

**RADIAN**

**Merrill Lynch Insurance  
Investor Conference**

Presentation by  
S.A. Ibrahim, CEO

February 16, 2006

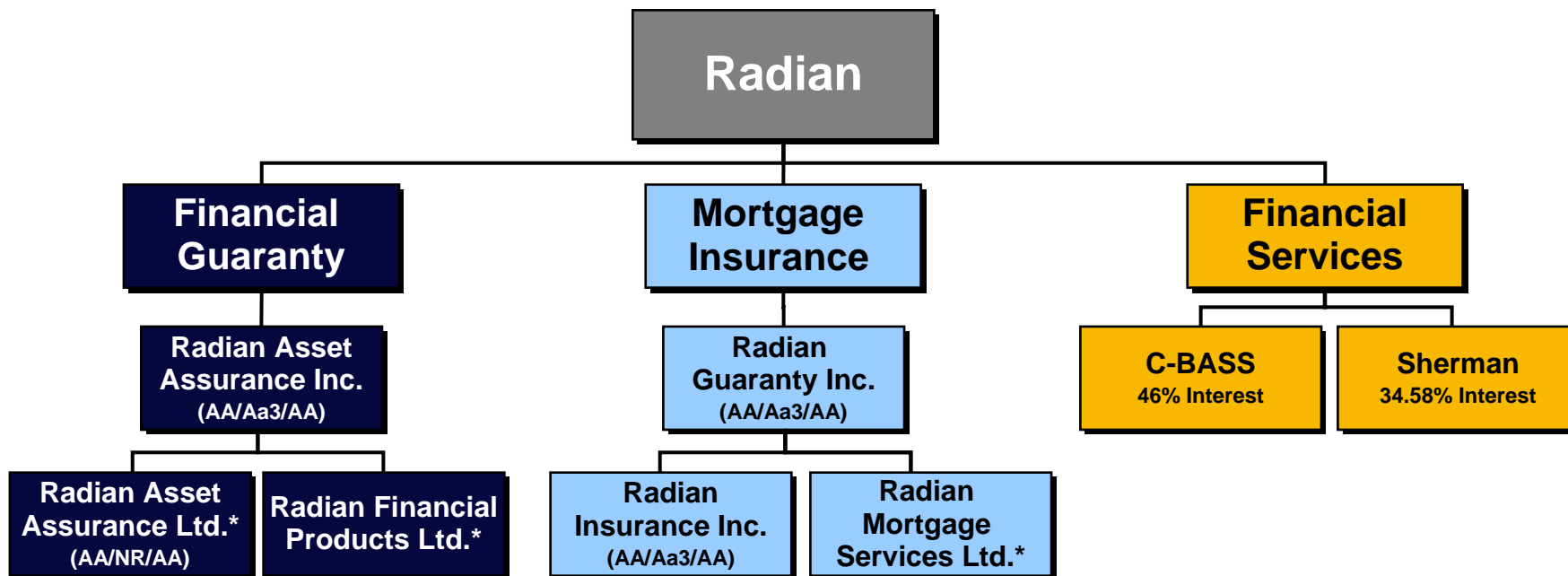
# Radian's Strategies for Success

- Importing financial guaranty into mortgage insurance business
- Leveraging financial guaranty expertise to manage our own mortgage risk
- Building strong leadership team
- Capital management

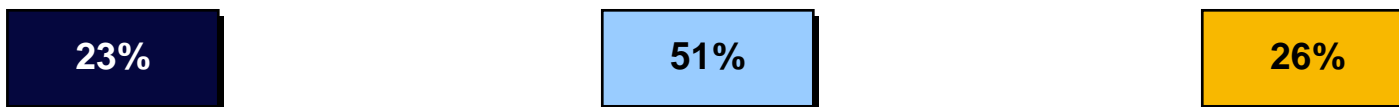
# Radian Today

- A global credit risk management company that delivers value to our customers in the acquisition, management and distribution of credit risk
  - Leverages unique expertise in understanding residential mortgage credit risk at the loan level
  - Delivers solutions to customers that can be drawn from both mortgage insurance and financial guaranty technologies
  - Achieves strong returns and grows shareholder value by building upon our existing portfolio of high performing core and complimentary businesses

