PARTICIPANTS

Corporate Participants

John W. Damian – Head-Corporate Development & Investor Relations, Radian Group Inc.
Richard G. Thornberry – Chief Executive Officer & Director, Radian Group Inc.
J. Franklin Hall – Chief Financial Officer & Senior Executive Vice President, Radian Group Inc.
Derek V. Brummer – President-Mortgage, Radian Group Inc.

Other Participants

Douglas Harter – Analyst, Credit Suisse Securities (USA) LLC
Randy Binner – Analyst, B. Riley Securities, Inc.
Mark C. DeVries – Analyst, Barclays Capital, Inc.
Jack Micenko – Analyst, Susquehanna International Group, LLP
Bose George – Analyst, Keefe, Bruyette & Woods, Inc.
Mihir Bhatia – Analyst, BofA Securities, Inc.
Phil Stefano – Analyst, Deutsche Bank Securities, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Welcome to Radian Third Quarter 2020 Earnings Call. My name is Jenny. I'll be your operator for today's call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session. [Operator Instructions] Please note that this conference is being recorded.

I will now turn the call over to John Damian, Senior Vice President of Investor Relations. Mr. Damian, you may begin.

John W. Damian, Head-Corporate Development & Investor Relations, Radian Group Inc.

Thank you, and welcome to Radian's third quarter 2020 conference call. Our press release, which contains Radian's financial results for the quarter, was issued yesterday evening and is posted to the Investors section of our website at www.radian.com. 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 real estate adjusted EBITDA.

A complete description of these measures and the reconciliation to GAAP may be found in press release Exhibits F and G and on the Investor section of our website. In addition, we have also included a related non-GAAP measure, real estate adjusted EBITDA margin, which we calculate by dividing real estate adjusted EBITDA by GAAP total revenue for the Real Estate segment.

This afternoon, 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, President of Radian Mortgage. Due to the current environment, all of our speakers this afternoon are remote. I would ask that you please excuse any sound quality or technical issues that may arise during the call.

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,

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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 2019 Form 10-K as updated in our quarterly report on Form 10-Q for the second quarter of 2020 and subsequent reports filed with the SEC. These reports 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, John, and good afternoon. Thank you, all, for joining us today and for your interest in Radian. Our quarterly results were again impacted by the pandemic economic environment. However, we are encouraged by signs of improvement in the economy, the strength of the overall housing market, and continued positive default trends within our portfolio. I'm proud to say that our team and our businesses continue to operate well with strong momentum during this unprecedented time.

Let me provide a few highlights of our financial results from the third quarter. We reported net income of $135 million or $0.70 per diluted share and adjusted diluted net operating income per share of $0.59. Book value grew 11% year-over-year to $21.52 per share. We wrote record volume of new primary mortgage insurance business of $33 billion. We saw a 67.5% decline in our number of new defaults quarter-over-quarter and a decline in the default rate to 5.9%. Revenues and our Real Estate segment increased 28% from the second quarter of 2020 to $33 million.

Turning to a couple highlights for October. We executed our fourth mortgage insurance-linked-notes reinsurance transaction for $390 million which further enhanced our capital efficiency and strengthened our risk profile, resulting in 74% of our risk in force being subject to some form of risk distribution. In terms of default trends, while economic uncertainty continues to persist, I'm pleased to report that we saw a decline in the number of new defaults and an increase in the number of cures reported to us in October, resulting in a net decline of outstanding defaults of 5%, ending with 59,604 total defaults on October 31.

Moving now to the broader mortgage real estate market. During last quarter's earnings call, we had noted some rebound in the US housing market following a slowdown in purchase on volume due to the economic strain of COVID-19. Positive momentum continued in the third quarter with September existing home sales increasing 9% from the prior month, representing the fourth consecutive month of growth. And based on the latest data from our own Radian Home Price Index, over the last 12 months, there's been a strong housing demand and relatively limited supply in the market which has helped lead to an 8% increase in home prices across the country.

The increased purchase loan demand combined with the strong refinance volume from continued lower interest rates drove our record volume of new primary mortgage insurance business in the third quarter. While the high volume of refinances during the quarter did drive persistency lower, it is important to note that our high quality $245 billion insurance portfolio grew approximately 4% year-over-year and 2% quarter-over-quarter, and our monthly premium insurance in force grew 10% year-over-year.

It's also worth noting that, in September, we set another monthly NIW record, the fifth of the year, with nearly 70% of our volume coming from purchase loans. In fact, the $23 billion of new purchase loan business we wrote in the quarter represented a 32% increase from our previous quarterly purchase loan record set in the third quarter of last year. Given the current environment, the strong NIW during the third quarter and a significant commitment pipeline heading into the fourth quarter, we now expect to write new MI business in 2020 of more than $100 billion.

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In our real estate business, as we reported, segment revenues of $33 million compared to $26 million for the second quarter of 2020 and $30 million from the third quarter of 2019. We continue to see growth in our title business with a strong sales pipeline of large customers. However, as I mentioned last quarter, our traditional appraisal and REO businesses are experiencing slowdowns as a result of the COVID-19 environment.

