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GNW - Q4 2009 Genworth Financial, Inc. Earnings Conference Call

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PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to Genworth Financial's fourth-quarter earnings conference call. My name is Erin and I will be your coordinator today.

At this time all participants are in a listen-only mode. We will facilitate a question-and-answer session towards the end of this conference call. As a reminder the conference is being recorded for replay purposes. (Operator Instructions)

I would now like to turn the presentation over to Alicia Charity, Senior Vice President Investor Relations. Ms. Charity, you may proceed.

Alicia Charity - *Genworth Financial, Inc. - VP, IR*

Thank you, operator, and welcome to Genworth Financial's fourth-quarter 2009 earnings conference call. Our press release and financial supplement were both released last evening and are now posted on our website. We will also post managements' prepared comments following the call for your reference.

This morning you will first hear from Mike Frazier, our Chairman and CEO, followed by Pat Kelleher, our Chief Financial Officer, and then Kevin Schneider, our US Mortgage Insurance President and CEO. Following our prepared comments we will open up the call for question-and-answer period.

Pam Schutz, Executive Vice President of our Retirement & Protection segment,; Jerome Upton, Chief Operating Officer of our International Mortgage Insurance segment; and Ron Joelson, our Chief Investment Officer, will be available to take questions.

With regard to forward-looking statements and the use of non-GAAP financial information, some of the statements we make during the call this morning may contain forward-looking statements. Our actual results may differ materially from such statements. We advise you to read the cautionary note regarding forward-looking statements in our earnings release and the risk factors section of our most recent annual report Form 10-K and quarterly report Form 10-Q, each of which have been filed with the SEC.

This morning's discussion also includes non-GAAP financial measures that we believe may be meaningful to investors. In our supplement and earnings release non-GAAP financial measures have been reconciled to GAAP where required in accordance with SEC rules.

And finally, when we talk about international segment results please note that all percent changes exclude the impact of foreign exchange. And in addition the results we will discuss today for the Canadian mortgage insurance business reflect total company results, including the minority interest, unless otherwise indicated.

With that let me turn the call over Mike Fraizer.

Mike Fraizer - *Genworth Financial, Inc. - Chairman, President & CEO*

Thanks, Alicia, and thanks, everyone, for your time today. Let me begin by saying that I am pleased with the solid improvement in both sales and earnings results we reported this quarter. And we will remain very focused on continued execution of our strategies to keep building on this progress.

More specifically, the actions we took in 2009 to manage risk and put cash back to work coupled with improved economic and housing market conditions in most markets and our targeted growth strategies are clearly paying off. Importantly, the fourth-quarter trends are a good indicator for improved earnings power and results in 2010 and beyond.

Today I will focus on a few key highlights in each of our business segments and in the investment portfolio. Than Pat and Kevin will provide more detail on market trends and performance in our business segments.

Before getting into these areas I would note that we continue to see improving markets overall, but economic recovery in general will be gradual in most markets and consumers remain stressed. So I would characterize our view as optimistic, tempered by the realism of a choppy recovery, and appropriate caution regarding markets that are still trying to find their footing or the possibility of unforeseen events.

Starting with the Retirement & Protection, our refined specialist strategy centered around Main Street life insurance, long-term care insurance, and independent advisor wealth management offerings with a more targeted focus on the annuity front is proceeding well.

Basically, we see all consumers, and in particular Main Street consumers, reassessing how they build their personal safety net, what advisors they want to work with going forward, what approaches make the most sense when it comes to investing, and how to do all this in a balanced way with less reliance on self insuring through the equity in their home or gains that they may have in a stock portfolio.

At the same time distributors, producers, and advisers are looking for companies who can be their growth partners. These dynamics intersect well with our enhanced focus and capabilities within the retirement and protection areas. For example, the launch of our new life insurance product suite has been quite successful with strong initial trends in overall submitted policies.

As a reminder, we introduced our new Colony term UL product, which is basically a term life value proposition sold on a universal life chassis. Here we have optimized the pricing and reserve patterns with the UL structure to allow us to be much more capital efficient.

On the universal life side we have optimized our pricing to match it with a reasonable actuarial definition of lifetime to deliver a capital efficient product with a strong value proposition and competitive rate for Main Street consumers. In addition, long-term care sales also showed sequential growth and we see a gradual improvement in that market. Finally, we are pleased with the momentum building in our wealth management business as evidenced by positive net flows and gains in market position versus competitors.

Turning to international, I am encouraged on two fronts. First, housing market and economic conditions in Canada and Australia have continued to improve with stabilizing or improving trends across home prices, unemployment, and GDP. And in Lifestyle Protection the swift action we took to reprice business and restructure distribution agreements is showing strong early results.

Our repricing efforts are on track with most large contracts completed at year-end and you can see the associated lift as part of our earnings this quarter. In 2010 we are targeting incremental earnings lift of approximately $30 million from these efforts feathering into earnings throughout the year.

In Europe, we remain cautious about the recessionary conditions that have persisted in many countries resulting in higher unemployment and lower levels of consumer lending, and we do not expect quick economic recoveries. So we anticipate continued pressures from some claims durations extending and lower levels of new business which would negatively impact revenue in Europe.

Now on this last point we are not standing still and are diligently pursuing the growth strategies outlined at our December investor day to generate additional new business at appropriate returns.

Finally, in US mortgage insurance I would highlight three areas where results in the quarter showed sound progress. First, there are good indications that US MI earnings troughed in 2009 and that we are on a gradual upward trajectory that we might expect some choppiness quarter to quarter. Extensive loss mitigation efforts are helping lead this transition, along with loss results which are showing signs of improvement.

Importantly in the bulk business we entered into an agreement that will significantly reduce both risk in-force and associated risk of losses going forward.

Second, U.S. Mortgage Insurance took a solid step forward with new business results. The prudent changes we made to guidelines and geographies where home prices and economic conditions have improved resulted in a nice uptick in market share which we estimate increased from 9% in the third quarter to 14% at year-end. The business we are writing reflects a lower risk profile with much higher returns driven by product, pricing, and underwriting changes.

In addition, we expect more business to shift back to private mortgage insurers from the FHA over time.

