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Radian Group Inc. (RDN)

Q2 2019 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by, and welcome to the Radian Group Second Quarter 2019 Earnings Conference Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session. Instructions will be given at that time. [Operator Instructions]

I'd now like to turn the conference over to our host Senior Vice President of Investor Relations, Ms. Emily Riley. Please go ahead.

Emily Riley

Senior Vice President-Corporate Communications & Investor Relations, Radian Group Inc.

Thank you, and welcome to Radian's second quarter 2019 conference call. Our press release, which contains Radian's financial results for the quarter, was issued last evening and is posted to the Investors section of our website at www.radian.biz. This press release includes certain non-GAAP measures which will be discussed during today's call, including adjusted pre-tax operating income, adjusted diluted net operating income per share, adjusted net operating return on equity, and Services adjusted EBITDA. A complete description of these measures and reconciliation to GAAP may be found in press release Exhibits F and G and on the Investors section of our website. In addition, we have also presented non-GAAP measures for tangible book value and Services adjusted EBITDA margin.

This morning, you will hear from Rick Thornberry, Radian's Chief Executive Officer; and Frank Hall, Chief Financial Officer. Also on hand for the Q&A portion of the call is Derek Brummer, Senior Executive Vice President of Mortgage Insurance and Risk Services.

Before we begin, I would like to remind you that comments made during this call will include forward-looking statements. These statements are based on current expectations, estimates, projections and assumptions that are subject to risks and uncertainties which may cause actual results to differ materially.

For a discussion of these risks, please review the cautionary statements regarding forward-looking statements, included in our earnings release and the risk factors included in our 2018 Form 10-K and subsequent reports filed with the SEC. These are also available on our website.

Now, I would like to turn the call over to Rick.

Richard G. Thornberry

Chief Executive Officer & Director, Radian Group Inc.

Thank you, Emily, and good morning. Thank you all for joining us today and for your interest in Radian. I am pleased to report another quarter of excellent financial results for our company. Net income for the second quarter was $167 million and diluted net income per share was $0.78. Adjusted pre-tax operating income grew to $216 million and adjusted diluted net operating income per share increased to $0.80.

Book value per share grew 23% year-over-year to $18.42 and return on equity was 17.8% with an adjusted net operating return on equity of 18.2%. These results reflect the fundamental strength of our business model, the value of our customer relationships and the dedication of our team.

With regard to our mortgage insurance business, we grew our primary insurance in-force more than 9% year-over-year to $231 billion. Our mortgage insurance portfolio, which is one of the largest in our industry, is the primary driver of future earnings for our company. It is important to note that the projected economic value of this portfolio is not reflected in the current period financial statements nor is it reflected in our reported book value, but it is expected to be recognized over time.

As we discussed at our Investor Day in May, we believe the projected future earnings for this portfolio represents significant unrecognized economic value for shareholders. The economic value of this portfolio provides us with significant strategic financial flexibility. We wrote a record $18.5 billion of NIW in the second quarter, which is a 13% increase over our previous record volume written in the second quarter of 2018. This new business volume was driven by the continued demand for our private mortgage insurance products based on the strength of our current business environment, the depth of our customer relationships, and our excellent customer service and our customized pricing options. We are operating in a healthy environment for our business fueled by low interest rates that drove our increase and high quality purchase loans as well as an increase in refinance activity.

Purchase loans are three to five times more likely to have mortgage insurance versus a refinance loan and purchases accounted for 90% of our NIW in the second quarter. While the overall mortgage market increase and refinance volumes did contribute to a decline in quarterly persistency. The impact of lower persistency was more than offset by our record level of new business. In fact, we successfully grew our portfolio by $20 billion or more than 9% year-over-year.

The overall housing market and economic environment also continues to be positive, although housing supply remains tight, overall home price appreciation has slowed, it is better aligned with income growth thus improving affordability and creating a healthier, more sustainable housing market. These trends are expected to lead to continued growth and purchase originations, particularly for first time homebuyers who represent one-third of home sales.

In terms of our customer relationships, we're pleased that our focus on providing customized pricing options and excellent customer service helped us to write record levels of new mortgage insurance business in the second quarter that we project will generate attractive risk adjusted returns.

As you know, we introduced RADAR rates for the market earlier this year, as another MI pricing option available to Radian customers. While the majority of our business today is delivered through RADAR rates, we continue to offer various options for doing business with Radian that are based on customer needs and preferences and align with our appetite for appropriate risk in return.

And importantly, while price competition is always present in our industry, the overall increased granularity of our pricing options allows us to ship pricing both up and down to more dynamically shape the risk profile of our MI portfolio and maximize the economic value of the business we write. We believe our unique risk scale analytics framework focused on loan attributes and originator and servicer insights, positions us to write quality business with the right customers and to drive strong risk adjusted returns.

Based on our performance thus far in 2019 and our strong new business pipeline, we now expect to write new mortgage insurance business in 2019 that is in excess of last year's record breaking level of $56.5 billion. As you've heard me say many times, this is a great time to be in the mortgage insurance business. The business fundamentals are very strong with guardrails in place for mortgage lending and servicing under Dodd-Frank, and our mortgage insurance industry is governed by a clear and consistent and transparent risk based capital requirements under PMIERs and operating guidelines with a uniform master policy. The credit quality of our existing book of business is excellent as is the credit environment we operate in today. The number of defaulted loans in our portfolio remains at a 20 year low, with cure activity at a 10 year high.

Now moving to our Services segment, we continue to make progress across our mortgage, real estate and title services business, and we are pleased to report total Services segment revenues of $43 million in the second quarter which represents growth of 19% from the prior quarter and 6% compared to a year ago. We remain confident in the market opportunity for our products and services, the value of our customer relationships, and the team we have in place to grow revenues and build value.

In terms of our capital management, as we discussed in detail last quarter, we executed our second mortgage insurance at linked notes transaction in April, combined with our first ILN transaction last year and our existing quota share reinsurance programs, these transactions have significantly reduced the risk profile of our company.

We continue to believe in the value of distributing risk by utilizing both the capital and reinsurance market. Another important element of our capital strategy has been the improvement of our debt maturity profile and to focus on reducing overall interest costs. Frank will discuss our actions this quarter in more detail.

And finally, we're pleased that our strong financial position has afforded us the opportunity to return capital to our stockholders. In July, we completed our $250 million share repurchase program. In total, we repurchased 11.3 million shares or 5.3% of shares that were outstanding at the beginning of the program. We will continue to consider share repurchases opportunistically within the context of our overall capital strategy, which is designed to enhance our already strong capital structure in position and further demonstrate our commitment to effectively managing capital for our stockholders.

Turning to the regulatory and legislative landscape, with respect to housing finance reform, both treasury and HUD have been preparing plans to reform the housing finance system [indiscernible] (00:09:59) executive memorandum issued by the White House earlier this year. It has been reported that these plans are nearly finalized and will be issued in the next few months.