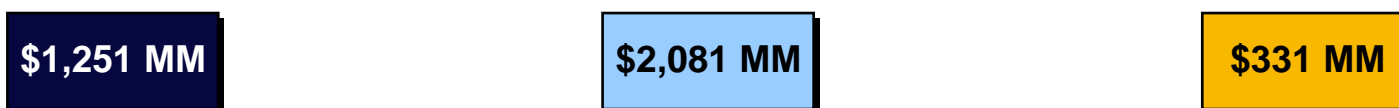
# Corporate Structure



12 Months '05 Contribution to Net Income

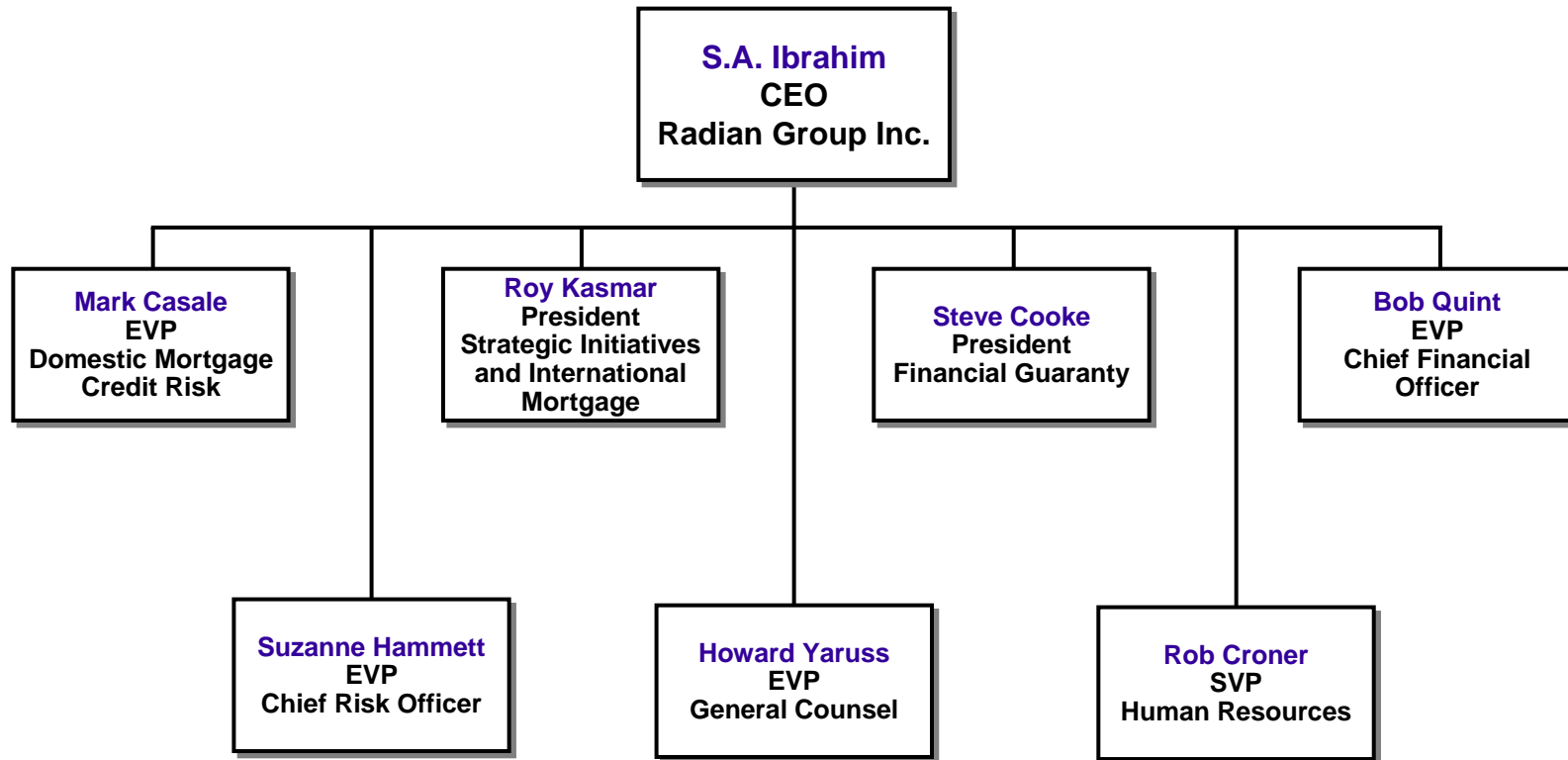


Segment Equity at 12/31/05



\* International Entities

# Building a Strong Leadership Team



## Financial Highlights as of December 31, 2005

• 2005 Diluted EPS	\$5.91
• Book Value Per Share	\$44.11
• Adjusted Book Value	\$62.03
• Return on Equity	14.7%
• 2005 Share Repurchases	10.8 million shares
• Total Cost of Share Repurchases	\$533 million
• Market Capitalization	\$4.9 billion

# Mortgage Business Model Strategy

- Mortgage market is not monolithic
- Customer needs vary:
  - Transferring credit risk
  - Liquidity
  - Capital relief
- Tailored solutions provided through four customer channels
  - Business Direct: regional lenders
  - Strategic Accounts: national lenders
  - Capital Markets: non-prime lenders and non traditional products
  - International: structured and flow MI outside the US

# Mortgage Business Model Strategy

- Taking risk on the same underlying mortgage collateral
- Form of transaction is changing
  - Traditional mortgage insurance
  - Pool insurance
  - Credit default swap
  - Second to pay
- Increasing use of financial guaranty structuring capabilities
- Participate along the credit spectrum from first loss to remote loss

# Mortgage Credit Risk Strategies for Success

	Clients	Needs	Strategies	Successes
<b>Business Direct</b> <i>(Regional Lenders)</i>	Regional lenders, builders, credit unions, state housing authorities (e.g. regional banks)	Prime MI, sales and underwriting support, training	Expand sales and support coverage and offer appropriate new products	Tailored LPMI, bulk deals
	<b>Strategic Accounts</b> <i>(National Accounts)</i>	National lenders, GSEs (e.g. top national lenders)	Customization, innovative risk-sharing structures	Provide tailored solutions, fast response, and offer proactive ideas (MI and FG) to improve execution
<b>Capital Markets</b> <i>(Non-traditional products: bulk, pool, flow, seconds, NIMs, other Financial Guaranty)</i>	Non-prime originators, aggregators, Wall St (e.g. sub-prime lenders)	Best execution, innovative structures	Offer unique FG solutions; be highly selective and share risks/rewards	Smart Home, NIMS, Credit Default Swaps
<b>International</b> <i>(Structured and flow MI outside the U.S.)</i>	Non-US domiciled lenders, off-shore subs (e.g. major Asian bank)	Capital relief, innovative products	Offer broad mortgage and FG capabilities (not limited to MI)	Hong Kong partnership, Credit Default Swaps