And, third, U.S. Mortgage Insurance ended the year with a risk-to-capital ratio estimated at 14.6 to 1, a very good position to support growth while maintaining a sound buffer against unforeseen events. This reflects both our differentiated performance and a benefit from changes to federal tax law that expanded the use of tax losses.

Finally, turning to the investment portfolio I would highlight two areas. First, we made nice progress reinvesting excess cash balances. As of the end of the third quarter our target was to reinvest $2.5 billion to $3.5 billion by mid-2010 and we reinvested $1.5 billion of that in the fourth quarter and remain on track to complete our reinvestment program by mid-year.

Next the actions taken to diversify and reduce risk in the investment portfolio are showing results with both impairments and unrealized losses continuing to trend down.

In closing, as we look to 2010 we see a clear path forward with some pluses and minuses in the environment. In particular, solid new business growth, stronger investment income, continued, though staged, improvement in global economies and housing markets, and the benefits from loss mitigation efforts are all good leading indicators for improved earnings and returns. We remain diligent on the capital and risk management front and continue to benefit from our streamlined organization structure.

With the wind more at our back from a market perspective, we will keep investing strategically in product, distribution, service, and technology areas to drive smart growth and ROE improvement.

With that let me turn it over to Pat. Pat?

Pat Kelleher - *Genworth Financial, Inc. - SVP & CFO*

Thanks, Mike. Results in the quarter marked clear progress in executing the plans we shared with you at our December Investor Day and position us well for 2010. Overall, key financial trends and developments have improved and include strengthened economic and housing market conditions in Canada and Australia; good results from loss mitigation, repricing, and new product introductions; and higher net investment income.

Let me start with Retirement & Protection. Here we are seeing growth in several key areas, investment income, and sales growth in life insurance, long-term care, and wealth management. On a sequential basis we had good investment income growth from two areas.

First, cash reinvestment which lifted total earnings by about $11 million after tax with the majority, or about $9 million, in the R&P segment. Second, from limited partnership investment income. In Retirement & Protection this grew earnings by $15 million with a $2 million gain in the quarter compared with a $13 million loss in the third quarter.

Although we are aware of the potential for additional limited partnership investment losses in the first quarter when year-end financial information becomes available, overall we expect improving cash reinvestment and positive limited partnership investment income results that continue into 2010.

In life insurance, sales increased 10% sequentially. As Mike indicated, earlier trends in our submitted volume are encouraging for our new product suite.

Individual long-term care sales improved 7% sequentially. We are seeing potential for a rebound in the long-term care market following declines in industry sales earlier in the year. We are particularly encouraged by the positive trend in our independent distribution sales channel.

In Wealth Management, we saw the third straight quarter of positive net flows and a 50% increase in sales year over year. Here we are investing in new capabilities to penetrate new markets and we expect to see earnings growth in 2010 as AUM increases.

Adding results up from a statutory perspective, the consolidated risk-based capital ratio decreased moderately from 370% to an estimated 365% during the quarter. Key drivers here were our expected operating results, funding new business growth, and a modest level of impairments.

Given the growing sales momentum in life and long-term care insurance, we contributed $200 million of capital from the holding company in January which will further strengthen the life insurance company's statutory capital base as of year-end 2009 increasing the risk-based capital ratio to approximately 390%.

While our capital plan now provides for more robust new business growth, we continue to make prudent allowances for potential investment impairments and credit migration. And with that in mind, our target for year-end 2010 risk-based capital is to remain at or above 350%.

Turning to the International businesses, the Canadian economy and housing markets overall continued to improve with some regional variations. Unemployment declined modestly from a peak of 8.7% in August to 8.5% in December. Housing affordability remains solid with mortgage interest rates ending the year at approximately 4%, down from around 5% at the end of 2008. And home prices in our target markets continue to gradually increase from comparatively low levels a year ago. Most regions have now recouped the declines experienced during the recent downturn.

As a result, the flow delinquency rate in Canada has been stable for the past two quarters at about 34 basis points, down from 36 in the second quarter reflecting improved economic trends. The loss ratio decreased by two points marking the second consecutive quarter of improvement. Accordingly, total earnings in Canada remains sound and consistent with third-quarter levels.

Turning to Australia, you have a similar story to Canada with the economic and housing markets continuing to recover, again, with some regional variations. The economy is generating GDP growth with nearly 2% growth forecast for the fourth quarter. Unemployment rates declined modestly from the peak earlier this year of 5.8% to 5.5% at year-end.

Housing affordability deteriorated moderately reflecting a reduction in the benefits provided under the government first-time homebuyer programs as well as an uptick in mortgage interest rates to approximately 6.3%. I should note that mortgage interest rates remain well below the high of 9.4% experienced in mid-2008.

Home prices continue to increase from relatively low levels in fourth quarter 2008 and most areas have recouped the home price declines experienced during the recent downturn. In 2010 we will monitor how these recent favorable trends develop in both Canada and Australia. Given these trends, we are optimistic that earnings in these markets will remain at or above current levels with some normal quarterly fluctuations.

From a sales perspective, low mortgage insurance in Canada has now increased for three sequential quarters reflecting improving economic and housing market conditions. While in Australia the strong sales we have seen throughout 2009 slowed modestly in the fourth quarter as borrowing rates increased and as government stimulus programs were trimmed as we expected given the economic recovery.

Turning to Europe, we saw a second sequential quarter of improvement and lifestyle protection earnings which were hurt by rapidly rising unemployment in the first half of 2009. Two factors have contributed to this improvement trend.

First, new claim registrations have slowed in the last six months and have now stabilized, reflecting a decline in the pace of unemployment growth. And, second, we completed the majority of a planned product repricing and distribution contract restructuring during the quarter.

These impacts have outpaced loss pressure from increases in claims durations as the absolute level of unemployment remains high. Our reprising initiatives will continue to benefit earnings in 2010 and, if high unemployment persists as expected, will offset further increases in claims duration.

Finally, from a capital plan perspective, Canada, Australia, and Lifestyle Protection all ended the quarter with sound capital ratios in excess of targeted levels. In Australia we expanded external reinsurance relationships as part of our capital strategy to continue to provide for growth, additional risk dispersion, and capital flexibility.