As to the prospects for reform, we believe legislative reform remains unlikely prior to next year's presidential election. As to administrative reform, FHFA Director, Mark Calabria has been vocal about his desire to see changes in the GSEs, including among other items the increased use of private capital. In fact Director Calabria repeatedly has cited the mortgage insurance industry as an example of where private capital works. Regardless of the path that future reform may take, given our industry's strong and consistent capital standards, our proven ability to manage and distribute risk, our uniform master policies and our high operational standards we believe that the private mortgage insurance will remain critical – a critical component of any new housing finance system.

Turning to more recent news, the CFPB issued an advance notice of proposed rulemaking last week regarding the future of the qualified mortgage definition, or QM. More specifically, the notice is focused on how to address the GSE patch which provides QM designation for loans, eligible for purchase by the GSEs including those with debt to income ratios in excess of 43%. While the CFPB notice makes it clear that the GSE patch will expire in January 2021 as planned or following the short extension of this expiration date, the CFPB also stated that it is committed to ensuring a smooth and orderly mortgage market throughout this consideration of these issues and resulting transition away from the GSE patch.

We are encouraged that the CFPB has decided to pursue this notice and comment period to solicit perspectives on potential alternatives to the GSE patch. We have been actively participating in the development of alternatives to our industry trade association U.S. MI and other trade groups and we are optimistic that there are a number of viable options that could improve the current QM definition and continue to serve the above 43 DTI market for creditworthy borrowers.

Most importantly, we see this as a good opportunity to level the playing field across regulatory approaches as it relates to QM. Based on what we know today, we expect the CFPB to take a comprehensive approach to redefining QM to avoid disruption to the housing market and to continue to ensure that well-deserving borrowers have access to mortgage credit.

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

J. Franklin Hall

Chief Financial Officer & Senior Executive Vice President, Radian Group Inc.

Thank you, Rick, and good morning, everyone. To recap our financial results reported yesterday evening, we reported net income of $166.7 million or $0.78 per diluted share for the second quarter of 2019 as compared to $0.78 per diluted share in the first quarter of 2019 and $0.96 per diluted share in the second quarter of 2018. As a reminder results a year ago included $74 million in tax benefits relating to final settlements with the IRS of a longstanding tax matter. Adjusted diluted net operating income was $0.80 per share in the second quarter of 2019, an increase of 10% from the first quarter of 2019 and an increase of 16% over the same quarter last year.

Before I get into the details of the quarter, I will note some significant changes in accounting estimates made during the quarter that impacted our reported results. First is the earned premium acceleration of $32.9 million that was related to the cumulative effect of updated amortization rates used in calculating our unearned premium reserve which impacts the revenue recognition of single premium policies.

As our mix of single premium policies has skewed more heavily, to borrower-paid policies than lender paid, the expected lives of the policies have shortened, and therefore have increased the speed of the amortization of the single premium policies. This change also creates a $6.2 million decrease in other operating expenses as we accelerated a related portion of the seeding commissions for policies covered under the single premium quota share reinsurance program.

Second is the change in accounting estimate related to our loss reserves and specifically the IBNR increase of $19.4 million related to previously disclosed legal proceedings regarding loss mitigation activities largely on pre-2009 vintages. The combined impact of these significant items was positive to our GAAP and operating earnings per share by $0.07 in the quarter.

I will now focus on some of the other drivers of our results from the quarter. I'll start with the key drivers of our revenue. Our new insurance written was $18.5 billion during the quarter, compared to $10.9 billion last quarter and $16.4 billion in the second quarter of 2018. Our second quarter 2019 volume marks our highest quarterly new insurance written on a flow basis.

Total NIW you increased 13% compared to the second quarter of 2018 and our monthly premium NIW increased 24% year-over-year. Direct monthly and other recurring premium policies represented 83 % of our NIW this quarter, consistent with the first quarter of 2019 and an increase from 76% for the first quarter a year ago.

In total, borrower-paid policies represented 97% of our new business for the second quarter. Borrower-paid single premium policies represented 14% of our total NIW this quarter, a significant increase from two years ago, when they accounted for less than 2% of total NIW. In contrast, lender paid singles were less than 3% of our NIW this quarter, a dramatic decline from over 21% of total production two years ago. This shift in business mix is expected, intentional and designed to improve the return profile of our single premium business overall as borrower-paid singles have higher expected returns relative to lender paid policies, due in part to auto cancellation under the Homeowners Protection Act creating shorter expected lives and lower required capital under PMIERs.

Primary insurance in force increased to $230.8 billion at the end of the quarter with year-over-year insurance in force growth of over 9%. It is important to note that monthly premium insurance in force increased 12% year-over-year and has grown by over $30 billion over the past two years. As I discussed at our Investor Day in May, the in force portfolio is the primary source of our future earned premiums and is expected to generate significant future earnings which are yet to be reflected in our financial statements and our reported book value.

In a baseline economic scenario, we expect our current portfolio to generate over $2 billion in future earnings. Our 12 month persistency rate of 83.4% was consistent with the prior quarter and increased from 80.9% in the second quarter of 2018. Our quarterly annualized persistency rate declined to 80.8% this quarter from 85.4% in the first quarter of 2019 and 82.3% in the second quarter of 2018.

The decline in quarterly annualized persistency compared to the second quarter of 2018 is primarily driven by increased refinance activity which can create some volatility in the quarterly persistency metric. However, the decline in interest rates that can drive increased refinance activity can also lead to a strong purchase environment presenting an opportunity to write additional business, potentially offsetting the negative impact of refinancing.

While our long-term expectations for persistency remain in the low to mid 80% range, near-term quarterly persistency may fall below this level. Reported premium yields on our mortgage insurance and force portfolio for the second quarter 2019 are elevated due to the $32.9 million cumulative adjustment to unearned premiums mentioned earlier. Setting aside the impact of this adjustment, our direct in force premium yield was 47.9 basis points this quarter, compared to 48.6 basis points last quarter and 48.4 basis points in the second quarter of 2018 as seen on slide 10.

Net premium yields on our mortgage insurance in force portfolio decreased from 47 basis points in the prior quarter to 46.4 basis points this quarter. In force portfolio premium yields for the second quarter 2019 also include the impact of our most recent insurance-linked note transaction, which causes a reduction in net premium yields of approximately 0.8 basis points.

Net mortgage insurance premiums earned were $299.2 million in the second quarter of 2019 compared to $263.5 million in the first quarter of 2019 and $251.3 million in the second quarter of 2018. This 19% increase from the second quarter of 2018 was primarily attributable to the $32.9 million cumulative adjustment unearned premiums noted earlier, as well as our insurance in force growth. Setting aside the impact of the adjustment, our net premiums earned grew 6% year-over-year.

