could happen, Jeff. We have -- although we believe the implementation period will be reasonable, and that is a lot of the feedback that we had gotten. We don't know for certain. I think if it is much sooner and much bigger hit, in terms of subsidiary capital or legacy exposure, we will have opportunities via reinsurance to deal with that.

Operator

Douglas Harter, Credit Suisse.

Douglas Harter - *Credit Suisse - Analyst*

Can you give us an update as to how much risk you expect to run off with the financial guarantor in 2014, and any plans for dividend up to the MI?

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

The financial guaranty will -- about half the portfolio, I know, runs off over the next four years, approximately. Over the next year, I would say it's probably going to be in excess of 10% at a runoff as scheduled next year.

Bob Quint - *Radian Group Inc - EVP, CFO*

There is a big corporate CDO runoff in 2017. That is when the majority of that goes. But some of it runs off in 2014. We have been paying ordinary dividends consistently from Financial Guaranty, and continuing to improve the profile and the capital levels there. So, certainly, that is something we will continue, and access to the capital in Financial Guaranty is very important to us, and we are focused on it.

Douglas Harter - *Credit Suisse - Analyst*

What sort of levels with you look towards, or what would trigger you guys looking for something other than the ordinary course dividend?

Bob Quint - *Radian Group Inc - EVP, CFO*

If you look at the Company by any measure, it is probably over-capitalized. I think it's a case where the capital today counts for risk to capital purposes, we don't know what GSE eligibility will do to that. However, regardless of what GSE eligibility says, access to the capital and Financial Guaranty is very important. As I said, we are focused on gaining that access as soon as we can.

Operator

Jordan Hymowitz, Philadelphia Financial.

Jordan Hymowitz - *Philadelphia Financial - Analyst*

You said you are going to do -- $40 billion is the goal in 2014?

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

Yes.

Jordan Hymowitz - *Philadelphia Financial - Analyst*

It is like $1.1 billion MBA market, right? You said it's 12% MI penetration. So are you targeting a 30% share this year? Does that back into the numbers the right way?

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

No. I think that it is about 1.2, but we also believe that the penetration is going to go -- which has a bigger impact on what the NIW actually is at the end of the day.

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

What that means is, given if the -- if you just eyeball the MBA forecast for the year, they forecast roughly 20% of the origination for the year will happen in the first quarter. And typically January and February; February, given the smaller funding days -- in a normal purchase market, tend to be smaller with business picking up in March, but really manifesting itself in the second and third quarters. Based on that, we would have to do around 8 in the first quarter to achieve 40.

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

I think what we said was that it would be at least $40 billion. So we certainly are targeting for more, but we believe that based on the numbers that we are seeing, that that's reasonable.

Jordan Hymowitz - *Philadelphia Financial - Analyst*

Let me ask a question a different way, because who knows where the market is going to be, if it is $1 billion or more? What type of share are you targeting this year? Are you targeting 30%, or are you targeting the same 25% in the fourth quarter?

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

We don't really target a particular share. We look more in terms of NIW and what we think the reasonable NIW is based on the customers that we have; what we think the penetration levels in the market size are going to be. That is how we came to that number that we were comfortable sharing.

Bob Quint - *Radian Group Inc - EVP, CFO*

Jordan, in order to get that number, we don't need to gain share to get there.

Jordan Hymowitz - *Philadelphia Financial - Analyst*

That is actually what I'm trying to get to. Do you need to gain share to get to that number?

Bob Quint - *Radian Group Inc - EVP, CFO*

No.

Jordan Hymowitz - *Philadelphia Financial - Analyst*

What percent of the industry, if it was 12% last year, do you think it will be this year that has MI?

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

We think that that is going to increase, probably by a few percentage points.

Operator

Eric Beardsley, Goldman Sachs.

Eric Beardsley - *Goldman Sachs - Analyst*

If you could just update us on your thoughts of capital contributions, down to Radian Guaranty from the parent. I think last quarter, you'd expected to do $200 million over the next 12 months, and brought in $100 million of that.

Bob Quint - *Radian Group Inc - EVP, CFO*

Really, it is going to depend on the GSE eligibility and what that does. In order to stable at 20 to 1, which has been the level that we had been targeting, we are thinking probably between 50 and 100 over the next year. But if it is 18 to 1 or some other level, obviously that would be incremental capital necessary.

Operator

Sean Dargan, Macquarie.

Sean Dargan - *Macquarie Research - Analyst*

A question about the competitive environment. Yes, the forecast for purchase market originations are up year-over-year, but they seem to be coming down every time they are revised. With new entrants coming on board, I guess investors want some kind of confidence that we won't see continued rate cuts. I was just wondering what your position is on that.

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

In terms of pricing, we believe that actions taken in the market recently demonstrate that rate cuts do not ramp into permanent market share. Therefore, they are not the best way to gain market share. However, given the new competitive environment, somebody initiates those as we will think carefully about how we want to respond, it is a competitive market. But we believe it has proven to be an instrument it doesn't work, there will be less incentive for anybody to use it.

Sean Dargan - *Macquarie Research - Analyst*

Thanks. And just a quick follow up to Puerto Rico -- S&P downgraded the geos to junk last night. I think S&P quantified for other financial guarantors what the capital charge would be when that happened. Do you have a number?

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

Not a capital charge number. I mean, the downgrade was pretty well anticipated by the market. I don't have in S&P capital charge number at hand.

Operator

Geoffrey Dunn, Dowling and Partners.

Geoffrey Dunn - *Dowling & Partners Securities - Analyst*

I just had a follow-up. Was there any re-allocation in the investment portfolio? It looked like at least your MI yield might have jumped sequentially. I am curious if you've changed the duration or any asset allocation?

Bob Quint - *Radian Group Inc - EVP, CFO*

Not materially, Geoff. We already repositioned in small ways. But there is nothing that jumps out.

Operator

Thank you. And with that, I would like to turn it back over to Mr. Ibrahim for any final comments.

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

I would like to thank all the participants on this call. And again, as we said earlier, we are looking forward to this year and continuing to build on our momentum and strength. Thank you.

Operator

Thank you. And ladies and gentlemen, that does conclude your conference call for today. Thank you for your participation, and for using AT&T executive teleconference service. You may now disconnect.

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