

# FINAL TRANSCRIPT

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## **RDN - Radian First Quarter 2008 Conference Call**

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## CORPORATE PARTICIPANTS

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*Radian Group - CEO*

**Bob Quint**  
*Radian Group - EVP & CFO*

**Dave Applegate**  
*Radian Group - President, Radian Guaranty, Inc.*

**Steve Cooke**  
*Radian Group - President of Radian Asset Assurance, Inc.*

## CONFERENCE CALL PARTICIPANTS

**David Hochstim**  
*Bear Stearns - Analyst*

**Mike Grasher**  
*Piper Jaffray - Analyst*

**Steve Stelmach**  
*FBR Capital Markets - Analyst*

**Howard Shapiro**  
*Fox-Pitt - Analyst*

**Donna Halverstadt**  
*Goldman Sachs - Analyst*

## PRESENTATION

### Operator

Ladies and gentlemen, thank you for standing by. Welcome to Radian's First Quarter 2008 earning call. At this time all participants lines are in a listen-only mode. Later there will be an opportunity for your questions with instructions being given at that time. As a reminder, today's conference call is being recorded.

I'd now like to turn the conference over to the Chief Executive Officer, S.A. Ibrahim. Please go ahead.

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### S.A. Ibrahim - Radian Group - CEO

Thank you, operator. Thank you, everyone, for joining us today. As always, I will start out by making some opening remarks followed by Bob Quint, with detailed comments on the first quarter financials. Dave Applegate and Steve Cooke will then give more color on the mortgage insurance and financial guaranty businesses. We will then take your questions and I will wrap up with some closing remarks.

First, let me remind you that any forward-looking statements that we make this morning should be considered in conjunction with the cautionary statement set forth in the Safe Harbor statement included with our webcast slides and the statements contained in our SEC filings. These are available on our investor relations website at [www.radian.biz](http://www.radian.biz). As anticipated, in the first quarter of 2008, Radian along with others in the industry, continue to be affected by the weak credit and housing markets that we saw in 2007. Even so, Radian was able to make significant progress on a variety of fronts. In the first quarter of this year, Radian reported net income of \$195.6 million and diluted earnings per share of \$2.44. Excluding the impact of net unrealized gains and derivatives on hybrid securities, our net operating loss was \$215.2 million and the net operating loss per share was

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\$2.69. Net operating loss is a non-GAAP financial measure and we have provided a detailed reconciliation of these numbers to our GAAP results in our press release and in the webcast slides on our website. Bob will give you more detail in just a few minutes.

Our mortgage insurance base claims were in line with our guidance while our loss reserves continued to increase reflecting market conditions. Across both businesses, we ended the quarter with \$1.9 billion in reserves. Looking ahead, although it continues to be challenging for us to forecast the markets in the near term, I'm confident that the initiatives we are taking will position Radian well for the long-term. In the last few months, we have taken several steps to recruit key talent and improve operational efficiency in our business units. We have been steadily improving our business mix by taking on a higher percentage of prime loans and by making prudent decisions to discontinue business lines which carry disproportionate risk. Our task is to do what is right for the business so that we are well positioned when the market stabilizes. Our past decisions to consistently grow reserves at higher rates than our peers, even with similar default rates, have enabled us to approach the hurdles that the market has thrown at us with a greater degree of flexibility. We will continue to take this approach to reserves as current market conditions remain challenging. So, while there is little Radian can do about the current state of the market, we can certainly do and are doing our best to mitigate the affect of the housing down turn. We are continuing to monitor the rate of defaults in MI business and are taking action to help our servicing partners and homeowners manage through difficult situations with strategies to avoid foreclosure. As we work to limit the effect of the housing downturn on our old book of business, we are also transforming a new MI business so that the insurance we write can deliver strong profitability in the future.