Total Services segment revenue increased to $43 million for the second quarter of 2019 compared to $36 million for the first quarter of 2019 and $40.5 million from the second quarter of 2018. The increase in revenue compared to the prior quarter was due in part to typical seasonality of the mortgage and real estate markets and the year-over-year increase was partially attributable to the inclusion of businesses acquired in the latter half of 2018.

Our Reported services adjusted EBITDA for the second quarter of 2019 was approximately $1.4 million. Our investment income this quarter of $44 million was flat to the prior quarter and a 17% increase over prior year due to both higher rates and higher balances in our investment portfolio. At quarter-end, the investment portfolio duration increased slightly from 3.6 years to 3.7 years. Duration is slightly shorter than our target as a result of larger cash balances held while we managed through our recent capital transactions.

It is noteworthy that our $5.5 billion investment portfolio has grown approximately 13% or just over $639 million since the second quarter of 2018, a sizable increase given that we have paid-off debt and repurchased shares during the period.

Moving now to our loss provision and credit quality, as noted on slide 14 during the second quarter of 2019, the provision for losses for the second quarter of 2019 includes an adverse reserve development on prior period defaults of $6.5 million. This adverse development was driven by the previously mentioned $19.4 million IBNR adjustment partially offset by positive development of $12.9 million driven by a reduction in certain default to claim rate assumptions on aged defaults.

Our primary default rate has continued to decrease and is now at 1.87% down from 1.95% last quarter and 2.24% a year ago. Consistent with typical default seasoning patterns, the shift in our portfolio composition toward more recent vintages is expected to result in slightly increased levels of new defaults in our portfolio for 2019 as compared to 2018, as new defaults for recent vintages will outpace the reduction in pre-2009 default. It is noteworthy however, that our total default count has consistently declined to very low levels and currently stands at a 20-year low of under 20,000 loans with very high cure rate. As economic indicators have continued their positive trends, cumulative loss ratios on our post-2008 business continue [indiscernible] (00:24:19) historically low levels.

Now turning to expenses, other operating expenses were $70 million in the second quarter of 2019 compared to $78.8 million in the first quarter of 2019 and $70.2 million in the second quarter of 2018. The reduction in expenses on a linked quarter basis is primarily driven by $6.2 million, an acceleration of earned seeding commissions related to policies covered under the single premium QSR program described earlier.

Moving now to taxes, our overall effective tax rate for the second quarter of 2019 was 20.4% and our expectation for our 2019 annualized effective tax rate before discrete items is approximately the statutory rate of 21%.

Now moving to capital, for Radian Guaranty and as previously disclosed, in April of 2019 we closed on our second insurance-linked note transaction of approximately $562 million. This brings the total insurance-linked note issuance by Eagle Re to just under $1 billion and covers origination years of 2017 and 2018 for our monthly premium business.

In total, we have reduced Radian Guaranty's PMIERs capital requirements by $1.5 billion by distributing risk through both the capital markets and third-party reinsurance execution. We expect that this prudent risk distribution strategy and our disciplined capital management will continue to enhance our risk profile and improve our financial flexibility. Also as previously disclosed and as a result of further capital enhancement actions and our continued strong financial performance, in April 2019, following the approval of the Pennsylvania Insurance Department, Radian Guaranty returned $375 million of capital to its parent Radian Group. This brings the total capital return to Radian Group within the past 12 months to $825 million.

It is important to also note that this return of capital is in addition to the funds received regularly by Radian Group through our longstanding agreements with the operating companies which provide for the reimbursement of group interest and operating expenses. These reimbursements have provided approximately $145 billion over the past 12 months.

Radian Guaranty had PMIERs available assets of $3.2 billion and our Minimum Required Assets were $2.6 billion as of the end of the second quarter 2019. The excess available assets over the Minimum Required Assets of $660 million represents a 26% PMIERs cushion and a $172 million increase from the prior quarter's $488 million cushion.

We have also noted on slide 20 our PMIERs excess available resources on a consolidated basis of $1.8 billion, which if fully utilized represent 69% of our Minimum Required Assets at June 30, 2019. We expect our PMIERs cushion to be sufficient to support projected organic growth, as well as potential volatility such as a cyclical economic downturn before giving any consideration for the additional benefit of future premium revenue.

And moving to the capital activities for Radian Group. During the second quarter of 2019, the company repaid upon maturity $159 million of its senior notes due 2019. Radian also issued $450 million of senior notes due 2027. Additionally, pursuant to cash tender offers, the company purchased $207.2 million and $127.3 million of our senior notes due 2020 and 2021 respectively. These purchases resulted in a pre-tax loss on extinguishment of debt of $16.8 million.

Following these purchases, at June 30, 2019 there was $27 million and $70.4 million remaining principal amounts outstanding on the senior notes due 2020 and 2021 respectively. On July 25, 2019 we redeemed the remaining $27 million of senior notes due 2020. This series of debt restructuring transactions is intended to reduce our debt to capital ratio, lower our overall cost of debt, and extend the maturities of our debt.

Our weighted average debt maturity has now extended to over six years. And our next significant debt maturity will be in 2024 which is also the expected timeframe for potential and recurring contingency reserve releases from Radian Guaranty. Our weighted average coupon for debt has also decreased over 40 basis points to only 4.86%.

The company has fully utilized our recent $250 million share repurchase authorization as of July 26. The company has repurchased approximately a 11.3 million shares over the course of the authorization and an average share price of $22.21. The total shares repurchased with this authorization represent 5.3% of the shares outstanding at the beginning of the program. And since 2015, we have repurchased approximately 14% of our diluted shares, further evidence of our commitment to return capital to our shareholders while still building capital for our future growth.

Holding company liquidity at the end of the second quarter 2019 was $879 million, compared to $723.4 million at the end of the first quarter of 2019, excluding any consideration for our $268 million credit facility.

As we continue optimizing our capital structure and evaluating appropriate uses for capital, we will continue to update you on our progress. At Radian, we have a strong history of taking thoughtful, prudent and shareholder friendly actions in managing our sources and uses of capital.

I will now turn the call back over to Rick.

Richard G. Thornberry

Chief Executive Officer & Director, Radian Group Inc.

Thank you, Frank. Before we open the call to your question, let me remind you that net income was a $167 million and diluted net income per share was $0.78. Adjusted diluted net operating income per share grew to $0.80, book value per share increased 23% year-over-year to $18.42. Return on equity was 18%. Our $231 billion mortgage insurance portfolio grew more than 9% year-over-year and is the primary driver of future earnings for Radian.

Our Services segment revenues grew 19% from the prior quarter and 6% from a year ago to $43 million and we made progress against our capital strategy completing our $250 million share repurchase program, and extending our debt maturity profile, while reducing overall interest costs.

Now operator, I would like to open the call to questions.

