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RDN - Radian Group Inc. Provides Comment on Proposed GSE Requirements for Private Mortgage Insurer Eligibility

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by and welcome to the Radian investor call.

(Operator Instructions).

As a reminder, this conference is being recorded. I'll now turn the conference over to Senior Vice President of Investor Relations and Corporate Communication, Emily Riley. Please go ahead.

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

Thank you, and thank you for joining us today to discuss the proposed GSE Private Mortgage insurer Eligibility Requirements, or PMIERs, that were released for public comment by the FHFA earlier today. Our press release as well as frequently asked questions and a replay of this conference call may be found on our website at www.radian.biz. During today's call you will hear from SA Ibrahim, Radian's Chief Executive Officer; Bob Quint, Chief financial Officer; and Derek Brummer, Executive Vice President and Chief Risk Officer of Radian Group.

Before we begin, I would like to remind you that comments made during this call will include forward-looking statements. These statements are based on current expectations, estimates, projections and assumptions that are subject to risk 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 today's press release and the risk factors included in our 2013 Form 10-K, our first quarter 10-Q and subsequent reports filed with the SEC.

These are also available on our website. Now I would like to turn the call over to SA.

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

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

As you know, the FHFA released a draft Private Mortgage Insurer Eligibility Requirements today for public comment. These PMIERs were developed by Fannie Mae and Freddie Mac and are intended to provide revised requirements for private MI companies to be eligible insurers of loans purchased by Fannie and Freddie.

We and other MI companies reviewed an earlier draft of the PMIERs and discussed many of our concerns with the FHFA and the GSEs. Today's release of these draft PMIERs kicks off the public comment period during which we expect to provide significant input.

We anticipate that other private MIs, the state insurance departments, the mortgage and real estate community and various housing and consumer groups will also provide comments during this period. We know that many of you have been anticipating these requirements for some time; therefore, in the interest of transparency we wanted to clarify what this may mean for Radian and provide you with an opportunity to ask questions.

Before I turn the call over to Bob, however, it is important to note that these are draft requirements at this point. There will be a comment period. We and other MI companies have an extended transition period of more than two years to comply with the financial requirements.

Most importantly, we expect to have the ability to fully comply within the transition period without a need to raise external capital. The much-anticipated new GSE eligibility guidelines have created uncertainty for us and the MI industry. We believe that the finalization of these guidelines along with our ability to meet them within the specified timeframe should remove or materially reduce this uncertainty.

For the last couple of years we at Radian have had to deal with many challenges and as a result have emerged as a stronger company. We are confident that while we work to achieve compliance with the PMIERs we will also continue to build on our success by devoting the attention necessary to create even more value for our stockholders. We expect to work with the GSEs and our state regulators with the same spirit of partnership that has enabled us to meet our legacy commitments as our legacy exposure continues to strengthen and the positive contribution from our large post-downturn MI business grows.

I am also pleased to report that Radian Asset received approval from the New York Department of Financial Services to pay an extraordinary dividend to Radian Guaranty of $150 million. We expect to request an additional dividend in 2015.

Now I will turn the call over to Bob for an overview of the proposed PMIERs and the implementation timeline. Bob?

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

Thank you, SA, and good evening. I'll make some general comments about the draft PMIERs which were released on the FHFA website today then turn the call over to Derek to discuss some of the required asset calculations for both performing and delinquent loans.

The draft PMIERs are a comprehensive set of requirements for the eligible mortgage insurers that are expected to be published in final form by the end of 2014 following the current 60-day comment period and the incorporation of possible modifications based on the comments provided. All aspects of the PMIERs are expected to become effective 180 days after their final publication and approved insurers will be given an extended transition period of up to two years from the final publication date to comply with the financial requirements of the PMIERs.

Based upon an estimated final publication date at the end of 2014, Radian expects a transition period through January 1, 2017, or 2.5 years from now. The GSEs are expected to work with us during the transition period and Radian strongly believes that whatever the final requirements say, we will be in compliance when required.

First, let me describe generally how we understand the financial requirements will work. In lieu of the risk-to-capital ratio that you are all used to seeing as a financial measurement for our industry, the GSEs are proposing a minimum required asset amount, which is akin to required capital, that will be calculated based on net risk in force. Derek will go into more detail about this but the requirements are risk-based and vary for different LTV and FICO buckets as well as origination vintages, HARP loans and delinquent loans.