The priority for Radian Asset, our financial guaranty business, as you will hear in more detail from Steve Cooke, is to build on our strong capital position, work with the rating agencies to maintain our AA status and take measures that enhance our franchise value. While this has been a highly volatile market for financial guarantors, our solid capital base allows Radian Asset to work at different ways to diversify our exposure while pursuing attractive market opportunities to write quality business only available to a select few in the Financial Guaranty industry. As we've said before, we've been evaluating the need to raise capital and alternatives for doing so. We now intend, subject to market conditions and other factors, to raise capital in the near term primarily by issuing equity. We plan to use the proceeds of the capital rates to repay amounts drawn on our credit facility and to provide significant additional capital to Radian Guaranty. Although, we continue to believe that Radian guaranty has sufficient capital to pay it's claims, the additional capital infusion, will allow our mortgage insurance business to continue to write new business on favorable terms while maintaining appropriate risk to capital levels. Also, additional capital is an important compliment of our plan to regain our AA status with S&P overtime and in a manner that is acceptable to us as well as to the GSE's and our lender counterparties.

In conjunction with evaluating our capital options, we also announced that we are considering strategic alternatives to enhance and maximize the value of our financial guaranty subsidiary Radian Asset Assurance. Our current intention is to not withdraw capital from our financial guaranty business. We have also been working through the ways in which we can create more independence in the corporate governance of Radian Asset. For example, by appointing some independent directors. The goal is to demonstrate through concrete actions that the capital and the Financial Guaranty business is secure. We are effectively (inaudible) fencing the business to protect its franchise and to enhance the long term value of its contribution to Radian Group.

That said, we will continue to evaluate opportunities as they arise over time, particularly as market valuations for the financial guaranty sector recover and there is greater appreciation of Radian Asset Assurance's strong relative position in the industry. Our focus is to earn recognition of the true value of Radian Asset and to continue to enhance our franchise so we can go out and capture business. This, along with the ability to sell our remaining interest [insureman] uniquely positions Radian Group to generate additional capital in the future if necessary. As the mortgage industry continues to navigate through these unprecedented times, Standard and Poors rating agency announced credit rating changes with regard to several companies in the mortgage insurance sector, including Radian. In response to this announcement and months before the deadline, we submitted remediation plans to the GSEs, that are intended to restore profitability and a AA rating to our mortgage insurance business. We recognize that returning our MI business to a AA status is a multi-year process but are prepared to take the actions necessary to do so. As Dave Applegate will discuss, we have been maintaining a closed dialogue with the GSEs about managing through the market downturn and its impact on our business since last year. The same is true of our communication of our clients. Radian remains committed to working closely with our lender partners and the GSEs to provide solutions that will

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improve the future of the housing industry. Importantly, Radian remains a top-tier company with both Fannie Mae and Freddie Mac and we are dedicated to maintaining our partnership with them.

On the legislative front, there have been speculation on several proposals that are pending in Congress. We generally support legislative and administrative proposals that create opportunities for borrowers in default, to refinance their loans or modify their loan to terms that allow them to avoid foreclosure. Since there are several proposals and they're subject to change, we will continue to monitor these developments and will take a more definitive position if and when appropriate. And now, I will turn the call over to Bob who will take you through our financials. Bob?

**Bob Quint** - Radian Group - EVP & CFO

Thank you, S.A.. For this quarter, I will, again, be updating you on the unusual items that impacted our financial statements in 2007 and so far in 2008, including the adoption of FAS-157 as well as going over the highlights of the normal P&L activity and trends for the first quarter of 2008. The change in fair value line for the quarter was significantly impacted by the adoption of FAS-157 in 2008. The main qualitative difference in our market-to-market methodology with 157, is the incorporation of the market's perception of Radian's credit in computing fair value. This has the impact of reversing some or all of the negative spread related marks previously booked mostly on corporate CDO's in our financial guaranty business. I think it makes sense to explain exactly what our fair value calculation does on these products. These are not assets we own. They are financial guaranty and mortgage insurance credit exposures that we took in the form of derivatives. The fair value calculations essentially recalculates the premium we would have received in today's current credit environment compared to the contractual premium. Here is an example. If we wrote a guaranty on a synthetic corporate CDO and charged 10 basis points per annum, and the current market price for the same deal based on the credit quality of the underlying collateral would be 60 basis points. We use the 50 basis points difference to book a negative mark because our pricing when we did the deal was less than it would be in today's market. That is the reason for the significant negative adjustment during 2007 which we said repeatedly was not credit related. With FAS-157, offsetting much of that large negative mark, is the incorporation of Radian's credit spread. The isolated pre tax income of FAS-157 component of our own credit \$2.1 billion, offsetting much of that large, spread related negative mark that has accumulated. With much of that actually occurring in the first quarter of 2008 when spreads widened considerably. With all of the complexity regarding the past fair value negative marks and the current quarter's positive mark, we believe our balance sheet derivative liability is currently much closer to the actual credit reserve. We will have several disclosure tables in our 10Q filing, to depict the impact of FAS-157 adoption and other market-to-market movement as well as including a breakout in our press release and webcast slides.