QUESTION AND ANSWER SECTION

Operator: Certainly sir. [Operator Instructions] And our first question will come from the line of Jack Micenko with SIG. Please go ahead.

Jack Micenko
Analyst, Susquehanna Financial Group LLLP

Q

Hi good morning. I wanted to ask a little bit about the ILN obviously. You completed the second in April. Should we think about that going forward as an annual sort of accrual so that maybe mid-2020, early-2020 we get the 2019 covered? And then one of your peers has gone backward and done some work on the back book, any thoughts from you on that as a possible strategy?

J. Franklin Hall
Chief Financial Officer & Senior Executive Vice President, Radian Group Inc.

A

Sure. Jack, this is Frank. Appreciate the question. We have said historically that we're a fan of the risk distribution and we're certainly pleased with the pricing and the market conditions to issue ILNs into. So we do see risk distribution as a permanent part of our capital management and risk management exercise. So as we're evaluating different opportunities, I think as long as market conditions permit, it is something that you would expect to see on an ongoing basis.

As it relates to the back book, I think conditions and the profile of that particular set advantages is a little bit different than the [ph] on the run (00:34:18). So it's something we want to be thoughtful about, and is certainly under consideration. But wouldn't want to set expectations around timing or frequency, but as far as it being a part of our risk and capital management programs definitely.

Jack Micenko
Analyst, Susquehanna Financial Group LLLP

Q

Okay. And then on the Services, I'm hoping for an update on the guidance there. I think you'd, from the $175 million to $200 million, I guess first, is that a segment or a consolidated number? And where are we on that guide? It seems like we're a little bit off the pace from maybe where we should be, 50% on the way through the year.

Richard G. Thornberry
Chief Executive Officer & Director, Radian Group Inc.

A

Yeah. So thank you. This is Rick, Jack. I appreciate the question. And – our Services segment revenues were $43 million in the quarter, you know and as we said, that was a growth over the first quarter, which we expected. Our guidance is to achieve an annualized run rate of $175 million to $200 million of revenue, and 10% to 15% EBITDA margin. So if you look at this quarter, our annualized revenue run rate was $172 million, right. So very close to the bottom-end of our guidance.

Our EBITDA margin was 3.3%, but excluding some things that we did from an investment point of view, closer to 7%. So we expect – as we look forward, we expect to achieve the lower end of our revenue guidance as we go through the year. So, I think we'll – the $175-plus-million kind of range we should achieve. And I think we're on track to do that as the year progresses. And the EBITDA is a little bit more volatile just because of a lot of the small numbers, both plus and minus, right, it can be driven by mix somewhat. So that's our focus, but we also make investments in those businesses from time-to-time to create volatility around that one metric.

So we're staying with our guidance of a – on a run rate basis. I think, as I said in the Investor Day, these businesses are driving a strong value to our MI customer relationships and the real estate data we get from our real estate businesses is extremely valuable to our mortgage credit risk business.

So today we believe as these businesses are developing and evolving towards creating a financial contribution to our overall company, they're adding value to us across our MI business. So we see that – and I just want to add, we see that from a – almost a daily basis from a confirmation point of view that we're being viewed differently, Radian is being viewed differently by customers as a broader business partner. I've had meetings with five of top lenders probably in the last 60 days and each one of them, kind of in their own words have mentioned that they begin to see Radian much different. Their focus is on not only how do we grow our MI relationships, which I think we demonstrated this quarter that we have the ability to do through our relationships. But the fact, really the focus around real estate and title capabilities, many of these we do due diligence around securitization programs, but our information from a real estate and title point of view is highly interesting and valuable to them and they see an opportunity to work with us on a broader basis.

So I think, the One Radian brand is really kind of resonating with our customers. And as – again just as I mentioned at our Investor Day, the guidance that we provided, we continue to stick to. But I think as we look going forward, these businesses specifically real estate and title, where we're focused very heavily on, data and analytics and technology are going to – we do see value accruing ahead of earnings, so the contribution today is strategic to our MI business. And I think strategic from a value creation. So probably little bit more than you asked for. But I think in the context of the Services business, just to put it in the right frame from a strategic point of view, we feel like we're on track for the areas that we see value in this business.

Jack Micenko Q
Analyst, Susquehanna Financial Group LLLP

Okay. So it sounds like we step up sort of consistently in the back half on the annualized segment number when we exit 2019 is where the focus should be?

Richard G. Thornberry A
Chief Executive Officer & Director, Radian Group Inc.

Yeah. I think from a pure financial contribution, we're going to see that occur. And I think as I mentioned the strategic aspect of the business I think is playing out well across our MI customer base as well.

Jack Micenko Q
Analyst, Susquehanna Financial Group LLLP

All right. Thanks for taking the questions, guys.

Richard G. Thornberry A
Chief Executive Officer & Director, Radian Group Inc.

Thank you.

Operator: Next in queue, we'll go to the line of Geoffrey Dunn, Dowling & Partners. Please go ahead.

Geoffrey Murray Dunn
Analyst, Dowling & Partners Securities LLC

Q

Thanks. Good morning.

Richard G. Thornberry
Chief Executive Officer & Director, Radian Group Inc.

A

Good morning.

J. Franklin Hall
Chief Financial Officer & Senior Executive Vice President, Radian Group Inc.

A

Good morning.

Geoffrey Murray Dunn
Analyst, Dowling & Partners Securities LLC

Q

Frank, you outlined a capital strategy last quarter that had to do with finishing your authorization, taking carrier debt et cetera, and you managed to take care of all of that inside of the three months period here. So, can you give us an update – you get a lot of cash in at the holdco, you've really addressed all of the things you highlighted you wanted to address last quarter. What's the plan for the remaining cash?

J. Franklin Hall
Chief Financial Officer & Senior Executive Vice President, Radian Group Inc.

A

Sure. Great question, Geoff. Thank you. I think the best way to describe it, and this is consistent with how we've described it in the past is, we're going to continue to look at uses of capital and the prioritization that we outlined at our Investor Day, which is make sure we have sufficient capital for organic growth, make sure we have an adequate risk buffer, make sure that we're considering any strategic opportunities that may exist, and then we'll look at returns – to shareholders either through just the theoretical possibilities there, our share repurchases and dividends. Historically, we've utilized the share repurchase method. And over the past four years, we've repurchased through our share repurchase programs over $400 million of shares.

So as we contemplate future actions and we don't as you know, we announced those actions as they occur so we don't preview them. I think certainly we're in a position where we believe that we do have excess capital and we'll contemplate returns to shareholders in a broader context of the capital planning activities that we do. This share authorization of $250 million which was completed, I'm very pleased about that. So that exhausts this authorization. The next opportunity for an authorization will be at our upcoming August Board Meeting and that will be a topic of discussion within the broader capital planning that we do.

Geoffrey Murray Dunn
Analyst, Dowling & Partners Securities LLC

Q

And am I correct that I think you indicated last quarter that the board has actively discussed common dividend as well?