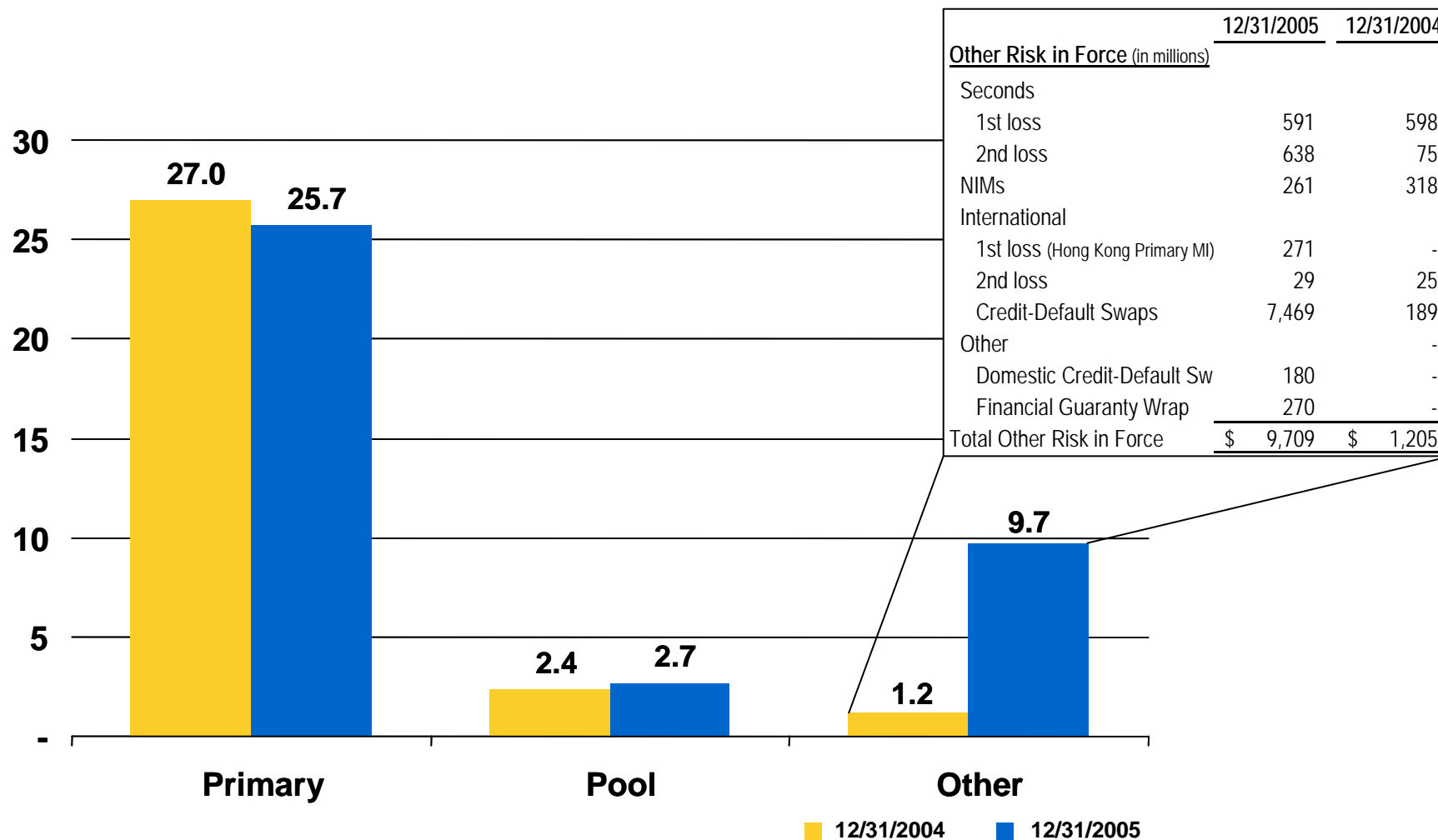


Growing



Stable

# Radian Mortgage Insurance Risk in Force

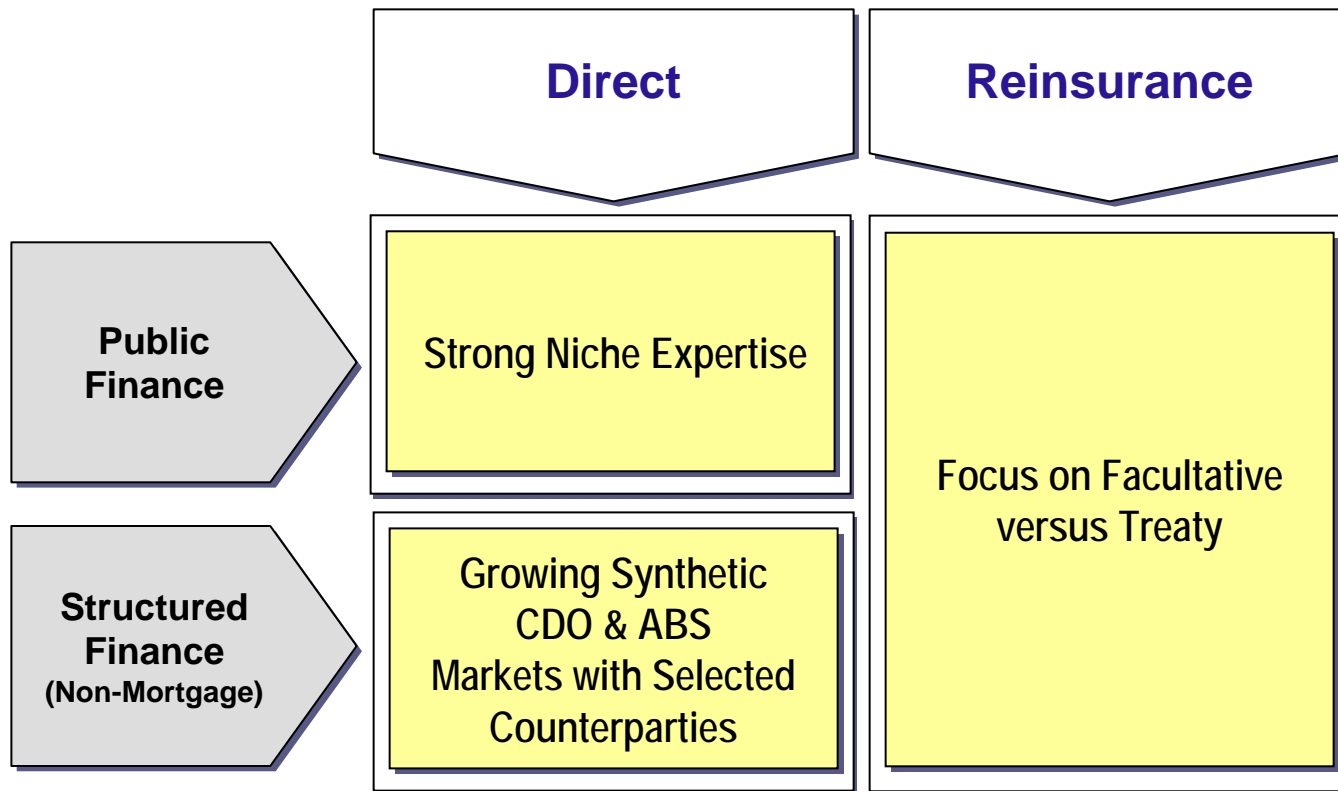


In billion of dollars

# Managing Our Own Mortgage Risk: Smart Home

- Solution used by Radian to help manage its exposure to non-prime mortgage risk
- Protects against catastrophic loss while protecting the company's book value
- A Smart Home company is established by a third party financial institution, and that company enters into an agreement with Radian to reinsure a pool of non-prime loans
- Credit-linked notes are then issued by the Smart Home company and sold to investors in the capital markets
- Once the credit-linked notes are sold and the Smart Home company is fully capitalized, a portion of risk from Radian's non-prime mortgage pool is effectively transferred through Smart Home to the note holders in the capital markets