With regard to NIM's, we had risk in force of \$604 million and a market- to-market reserve of \$434 million as of December 31, 2007. Since then, our risk has been reduced by another \$82 million to \$522 million as of March 31, 2008. The updated balance sheet liability on NIM's is \$316 million with a positive change occurring due to our implementation of FAS-157, offset by a negative adjustment related to greater expected losses. We think the present value of future principle credit losses on NIM's will be approximately \$400 million. This quarter we have also consolidated several of the NIM trusts which doesn't change our exposure at all but essentially moves the net amount of about \$84 million of the \$316 million liability to a different place on our balance sheet. With risk enforce of \$522 million as of March 31, our liability relating to NIM's is currently 60% of our total exposure. The premium deficiency on second liens necessary because future projected losses and expenses are greater than future expected premiums was initially booked in the third quarter of 2007 and was on the balance sheet at year end at \$196 million. An updated projection at 3/31, results in a net increase in the PDR on the balance sheet of \$18 million to \$214 million, arising primarily from an uptake to the future projected losses to \$465 million. This increase is necessary due to the continued deterioration of the performance of our second lien portfolio. The risk in force on second liens is \$843 million as of 3/31. So, between our loss reserve of \$176 million plus the premium deficiency of \$214 million, this exposure is 46% reserved.

Our traditional MI first lien loss provision reflects the higher delinquencies and claims that occurred this quarter, although the delinquency trend was much higher in January and up less in February and March. Also, please note that there was a reporting change this quarter, by one of our large national servicers to cumulatively catch up in reporting 60 day delinquencies. This

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change will be made formally in April. However, we have estimated and included an additional 2,500 delinquencies with an incremental loss provision and reserve of \$39 million and included these in our March numbers. Our understanding is that this is an industry-wide occurrence with respect to the servicer. Our paid claims came in at \$190 million, slightly lower than our previously forecasted number, consisting of \$145 million first liens and \$45 million of second liens. Looking forward into the balance of 2008, we expect that claims paid will be approximately \$240 million in the second quarter and still in the \$1 billion range for the year which is the same guidance we gave in the previous two quarters. Both of those numbers include second lien loss payments. The total provision for the quarter was \$571 million, comparing favorably to incurred losses of \$630 million for the fourth quarter of 2007 and is broken down by \$462 million for first liens and \$109 million for second liens. We expect substantial recoveries from both Captive and SmartHome reinsurance over the next several years at least in the \$200 to \$300 million range and possibly higher. As of March 31, most of the \$36.9 million reinsurance recoverable on our balance sheet relates to SmartHome reinsurance. Flow premiums earned have continued to grow, which reflects the flow insurance in force growth due to good penetration and persistency. Dave will be talking about our mix of business which has clearly improved pretty dramatically. Please note a change in presentation on premiums earned from derivative contracts in both financial guaranty and MI. Those premiums have been excluded from the premiums written and earned lines and now included within the change in fair value of derivatives in accordance with the Financial Guaranty industry change after discussions with the SEC.

Financial Guaranty results this quarter were as expected with lower premiums written. Premiums earned were strong reflecting heavy refundings and losses were as expected with relatively stable credit performance. As we have said, our book of business in Financial Guaranty contains relatively less exposure to mortgage and mortgage-related credits than the rest of the industry. Claims paid in financial guaranty for the quarter consisted primarily of \$100 million for this CDO of ABS transaction that was fully reserved for in the third and fourth quarters of 2007. The domestic mortgage insurance CDS business, had a further negative mark this quarter of \$18 million and the current mark is negative \$105 million which approximates the expected credit losses. The international CDS had a negative mark of \$13 million. Although the notional exposure on this business is very high at \$8.9 billion. Changes in exchange rates have increased the dollar exposure. Please remember that Radian's attachment point is super AAA and we still see no reasonable scenario in which we would incur any credit losses in such exposure.