J. Franklin Hall
Chief Financial Officer & Senior Executive Vice President, Radian Group Inc.

A

The Board discusses the full range of capital options also in the context of that capital usage prioritization that I went through as well. So it is a comprehensive discussion that incorporates all aspects of our business.

Geoffrey Murray Dunn
Analyst, Dowling & Partners Securities LLC

Q

All right. And what's the date of the board meeting

Richard G. Thornberry
Chief Executive Officer & Director, Radian Group Inc.

A

August 14th I think.

Geoffrey Murray Dunn
Analyst, Dowling & Partners Securities LLC

Q

Yeah.

Richard G. Thornberry
Chief Executive Officer & Director, Radian Group Inc.

A

So that Wednesday of that week.

Geoffrey Murray Dunn
Analyst, Dowling & Partners Securities LLC

Q

All right. And then...

J. Franklin Hall
Chief Financial Officer & Senior Executive Vice President, Radian Group Inc.

A

By the way, Jeff this is Rick. I just want to add to Frank's comment. I think between management and board we have a very thoughtful and considered kind of capital planning process as I think Frank went through the Investor Day. And as you can see from what we've done as Frank mentioned our actions over the past 12 months have been indicative I think of a very thoughtful process around how we manage the capital resources of this company and how we access sources of capital and how we've used that capital to improve, I think, shareholders positions. So I think if the past performance is any indication of how we kind of manage our capital I think we've got a pretty good track record. And as you said, Frank and many others in this company have been very busy over the last few months kind of knocking back on a few things down up here.

Geoffrey Murray Dunn
Analyst, Dowling & Partners Securities LLC

Q

Okay. And then just on a different topic you indicated before most of the business or majority of the business going through RADAR rates, but you do have different pricing channels available for lenders or our customers' needs. Does Radian participate in the bid rate sheet business, and if you do, can you talk about how you think about the returns in that segment?

Derek V. Brummer
Senior Executive Vice President, Mortgage Insurance and Risk Services, Radian Group Inc.

A

Sure. This is Derek. And I'll take that one Geoff. So as we talked at Investor Day, some of the bulk bid process we traditionally have not been a big player there. And so generally what we're looking at, any time we're looking at, any sort of forward commitment or customize pricing solution is making sure that it fits our risk return appetite. And really what we're trying to do is focus the book of business where we find the most economic value at a loan level, a product level and at the lender level and making sure we're doing business with the right customers.

So traditionally we haven't played, I would say a significant part in that bulk bid process. And I'd say that the other thing although that's received kind of a lot of news lately. We really haven't seen any changes I would say in a material way in terms of the number of lenders that are doing both bids and also just the scale of that, I'd say overall in terms they're discounting either.

Geoffrey Murray Dunn
Analyst, Dowling & Partners Securities LLC

Q

Okay. Thanks.

Operator: And next in queue we'll go to the line of Mark DeVries with Barclays. Please go ahead.

Mark C. DeVries
Analyst, Barclays Capital, Inc.

Q

Thank you. I had a couple of follow-ups on central capital returns. Frank, how should we think about how much of the cash at the holdco is available for returns? And then also how should we think about the capacity to seek dividends up to the holdco over the next 12 months?

J. Franklin Hall
Chief Financial Officer & Senior Executive Vice President, Radian Group Inc.

A

Sure. Great question. I appreciate that. I think the way to think about sizing our holding company cash, previously we have used metrics of $300 million or sufficient for debt service for a number of years. I think the reality of it is that we're trying to be opportunistic about the capital that we are freeing up at an operating company basis through risk distribution. And then being mindful of where that capital resides from a legal entity standpoint.

And so over the last 12 months you've seen us upstream about $825 million primarily driven by the excess PMIERs cushion that we have and getting comfortable with making that request of the Pennsylvania regulators. So, as I went through it in our Investor Day, as we look at sort of our [ph] binding constraints (00:45:02) as we manage our capital and liquidity position. PMIERs cushion is one of those constraints, holding company liquidity and then our stat capital. And so right now our statutory capital is really the binding constraint that we're operating under.

And so the holdco cash is at a level that I would say certainly exceeds any level of previous guidance that we gave. And so we're comfortable with that level. And it also as I went through with Geoff, the priorities of excess capital we just want to make sure that we have balanced our cash needs at the holdco relative to all of those priorities that I listed organic growth, risk buffer, strategic opportunities, et cetera.

So it's hard, I won't guide to a specific number, but I would just say that we do feel that we do have an excess position there, I think in the landscape of all of that. And then also keep in mind too as we think about the holding company cash position, I always like to remind folks that we do have an expense and interest sharing agreement in place which as I mentioned in the prepared remarks contributes about $145 million over the last 12 months to our holding company cash position.

Mark C. DeVries
Analyst, Barclays Capital, Inc.

Q

Okay. Got it. Now I have a question about the accounting around kind of the unearned premiums, the adjustment that you made $32.9 million. Is that meant to reflect kind of all your expectations for accelerated amortization on singles, based on the rate move in the quarter. So in other words, if rates don't do anything, there is no additional benefit in subsequent quarters even if you know the realization is happening and you're getting those prepayments. Is this kind of like a pull forward of all of that? And so we would expect kind of the average premium to drop back down to the level it was at in the prior quarter?

J. Franklin Hall
Chief Financial Officer & Senior Executive Vice President, Radian Group Inc.

A

Absent the adjustment it should be relatively consistent similar to what we've got in the slide deck, but maybe let me explain it perhaps a different way to help you conceptualize it. As we look at our single premium production overall, which creates that unearned premium reserve, historically we have had the majority of our single premium business be lender paid versus borrower paid. And lender paid coverage is life of loan coverage, whereas borrower paid is subject to the hope of cancellation, which is about a 10-ish or so year time horizon.

So what that means is that the in force period if you will on borrower paid policies is significantly shorter than it is on lender paid policies, and when you look at the accounting literature and the recognition curves that we have for the revenue and/or the amortization rates that we use for the UPR, which is the other side of that equation, the time horizon over which the revenue recognition occurs has shortened by about one to two years.

So if you have the same fixed amount of premium upfront previously under a lender paid policy, it's enforced longer so the revenue recognition curve would be longer. Whereas with a borrower paid policy, it would be that same fixed amount of premium would be recognized over a shorter time horizon. And so what you've seen is that roughly 14% of our NIW this quarter is borrower paid singles, which is significantly higher than it was years ago when it was about 2%. So it's the mix of the single premium production, shifting to a shorter life profile, which is causing the significant change in our update on estimates around the UPR.

Mark C. DeVries
Analyst, Barclays Capital, Inc.

Q

Okay. Got it. Thank you.

Operator: Next in queue we'll go to the line of Bose George with KBW. Please go ahead, sir.