This quarter we received reinsurance commitments of AUD250 million which really highlights the strength of our Australian business. This coverage was effective on January 1, 2010, and will incrementally pressure premium growth.

In sum, our international businesses are well positioned to support operating and parent holding company capital plans going forward.

Briefly turning to the investment portfolio, here we have seen good progress on our cash reinvestment plans, favorable earnings trends in limited partnership investments, declines in net realized losses, and we have been able to take advantage of favorable market conditions to de-risk the overall portfolio while diversifying credit risk exposure.

Looking more closely at realized losses by asset class, about three-quarters or $57 million of fourth-quarter impairments were in residential mortgage-backed securities and remain concentrated in subprime and Alt-A. Recent trends in these impairments are at a much lower level than earlier in 2009 and are emerging in a more predictable manner.

We have seen a significant decrease in impairments for corporate bonds and hybrid securities which totaled just $10 million in the quarter. Here we have diversified our holdings, reduced our relative weighting in financials, and benefited from market improvements. Our high-quality commercial mortgage loan and commercial mortgage-backed securities portfolios continued to perform very well with only $7 million of impairments in the quarter.

Finally, unrealized losses were $1.4 billion and are down substantially from $4 billion a year ago. The unrealized losses have been drifting down modestly through most of the quarter, but increased a bit in December ending the year at about the same level we had in the third quarter. In January we have seen unrealized losses trend back down about $200 million in total.

Before leaving investments I will review the impacts of changes in regulatory capital requirements on the commercial mortgage loan and structured asset classes that were adopted at year-end. Starting with our commercial mortgage loan portfolio; we were subject to changes in the mortgage experience adjustment factor or MEAF.

As Genworth's loan portfolio has consistently experienced very low levels of losses relative to industry experience, our risk-based capital requirement is determined by the MEAF minimum. As of year-end 2009 this minimum level was increased. At our target 350% RBC level this increase required approximately $90 million of funding.

We also had the introduction of two new rating firms for structured securities -- PIMCO for RMBS and Realpoint for CMBS. Together incorporating the ratings from these two firms benefited capital by about $85 million at our target 350% RBC level. So, collectively, these three regulatory changes had almost no impact on required funding at our target 350% RBC level.

As we reflect on Genworth's progress over the last few quarters we are encouraged by the trends we see across our businesses. As we move through 2010 we will build on this foundation and focus on profitable new business growth.

Much of the groundwork for this growth is now in place with recent product introductions, improved service capabilities, and an intense focus on expanding key distribution relationships. Adding it all up, we finished 2009 with two sequential quarters of earnings improvements and we are positioned for growth and ROA improvement going forward.

With that I will turn it over to Kevin.

Kevin Schneider - *Genworth Financial, Inc. - SVP and President & CEO, US Mortgage Insurance*

Thanks, Pat, and good morning. I want to share a few perspectives on the U.S. Mortgage Insurance business, particularly in the context of our financial results this quarter which show improvements as we end a challenging 2009.

As a reminder, we have been executing and remain focused on a five-point strategy -- actively managing through a challenging housing market, continuing our loss mitigation focus, managing capital on a self-contained basis, growing highly profitable new business while at the same time participating in the regulatory reform debate that will play out over the next few years.

This morning I will cover three areas. First, the improving dynamics that we see developing in our books of business; second, the continued market headwinds that remain a challenge; and, finally, how these combined factors influence our focus in 2010.

So let's begin where we see improving trends, many of which have been developing for several quarters. And I will group them into five areas -- delinquency counts, average reserve per delinquency, loss mitigation, risk to capital, and new business growth.

First, flow delinquency inventories are increasing at a slower rate, up 7% from Q3 to Q4 versus 14% from Q2 to Q3. This is encouraging as we would have expected a further increase in the rate of growth in delinquency counts from traditional seasonality.

Second, a decline in average flow reserve per delinquency which has trended down for the past three quarters from a high of $23,100 in the first quarter to $18,900 at year-end. This decrease is being driven by two influences.

First, a shift in the mix of delinquencies from high loan balance geographies and alternative products to traditional loan product delinquencies with a more national distribution driven by unemployment. This shift drove about half of the decline in average reserve per delinquency this quarter. The other half is from our continuing loss mitigation efforts, which are impacting delinquencies with higher average balances.

Third, loss mitigation has a direct benefit which continues to increase. This quarter we were encouraged by the number of modifications coming out of the HAMP program which increased from essentially zero last quarter to $35 million or about 2,000 modified loans this quarter.

In addition, the number of Genworth delinquent loans in the HAMP trial period nearly doubled to 22,200 based on the data from servicers and the GSEs. In our view this is a good directional indicator of future modification potential and benefits.

Fourth, we have experienced improvement in risk-to-capital ratios as a result of specific strategies and other market factors. The ratio was down 14.6 -- was down to 14.6 to 1 in the fourth quarter, down sequentially from 15.1 to 1 and well below the 25 to 1 traditional regulatory limit.

This quarter we benefited specifically from a change in the federal tax law that extended the look-back period for net operating losses. This increased statutory capital by about $108 million.

Importantly, we are pleased with the execution of our capital plan in a very challenging 2009. We have successfully delivered on the self-contained plans we have previously communicated and maintained good growth capacity. Finally, we saw growth in new business and increased market share.

In the third quarter we expanded our underwriting guidelines to reflect improved conditions in many markets, which prudently increased our addressable market. As a result, we estimate that our share increased from 9% to approximately 14%. This resulted in a sequential improvement in flow new insurance written of 20% and we expect market share improvement to continue in 2010 and drive growth in NIW.

With that said, the MI industry is not out of the woods. The industry faces several challenges, including increases in unemployment and the potential for additional home price declines, particularly as the so-called shadow inventory makes its way through the foreclosure process and adds to the existing supply of available housing inventory.

Let's discuss how Genworth is positioned to face these market headwinds starting with unemployment. Most experts still predict unemployment to peak in early 2010 averaging about 10.2% for the full year.

We are planning the recovery of jobs to be gradual with unemployment in the low 10% range for the rest of 2010 and remaining elevated in 2011 in the 9.5% to 10% range with some improvement in 2012. We did see rising unemployment pressure delinquencies in the fourth quarter and would expect that to continue in the coming year.