Compliance with the financial requirements of PMIERs will require an MI's available assets to be equal to or greater than the minimum required asset amount. Those assets that are included in the available assets are set forth in Section 704 of the proposed PMIERs and generally consist of liquid, readily available statutory assets. There will also be credit given for a percentage of future premiums on pre-2009 vintage business.

Radian Guaranty's investment in Radian Asset Assurance is not proposed to be included as an available asset. There is also an exclusion for unearned premium reserves, so liquid assets received as premiums but not yet earned are not proposed to be counted toward available assets. Such assets are liquid and readily available to pay claims and we will therefore be further commenting on the exclusion of UPR.

While admitted deferred tax assets are also not included in the proposed asset test, the majority of Radian's DTA is expected to be realized by January 1, 2017, based on expected earnings prior to that date. I want to reiterate that we fully expect to be able to comply with the PMIERs as currently proposed within the transition period without the need to raise external capital. Nonetheless, we will be commenting on a number of items contained within the draft that we think have a strong basis to be changed as they differ from our historical experience and/or are inconsistent with what we believe constitutes (technical difficulty)

Operator

It looks like we lost the line.

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

Okay. Emily, do you mind continuing with Bob's comments?

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

I don't, no. Okay. So we believe they are inconsistent with what we believe constitutes a sound capital requirement framework.

Many such items, if not changed, could have the impact of either raising MI pricing and/or reducing assets to credit for worthy low down payment home buyers or forcing such business to be done by FHA or as piggyback loans, which would place the US taxpayers at much greater risk. It is clear to Radian that absent modification of the current draft PMIERs maintaining underwriting returns for our business above lower teens would require pricing changes due to the increased level of required capital. Based on the draft PMIERs issued today, we estimate that Radian Guaranty has required assets of $4.8 billion and available --

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

I'm back.

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

I was just going through our required assets of $4.8 billion.

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

And available assets of $3 billion. We would have a net shortfall of approximately $850 million if we were required to comply with the draft PMIERs today after consideration of our approximately $800 million of holding company cash and the extraordinary dividend of $150 million.

While Radian Asset isn't a proposed available asset per se, we believe that we will be able to convert its future economic value estimated to be in excess of $1 billion consistent with reported statutory capital into available assets in the future. In addition, we recently closed on the Clayton acquisition, which is expected to bring positive cash flow to Radian Group immediately albeit a relatively modest amount.

Over time, we expect our available assets to rise and our required assets to fall as we generate internal capital from earnings and also reduce our delinquent loan inventory and legacy risk in force. Offsetting this expected improvement is the expected growth in risk in force and the smaller credit for future premiums on pre-2009 business.

Obviously the numbers will move around depending on volume, persistency and macroeconomics and there are a lot of moving pieces. But we believe absent any actions on the part of Radian or any changes to the financial requirements as proposed today, the difference between required and available assets will fall modestly between now and January 1, 2017.

We are actively working to monetize or otherwise utilize Radian Asset in order to quickly turn this investment into value in the form of available assets consistent with PMIERs. Ideas being contemplated include reinsurance, commutations, surplus notes or an outright sale. We've retained an advisor to help us maximize the value of what we believe is a solid over-capitalized company and we will work within the reasonable 2.5-year timeframe to maximize such value.

We've talked a great deal about the robust mortgage insurance reinsurance market and our ability to tap that market. We believe reinsurance will be available on our new business as well as a substantial part of our legacy book and maybe even on our delinquent book. These and other options will be explored over the transition period.

Other products designed to work within the PMIERs framework are also expected to become available as there is substantial capital available to support the strong profitable business we are in. I would now like to turn the call over to Derek to discuss in more detail the required asset calculations.

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

Thank you, Bob and Emily. Given there's been limited time for you to review the proposed PMIERs I'm going to provide an overview of the calculation of the risk-based required asset amount found in Exhibit A of the draft PMIERs and pages 8 to 12 of the overview document that was issued along with the draft. I will then provide a few comments before turning to call back over to SA.

As Bob mentioned, the risk-based required asset amount is akin to required capital and is calculated based on net risk in force and the risk profile of the insured loans. Specifically, the total risk-based required asset amount for an insurer represents projected claims on the insurer's book of business over the remaining life of the existing policy.