Bose George
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Hi, good morning. Actually I wanted to ask first just about the debt-to-capital. I guess it's around 20%, now can you remind us what you're targeting there and how you're thinking about the need for an investment grade rating?

J. Franklin Hall
Chief Financial Officer & Senior Executive Vice President, Radian Group Inc.

A

Sure, Bose. This is Frank. So, 20.6% as reported at the end of the quarter, it's 20.4% now after we took out the rest of the 2020s and finished off our repurchase program. And historically we've said, low-20s is typically what we were thinking about from a rating agency perspective. And I think I mentioned a few times recently, rating agencies don't give us a hard and fast number to manage them. So this is our expectation of what we think it should be to be viewed favorably by the rating agencies. Obviously, we're at a very low level now certainly relative to our history and we think that this should be viewed favorably by the rating agencies, but that really is their determination to make.

Bose George
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Okay. Thanks. And then, I don't know if I missed this, but what was the default to claim rate in the quarter?

J. Franklin Hall
Chief Financial Officer & Senior Executive Vice President, Radian Group Inc.

A

I'm sorry, Bose you're talking about the – on the new business.

[indiscernible] (00:50:29)

J. Franklin Hall
Chief Financial Officer & Senior Executive Vice President, Radian Group Inc.

A

Yeah. 8%. 8%.

Bose George
Analyst, Keefe, Bruyette & Woods, Inc.

Q

And just what's the expectation going forward, do you think any room to move that further down or is this kind of the run rate?

J. Franklin Hall
Chief Financial Officer & Senior Executive Vice President, Radian Group Inc.

A

Sure. I think as we've consistently said or even though we didn't see a change on the new defaults quarter-over-quarter, we do think that the overall economic landscape is favorable. We adjust it – excuse me – we make adjustments to it in the context.

Operator: And Mr. George, does that answer your question?

Bose George
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Yes. That last bit faded out a little bit. Actually I didn't know if [indiscernible] (00:51:14) my phone or...?

J. Franklin Hall
Chief Financial Officer & Senior Executive Vice President, Radian Group Inc.

A

Sure. I'm sorry. So the default to claim rate assumption is viewed in the context of the current information that we have each quarter. And certainly the landscape – the economic landscape is positive and strong. So I would say if that continues there could be an opportunity to move that lower. What we did do is move the default to claim rate down on our age defaults. So it really just depends on the performance of the portfolio and the economic landscape at the time we make that assessment.

Bose George
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Okay. Thanks. And actually just one more for me, can you just talk about the sensitivity of your investment income to a lower fed funds?

Richard G. Thornberry
Chief Executive Officer & Director, Radian Group Inc.

A

Sure. So the lower fed funds rate obviously is at the short end of the curve. So it really depends on what the rest of the curve does. Our duration is 3.6 years and I think – excuse me, 3.7 years and that is shorter than our target and is shorter because of some of the capital actions that we took in the quarter. So we would expect to see that extend a little bit. So it really does depend on, I would say just the timing of the reinvestment opportunities at this particular point in the curve, and of course spreads what they are doing. So hard to calibrate to a fed rate cut, so it really does depend on market conditions.

Bose George
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Okay. Great. Thanks.

Operator: Next in queue we'll go to the line of Sam Choe with Credit Suisse. Please go ahead.

Samuel Choe
Analyst, Credit Suisse Securities (USA) LLC

Q

Hi. I'm filling in for Doug Harter today. So all my questions regarding capital return has been answered. So I just wanted to shift focus to the NIW production. And it was great this quarter. So I was just wondering if there was anything in the competitive landscape that you saw that you took advantage of? And how much of that is replicable going forward?

Richard G. Thornberry
Chief Executive Officer & Director, Radian Group Inc.

A

So I think – thank you for that question Sam and you're doing a great job filling in today. So we appreciate it. So I think you know look we from a competition point of view we really didn't see many changes from the prior quarter, from a market perspective. But I think our growth quarter-over-quarter is reflective on the relationships on our sales team in the marketplace and the service we deliver.

And I think also driven by our risk analytics, which we do at a loan level and the originator level and servicer level and how we drive kind of our return focus around from a pricing point of view to produce economic value for our portfolio. So I really – Derek and Frank and I and others have spent a lot of time talking about this, we really feel like we are well-positioned with our customers to be in a strong position to help them compete. Environment plays well to our strength.

I think really it's reflective of – the second quarter results are really reflective of very strong competitive position. We like the environment and we're very pleased with how our team is adjusted to, I really think, kind of the new competitive world if you will where pricing is less transparent and who you do business with matters a great deal. So I think this is where as we've been saying for the last couple of years, we're portfolio managers in a world focused on aggregating and managing U.S. mortgage credit risk.

And I think we have to be nimble and flexible through this environment and leverage our core expertise and identify market segments where it makes sense from a loan attribute or customer point of view and to drive the targeted risk returns. And when I kind of look at our strengths in terms of our market presence, our risk analytics, our ability to leverage data and analytics to drive pricing to the right customers and do the right business at the right risk adjusted returns, I truly believe it places our strength. I think you're seeing that reflected in our results. I don't know Derek, if you'd want to add?

Derek V. Brummer
Senior Executive Vice President, Mortgage Insurance and Risk Services, Radian Group Inc.

A

Yeah. I would just add, I don't think we've seen any material changes from a competitive perspective. I think in terms of the exact volume that's going to be again very dependent upon the competitive environment and in our ability in which we've had success this quarter. We continue to target mid-teen returns and so to the extent that we can find loans that kind of fit that profile and we're comfortable from a risk return perspective and it's with lenders we feel comfortable with. And that's going to be really kind of driving the volume. I think also in this new environment, where you have more of these so-called black-box pricing engines, I think there is kind of a chance of more volatility also from a market share and volume perspective and also from a credit mix perspective. So we could see a little bit more volatility around that as well.

Samuel Choe
Analyst, Credit Suisse Securities (USA) LLC

Q

Yeah. Okay, thank you. So, you guys always base production of the quality of the product, not market share. But I mean this was still pretty good quarter. So I was just wondering strategically how do you maintain that because I mean it is a positive momentum going forward?

Richard G. Thornberry
Chief Executive Officer & Director, Radian Group Inc.

A

Yeah. I think you know actually I appreciate you making the point because I don't think you've heard market share mentioned in anything we talk about because we consider our role is really building the economic value in our portfolio, as opposed to pursuing volume for volume sake. And I think what we've – the combination of our relationships in the marketplace along with the risk – pricing and analytics that we do, I think is working well and I think you know to Derek's point you know this world has changed a bit from kind of how people compete and I truly believe this plays to our strength both our presence in the marketplace, and our ability to assess and evaluate risk and determine how best the price for that risk.