Turning to home prices, while housing inventory has shown some improving trends over the last several months, the current strains on this system are increasing the length of the loss cycle. As a result there is growing inventory of 90-day plus delinquent, in foreclosure and real estate owned properties. It is widely accepted that some portion of this shadow inventory will ultimately work its way through foreclosure and increase existing housing supply.

Industry sources estimate that this inventory may be as much as four million homes and could pressure home prices depending on the level and timing of when this supply hits the market. Given the potential pressure on housing that this dynamic could cause, Genworth is taking a prudent view of home prices. In our assumptions we are planning for an additional five to 10 points of price decline. Our home price recovery expectation once prices bottom are again gradual and conservative in the 2011 and 2012 time frames.

With that as context I want to share some thoughts on the key metrics we are watching as we position this business for a return to profitability. First, we will continue to monitor delinquencies, particularly the rate of growth, the cure rate, and the average reserve per delinquency.

Taking into account normal seasonality, which we do expect to see in 2010, which typically drives lower delinquencies in the first half of the year and an uptick in the third and fourth quarters, we would expect delinquency growth to slow and eventually decline as new delinquencies decrease and the cure rate increases. The cure rate is an important component of delinquency development and to date has been pressured given the housing market.

As an offset to this pressure we still feel that the recent challenging books of business from 2006 through the first half of 2008 should experience their peak delinquency levels during 2010 allowing a return to more traditional delinquency development patterns. We also expect the declining trend in average reserve per delinquency to continue on a gradual basis as we have seen encouraging trends in the mix of delinquency growth.

Second, we remain focused on loss mitigation. We expect total loss mitigation savings in 2010 to be at or above the level we saw in 2009 with an increasing proportion coming from HAMP and other modification programs.

Third, we will continue to have risk-to-capital levels well within the regulatory requirement which will support our final objective, to prudently increase new insurance written and market share.

In closing, we have taken decisive action that positions Genworth to aggressively manage through a challenging environment. Our approach to loss mitigation will drive additional benefits. We continue to execute a self-contained capital plan and we are growing profitable new books with better price and less volatility.

With that we will open it up to your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Ed Spehar, Bank of America-Merrill Lynch.

Ed Spehar - *Bank of America-Merrill Lynch - Analyst*

Thank you. Good morning. Two questions; first, Kevin, on U.S. MI is it reasonable to think that the pre-'09 book of business could be profitable in 2012? And then I have another question on international.

Kevin Schneider - *Genworth Financial, Inc. - SVP and President & CEO, US Mortgage Insurance*

In 2012 I haven't -- candidly yet, I haven't run it out that way. The way I think about right now though and the way it's performing right now is '09 is performing very profitably. The first half of 2008 and the -- '06 through first-half '08 books are under pressure right now. And '05 I would say is creeping into that category a little bit right now but should improve going forward. Then the prior to 2005 books are all profitable.

And so when you bring that whole thing together we think that the '05, '06, '07, and early '08 books are all going to peak this year in 2010. And then should start coming down by the time we get to 2012 as we add additional new books of profitable business going forward in 2011 and 2012. I think when you roll that whole thing together it bodes well for profitability of the entire portfolio.

Ed Spehar - *Bank of America-Merrill Lynch - Analyst*

I guess, Kevin, what I am trying to get at is that when we think about a book of business that is underperforming after we see peak losses, what -- how do you think about the performance of that? It's clearly not going to be what you had hoped it would be. But how do you think about the performance of a book after it reaches peak losses? Can it be profitable?

Kevin Schneider - *Genworth Financial, Inc. - SVP and President & CEO, US Mortgage Insurance*

Well, I think -- we have some books of business that over time are going to be unprofitable books of business. These that have weathered through in these challenging periods I don't think they are going to get better going -- and go forward and recover once you get back through the peak periods.

What you have got to think about though is the way this business works is when you continue to layer on new books of flow business those new books of flow business with their profitability will eventually overwhelm the under-profitable books. And so you think of it as almost as a crossover point. And I think about it that way.

Two to three years down the road you get a crossover point where those new books of profitable business are overwhelming the negative performance associated with those that are bad.

Ed Spehar - *Bank of America-Merrill Lynch - Analyst*

Okay. And then the international question is, is this a business that if we just think about it -- not talking about annual performance, but just looking at the earnings level that we see today. Is this a business that we should be thinking about as at least a single-digit grower if we have a longer-term view? From the current level of earnings today?

Pat Kelleher - *Genworth Financial, Inc. - SVP & CFO*

This is Pat, Ed; I will take that. Definitely, yes. The way that -- and I will explain why. If I look at the improving market conditions in Canada and Australia and the way those markets have performed over a period of time, and as well the positioning of our business to participate in the recovery and growth going forward, I think we are very well-positioned.

And if I look to Europe and Lifestyle Protection and how that business is performing and the positioning of the business changing with the repricing, we are in a difficult set of circumstances from an unemployment perspective currently. Things have stabilized and over time things will improve. And this business is well-positioned to participate in the improvement there.

Ed Spehar - *Bank of America-Merrill Lynch - Analyst*

(multiple speakers) I just wanted to make sure that I understood one thing that Kevin said. When we talk about a book of business that generates a loss over time for US MI, we can have a cumulative loss for a book of business but it doesn't mean we are going to lose money every year from that book. That is correct, right?

Mike Fraizer - *Genworth Financial, Inc. - Chairman, President & CEO*

Here is the way I think about -- this is Mike, Ed. First, two dimensions and, Kevin, you can fill in some other perspectives.

Going back to your general question, I would suggest you think of a pair of bookends when you look at the portfolio in aggregate. As Kevin said, if you look at '04 and prior, you feel good about that. You have a lot of embedded appreciation in it; the performance you can see. '05 a little bit of a mixed story. Pretty clear negative story we have laid out when you think of the '06, '07, and the first half of '08.

Then you get the second half of '08, '09, and all the subsequent. And that is a positive book end that you are adding to that because now you have all of the full benefits of the pricing increases, the tighter underwriting, the clean nature of the traditional business.

With that in mind then you look at that middle and you are applying the loss mitigation to those very tough vintages. So those will not be as bad as one might have thought once you have got in and understood the aspects of non-compliance, in some cases fraud, and of course we have dealt with that quite directly. So that is how you can think of the model and the dynamics going on.