Sherman continues to perform well with overall pre tax operating income of \$64.5 million of which Radian's share is \$12.5 million. Sherman has an option to acquire our remaining interest and we continue to view Sherman as a potential sort of additional capital. C-BASS was fully written off in 2007. There is a possibility that we will recover some of our \$50 million demand note, but that wouldn't be for many years. Our liquidity position remains strong. As we reported we have secured an amendment to our credit facility that removes the rating covenant and gives us more flexibility with respect to our GAAP equity covenant among other changes. We expect this amendment to be completed shortly after receiving a few remaining legal opinions. We expect to pay down the \$200 million outstanding amounts under the facility, as part of our planned capital raising efforts. After a pay down, we would retain \$150 million in liquidity from the facility. We still have over \$100 million at Radian Group and minimal immediate need for cash from the holding company. Operating cash flow for the quarter was a small negative. Our MI risk to capital is 17.7 to 1 at 3/31/08. However, if we exclude the super AAA international credit default swaps, which need very little capital to support that risk, the risk to capital is 14.1 to 1.

At quarter end, the statutory surplus which includes contingency reserves in our MI business was \$2.4 billion and we have another \$2.3 billion loss and other reserves. The rating agencies still view our MI capital as being strong and hopefully we can demonstrate the change in business profiles to gain back the AA ratings over time. Our investment portfolio continued to perform relatively well in the stressed environment. It's extremely safe credit profile emphasis on liquidity and our policy of generally not investing in residential mortgages, has proven sound and the value of our portfolio held up well in this quarter. Our current book value stands at \$2.9 billion or \$35.64 per share. I'd now like to turn the call over to Dave Applegate, President of our mortgage insurance business.

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**Dave Applegate** - Radian Group - President, Radian Guaranty, Inc.

Thank you, Bob. The mortgage insurance business had another very challenging quarter, posting an after tax loss of \$226 million, but outperforming Q4 '07 where we lost \$335 million. Bob did a very thorough review of our financial so I will focus on the key operating considerations for the MI business. And I'm going to address the following areas. The first is the impact of the ratings downgrade to our GSEs status and our clients. The second is the steps we're taking to improve the mix and quality of NIW and the overall future profitability of the business and third is the steps we're taking to manage our existing risk in force exposure and the trends we are seeing in the portfolio.

Let me start with the existing portfolio performance. Bob already addressed the deterioration of our second lien book and the positive impact the implementation of FAS-157 had on our NIM's portfolio. So, I will address the delinquency and reserve trends for our primary first liens. In Q1, our first lien net reserve build was lower than Q4 thanks to a slower increase in our default count. Q4 defaults increased approximately 10,000 or 20%. While Q1 defaults increased 8,000 or 13.5%. And that's inclusive of the servicer reporting adjustment Bob previously referenced. As a result, in Q1 we added \$300 million of reserves for primary first liens. \$100 million lower than the prior quarter. Our primary book default rate is now 7.63%, and that's up from 6.8% in the prior quarter. Although the slow down in gross defaults is a positive development, it is likely driven by a traditional seasonal factors. So, stepping back on the quarter's performance, the underlying trends that have been developing over the last six months are still evident. We continue to see the poorest relative performance in our Alt A book and California and Florida continue to heavily influence overall portfolio performance. 60% of the increase in defaults in Q1 was attributable to alt-A loans and 50% of the first lien reserves we put up can be attributed to California and Florida. The state's experience in the greatest property value declines are clearly seeing a short pickup in defaults. We estimate property values will fall peak to trough on a national basis, using the OFHEO index in a range between 8% and 13%. That would be in line with the Case Shiller approximated range of 16% to 26%. We could clearly see declines in many areas of California and Florida that are as much as twice the national average. These challenging fundamentals make it imperative we work closely with our business partners and invest in unique loss mitigation strategies. For example, we just launched a new, more consumer-friendly website to educate borrowers on their home preservation options. In addition, we have contracted with a third party, non-profit consumer credit counseling firm that fosters a friendly, non-confrontational and supportive posture to their calling effort. This agency is able to reach the consumer at a rate 25 times greater than our stand-alone effort and will drive significantly more home preserving options than we could do on our own. We have also now placed Radian staff in the operations of two of our major customers to mutually facilitate loss mitigation options and our recently launched Fast Advance loss mitigation program is getting excellent traction. Fast advance is where we advance to the servicer up to 15% of the claim amount to invest in a rate buy-down or loan modification to cure a defaulted loan. We're clearly moving aggressively to preserve our capital and increase communication with our clients and partners in this distressed time.