We do you know – I think it's important always to highlight, we do value the insights we have around origination quality that we have with our customers and how they service our risk, and I think that served us well to kind of grow our business this quarter to drive returns that are mid-teens. And I think really put us in a position to exceed last year's NIW record, NIW $56.5 billion. So we're growing a strong portfolio, remember it's $231 billion and we think it's got significant earnings for the future

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Samuel Choe
Analyst, Credit Suisse Securities (USA) LLC

Q

Very helpful. Thank you so much.

Richard G. Thornberry
Chief Executive Officer & Director, Radian Group Inc.

A

You're welcome. Thank you.

Operator: Next in queue we'll go to the line of Chris Gamaitoni with Compass Point. Please go ahead.

Chris Gamaitoni
Analyst, Compass Point Research & Trading LLC

Q

Good morning, everyone.

Richard G. Thornberry
Chief Executive Officer & Director, Radian Group Inc.

A

Good morning.

J. Franklin Hall
Chief Financial Officer & Senior Executive Vice President, Radian Group Inc.

A

Good morning, Chris.

Chris Gamaitoni
Analyst, Compass Point Research & Trading LLC

Q

I wanted to follow up on the $2 billion of future embedded value discussion. Is that a pre-tax or post-tax number that you disclosed?

J. Franklin Hall
Chief Financial Officer & Senior Executive Vice President, Radian Group Inc.

A

That's after tax. Actually in the Investor Day materials kind of went through all of the components of that. If you want to take a look at that, but that is after tax earnings.

Chris Gamaitoni
Analyst, Compass Point Research & Trading LLC

Q

And remind me, was there any conversation on kind of like the weighted average life of that expected recognition period?

J. Franklin Hall
Chief Financial Officer & Senior Executive Vice President, Radian Group Inc.

A

I'm sorry. [indiscernible] (00:58:34) again.

Chris Gamaitoni
Analyst, Compass Point Research & Trading LLC

Q

Just $2 billion, what's the weighted average life of receiving that?

J. Franklin Hall
Chief Financial Officer & Senior Executive Vice President, Radian Group Inc.

A

I am sorry. No, it confirms with all of the other modeling that we use throughout the company. So there are different life assumptions across different products.

Richard G. Thornberry
Chief Executive Officer & Director, Radian Group Inc.

A

Yeah. We gave two numbers on our Investor Day, one was the undiscounted future earnings and then also the economic value of the portfolio. So I think they're coming from two different perspectives.

Chris Gamaitoni
Analyst, Compass Point Research & Trading LLC

Q

And then I just wanted to follow up one thing on the capital priorities you mentioned before shareholder returns as strategic alternatives. What would be interesting to you right now from a strategic standpoint?

Richard G. Thornberry
Chief Executive Officer & Director, Radian Group Inc.

A

So this is Rick, Chris. Thanks for that question. I think you know look we – I think we've been incredibly disciplined about what we think fits and what we think doesn't fit. And I think most of the things that we've done to date from a strategic point of view have been really very small bolt-on kind of immaterial acquisitions. So today we get flooded with opportunities and Frank and I and his team have a very quick kind of review process. And so I don't think we will comment on specific areas of interest, but something that we think would fit strategically, being accretive have – meet our return hurdles, likely something that would if it were material would bring scale with it. But these are – you know, we're not on the hunt for something that's going to fix a problem we don't have. So it'll be more opportunistic and have to fit into our strategy and fit into our customer needs where we're in the U.S. mortgage and real estate markets today, and that's our focus, and I think we have pretty good positions with the properties we have.

Richard G. Thornberry
Chief Executive Officer & Director, Radian Group Inc.

A

Perfect. Thank you so much.

Operator: Next in queue, we'll go to the line of Mihir Bhatia. Please go ahead.

Mihir Bhatia
Analyst, Bank of America Merrill Lynch

Q

Hi. Thanks for taking my questions. Just a couple of quick follow-ups really. First, I just wanted to follow-up on the default to claim question. I think Bose asked. Just want to make I understand. If the economy keeps chugging along, you know, as it is, would that be enough to drive improvements in that assumption or do you need to see a leg up in the economy or housing fundamentals or something to improve the assumptions there?

Richard G. Thornberry
Chief Executive Officer & Director, Radian Group Inc.

A

Yeah. So I think that's hard to estimate and so far as we're really evaluating the performance of the portfolio in addition to the economic landscape. So it is sort of a multifactor analysis. Chugging along the quality of the portfolio that we've produced post-crisis has been absolutely outstanding. So that certainly bodes well for us. Obviously help from the economy would be helpful overall as well, but it really is hard to give the attribution analysis to a single variable.

Mihir Bhatia
Analyst, Bank of America Merrill Lynch

Q

Okay. That's fair enough. I understand. And then, on the unearned premium reserve, the release that you had just caught on the single premium amortizations, if the Fed was to cut rates again, would that also lead to – and it leads to lower mortgage rates and that flows through. Does that mean that that would – that there's potential for more on that way or does this kind of capture the forward view of the rate curves and the Fed expectations et cetera?

Richard G. Thornberry
Chief Executive Officer & Director, Radian Group Inc.

A

Sure. Great question. It is – the analysis goes beyond, just a single input and certainly an input that would have the volatility of Fed rate changes there. So we try to look beyond interest rate moves and the volatility associated with the refinance activity. It is an input and the analysis that we use especially as we look at the historical performance, but it's not so sensitive that it would move with each Fed rate cut.

Mihir Bhatia
Analyst, Bank of America Merrill Lynch

Q

Got it. Thank you. And then just finally, coming back to capital returns. Can you help us just frame the – I don't know if quarterly is the right timeframe, but just trying to understand, I understand that you're generating a lot of capital. There are some constraints on the amount of capital you can distribute up, given the surplus constraints of the statutory surplus and it's not just PMIERs based. But maybe help us just you know, frame that? What that kind of constraint is? I understand it ends in 2023, but how much like do you expect to build that up to?

[indiscernible] (01:03:31)

Richard G. Thornberry
Chief Executive Officer & Director, Radian Group Inc.

A

Yeah. So what we said, and actually in Investor Day we went through I think a fairly detailed example of it, but the statutory capital levels right now are $500-ish million or so, and we've indicated that that is going to be our binding constraint for a while until we see some of those contingency reserves free up in the 2023, 2024 timeframe. And then the amount that gets freed up is about anywhere from $300 million to $400 million a year after that. So, if you think about building statutory capital organically, it is not entirely flat, but a very slow rate of change from now until that time horizon. That doesn't mean that that we might not see some other ways to position things, as we look at organizing our legal entities and our risk et cetera. But I would just say on a static go forward basis that would be our expectation.

Mihir Bhatia
Analyst, Bank of America Merrill Lynch

Q

Got it. Thank you. Those are all my questions. Thanks.

Operator: Thank you. We'll go to the line of Mackenzie Aron with Zelman & Associates. Please go ahead.