But getting back to your asking, sort of a crossover point. And you need to think about crossover points on two fronts. One is what is going on at sort of a quarterly run rate basis. And as we talked about in Investor Day we saw sort of a mid-'11 crossover point when you are thinking of the quarterly run rate.

And then depending on the mix of that you will see what does it look like on a total year basis for that business to transition and go positive. And we have not given guidance on that but you can see the dynamics, I think, quite clearly in this quarter and from Kevin's commentary. Certainly the dynamics continue the theme that we laid out at Investor Day.

Kevin Schneider - *Genworth Financial, Inc. - SVP and President & CEO, US Mortgage Insurance*

I will just add, Ed, that as a book of business once things peak and the losses start coming down -- delinquencies are going to peak but you still have claims associated with those that you are going to ultimately have to pay over time. But as they come down and as the loss levels come down it really depends on what the persistency of that book is at that point in time.

If your persistency sticks long enough and you can bring in enough additional earned premium associated with that books, sure there is the potential ultimately for it to be profitable in a given year. But my expectation right now with the negative cumulative losses associated with those tough books so far is that we should not have high expectations of them being profitable.

Again, to Mike's point, as we said at investor day, we see that crossover point for us in terms of our overall profitability on a quarterly basis about mid-2011.

Ed Spehar - *Bank of America-Merrill Lynch - Analyst*

Okay, thank you.

Operator

Mark Finkelstein, Macquarie.

Mark Finkelstein - *Macquarie Research - Analyst*

Good morning. I guess just a follow-up to Ed's question. Kevin, when do you think delinquencies will peak?

Kevin Schneider - *Genworth Financial, Inc. - SVP and President & CEO, US Mortgage Insurance*

Yes, I think what we said, Mark, at our December Investor Day is that about mid-2010, we would expect those books to come together and peak at that point in time. And by that, I mean the books of '06, '07 and the first half of '08.

Mark Finkelstein - *Macquarie Research - Analyst*

So when we think about kind of the 7% increase in delinquencies, we have a couple more quarters. And then by the third quarter, you should actually start to see moderation in the DQ activity?

Mark Finkelstein - *Macquarie Research - Analyst*

What I think you have to look at is you do have some seasonality that you should expect. So in the first couple of quarters, you are going to see some downward movements in those numbers, we would expect associated with that traditional seasonality that I mentioned in my prepared comments.

In the back half, it traditionally goes up a bit. Throughout that cycle, though, you still have how these books are ultimately developing, and we expect those, in particular those tough book years, to peak about midyear.

Mark Finkelstein - *Macquarie Research - Analyst*

Okay. I want to go back to your comments on growth in market share. Obviously, you have FHA tightening; you have a major competitor that was removed from a top lender. I mean how are you thinking about NIW in 2010? You talked about further growth in market share. Where would you see that potentially going?

Kevin Schneider - *Genworth Financial, Inc. - SVP and President & CEO, US Mortgage Insurance*

I don't know that we -- I think about market share in terms of where we -- at least where we should have historically been as a major player in the market. So with six players, we see ourselves -- we came out of the fourth quarter with an average we think of about 14%. I think we have some more upward runway associated with that.

As it relates -- market share to me, though, is not really the biggest thing we are going to be looking at right now. To your point, it is the size of the overall MI market that is ultimately going to drive where we end up from an NIW standpoint. So you have to put those two things together.

I would expect as the FHA continues to tighten up and we move through the year, that should expand the size of the private mortgage insurance market. And I think given our capital position and the way we managed it so that we could take advantage of this on the upside of this recovery, we are really well positioned to see some additional market share associated with that.

Mark Finkelstein - *Macquarie Research - Analyst*

Okay. Then just one final quick question, I guess. Pat, I was a little surprised by the $200 million downstream in January into the life company. And I guess the question I have is, was that really more growth related or was that more to just add a buffer to the current capital position? Knowing the capital is sitting at the holding company and you'll have potential to pull it back out if you needed to?

Pat Kelleher - *Genworth Financial, Inc. - SVP & CFO*

That was really motivated to support the growth in our business. I mean, when I look at the trends, we ended the quarter with a strong risk-based capital ratio at 365%, and the trends are good. We wanted to support growth; we are seeing a nice trend in sales. I would acknowledge that it's nice to have a cushion to deal with unforeseen market developments, but I really did want to maintain a strong capital position relative to peers.

The only other thing that I would say is we do have plans for dividends in 2011 and 2012 as we had laid out in investor day, and we are well positioned to meet those as well.

Mark Finkelstein - *Macquarie Research - Analyst*

Okay, thank you.

Operator

Andrew Kligerman, UBS.

Andrew Kligerman - *UBS - Analyst*

Good morning. Just to follow up on the RBC questions, so do you come out at the end of the year at 350% if you don't downstream any more capital? Where you think you will end the year if you don't downstream?

Pat Kelleher - *Genworth Financial, Inc. - SVP & CFO*

We did in January lift the capital position to the point where we are starting the year at 350%(Correction: 390%). And if you look at our trends in operating income, our new business, and investment results, it's very encouraging.

Andrew Kligerman - *UBS - Analyst*

So 350% would be a year-end target?

Pat Kelleher - *Genworth Financial, Inc. - SVP & CFO*

No, our target is to end the year in excess of 350%. That is just a benchmark that we laid out and our trends are good at this point. With nice operating results and favorable trends in investments I would certainly expect to end the year north of that 350% level.

Mike Fraizer - *Genworth Financial, Inc. - Chairman, President & CEO*

Andrew, Mike. Just remember you have a process issue here. In other words, we were at 370%, we went down to 365% on a comparable basis. But when you make a subsequent contribution you haven't filed your stat statements yet. So then you make that contribution and the 365% goes up on the reporting to 390%. So effectively under stat basis you will be starting if you want to look at the stat books at 390%. And then moving from 390% as you move through the year to at least a target at or above the 350%. So just think about those three process steps and then it becomes clear.