# Financial Guaranty Business Model Strategy



# Financial Guaranty Strategies for Success

	Products	Clients/ Counterparties	Needs	Strategies	Successes
<b>Direct</b>	Domestic Public Finance	Municipal Bond Issuers and Obligors	Provide access to capital markets cost effectively	Strong underlying credits in niche sectors	Sole community provider health care center
	CDOs	Financial Institutions	Provide synthetic capital markets solution for credit risk portfolio relief	Synthetic portfolios of senior corporate and/or asset-backed obligations	Radian-designed portfolios of senior corporate debt with triple-A attachment point
<b>Reinsurance</b>	Reinsurance	Triple-A Monoline Financial Guaranty Insurers	Triple-A Monoline Financial Guaranty Insurers with traditional reinsurance products	Increased focus on Facultative Reinsurance	Increased the percentage of facultative reinsurance and increased new business profitability

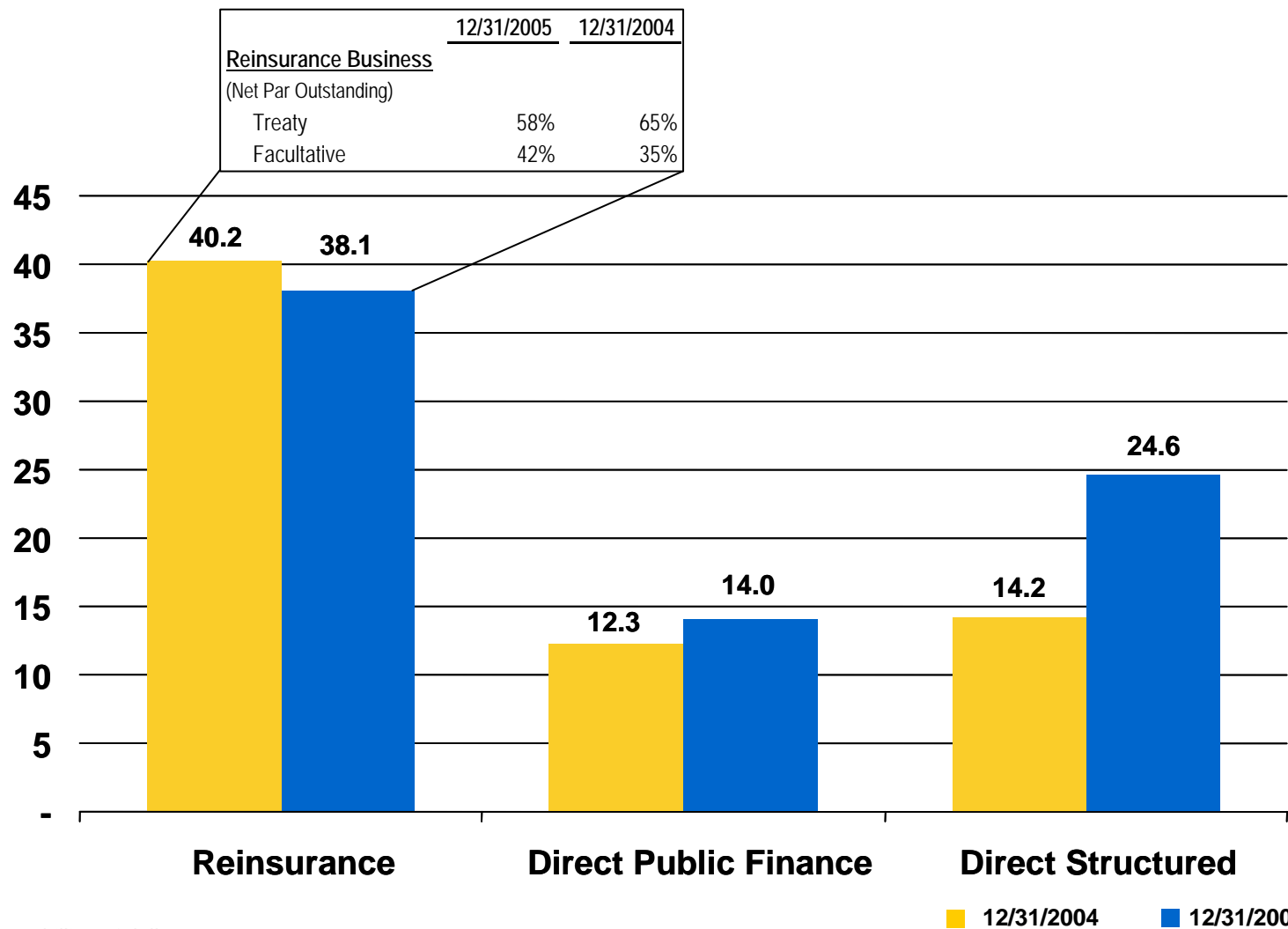


**Growing**



**Stable**

# Financial Guaranty in Risk in Force/Par by Product



## C-BASS and Sherman Financial

- Both have positive earnings track records
- Strong franchise value
  - Continuing to build value
- Diversifying revenue sources
  - Creating recurring annuity streams
    - Less impacted by cycles
- Exploring opportunities to leverage partnerships