The projected claims are derived using a grid of asset factors based on origination vintage, LTV and credit score, for performing loans, and the depth of delinquency for nonperforming loans. The grades are set forth in Tables 1 to 5 of Exhibit A of the draft PMIERs. Each factor in the grids represents projected claims as a percentage of net risk in force.

Tables 1 to 4 apply to performing loans, meaning any loans that are current or have missed fewer than two monthly payments whereas Table 5 applies to nonperforming loans, meaning loans that have missed two or more monthly payments or are in pending claim status. Projected claims for all performing loans, except HARP loans, are determined by Tables 1 to 3 based on the vintage classification of the loan.

Table 1 specifically applies to pre-2005 loans. Table 2 applies to 2005 to 2008 loans, and Table 3 applies to post-2008 loans. Table 4 applies to any performing loan originated pursuant to the HARP refinance program regardless of vintage.

The projected claim or required asset amount for each performing loan is then determined based on the original LTV of the loan and the original credit score of the borrower using the applicable table. It should also be noted that for certain post-2008 loans with high-risk features such as less than full documentation, Table 3A applies multipliers to the grid factors. However, we estimate that as proposed, Table 3A would be applied to less than 0.1% of our risk in force today.

The projected claim or required asset amount for each nonperforming loan is determined by Table 5 based upon the number of monthly payments missed or whether it is in pending claim status. For nonperforming loans LTV and credit scores do not factor into the calculation of the required asset amount.

Finally, I would note that according to the draft PMIERs, the factors in these tables may be updated periodically to reflect changes in risk characteristics of insured loans and changes in the macroeconomic environment. While we agree with and support the movement towards a risk-based capital framework and the draft PMIERs grid-based approach link to LTV and credit scores, as Bob noted, we will be commenting on a number of items within the draft.

For instance, based on our historical experience we believe a number of the proposed risk-based grid factors materially differ from empirically supportable claim projections. Among other things we will be commenting on the projected claim rates for nonperforming loans which we believe are excessive in light of historical experience, trends and actuarial analyses.

We also believe that the projected claim rates for performing 2005 to 2008 loans that have never been delinquent are excessive given the fact that these loans have fully performed throughout the recent housing market collapse and are well past their default seasoning peaks. Currently, these always performing loans constitute approximately two-thirds of our 2005 to 2008 loans. In addition, our comments will propose that the grids for performing loans take into account the decreasing probability that these loans will result in claims as they season.

To give you a sense of the increased capital requirements, we estimate that if the draft PMIERs were applied to the business we have written thus far in 2014, we would be held to a risk-to-capital requirement of approximately 14 to 1 on that business without taking into account the increased capital requirements for any of these loans that become delinquent. Furthermore, if we assume that the credit expansion we have seen in our new business written between 2013 and 2014 continues for the next couple of years, we estimate that we would be held to a risk-to-capital requirement of a little less than 12 to 1 on new business, again without taking into account the increased capital requirements for any of this business that becomes delinquent.

This assumes a weighted average FICO of 725 and a weighted average LTV of 92%. Overall, we believe the scale of these increases to the capital requirements is inconsistent with the FHFA's stated goal of expanding access to mortgage credit and reducing taxpayer risk by increasing the role of private capital in the mortgage market.

We look forward to continuing our dialogue with the FHFA and the GSEs as they gather input on the PMIERs and we are proud of our strong working relationship that has helped Radian to support low down payment lending. Now I would like to turn the call back over to SA.

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

Before we open the call to your questions, I would like to reiterate that we believe that the finalization of these guidelines along with our ability to meet them within the specified timeframe should eliminate much of the uncertainty that has surrounded the anticipation of these draft PMIERs. We are proud of our partnership with the GSEs that was in place as Radian met all of its obligations during the greatest economic stress in our Company's history, paid out more than $5 billion in claims while strengthening our capital levels and growing our customer base and market share to support affordable home ownership. Now, operator, we would like to open the call to questions.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions). Bose George, KBWB.

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

Good evening and thanks for holding the call. Just in terms of the capital from the financial guaranty business, the amount that you have included when you gave that $850 million shortfall, that just includes $150 million. So if you look forward to the early 2017, can we also assume there will be the ordinary dividends, I guess three more by the end of that period plus whatever special dividends that you can get?