Andrew Kligerman - *UBS - Analyst*

Shifting it over to the popular U.S. Mortgage Insurance business; MGIC fourth-quarter earnings. They said that Bank of America, ceased to doing business with them due to dissatisfaction with their rescission practice, and I believe there is a lawsuit, just as another data point. They indicated that Bank of America, Countrywide, etc., accounted for 12% of their flow new insurance written in '08; 8.3% new insurance written in the first three quarters. And that is going to go away and there is a lawsuit.

So the question to Genworth is, are you facing similar actions by your mortgage lenders about rescission practices because you have done very well with it? And on a more positive note, to what extent could you gain market share as a result of weakness with MGIC?

Kevin Schneider - *Genworth Financial, Inc. - SVP and President & CEO, US Mortgage Insurance*

Andrew, the way I -- I will answer your question this way, are we facing or involved in any similar type lawsuits? No, we are not.

Secondly, are there ongoing disputes or ongoing, not disputes but disagreements, over the approach the entire industry is taking as it relates to the industry's contractual rights and obligations. Yes, sure there is. This is a -- nobody is happy with the level of rescissions in the marketplace today.

But Genworth acts in accordance with our rights and obligations under the policy. We pay all legitimate claims. We are not required to pay claims associated with fraud, misrep, and noncompliance with our policy. I come at it by saying, number one, in this industry -- the private mortgage insurance industry isn't around to ensure operating risk. We ensure credit risk. And so that is a lot of what we are seeing right now; things got a little sloppy through this cycle.

As it relates to going forward and our opportunity to pick up increased share, this is going to be a flexible year. It's going to be fluid as this plays out across the industry. There is only so many players. There is a limited number of mortgage insurers available in this space and so when somebody loses allocation in one place you are going to pick up some of it another place. And I think some of that might be reflective in some of the progression we saw in the quarter.

Andrew Kligerman - *UBS - Analyst*

You sound pretty comfortable with your practices that you are not going to run into any legal issues with your clients.

Kevin Schneider - *Genworth Financial, Inc. - SVP and President & CEO, US Mortgage Insurance*

I am very comfortable that our approach is very consistent with our contractual rights, and we are very careful and cautious in the way we go through this. Do people like the outcome in the industry? Not all the time, but I feel pretty good about our position at this point.

Andrew Kligerman - *UBS - Analyst*

Okay, and maybe just one last follow-up. $35 million in savings on these modified loans through HAMP, terrific. You mentioned in the release that it represented 2,000 delinquent loans and now you are sitting on approximately 22,000 that are currently pending.

Kevin, any math to kind of help me out in terms of should I do the algebra and divide $35 million by 2,000 and then take that figure and multiply it times 22,000 delinquent loans and that is where I should be thinking? Is that good logic? How do I think about what to expect going forward?

Kevin Schneider - *Genworth Financial, Inc. - SVP and President & CEO, US Mortgage Insurance*

Here is how I think about it. Number one, it has ramped up. There is more success in getting loans out the backside. So as we sit on 22,200 think about the relative to our average reserve per delinquency as a starting point in terms of the potential that might be available.

How much of that is going to come out and ultimately get cured out the back end is really still the wild card, but we did have nice improvement and nice development on the quarter. So when I think about our overall workout and cure progression, we did see some nice trends in the quarter and I think it's just getting started and ramped up.

The other thing you will see is that Treasury is continuing to evolve that program, and they are continuing to work on some of the documentation challenges that we have all read about associated without getting out and improved out the back end of the program. And I think that will ultimately help things going forward.

The real issue here is it's too early to call what the cure rates are going to be coming out of this. But what I am encouraged by is on the loans we have seen so far that have been modified and come out of them we have seen an average reduction in payment of 29% on the Genworth loans that have been modified through the program.

That is a big number; 25% improvement in your monthly payment is something that gives people the ability, as I have mentioned before, to cash flow and to be successful ultimately in staying in their home. And so that is where I am encouraged and I think we are going to see this continue to trend positive going forward.

Andrew Kligerman - *UBS - Analyst*

Okay. And then one stat and I am done. Loss mitigation activity is $290 million; what portion of that was represented by rescissions?

Kevin Schneider - *Genworth Financial, Inc. - SVP and President & CEO, US Mortgage Insurance*

I think it's in our supplement. It's not -- well, I would say on the quarter more than -- I would say it's probably two-thirds of it roughly.

Andrew Kligerman - *UBS - Analyst*

Perfect. Thank you so much.

Operator

Steven Schwartz, Raymond James and Associates.

Steven Schwartz - *Raymond James - Analyst*

Good morning, everybody. More questions for Kevin I am afraid. Just to follow up on Andrew's HAMP line of thought, MGIC was able to offer up the cure rate on trial loans from April, May, and June and what percentage had defaulted. Kevin, I was wondering if you could do the same?

Kevin Schneider - *Genworth Financial, Inc. - SVP and President & CEO, US Mortgage Insurance*

Again, I think it's too early to base any facts on any cure rates that one could calculate of that. But just to further dive down into what I was just sharing with Andrew, if you look back to 2008 and the modifications we did in 2008, those modifications had a redefault rate of about 55%. We will start that with a baseline understanding.

Those were largely not modifications that lowered the borrowers' monthly payment. There is some recent reporting out from the OTS and OCC that is talking about modification data today. They are basically saying that when you have no payment change in the redefault rate, or in the modification, it's generally performing at about a 66% redefault rate. So our numbers were still better than that on '08.

With a 10% to 20% payment reduction the redefault rate goes down to 48%. And then what I was just talking about, with a 20%-plus percent payment redefault rate their data says that that could go down as low as 39%. Again, what we have seen so far is in the 29% reduction rate.

So we are encouraged by it but I am just not in a position to tell you where I think that is going to perform at. We will get sharper on that as we go forward, as we get more data and more observed experience.

Steven Schwartz - *Raymond James - Analyst*

Okay, fair enough. Let me ask you this, we have discussed already the outlook for a decline in delinquencies probably topping out in maybe early third quarter, somewhere around there. Do you think that the level by year-end 2010 will be lower than the level year-end 2009?

Kevin Schneider - *Genworth Financial, Inc. - SVP and President & CEO, US Mortgage Insurance*

I think it's going to be close to call. I am not going to come out definitively on that. What I do see is I am seeing some favorable development in news in new delinquencies; cure rates which have been pressured. We even had a little bit of a favorable outcome on this. We got to work through the seasonality this year to see where it ends up.