# Radian's Strategies for Success

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# Appendix

# Radian History

- Where We Began

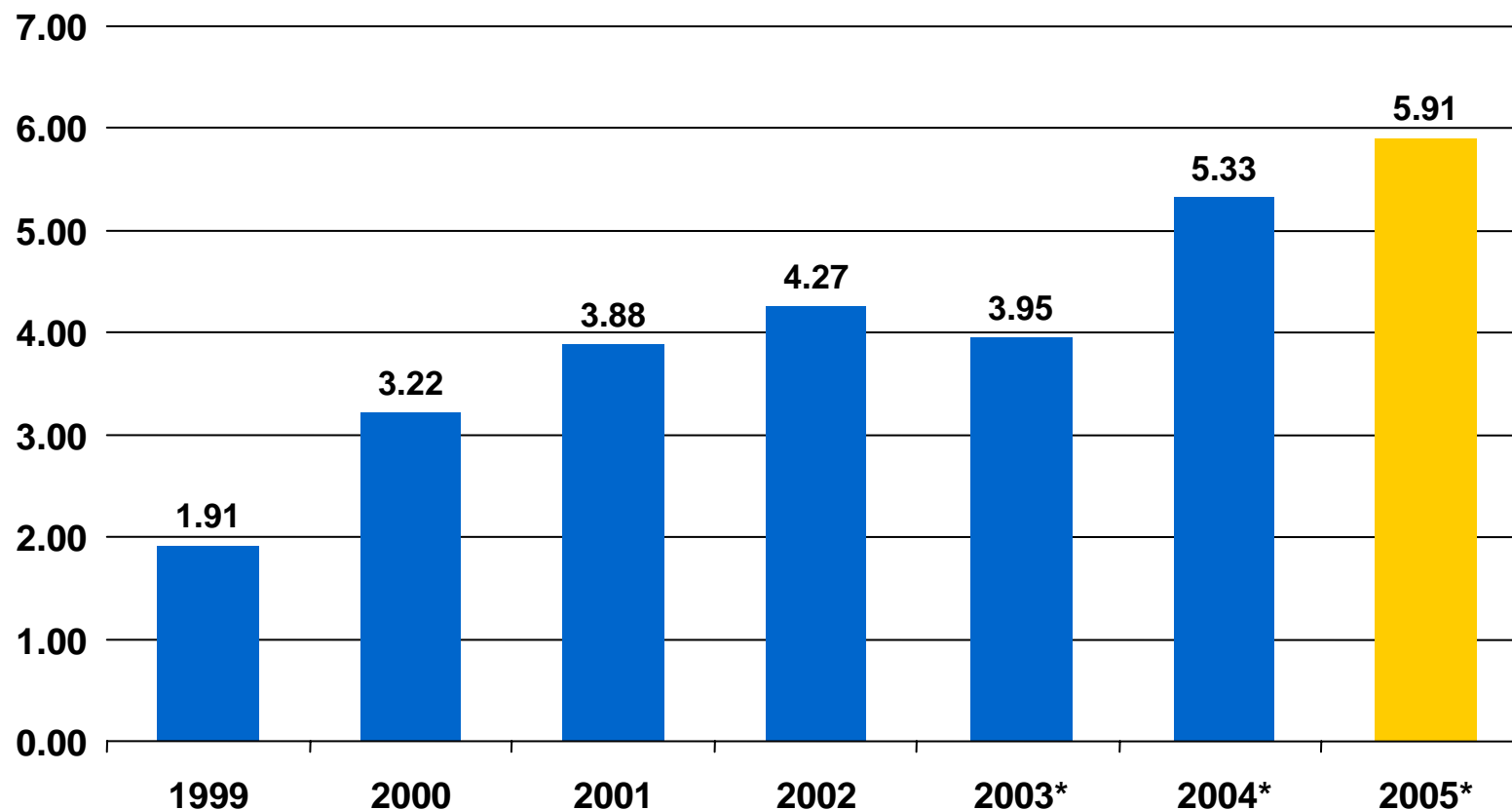
- Private mortgage insurance company founded in 1977
- IPO in 1992: US \$221 million in equity

- Timeline

- **1999**: Completed the merger of CMAC and Amerin
- **2000**: Began writing mortgage-related credit enhancement products
- **2001**: Acquired financial guaranty company Enhance  
(Including interests in C-BASS and Sherman)
- **2002**: Founding partner of Primus; IPO in 2004
- **2003**: Began international expansion with opening of London subsidiary
- **2004**: Launched Smart Home (a structured solution for distributing credit risk)
- **2005**: Opened a Hong Kong branch
- **2006 and Ongoing**: Continue to leverage the convergence of Financial Guaranty and Mortgage Insurance

# Diluted Net Income Per Share

CAGR of 20.7% through 2005



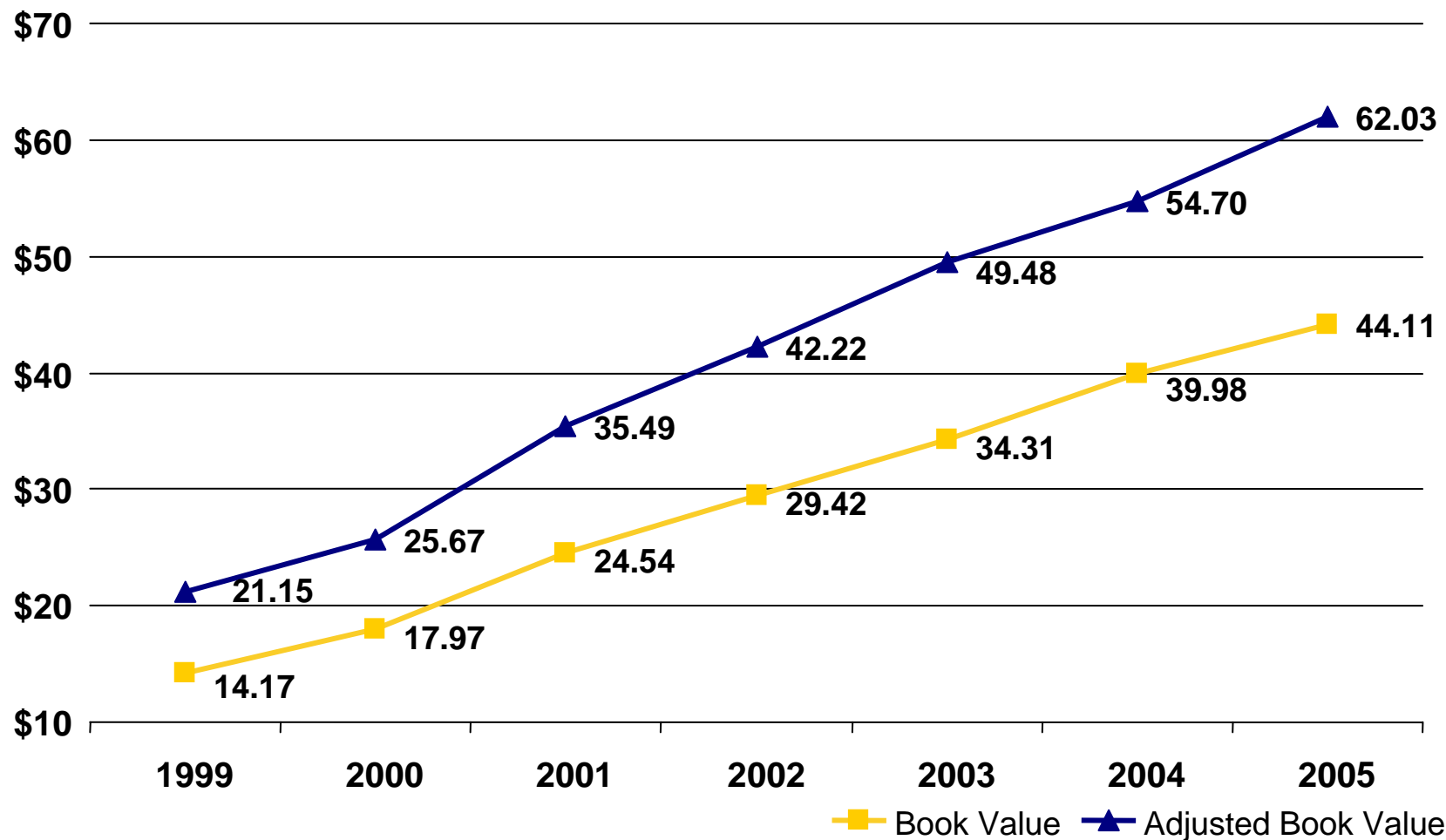
*\* Reflects the inclusion of shares underlying contingently convertible debt that was redeemed August 1, 2005. The impact of including these shares in the calculation was a reduction of \$0.13 for the twelve months ended December 31, 2005, \$0.18 for the twelve months ended December 31, 2004 and \$0.13 for the twelve months ended December 31, 2003.*