Right now I'd like to shift to the impact of the S&P downgrade to our business which has been minimal. First, let's discuss the GSEs. We have been maintaining a frequent and productive dialogue with the GSEs about the market down turn and it's impact on our business since last year. Fannie and Freddie previously announced that a reduction in a rating would not necessarily result in a loss of top tier status with the agencies, but a remediation plan to regain your AA would be required. Radian's plans were submitted on April 10, 2008, to each agency just days after the S&P action. We have received positive feedback from the GSEs on that profitability transformation plan. At our meetings we outline various initiatives we were executing that make new business very accretive and efforts we have undertaken to manage our existing exposure. We are pleased that both organizations have expressed their support for our top-tier status. We and they realize it will be a multi-year endeavor to return to the desired AA status but we have a plan that accomplishes that goal and we'll continually update the GSEs on our progress and share needed information with them to serve their needs and the needs of our lender partners.

Turning to our clients, we have been meeting with all of our clients, large and small, educating them on what the downgrade means, our confidence and our claims paying ability and our strategic options for raising capital. To date, we have lost no domestic clients and see no impact to our market share our client base has been extremely supportive. Our estimated total market share in Q1 is in the 14% range, which is very consistent with last quarter. Today our clients realize the unique nature of the times we are in and are support of the guideline changes and other initiatives we are pursuing that will have the effect

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of improving each of our bottom lines overtime. However, we are willing to forego some share to make sure that we get the correct mix of business.

Now I will discuss the efforts we are pursuing improve the long-term profitability of our business. In Q4 and Q1, we made numerous guideline changes which are having a dramatic impact on quality. We implemented a declining markets policy, which pulls down LTV's and soft MSAs and we capped our maximum LTV at 97% in stable MSAs. We have eliminated the alt-A business. We've raised our minimum FICO scores and eliminated other forms of layered risk. Based on the changes to date and shifts in the market, we're seeing a dramatic improvement in our mix of business. 90% of our production was prime this quarter. That's up from 77% in the prior quarter and up from 40% prime in the first quarter of last year. We're also seeing a significant contraction in the above 95% LTV loans. We also announced a series of price changes that went into effect on April 1. The goal of our price and guideline changes is to improve our risk reward posture and generate appropriate returns on new business. I would caution that some of these changes take time to work through the system, but the \$10 billion of NIW this quarter is our best book in many years. Despite these improving trends, we intend to make a second round of price changes in the near future to further combat market conditions. The combination of these price and guideline adjustments will push expected returns on new business into the plus 15% range. The mortgage industry is clearly facing unprecedented conditions and P and L pressure will continue on the older vintages. But we feel we have taken wise and prudent steps to restore our business to long-term profitability and regain a stronger rating. With that, I'll turn the call over to Steve Cooke, the president of our Financial Guaranty business.