But all-in-all with the -- when we experienced the peak of those 2006, the first half 2008 books that will be -- once we have turned that corner then I think we will have a much better handle on when we will exactly see that.

Steven Schwartz - *Raymond James - Analyst*

Okay. And then one last one. On the outlook for reserve per delinquency you thought it was going to continue to come down slowly. Given the fact that you are still looking at negative HPA, I am wondering what you think is going to drive that.

Kevin Schneider - *Genworth Financial, Inc. - SVP and President & CEO, US Mortgage Insurance*

Well, I think the real drivers, just like they were in this quarter -- this quarter the drivers were two-fold. Half of it came from mix, so we have less loans going delinquent in the high loan balance states, less loans going delinquent, and in fact some improvement, in the Alt-A product. So as you get more lower traditional core loan balance that are part of the delinquency population you just get a mix shift that is associated there.

I think we will continue to have gradual improvement from that as these others, riskier products start to burn out and they start to decline.

Secondly, we are going to continue to benefit from our loss mitigation efforts. We had a little bit of benefit from that in the quarter as well and I think those are really going to be the drivers going forward.

Steven Schwartz - *Raymond James - Analyst*

Okay. So there is still room on the geographic side and still room on the product side?

Kevin Schneider - *Genworth Financial, Inc. - SVP and President & CEO, US Mortgage Insurance*

I believe so.

Steven Schwartz - *Raymond James - Analyst*

Okay, great. Thank you.

Operator

Dan Johnson, Citadel.

Dan Johnson - *Citadel - Analyst*

Thank you very much. Really most have been answered so far. Maybe one last one. Certainly the HAMP program is evolving, I guess is a good word for it. There has been some discussion about them firing up the second lien aspect to the program.

Would that have much benefit for you or is it generally assumed if a primary mortgage has a second lien they probably don't have much MI? Maybe if you could help there that would be great.

Kevin Schneider - *Genworth Financial, Inc. - SVP and President & CEO, US Mortgage Insurance*

In the macro sense, Dan, I think the bigger benefit there would just be to the overall system and the ultimate amount of inventory that might get cured and freed up and not end it's way moving into that existing inventory population and what the downward pressure that could create on pricing. So I think that is the biggest place.

I do think -- it's an interesting reflecting back on the challenges we had a few years ago relative to second liens and piggyback loans compared to private mortgage insurance. Where today those folks that avoided mortgage insurance and used those products to avoid us are really the ones that are challenging, that are experiencing some of the most pain associated with getting modified. And I think that is going to be thematic going forward in the regulatory reform going forward as well.

Dan Johnson - *Citadel - Analyst*

Great, I think that was it. Thank you very much.

Operator

Jimmy Bhullar, JPMorgan.

Jimmy Bhullar - *JPMorgan - Analyst*

Good morning. The first question I had was just for Mike. If you could talk about your Canadian MI business, is this more of a core holding or are there scenarios under which you would consider selling the rest of your stake?

And then second, for Pat, just your views on the investment environment. How much of a headwind do you expect credit migration to be in 2010? Do you think the worst is behind us or do you think that you might see some more downgrades in your portfolio as the year goes on?

Mike Fraizer - *Genworth Financial, Inc. - Chairman, President & CEO*

Jimmy, it's Mike. We are very pleased with the performance of our Canadian mortgage insurance business. We think it has a lot of upside. We have no plans that have a further sell-down.

We do appreciate and are glad that the market has recognized the value of that franchise and I think there is some nice parallels the market can draw between Canada and Australia on that front. And I will leave it at that.

Pat, do you want to pick up on investments?

Pat Kelleher - *Genworth Financial, Inc. - SVP & CFO*

Sure. Thanks, Mike. Our trends in credit migration have been favorable. It has been less and less over the last couple of quarters, and in particular that relates to a lot of the de-risking of the investment portfolio that has occurred over the past several quarters. Maybe I will ask Ron to comment on that further.

Ron Joelson - *Genworth Financial, Inc. - Chief Investment Officer*

Yes, actually in the fourth quarter the credit migration was a net positive so our upgrades were slightly ahead of downgrades. We think that trend is probably going to continue for a while. Of course, it's hard to say exactly what will happen in 2010 but the preliminary indicators that we have suggests that there is slight or modest improvement.

Jimmy Bhullar - *JPMorgan - Analyst*

Okay, thank you.

Operator

Darin Arita, Deutsche Bank.

Darin Arita - *Deutsche Bank - Analyst*

Thank you. Another question on the U.S. Mortgage Insurance side. It seems like the HAMP program is progressing well and, Kevin, you mentioned the Treasury's efforts on the documentation front. But can you also talk a little bit about this new HAFA program and how that might affect Genworth's loss mitigation efforts?

Kevin Schneider - *Genworth Financial, Inc. - SVP and President & CEO, US Mortgage Insurance*

This is the FHA side of it are you talking about, Darin?

Darin Arita - *Deutsche Bank - Analyst*

No, the HAFA, the Home Affordable Foreclosures Alternatives.

Kevin Schneider - *Genworth Financial, Inc. - SVP and President & CEO, US Mortgage Insurance*

Okay. You may be one-up on me on acronyms right now because I am not sure I can get that exactly. When I think about the new changes they are doing right now I think there is a couple of things they are focusing on.

They are trying to focus on bringing the documentation challenges, as you said, which have been challenging on the backside of the program, getting the documentation out. They are trying to bring that to the front of the program. With that successful, when you bring that in more that come into the program upfront will come out of the back end of the program and ultimately cure, which I think will be a big piece.

Secondly, I think the FHA is going to participate more aggressively in these programs than they have before. Whether that -- that has no impact really on Genworth's direct results but ultimately provides broader support to the overall industry in terms of the amount of cures there.

I think the interesting thing is will there still be the possibility going forward for some additional principal write-down expansions to HAMP or to all these programs? And I think that is really probably the next shoe to fall in this overall piece. That doesn't impact us. That could only help us in our current view of it, which is if somebody gets their principals written down we stay on the coverage. It doesn't cost us for that process to happen. The borrower gets put into a better position; ultimately has more likelihood in staying in our homes. I think those things could all be positive.