In dollars

# Net Income Per Share Reconciliation

	Quarter Ended December 31		Year Ended December 31	
	2005	2004	2005	2004
(Thousands of dollars, except per-share data)				
<i>Net income per share reconciliation</i>				
Net income	\$ 104,461	\$ 155,969	\$ 522,854	\$ 518,653
Interest expense on convertible senior debentures (net of tax)	-	804	1,871	3,218
Net income available to common stockholders	<u>\$ 104,461</u>	<u>\$ 156,773</u>	<u>\$ 524,725</u>	<u>\$ 521,871</u>
<i>Weighted average shares outstanding (in thousands)</i>				
Average common shares outstanding	83,028	92,000	85,637	93,062
Increase in shares- potential exercise of options - diluted basis	889	1,022	894	1,036
Increase in shares- contingently convertible debt (1)	-	3,810	2,215	3,810
Weighted average shares outstanding (in thousands)	<u>83,917</u>	<u>96,832</u>	<u>88,746</u>	<u>97,908</u>
(1) All periods include the impact of shares underlying convertible debt that was redeemed on August 1, 2005. The impact on diluted net income per share of including these shares in the calculation was a reduction of \$0.06 per share for the quarter ended December 31, 2004, and \$0.13 and \$ 0.18 per share for the years ended December 31, 2005 and December 31, 2004.				