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

Yes, Bose. The only thing that we've included in that number is the $150 million because we have received that dividend already. We are going to ask for future dividends and certainly that is a big possibility in terms of monetizing the financial guaranty company and then anything else that we do would be additive to that.

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

Okay, great. And then, actually just in terms of the unearned premium reserve, so the number that you gave again the $850 million shortfall, it basically just it pulls out the unearned premium from that number, is that how the calculation works?

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

That's right. If you look at Section 704, the things that are included are generally the liquid readily available assets. Now if we receive premiums in the form of UPR upfront but they are not earned yet, that will be in our assets. So the proposed calculation excludes that because it hasn't been realized into capital yet.

It hasn't been earned yet. But our view is that this is money that is readily available to pay claims and if the test is going to be based on that then those funds should be inclusive. So that is something that we will comment on and hopefully we can get modifications.

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

Okay, great. And then just one last thing. Can you just remind us on the DTA reversal how much of that -- the total contribution to statutory capital is going to be?

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

The total NOL for all of our business is about $1.8 billion, so it's in excess of $500 million that is not counted. So it's non-admitted asset today; however, as we earn money like we did in the fourth quarter of 2013 and the first quarter of 2014 and expected ongoing, all of that will be realized over time.

So the point that was made is that even though if we get to admit some and include it on the balance sheet it would not be counted as proposed. But we are going to realize, we are going to likely realize, a lot of that over the next couple of years just from making money and not having to pay taxes.

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

Right. Okay. Great, thanks very much.

Operator

Douglas Harter, Credit Suisse.

Douglas Harter - *Credit Suisse - Analyst*

Thanks, you talked about the possibility of needing pricing changes if the rules were implemented as is. Can you talk about how you will look at business in the interim period and when you would consider changing prices, or do you wait until the rules are final? How are you thinking about it from that perspective?

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

Clearly we are in a market that is very competitive but these going-forward guidelines apply evenly to everybody. New players as well as legacy players.

So in a normal competitive market pricing is shaped by competitive forces, market forces and everybody's desire to realize inadequate -- to realize adequate earnings. And we will base our actions based on seeing what happens in the marketplace.

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

Right. And Doug, I would add to that that during the comment period we would not move to raise prices because we believe there will be a number of entities commenting and possibility of having further changes. So we would really want to see how the final rules look before we would evaluate the pricing from that point on.

Douglas Harter - *Credit Suisse - Analyst*

I guess along a similar vein, would you similarly wait before making decisions as to whether you would move further up the FICO band and sort of not do lower FICO? Would you wait for the comment period to be over and the rules to be final for a similar decision?

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

Yes.

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

And Doug as you would expect, this is the one area where we expect particularly the lenders, the mortgage industry broadly speaking and the housing and consumer groups to be most vocal. Because this is the area where there is likely to be a potential shrinkage in access to mortgage financing at a time when the mortgage, the housing market, it is still not back to normal mortgage volumes. So we will also see how the final outcomes, the final guidelines are shaped by those comments that we expect to be pretty loud in this case.

Douglas Harter - *Credit Suisse - Analyst*

I guess on that point, SA, I'm sure when you had your limited interaction prior to these rules being released today, can you share the FHFA or the GSE reaction to that point of the potential of limiting availability to lower FICO borrowers?

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

First of all I would characterize our discussions with the GSE and the FHA -- the FHFA -- as being very professional. We've always had a very good relationship with and we believe we had the opportunity to make our points.

Having said that, we all have our different perspectives and their view -- and I don't want to put my words into their mouth -- was likely that there might not be as big an impact as we think there might be. And again, I also don't want to put words into anybody's mouth, but I think also these were done within a certain time period.

And the whole purpose of the comment period that the FHFA and the GSEs are giving is, in fact, to open mindedly based on everything we hear. So let's sit and listen to all the feedback they get. And while -- I don't know what is going to happen in that I would like to believe that based on the comments we expect they would be open to rethinking these requirements.

Douglas Harter - *Credit Suisse - Analyst*

Grade, thank you for that color, SA.

Operator

Eric Beardsley, Goldman Sachs.

Eric Beardsley - *Goldman Sachs - Analyst*

Hi, thank you. So, it appears there's a shift here in terms of how to think about statutory capital just in terms of how you manage balance sheet. I know you said, when you say you wouldn't raise capital, is that just equity or is that debt as well?