Darin Arita - *Deutsche Bank - Analyst*

All right, that is helpful. And then just turning to Pat, as you are reinvesting this excess cash and also investing new premium dollars that you are getting what are the new money yields that you are seeing?

Pat Kelleher - *Genworth Financial, Inc. - SVP & CFO*

In general, the new money yields are at or above 5% yield overall.

Darin Arita - *Deutsche Bank - Analyst*

Thank you.

Operator

Donna Halverstadt, Goldman Sachs.

Donna Halverstadt - *Goldman Sachs - Analyst*

Thank you. Yet another U.S. MI question and then I have a question on a different area of the business.

I was interested in the GSE Alt-A cancellations and was curious if there was something particularly unique to that block of business that predisposed it to successful negotiation between you and the GSEs. Or was it not unique and could it be viewed as a precursor of more such agreements to come, either with yourselves or even across the MI industry?

Kevin Schneider - *Genworth Financial, Inc. - SVP and President & CEO, US Mortgage Insurance*

First of all, I think what was unique about those programs is they were programs that -- as we work through our loss mitigation efforts we found a lot of problems with some of those loans. In working with the GSEs we were able to come to a commercial settlement on them that allowed us basically to take down our risk in-force associated with those loans and our exposure going forward. So if you think about it, the total RIF we have associated with those loans was probably about $237 million in that range and the settlement at $182 million puts that behind us, significantly reduces our GSE Alt-A RIF. We have very little of it more to monkey with, candidly.

And we have -- going forward that is another thing that is going to benefit, I think, our overall delinquencies in the future because that was $50 million between those two numbers of potential future losses that could have played through into the business. So number one, that is the issue.

Secondly, I think it's a validation of our overall rescission practice and approach because it was the hard work we had done to look at those loans and look at them early the way we do in our delinquency process to allow us to properly document and to make sure we are very thorough in our assessment of where there were opportunities there. That allowed us to get to a good decision with the group.

Donna Halverstadt - *Goldman Sachs - Analyst*

Great, thanks. And the other thing I wanted to ask --

Kevin Schneider - *Genworth Financial, Inc. - SVP and President & CEO, US Mortgage Insurance*

Donna, if I could just add on, what we have left in bulk is largely all Federal Home Loan Bank business. And this stuff is performing at 2% or less delq rate so it's a highly performing business. And that which is in [flub] I would say is fully reserved at this standpoint.

Donna Halverstadt - *Goldman Sachs - Analyst*

Great, thanks. The other thing I wanted to ask about, in the prepared remarks there were two comments one -- these are both with respect to Retirement & Protection. After you commented on the wealth management positive net flows you talked about it, a gain in market position versus competitors. I was curious if you could give us more color on exactly what sort of gains you are seeing. And likewise, on the long-term care you talked about a potential for a rebound in the long-term care market. I think you meant in terms of the industry, and if so what takes you to that perspective? Thank you.

Mike Fraizer - *Genworth Financial, Inc. - Chairman, President & CEO*

Let me hand that off to Pam.

Pam Schutz - *Genworth Financial, Inc. - EVP, Retirement & Protection*

On the Wealth Management question, Donna, we compete in the independent adviser market for asset management services known as the TAMP market and we track our share in that TAMP market on a quarterly basis.

If you look at where we ended third quarter, we did pick up share. We are talking basis points, 10 basis points, but it does show that we are continuing to gain share.

On the long-term care question, what I would say is that we do see based on trends -- first quarter of 2009 was terrible for the industry. It was the lowest in sales in a decade. What we are seeing industry-wide is an uptick from first quarter in terms of sales, and we are seeing really nice sequential sales growth in long-term care from first quarter.

What we are seeing as well is financial institutions, which were hit the hardest in terms of sales in long-term care, a pick-up in that which should grow the overall market and grow our sales.

Donna Halverstadt - *Goldman Sachs - Analyst*

Great, thank you. And congratulations on the continued trends, everybody.

Operator

Mike Grondahl, Northland Securities.

Mike Grondahl - *Northland Securities - Analyst*

Yes, thank you for taking my call. I do want to just say congratulations on a second quarter in a row that was very solid. You have started a nice trend.

Specifically in Canada, the mortgage insurance business, can you update us on your capital structure thoughts there? I think you have very little debt up there and a lot of excess capital. Just kind of what your plans are there.

And then also you repurchased another $91 million of debt, I think, in the quarter after some repurchased in September just kind of how you are thinking about that going forward too?

Mike Fraizer - *Genworth Financial, Inc. - Chairman, President & CEO*

Yes, let me just start in general with Canada and then I will hand it off to Pat. When you look at Canada you have seen this continued path of excess capital generation and that will continue as we move through this year. As we talked about it at our Investor Day, we have some options around that and continue to evaluate those options as we work here through the first quarter and the front end of the first half.

First, there is good opportunity to deploy capital towards additional growth. Second, there is opportunities in areas like dividend rates or even special dividends as well. Third, as Brian Hurley commented upon it at Investor Day and I think Pat did as well, here is a business with no debt and you could probably put 10% debt on it as well which gives you additional firepower.

So we will let the team work through those opportunities but we feel good about all of the options. I will remind you that you do have two Boards here. In other words you have the Canadian Board, you have the US Board, so we have to respect Board processes on those evaluations and we would go through those before announcing final conclusions to the market.

But we are intently focused on bringing the best strategies for the benefit of the Company and the shareholders. So, Pat, let me turn it over to you on the debt side.

Pat Kelleher - *Genworth Financial, Inc. - SVP & CFO*

Sure. We did indeed purchase just over -- repurchased just over $90 million of the debt in preferred stock that is due to mature in 2011, 2012. Actually brings our total second-half repurchases to almost $170 million.

I would say we would expect to continue to be opportunistic with respect to these repurchases. And further, I would say that we clearly intend to repay and restructure the credit facilities well in advance of their maturity.

Mike Grondahl - *Northland Securities - Analyst*

Thank you.

Operator

Ladies and gentlemen, this concludes Genworth Financial's fourth-quarter earnings conference call. Thank you for your participation. At this time the call will end.

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