# Book Value and Adjusted Book Value



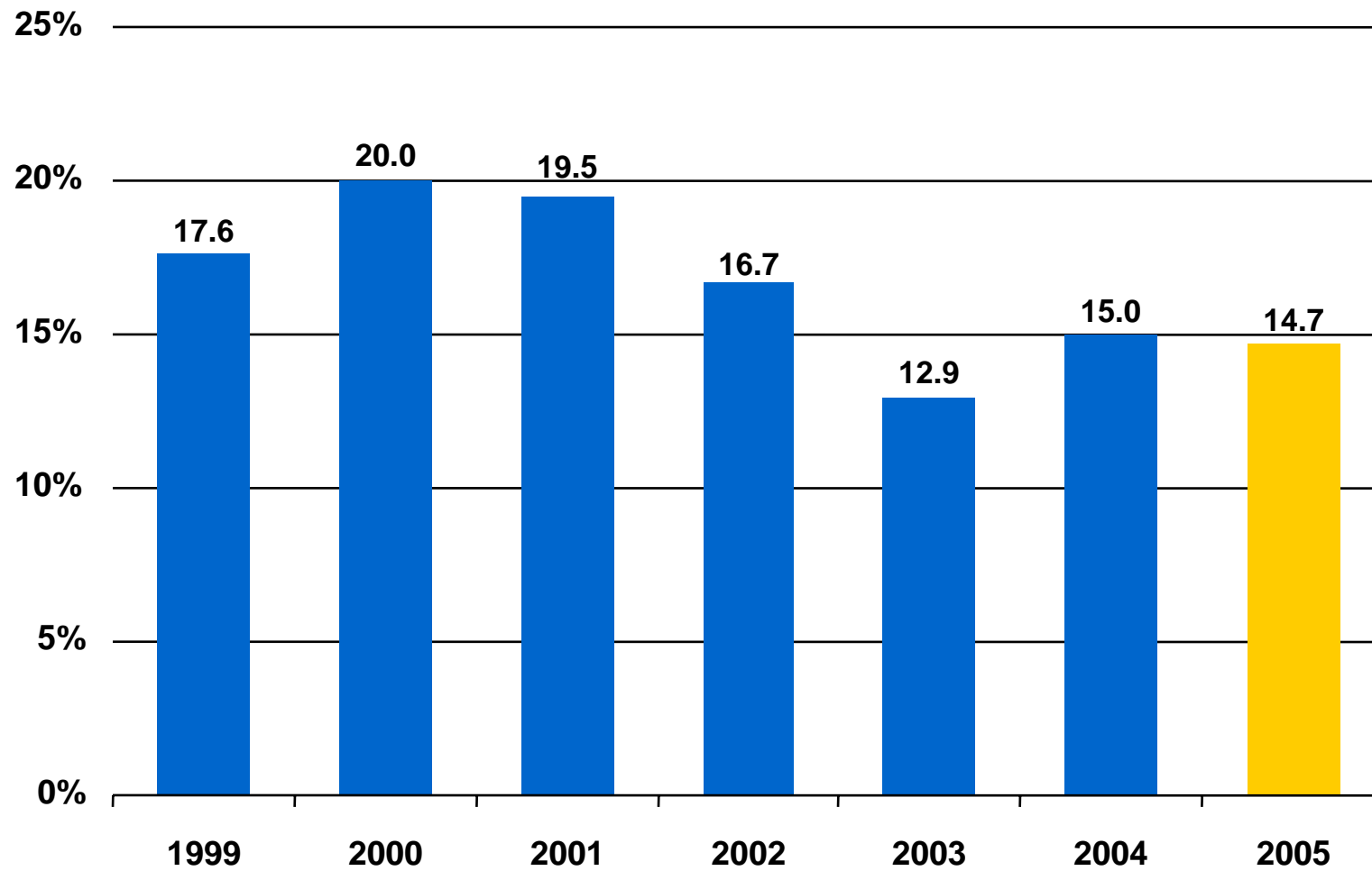
Per share amounts

# Adjusted Book Value Reconciliation

(\$ in millions except book value per share)	Book Value As Reported	Additions			Deductions			Total Additions and Deductions Net of Tax	Book Value As Adjusted	
		Unearned Premiums	Present Value of Installment Premiums		Deferred Policy Acquisition Costs	Loss Factor for Future Premiums				Expense Factor for Future Premiums 5%
			Financial Guaranty	Mortgage Insurance		Financial Guaranty 25%	Mortgage Insurance 35%			
<b>December 31, 1999</b>										
Total Common Equity	\$1,057.3	\$54.9		\$1,347.0	\$61.7		\$471.5	\$67.4	\$520.9	\$1,578.2
Number of Shares (in millions)	74.6									74.6
Book Value per Share	\$14.17									\$21.15
<b>December 31, 2000</b>										
Total Common Equity	\$1,362.2	\$77.2		\$1,484.5	\$70.0		\$519.6	\$74.2	\$583.6	\$1,945.8
Number of Shares (in millions)	75.8									75.8
Book Value per Share	\$17.97									\$25.67
<b>December 31, 2001</b>										
Total Common Equity	\$2,306.3	\$513.9	\$254.0	\$1,736.9	\$151.0	\$63.5	\$607.9	\$99.5	\$1,028.8	\$3,335.1
Number of Shares (in millions)	94.0									94.0
Book Value per Share	\$24.54									\$35.49
<b>December 31, 2002</b>										
Total Common Equity	\$2,753.4	\$618.1	\$400.1	\$1,881.0	\$183.6	\$100.0	\$658.4	\$114.1	\$1,198.1	\$3,951.5
Number of Shares (in millions)	93.6									93.6
Book Value per Share	\$29.42									\$42.22
<b>December 31, 2003</b>										
Total Common Equity	\$3,225.8	\$718.6	\$444.4	\$2,303.7	\$218.8	\$111.1	\$806.3	\$137.4	\$1,425.6	\$4,651.4
Number of Shares (in millions)	94.0									94.0
Book Value per Share	\$34.31									\$49.48
<b>December 31, 2004</b>										
Total Common Equity	\$3,689.1	\$723.5 (1)	\$252.0 (1)	\$2,310.1	\$195.2 (1)	\$63.0	\$808.5	\$128.1	\$1,359.0	\$5,048.0
Number of Shares (in millions)	92.3									92.3
Book Value per Share	\$39.98									\$54.70
<b>December 31, 2005</b>										
Total Common Equity	\$3,662.9	\$849.4	\$303.0	\$2,392.5	\$208.3	\$75.7	\$837.4	\$134.8	\$1,487.6	\$5,150.5
Number of Shares (in millions)	83.0									83.0
Book Value per Share	\$44.11									\$62.03