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

Well, I think what we said is we will have the ability to comply as proposed today without the need to raise external capital. So we believe via the tools that we have set forth, the holding company cash, the use of the financial guaranty company and potentially reinsurance among other potential products we wouldn't need external capital in order to comply. I think that's the statement and it's certainly one we strongly believe.

Eric Beardsley - *Goldman Sachs - Analyst*

And I guess, as you look out in terms of what your actual debt maturities are and the convertible preferreds coming up, how do you guys think about treating those in light of this if nothing were to change?

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

I don't think anything has really changed. There were we're certainly looking to reduce our leverage over time. And I think we have the ability to do that via the convertible debt that is outstanding and turn that into equity.

We are also comfortable with some level of leverage and over time as our equity grows, the current level of debt will not look as big compared to the equity. So I think it will work out well but the nice part for us is we have nothing really maturing until June of 2017, which really means the holding company cash is there to support the operating company.

Eric Beardsley - *Goldman Sachs - Analyst*

Got it. And just on pricing. A lot of the step-ups here across the FICO and LTV buckets probably not reflecting your current pricing matrix as you guys mentioned, do you have a sense of where you might need to take pricing if these rules were to stay the same?

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

Well, I think -- go ahead, SA.

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

Go ahead, Bob, sorry.

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

I was going to say, it's really going to depend first on what the final rules would look like, then what the business mix is. As Derek said there are varying degrees of requirements depending on the FICO level and the LTV level.

So for some of the higher LTV and lower FICO loans in order to maintain returns on that business, pricing would have to likely change pretty significantly. As you go up the credit spectrum and get better and better credit loans, lower LTVs, much less change if any would be required.

Eric Beardsley - *Goldman Sachs - Analyst*

Do you think if that pricing were to go up in those buckets that a reduction or an elimination of the loan level price adjustments in those same buckets would still keep you on parity with the FHA in some of those, or perhaps make you incrementally more competitive?

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

It's hard to project that at this point without really seeing the numbers. But for some of the lower FICO stuff I think we are concerned that -- and when I say lower FICO we are talking over 700 but lower within the realm of what we are doing -- there could be a shift to FHA and/or piggybacks because price increases would make MI uncompetitive. We will have to see how that plays out with the final rules and other factors like the LLPA adjustments.

Eric Beardsley - *Goldman Sachs - Analyst*

Great, thank you.

Operator

Geoffrey Dunn, Dowling & Partners.

Geoffrey Dunn - *Dowling & Partners Securities - Analyst*

Hi, good evening. Bob, first I want to understand this what sounds almost like a double count.

So when you write new business, this new standard is going to put up some sort of risks charge against it, or a capital charge against it. And if and when that loan goes delinquent you have to put up even more capital on top of that.

Under the historical approach you effectively would have been releasing the capital requirement against performing loan and then putting up reserves. Am I understanding this correctly that that is not really the mechanism here. You would add even more so there is kind of a double count against the methodology?

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

That's right. Derek, you want to jump in?

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

Yes, I can jump in. That's true, and that's something we will be commenting on.

Certainly the way this is laid out and one of the things I alluded to in my remarks, is we will be commenting on the fact that there really is no seasoning factor to take into account the decreasing probability that as loans season the probability of default decreases. What ends up happening because it doesn't release capital for performing loans but it has the capital for delinquent loans, it is very procyclical in its application.

Because you are required to add capital as loans go delinquent, which means in an economic downturn those capital requirements are going to go up significantly as you have more loans moving into delinquent status. So that is one item we will certainly be commenting on.

Geoffrey Dunn - *Dowling & Partners Securities - Analyst*

Okay, and then as a follow-up I am just trying to understand this 210% of pre-2009 premium adjustment they make in available assets. They are saying they don't want to include 2009 and after a premium benefit because it would mismatch premium versus losses. But under this methodology you are receiving a capital charge under a stress scenario for losses right up front, correct?

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

That's right, Geoff. And we, and I believe other MIs, have commented on that as well, that potentially we would want to get some credit for all premiums sometime in the future to match, as you are saying, the loss requirement. However, at this time the proposed draft that we have today does not have any change for that but that is something we will be commenting on.