**Steve Cooke** - Radian Group - President of Radian Asset Assurance, Inc.

Thank you, Dave. Despite the difficult and challenging environment for the Financial Guaranty industry as a whole during the quarter, which has caused reduced new business production, our Financial Guaranty business continued to maintain it's the strong capital position with limited exposure to vulnerable asset classes. S.A. has addressed in his earlier remarks in come detail, the corporate priorities with respect the FG business related to preserving and enhancing the current and future value of the franchise. Although new written premiums were down in both our public finance direct and structured finance sectors, there remains certain positive developments of note. Our reinsurance business remains strong during the quarter with net written premiums of \$23 million only down slightly from the comparable period in 2007. Net earned premiums increased period-over-period primarily due to an increase in net premiums earned in our public finance direct business, which offset small decreases in other FG business lines. We also experienced a high level of refunding activity during the quarter, \$11.7 million versus \$6.6 million in the comparable period of 2007. We made a conscious decision at the end of the first quarter to refocus our efforts in the structure finance area. Due to deterioration and uncertainties in the credit market that have significantly reduced the volume of CDOs and other structured products, we have decided to discontinue, for the foreseeable future, insuring CDOs. We will now focus our structured finance efforts in the areas of infrastructure finance, i.e., providing credit protection on PFI, PPP and project finance projects, involving an essentiality purpose, financial solutions where we act as a leading provider of soft capital solutions to global financial institutions and asset backed securities involving target niche issuers in well-understood sectors and strong credit in non-traditional sectors.

In the public finance area, we continue to target underserved segments of the municipal market, characterized by smaller and infrequent borrowers with a particular emphasis on sectors related to land secured financing, education, health care and senior living facilities. At March 31, 2008, our FG net credit derivative liability was \$211.7 million primarily attributable to changes in credit spread and not to any material amount of credit impairment, we continue to vigorously monitor both our direct and assumed exposures which has resulted in the higher provision for losses, primarily in the structured finance reinsurance business as a result of assumed mortgage exposures. However, in general, although the overall credit performance of our FG portfolio continued to shows some deterioration, it still remains stable during the first quarter given market conditions. I will now turn the call over to S.A., who will make some concluding remarks.

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

Thanks, Steve. Let me summarize the team's prepared remarks as follows: We're managing for the present while preparing and positioning for the future. At the moment, the markets in which we operate are its cyclically tough, but we have the ability to pay our claims and we have an eye on the future with the business we are writing. As we see demand, discipline and profitability return to the mortgage insurance and financial guaranty markets, we look forward to a more positive and profit future for Radian as the current cycle bottoms out and we move inevitably to the recovery period, a period that historically has presented participants with exciting shareholder value creation opportunities. With that, operator, we will now start taking questions.

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## QUESTIONS AND ANSWERS

### Operator

(OPERATOR INSTRUCTIONS) And we will first go to the line of David Hochstim with Bear Stearns. Please go ahead.

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**David Hochstim** - Bear Stearns - Analyst

Yes, I had a couple of questions, just on the FAS-157 adoption, could just -- Bob or somebody, maybe Steve explain what would happen now assuming spreads tighten, would you realize less of a benefit than you would have if you haven't adopted 157?

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**Bob Quint** - Radian Group - EVP & CFO

Yes. We received, you know, sort of a big positive benefit this quarter from incorporating our own spread. So, I think in the future, you have to look at the relative spread between the underlying collateral. So, that's going to go the way it goes, either plus or minus, and then Radian's own spread would be taken into account as well. So, assuming they go in the same direction, you know, they would -- you know, they may offset. If they go in different directions, you know, that would have a different impact.

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**David Hochstim** - Bear Stearns - Analyst

But over time, assuming you get paid the way you expect, then this would all kind of wash out and you would recover those losses you booked last year?

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**Bob Quint** - Radian Group - EVP & CFO

That's right. Whatever is left, assuming, you know, it's only spread-related, no matter whether it was the underlying collateral or Radian's spread, over time as the deals expire, the marks will be reversed out to zero.

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**David Hochstim** - Bear Stearns - Analyst

Okay. And then could you just, one of you, provide some more color on the servicer adjustment that you referenced and then maybe, also just again, on the trend over the course of the quarter and are we starting to see some more normal seasonality in delinquencies or is it just still way too early to know that things aren't still getting a lot worse?

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**Dave Applegate** - Radian Group - President, Radian Guaranty, Inc.

The servicer adjustment was from a large national servicer where they're previously a standard process was to report loans that were 90 days delinquent and greater and the MI industry as a whole traditionally looks for loans to be reported at 60 days. So, that adjustment had to be made. And we anticipated what that number would be through discussion with that partner and then put up an accordingly consistent reserve amount. The general trends in terms of delinquencies we're seeing, I think at this point you would have to describe as seasonal. There was definitely in February and March a strong seasonal benefit. But as I referenced in my points, alt-A books are seeing continued weakness and the areas of the country where you have seen property values decline are certainly in some some level of distress. So, it's -- but too premature to say that we're past this thing.