(1) Adjusted for Expected First Quarter 2005 Recapture

# Return on Equity



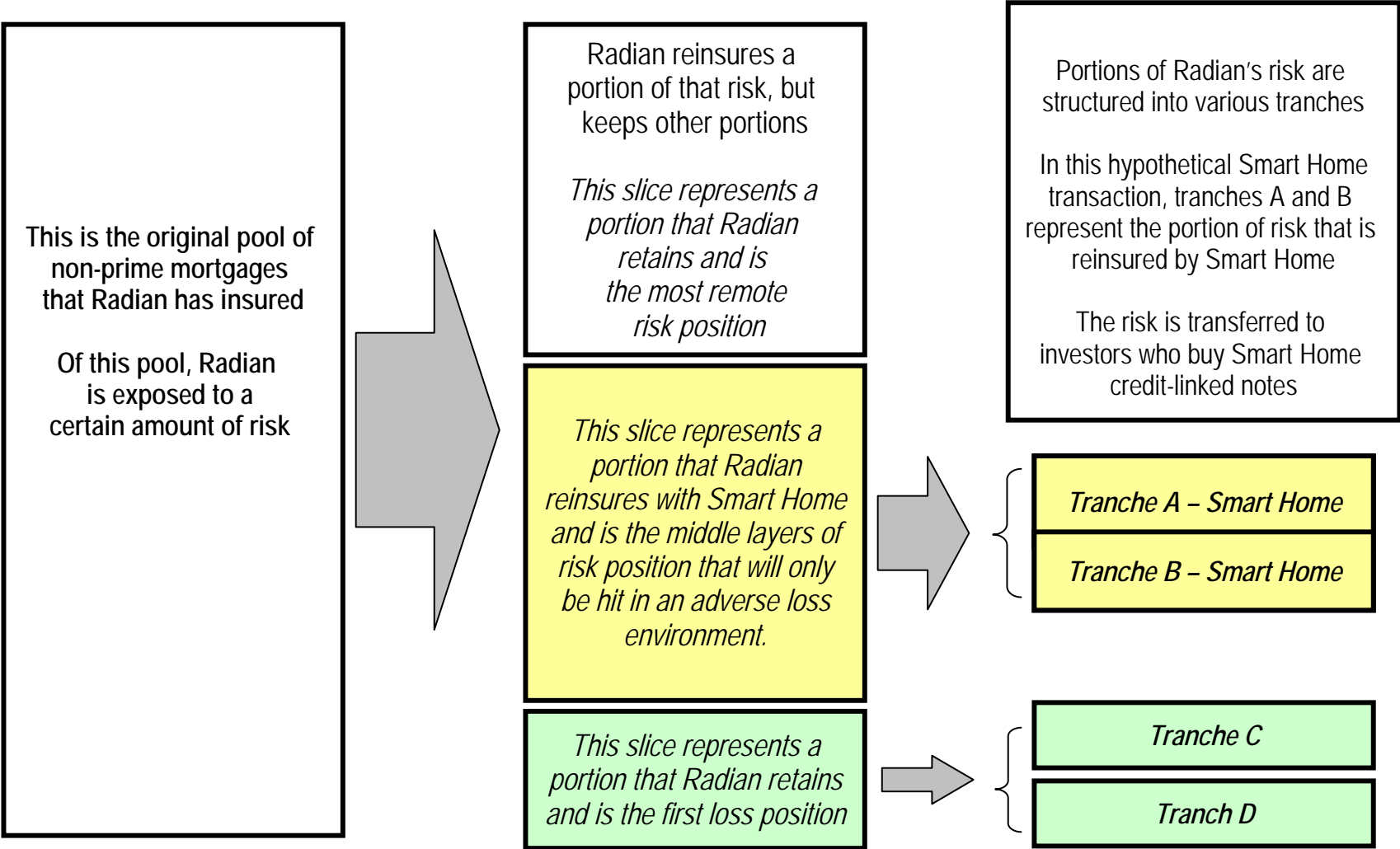
## C-BASS

- Purchases, services and securitizes credit sensitive residential mortgage assets
- Capitalized on ownership of top rated special servicer, which enhances the value of its assets
- Strong earnings growth, ROEs and cash flow
- Built servicing portfolio to more than \$43 billion
- Greater than 80% revenues are recurring from servicing, money management and portfolio management
- Pre-tax net income for 2005 of \$241 million
- Compliments Radian's capital markets channel in accessing the subprime markets
- Well positioned to perform strongly through diverse economic scenarios

# Sherman Financial

- Purchases and services distressed consumer debt
  - Purchases made at deep discounts to their original face value from national financial institutions and major retail corporations
- Originator of subprime credit cards through the acquisition of Bank of Marin in 2005
  - Diversified their revenue stream
- Strong earnings growth, ROEs and cash flow
  - 2005 net revenues of \$789 million
  - 2005 pre-tax net income of \$289 million
- Assets of \$989 million

# An Overview of a Typical Smart Home Transaction



# Radian's Smart Home Transactions

- **Smart Home Reinsurance 2005-2 (December 2005)**
  - \$6.27 billion pool of non-prime mortgages with Radian MI
  - Initial Risk in Force: \$1.69 billion
  - Up to \$311 million of that risk will be reinsured by Smart Home Reinsurance 2005-2
- **Smart Home Reinsurance 2005-1 (February 2005)**
  - \$1.68 billion pool of non-prime mortgages
  - Initial Risk in Force: \$495.6 million
  - \$98.5 million of credit-linked notes sold to investors in the capital markets
- **Smart Home Reinsurance 2004-1 (August 2004)**
  - \$882 million pool of non-prime mortgages
  - Initial Risk in Force: \$332.1 million
  - \$86.1 million of credit-linked notes sold to investors in the capital markets

# Safe Harbor Statement

All statements made during our third quarter conference call and in the accompanying presentation that address events or developments that we expect or anticipate may occur in the future are “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, Section 21E of the Securities Exchange Act of 1934 and the U.S. Private Securities Litigation Reform Act of 1995. These statements are made on the basis of management’s current views and assumptions with respect to future events. The forward-looking statements, as well as Radian’s prospects as a whole, are subject to risks and uncertainties, including the following: changes in general financial and political conditions such as extended national or regional economic recessions (or expansions), changes in housing values, population trends and changes in household formation patterns, changes in unemployment rates, changes or volatility in interest rates, or other political instability; changes in investor perception of the strength of private mortgage insurers or financial guaranty providers, and risks faced by the businesses, municipalities or pools of assets covered by Radian’s insurance; the loss of a customer with whom Radian has a concentration of its insurance in force; rising delinquencies in mortgage loans insured by Radian resulting from increased consolidation of mortgage lenders and servicers; increased severity or frequency of losses associated with certain Radian products that are riskier than traditional mortgage insurance and municipal guaranty insurance policies; material changes in persistency rates of Radian’s mortgage insurance policies; downgrades of Radian’s credit ratings or the insurance financial-strength ratings assigned by the major ratings agencies to Radian’s operating subsidiaries; heightened competition from other insurance providers and from alternative products to private mortgage insurance and financial guaranty insurance; changes in the charters or business practices of Fannie Mae and Freddie Mac; the application of existing federal or state consumer lending, insurance and other applicable laws and regulations, or unfavorable changes in these laws and regulations or the way they are interpreted or applied, including: (i) the possibility of private lawsuits or investigations by state insurance departments and state attorneys general alleging that services offered by the mortgage insurance industry, such as captive reinsurance, pool insurance and contract underwriting, are violative of the Real Estate Settlement Procedures Act and/or similar state regulations (particularly in light of public reports that some state insurance departments may review or investigate captive reinsurance arrangements used in the mortgage insurance industry) or (ii) legislative and regulatory changes affecting demand for private mortgage insurance or financial guaranty insurance; the possibility that we may fail to estimate accurately the likelihood, magnitude and timing of losses in connection with establishing loss reserves for our mortgage insurance or financial guaranty businesses or to estimate accurately the fair value amounts of derivative financial guaranty contracts in determining gains and losses on these contracts; changes in accounting guidance from the SEC or the Financial Accounting Standards Board regarding income recognition and the treatment of loss reserves in the mortgage insurance or financial guaranty industries; changes in claims against mortgage insurance products resulting from the aging of Radian’s mortgage insurance policies; vulnerability to the performance of Radian’s strategic investments; changes in the availability of affordable or adequate reinsurance for our non-prime risk; and international expansion of our mortgage insurance and financial guaranty businesses into new markets and risks associated with our international business activities. Investors are also directed to other risks discussed in documents filed by Radian with the SEC, including the factors detailed in our annual report on Form 10-K for the year ended December 31, 2004 in the section immediately preceding Part I of the report. We caution you not to place undue reliance on these forward-looking statements, which are current only as of the date of our fourth quarter conference call. Radian does not intend to and disclaims any duty or obligation to update or revise any forward-looking statements made in this press release to reflect new information, future events or for any other reason.

# RADIAN

Changing the nature of risk.®