Geoffrey Dunn - *Dowling & Partners Securities - Analyst*

Okay. And then also, we have focused on Radian Asset but under these rules do you get any capital credits or RMAI or [Rinck] or any of those other subs?

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

Yes. The subs that are dedicated to MI reinsurance internally we will be able to count the assets in those companies. As long as they comply with Section 704 we will be able to count the assets in those companies in available assets.

Geoffrey Dunn - *Dowling & Partners Securities - Analyst*

Okay, so the way they are currently carried in the statutory statements it's just an equity benefit, the common equity benefit, through your asset line. Are we going to have to make adjustments to those holdings? I don't think anybody has a DTA below you yet but --.

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

I would look at it more like so the risk in force will now be consolidated. So include all the risk in force regardless of which company it exists in and then include the assets in the companies that we have ceded internally to, so it's more like a consolidated assets and consolidated risk. Now, right, if those companies have admitted DTA they would not be included as proposed.

Geoffrey Dunn - *Dowling & Partners Securities - Analyst*

And then last question, the MIs I believe all received this back in early May, what has been going on for two months? You have had limited input into these proposals, so I am curious why it took two months to turn around to the street?

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

You know what, I'm just going to jump in here, Geoff. I know we've said this before but I need to repeat it.

We have been in confidential discussions with the FHFA and the GSEs, so we are under confidentiality agreements. We really can't add color to what was happening during that time period.

Geoffrey Dunn - *Dowling & Partners Securities - Analyst*

Okay, great. Thank you.

Operator

Steve Stelmach, FBR.

Steve Stelmach - *FBR & Co. - Analyst*

Hi, just to sort of dovetail with that last question. I understand you can comment on a lot of it but maybe I'll approach it from a different way.

Presumably going into the release of these drafts the GSEs and FHFA understood your concerns yet they still released the drafts as is. What's the prospect of changing any minds?

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

I think it's the same comment there, Steve. I'm sorry, SA.

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

Steve, I was just saying some of these questions are probably best directed to the FHFA and the GSEs.

Steve Stelmach - *FBR & Co. - Analyst*

Okay. And then this was to Derek. You talked a little bit just now on the procyclicality of reserves.

Could you also include the updated periodic factors that these guys presumably will be using going forward? I assume that those updates will be based on historical experience and as experience changes those updates may require even more reserving in the stress scenarios. Is that also a concern in terms of those factors being updated?

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

It is a concern that they could be updated. And there's not a lot of transparency in how they will be updated over time. And that does create some issues in terms of capital planning because there is no certainty with respect to it.

That's why from our perspective rather than try to adjust the grid factors for seasoning over time we propose that it's embedded day one. And it because more formulaic so it does not create that uncertainty and everyone knows what field they are playing in in terms of capital requirements.

Steve Stelmach - *FBR & Co. - Analyst*

Got it. All right, guys. Thanks very much.

Operator

Jack Micenko, SIG.

Jack Micenko - *Susquehanna Financial Group - Analyst*

Hi, thanks. Bob, wondering if you had any preliminary thoughts on the impact on expense ratios?

There's a lot of loan level work here seems to need to be done and other financial institutions that have gone through sort of a paradigm shift in their capital and regulatory framework we've seen a pretty negative impact on operating expenses. Any thoughts there?

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

Yes, Jack, I haven't fully thought it all through. But I don't think -- I wouldn't expect a big change in expenses.

This is stuff generally that we have done. I can't imagine that this is going to impact expenses very much.

Jack Micenko - *Susquehanna Financial Group - Analyst*

Okay. And then on the 2015 ask on the dividend, should we think of that more closer to what you ask for in 2014, or reverting back to a more normal dividend?

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

Well, I think we believe the even after the $150 million dividend, we believe Radian Asset is well over capitalized. We are likely, as long as all goes well, we will likely request a fairly large dividend, more than the run rate of the ordinary dividends that we've been paying over the past several years. And we would be hopeful that we could get another one.

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

(multiple speakers) that our exposure continues to run off in the financial guaranty business particularly on the structured CDO side. So over time we would have even more room.

Jack Micenko - *Susquehanna Financial Group - Analyst*

Yes, actually that was my last follow-up. I seem to recall a big chunk coming off. Is it 2016 or 2017, I don't remember?