**David Hochstim** - Bear Stearns - Analyst

Did you see some seasonal benefit in Florida and in California or was it other places?

**Dave Applegate** - Radian Group - President, Radian Guaranty, Inc.

You know, I couldn't state specifically how cures and seasonality hit California and Florida.

**David Hochstim** - Bear Stearns - Analyst

Okay. Alright, thanks.

**Operator**

Next we go to the line of Mike Grasher from Piper Jaffray. Please go ahead.

**Mike Grasher** - Piper Jaffray - Analyst

Thank you. David, a couple follow-up questions from your comments. I think you'd spoke to the fast advance program as a tool in terms of lost mitigation, how much of an impact did that have in terms of cures for your book of business?

**Dave Applegate** - Radian Group - President, Radian Guaranty, Inc.

Fast advance in terms of number of units I don't have the specific number at my fingertips. We'd have to follow-up with you on that.

**Mike Grasher** - Piper Jaffray - Analyst

Okay. And then just to follow up to the question then, I'm just curious as to how you're differentiating among, I guess, those that are delinquent in terms of helping them cure?

**Dave Applegate** - Radian Group - President, Radian Guaranty, Inc.

Well, the way the fast advanced program is set up as we work with our servicer partner and we'll advance to them up to 15% of a potential (claim) amount. And so what we'll do is work with them to determine if there's a loan modification option, for example, that that contribution with whatever the servicer may be doing will cure the loan. And so for us to advance, the loan has to a cure at the same time. And then that's just an additional tool in conjunction with the other traditional loss mitigation

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steps we would take. But we have seen a significant benefit too including a third party service, not for profit counseling agencies are printing a lot of value right now. Because it's just a more friendly tone to a call, a little more Switzerland like feel to it and there's a better preparation for the consumer on what some of their options could be. And we're seeing a lot of traction with that as well. So, a lot of new things and more aggressive postures we're taking than we would have in the past.

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**Mike Grasher** - Piper Jaffray - Analyst

Okay and I guess just to follow up on that, my concern would be are you throwing, you know, I guess more good money or chasing more bad loans with good money here in terms of keeping homeowners in a loan or curing them when, perhaps, they had no business having a mortgage to begin with.

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**Dave Applegate** - Radian Group - President, Radian Guaranty, Inc.

The way that fast advance works, it's truly an advance of the potential claim amount. So, if the loan goes back into default and eventually is a claim, then we remit the claim minus the 15% advance.

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**Operator**

We will move on to the line of Steve Stelmach from FBR Capital Markets. Please go ahead.

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**Steve Stelmach** - FBR Capital Markets - Analyst

Good morning. And this is for Dave. If you could, could you please sort of give some context about what we should expect in terms of growth in the book of business if you layer in when your capital demands and, two, sort of, more competitive FHA potentially and throughout '08 and into '09 and then, lastly, your underwriting changes which I think obviously can be applauded but at the same time has some negative impact to the growth in the book of business.

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**Dave Applegate** - Radian Group - President, Radian Guaranty, Inc.

Well, I think a lot of points in there that we can address. First the overall change in guidelines has had a pretty dramatic benefit to the book of business. I think it's probably fair to say that it does shrink the total size of the conventional market to some degree. And then what we're seeing is some surge in FHA/VA business. The first quarter stats, I don't think are a pure indicator of what's going on, but they're directionally valuable. And my penetration was a little bit over 17% in Q4 and this quarter it's around 13%. So, FHA's definitely picked up share. But another driver there -- there was a large amount of refinance business done in the first quarter and that would generally lead to a little less MI penetration. So, I think we will see some shrinkage of the market that will have some minor impact on our ability to grow NIW. But I'd say it's probably pretty prudent and that the product that we were doing before has proven to be challenging from a loss perspective. So, I think it's business that's wise to seed at this stage.

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**Steve Stelmach** - FBR Capital Markets - Analyst

Sure. So, would you expect insurance enforce that'd be a lower number in '09 than '08 or do you still think, you know, sort of incremental growth year over year?

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**Dave Applegate** - Radian Group - President, Radian Guaranty, Inc.