Mackenzie Aron
Analyst, Zelman & Associates

Q

Thanks. Good morning. Just a quick one.

Richard G. Thornberry
Chief Executive Officer & Director, Radian Group Inc.

A

Good morning.

Mackenzie Aron
Analyst, Zelman & Associates

Q

I wasn't sure if there was yield guidance that you could provide for the back half of the year?

J. Franklin Hall
Chief Financial Officer & Senior Executive Vice President, Radian Group Inc.

A

Yeah. Mackenzie, this Frank. You know yield guidance is certainly difficult to do. I think I had missed it pretty badly a couple of years ago. So, I'll shy away from it. I think the reality is, it depends upon the business that's coming in and the mix of that business and the mix of the business that's coming out as well. So I think the guidance that I gave several years ago was that you should expect to see it come down modestly over time. Our mix over the last two years has shifted such that it did not come down. But I think it is – it's certainly something that we're sensitive to. But keep in mind too that the yield guidance that we give is on the portfolio. And the NIW that we're writing is, it takes a while to actually have an impact on the portfolio overall. So there are lot of dependencies there, but – yeah, so I hope that's helpful.

Mackenzie Aron
Analyst, Zelman & Associates

Q

It is. And just on the ILN, the most recent transaction. Is that fully reflected in this quarter's yield?

J. Franklin Hall
Chief Financial Officer & Senior Executive Vice President, Radian Group Inc.

A

It is. And that's the...

Mackenzie Aron
Analyst, Zelman & Associates

Q

Okay.

J. Franklin Hall
Chief Financial Officer & Senior Executive Vice President, Radian Group Inc.

A

...0.8 basis points. So the total ILN, both for the 2018 and 2017 vintage the total of those two is about 1.4 basis points.

Mackenzie Aron
Analyst, Zelman & Associates

Q

Great. Thank you.

Richard G. Thornberry
Chief Executive Officer & Director, Radian Group Inc.

A

Thank you.

Operator: [Operator Instructions] And we have a question from the line of Phil Stefano of Deutsche Bank. Please go ahead.

Phil Stefano
Analyst, Deutsche Bank Securities, Inc.

Q

Yeah. Thanks and good morning.

Richard G. Thornberry
Chief Executive Officer & Director, Radian Group Inc.

A

Good morning.

Phil Stefano
Analyst, Deutsche Bank Securities, Inc.

Q

On an earnings call earlier this week, one of the reinsurers who's been active in MI said that they noticed other reinsurers seem to be bumping up against either regulatory or rating agency's thresholds for the amount of MI business that they could do. Are your brokers flagging this to you, or any comments you can provide about maybe the sustainability of the singles go to share?

Derek V. Brummer
Senior Executive Vice President, Mortgage Insurance and Risk Services, Radian Group Inc.

A

Sure. This is Derek. So, in terms of sustainability, I think we've heard similar things. I don't think we have reason to believe that the market is kind of backing up from our ability to distribute risk at this point. We haven't heard anything to give us that indication. Again when you look at the returns from a reinsurance perspective the credit quality is very good, that we bring in the portfolio. It's outperforming kind of our through to cycle expectations. So when you look at it from that perspective, it is still strong business. There's also I think untapped reinsurers, who haven't gotten into the market yet as well, which gives opportunities.

Phil Stefano
Analyst, Deutsche Bank Securities, Inc.

Q

Okay. And the comment wasn't from a performance perspective, so apologies...

Richard G. Thornberry
Chief Executive Officer & Director, Radian Group Inc.

A

Understood.

Phil Stefano
Analyst, Deutsche Bank Securities, Inc.

Q

... [ph] it came across (01:08:03). And maybe switching gears and a quick one on Services. So I guess I was under the impression that the guidance at least for a margin at the Investor Day, that the comments of this year. And it feels like where this year means an exit run rate. So do we feel like 2020 we'll be able to have tangible evidence that the turnaround is working and it has been completed? Or how should we think about what 2020 looks like, if we're confident that leaving 2019, all cylinders will be firing?

Richard G. Thornberry
Chief Executive Officer & Director, Radian Group Inc.

A

Yeah. I don't think – thank you, Phil. This is Rick. I don't think that we're giving the guidance for 2020, but we do see a progress across our businesses that we feel very positive about, both in term – specifically you know we can see each of the activities across our mortgage and real estate and title businesses growing, and keep in mind each of these activities are all at a kind of a different level of maturity and require different types of investment, and you know we use that example, our title business was essentially kind of a startup if you will. We bought a couple of properties, put them together in Radian Title Insurance, and Radian Settlement Services and you know we're starting to see significant momentum on that business from a customer point of view. And feel very good same thing around the real estate side and obviously on the due diligence business the securitization market has been expanding.

So I think overall we feel good about the businesses and how they're positioned to go forward. And I think as I've mentioned, I believe the real estate and title businesses, probably I think I talked about in the Investor Day, given the data analytics and technology, focus are on those businesses, I think we are really truly building value in those businesses for our shareholders even ahead of earnings, but earnings continue to develop, and we remain positive about the development of those businesses. So I think we're not here to give guidance today on 2020, but we do feel that our run rate guidance that we've given I think last fall was going to be stated in, probably in October and November and we continue to stand by that guidance.

Phil Stefano
Analyst, Deutsche Bank Securities, Inc.

Q

Okay. Thanks. One quick numbers question, Frank, the amortization of single premiums has changed and caused a couple of one timers, those were one timers for second quarter. There's no reason that third quarter would be impacted by any of that change in the amortization schedule. Is that right?

J. Franklin Hall
Chief Financial Officer & Senior Executive Vice President, Radian Group Inc.

A

I'll answer it technically. Technically, it's an accounting estimate that gets reviewed from time-to-time. So I'd hate to say it won't be adjusted again, but yes, an adjustment of this magnitude I think reflects the current landscape in our analysis of the portfolio. So, I would expect any adjustments to that to be infrequent.

Phil Stefano
Analyst, Deutsche Bank Securities, Inc.

Q

Infrequent and immaterial, at least in the next couple of quarters. Perfect. Thank you.

J. Franklin Hall
Chief Financial Officer & Senior Executive Vice President, Radian Group Inc.

A

Thank you.

Richard G. Thornberry
Chief Executive Officer & Director, Radian Group Inc.

A

Thank you.

Operator: Speakers, apparently we have no additional questions in queue at this time, please do continue.

Richard G. Thornberry
Chief Executive Officer & Director, Radian Group Inc.

Okay. Well. First of all, I want to thank our team on an excellent quarter and a great momentum that the company is experiencing today. I appreciate everybody taking time for our call today and your continued interest in Radian and I look forward to seeing each of you very soon. Take care.

Operator: And that does conclude our conference for today. We thank you for your participation and for using the AT&T teleconferencing center. You may now disconnect.