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

2017 is the big drop off in the structured book on the corporate CDOs. But the book will be being reduced over that time as well.

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

We're reducing exposure much more rapidly than just the natural runoff schedule and we will continue to do that.

Jack Micenko - *Susquehanna Financial Group - Analyst*

Okay. Thanks for the call.

Operator

Chris Gamaitoni, Autonomous.

Chris Gamaitoni - *Autonomous Research - Analyst*

Thanks for taking my call and I really appreciate you doing the conference call. Has there been -- did you communicate kind of the uneven playing field that is set with not including future premiums between the FHA? I believe their capital standards allow them to include future premiums in their actuarial analysis that drives [new] ratios.

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

And I think you put your finger on one of the concerns with respect to these requirements for the new business being written. It has been our understanding throughout from what we have heard in Washington that the intent of the government was to reduce the exposure to taxpayers and increase private capital, the role of private capital, and the housing finance system.

And we believe some of these requirements could have the opposite effect. And Derek, I don't know if you, or Bob, can if you want to talk about specifically the FHA's capital requirements versus the uneven, the further uneven playing field that could be created?

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

No, I think that's right. It's something that we have commented on and will continue to comment on.

Chris Gamaitoni - *Autonomous Research - Analyst*

Thank you for that. I think all of the rest of my questions have been answered. So, thank you very much.

Operator

Sean Dargan, Macquarie.

Sean Dargan - *Macquarie Research - Analyst*

Thanks and good evening. Just as we try to think of the impact of the DTAs, as we model out operating earnings, should we grow capital assuming you are paying no cash taxes?

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

Yes, that's right.

Sean Dargan - *Macquarie Research - Analyst*

Okay, and do you -- thank you -- do you have any sense from the lenders that you work with whether they would want you to be compliant or to have available assets meet minimum required assets at the effective date? Or do you get the sense that there's nothing stopping them from giving you the full time of the implementation period?

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

Typically our experience with the lenders and having been one myself is the question is, particularly is my company eligible and our understanding is given the entire transition period we expect to be eligible. So we don't see that as creating any concerns on the part of lenders.

There is always the prospect for some competitors positioning themselves as being more immediately complying than us or other things. But we have gone through the past where we've experienced many of our lenders getting that argument in terms of somebody else being stronger than us. And that has not deterred us from the success we've had in the marketplace and we expect to continue to do business with our lenders.

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

Yes, Sean, and especially as well we have a very good roadmap which we are laying out for compliance. So I think if we didn't there may be an issue in looking at Radian; however, we've got this strong roadmap. We expect to comply and that is something that we are very confident in.

Sean Dargan - *Macquarie Research - Analyst*

Okay and thanks. One last question about Radian Asset. Is the Puerto Rico exposure a factor in the amount of extraordinary dividend you can take out, or really the attractiveness of coming up with a reinsurance solution or a sale?

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

Exposure of Puerto Rico is factored into our projections. So taking into account projected losses we still think it's substantially over capitalized and there is a substantial amount of excess capital. So in terms of our exposure to Puerto Rico and taking into account the latest developments, no, it doesn't really change the plan or the size of the dividend we would request in 2014 -- in 2015, rather -- because it's already really embedded.

Sean Dargan - *Macquarie Research - Analyst*

Okay. Thank you.

Operator

Ron Bobman, Capital Returns.

Ron Bobman - *Capital Returns - Analyst*

Hi, thanks a lot. If I understand from reading it obviously pretty quickly since we got it about an hour ago, the transition period, it looks like it incorporates a transition plan. And do you have any insight as to the elements of that and whether that will be restrictive in any way?

Because it sounds -- if I read it right, a transition plan has to be approved if you extend into the transition period as far as noncompliance? Thanks.

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

Right. We are certainly going to have a plan and we will work with the GSEs.

We expect to work with them so that plan will include a lot of the things that we are talking about today. So we don't expect that that would impair anything and we will clearly work with the GSEs after finalization to present and maintain a good plan.

Ron Bobman - *Capital Returns - Analyst*

Okay. Thanks a lot.

Operator

Jeremy Campbell, Barclays.

Jeremy Campbell - *Barclays Capital - Analyst*

Hey, guys. So first things first, I got the $850 million shortfall but could you just restate the available and required minimum asset balances again? I missed those.

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

As of today, we calculated the required at $4.8 billion and the available at $3 billion.