We really haven't forecasted publicly what we think insurance enforced levels are going to be for the full year.

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**Operator**

Next we go to the line of Howard Shapiro with Fox-Pitt. Please go ahead.

**Howard Shapiro** - *Fox-Pitt - Analyst*

I just wanted to ask you a question on, I guess, the potential capital raise and what we're planning to do with Financial Guaranty. Obviously, a pure common raise would be tremendously dilutive at this point. Can you tell us what kind of capacity you might have for issuing preferred and then kind of, maybe, in a "waterfall" like description, your preferences in terms of preferred common selling businesses or what other alternatives you're looking at right now?

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

Sure. First, you know, it's difficult given the state we are in to comment in more specific terms about our exact capital raise strategy. We have said what we said in our statement in terms of raising sufficient capital to pay back our (inaudible) client outstanding amounts and to inject significant capital into Radian Guaranty. With respect to Financial Guaranty, what I said in my comments was, we, at this point, do not have any intention of taking capital out of Financial Guaranty as the market valuations for financial guarantors recover. We would remain open to a strategic alternative, particularly a strategic alternative that will enhance the franchise value of the Financial Guaranty business and will highlight very powerfully the value we believe we have in our Financial Guaranty business -- the future value we have in it.

**Howard Shapiro** - *Fox-Pitt - Analyst*

Okay. Thank you.

**Operator**

Next we go to the line of Donna Halverstadt with Goldman Sachs. Please go ahead.

**Donna Halverstadt** - *Goldman Sachs - Analyst*

Good morning. I just wanted to make sure I caught the comments you made about the credit facility and liquidity at the HOLD-CO. You said that you do plan to pay the facility down. The \$150 million, you mentioned, that's the size the facility would be after you

**Bob Quint** - *Radian Group - EVP & CFO*

That's right.

**Donna Halverstadt** - *Goldman Sachs - Analyst*

You made a comment about \$100million. Did you say you that plan to maintain \$100 million of the proceeds at the HOLD-CO?

**Bob Quint** - *Radian Group - EVP & CFO*

No. The comments was we have currently over \$100 million at the HOLD-CO.

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**Donna Halverstadt** - *Goldman Sachs - Analyst*

Okay. And then the last thing I wanted to ask, you said that you have minimal holding company needs. Even before you drew the facility, you had roughly \$50 million of interest expense. Are you calling them minimal because you are, in fact, continuing to get reimbursed from the OPCO's through the tax and expense sharing arrangements?

**Bob Quint** - *Radian Group - EVP & CFO*

That's right.

**Donna Halverstadt** - *Goldman Sachs - Analyst*

Okay, and you expect that will continue in the future that the regulators won't stop those payments?

**Bob Quint** - *Radian Group - EVP & CFO*

They're currently in place so that's what we expect.

**Donna Halverstadt** - *Goldman Sachs - Analyst*

Okay. Thank you.

**Bob Quint** - *Radian Group - EVP & CFO*

You're welcome.

**Operator**

And, ladies and gentlemen, we have time for one final question. It's a follow-up from Mike Grasher with Piper Jaffray. Please go ahead.

**Mike Grasher** - *Piper Jaffray - Analyst*

Just a quick follow-up from Howards question. Bob, what is the general target on debt to total Cap that Radian would look for?

**Bob Quint** - *Radian Group - EVP & CFO*

I think, Mike, long-term, you know, in the 20% range.

**Mike Grasher** - *Piper Jaffray - Analyst*

20 being the ceiling?

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**Bob Quint** - Radian Group - EVP & CFO

Well, yeah. I mean, I think, you know, long-term as both S.A. and Dave said were, it's our target to get back to the AA level of the OPCO and MI and therefore the A level at the HOLD-CO and that's around where we see an appropriate debt to Cap ratio.

**Mike Grasher** - Piper Jaffray - Analyst

Okay. Thanks, Bob.

**Bob Quint** - Radian Group - EVP & CFO

Sure.

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

Okay. Operator, that was the last question. I would like to thank all of the participants for participating in our call and look forward to seeing you on our next call. Thank you.

**Operator**

Ladies and gentlemen, that does conclude your conference for today. Thank you for your participation. You may now disconnect.

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