Jeremy Campbell - *Barclays Capital - Analyst*

Okay, great. And then looking ahead if this sort of goes through and you try to price everything out to kind of the mid-teens ROE that's relatively normalized, do you see yourself just increasing the pricing or doing that and managing your FICO and LTV buckets, or will the FICO and LTV buckets just kind of be a derivative of your price increase on the other side?

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

It's likely going to be a combination. Is also going to be, I think, SA mentioned the market factors as well. And we are going to have to monitor the market and see where it is going but I think likely it's a combination.

Jeremy Campbell - *Barclays Capital - Analyst*

Got it. Great, I think all my other questions get answered. So, thanks a lot.

Operator

Christine Worley, JMP Securities.

Christine Worley - *JMP Securities - Analyst*

Hi, thanks for taking my call. Most of my questions have been answered but just sort of a follow-up on reinsurance.

If you were going to explore that avenue, do you have a preference towards dialing up the quota share that you currently have in place? Or would you be interested in doing something more retroactive looking like some of your other legacy peers have done?

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

I think, Christine, all or both of those options are on the table. I think the nice part is that the market is very strong and the terms are very very good for us in terms of doing either quota share or legacy part of our book.

I think we will have a number of options but the market will be good and the cost will be reasonable, we expect. So I think a myriad of options that we will have to review.

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

And it will depend on the final -- it will depend on what the final rules look like in terms of what pieces of the book of business we would want to ensure would be most efficient from a capital perspective.

Christine Worley - *JMP Securities - Analyst*

Okay, great. Thank you very much.

Operator

Jaret Seiberg, Guggenheim.

Jaret Seiberg - *Guggenheim Partners - Analyst*

Yes, hi everybody. Thank you for the call tonight. Just a quick question.

It seems that your comments are fairly negative about what this could mean on credit availability and the impact on your business, yet you contrast that with the statement that your trade group put out this evening, which was rather benign. Typically it seems like a united industry front provides the most opportunity for success in getting a proposal changed. Do you believe there is some level of unity among the MI companies that you would be able to actually work together to get this thing changed?

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

Yes, I think there are certainly parts of the proposal that many of the MIs are in sync on. There might be others that there would be some differences. I think that's pretty normal.

There is a mixture in the MI industry of legacy players, newer players. And obviously based on the way these things are proposed there might be some differentiation, but with regard to new business and the charges for the new business especially on the higher LTV, the lower FICO, that's the same for everyone. And that should be something that everyone is looking at very closely and figuring out whether that works and at what level if it does work.

Jaret Seiberg - *Guggenheim Partners - Analyst*

And have you had any contact with Capitol Hill yet in trying to rally congressional pressure on this issue?

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

SA?

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

Since we were in a very strict period of not discussing these -- confidentiality period -- of not discussing these with anybody, all we can say is across the board we haven't talked to anybody outside a very limited group of people.

Jaret Seiberg - *Guggenheim Partners - Analyst*

All right, thank you.

Operator

Bose George, KBWB.

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

Just a follow-up on the financial guaranty piece. The $150 million special, it doesn't preclude the ordinary dividend should we assume we will continue the $32 million this year and something similar presumably in following years?

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

Bose, I wouldn't assume that. I think it's something that we are going to have to review and getting the $150 million dividend may impact ordinary dividends in the next couple of years meaning the calculation may change. So I wouldn't presume that but we did state and we strongly expect that we are going to go back in 2015 and request another extraordinary dividend.

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

Okay, great. And then if I could just have one more follow-up just on the math of the $4.8 billion minus the $3 billion. So there's $1.8 billion, so the difference there is really the $800 million of cash at the hold co plus the $150 million dividend from FG to get to the $850 million shortfall?

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

That's right. That's the math and then what we said as well is that over the next few years we expect that difference to shrink as we make money and add to our capital base.

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

Okay, great. Thanks a lot.

Operator

Mr. Ibrahim we have no further questions.

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

Okay, in the case I would like to thank everybody on the very short notice for participating on our call. And we look forward to talking to you next on our earnings call in a few weeks.

Thank you. And good evening.

Operator

Thank you. Then ladies and gentlemen that does conclude our conference for today.

Thank you for your participation and choosing AT&T Executive Teleconference. You may now disconnect.