Despite the growth in our Real Estate segment revenues, we experienced an operating loss which is the result of staffing up for our growing title business where we have 157% increase year-over-year in open orders and our continued investment in data, analytics, and technology across our real estate businesses. Strategically, we see growing market demand for technology-driven solutions, and we believe we are well-positioned to participate and lead the market's digital transformation.

Turning to our capital position, there continues to be a level of uncertainty in the overall economic recovery gap. With $1.1 billion of available liquidity at Radian Group and a strong PMIERs position, we believe we are well positioned – well prepared to leverage our strong capital position and navigate this environment through the cycle. Frank will provide more details on capital including our PMIERs position. As part of our overall capital management process, we continue to monitor and access the reinsurance and capital markets when economically attractive to our company.

The strength of our capital position, combined with our ability to effectively aggregate, manage and distribute risk, has enabled us to continue writing significant levels of high-quality mortgage insurance business through the cycle. As we've said in the past, we remain focused on leveraging our strong risk management discipline and a loan and customer level to deploy our capital on business that we believe will generate the most economic value for our shareholders and achieve our targeted risk-adjusted returns in the mid-teens.

Now, I would like to turn the call over to Frank for details of our financial position. Following Frank's remarks, I will provide a regulatory and legislative update.

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

Thank you, Rick, and good afternoon, everyone. To recap our financial results issued last evening, we reported GAAP net income of $135.1 million or $0.70 per diluted share for the third quarter of 2020 as compared to a net loss of $0.15 per diluted share in the second quarter of 2020 and net income of $0.83 per diluted share in the third quarter of 2019.

Adjusted diluted net operating income was $0.59 per share in the third quarter of 2020 as compared to adjusted diluted net operating loss per share of $0.36 in the second quarter of 2020 and adjusted diluted net operating income per share of $0.81 in the third quarter of 2019.

I'll now turn to the key drivers of our revenue. As Rick mentioned earlier, our new insurance written was $33.3 billion during the quarter compared to $25.5 billion last quarter and $22 billion in the third quarter of 2019. Our third quarter 2020 volume is our highest level of quarterly new insurance written on a flow basis.

Primary new insurance written for refinances was 30% of total new insurance written for the third quarter of 2020 compared to 44% in the second quarter of 2020 and 19% for the third quarter of the prior year. Direct monthly and other recurring premium policies were 90% of our new insurance written this quarter, an increase from 85% for the second quarter of 2020 and 85% for the third quarter a year ago, which also means that single premium policies were down significantly to only 10% of our third quarter 2020 new business. In total, borrower paid policies were 99% of our new business for the third quarter.

Primary insurance in force increased to $245.5 billion at the end of the quarter as compared to $241.3 billion in the second quarter of 2020, with year-over-year insurance in force growth of approximately 4%. In addition to the elevated policy cancellations due to the current low interest rate environment, we also experienced an increase in single premium policy cancellations during the third quarter as part of our ongoing servicer monitoring and reconciliation process. These additional cancellations represented approximately $2.9 billion of insurance in force.

Our 12-month persistency rate of 65.6% decreased from 70.2% in the prior quarter and 81.5% in the third quarter of 2019. Our quarterly annualized persistency rate was 60% this quarter, a decrease from 63.8% in the second quarter of 2020 and 75.5% in the third quarter of 2019. The quarterly annualized persistency rate of 60% was materially affected by the single premium reconciliation mentioned earlier and would have been approximately 65% absent that activity, which would have been a small increase from the 63.8% reported in the second quarter of this year. The year-over-year decline in quarterly annualized persistency is driven by the continued high level of refinance activity given continued low mortgage rates. Given the current mortgage rate environment, it is expected that near-term persistency will remain below long-term trends.

Moving now to our earned premiums. Net premiums earned were $286.5 million in the third quarter of 2020 compared to $249.3 million in the second quarter of 2020 and $281.2 million in the third quarter of 2019. The increase of 15% on a linked-quarter basis is primarily driven by the impact of the adjustment to accrued profit commission recognized in the second quarter of 2020 due to the increased loss provision in that quarter, as well as an increase in single premium policy cancelations in the third quarter of 2020. Our net premiums earned increased 2% as compared to the third quarter in 2019. This increase is primarily driven by higher single premium acceleration.

Our direct in force premium yield, as noted on slide 10, was 43.2 basis points this quarter compared to 44.3 basis points last quarter and 47.4 basis points in the third quarter of 2019. As noted in previous quarters, we expect our in force portfolio yield [to continue to decline due to the difference in credit mix and associated premium rates of today's new insurance] written relative to prior vintages. Recent trends of lower persistency and higher levels of new insurance written have also contributed to a faster rate of change in the yield of our mortgage insurance portfolio as the portfolio has turned over.

The timing and magnitude of future portfolio yield changes will continue to depend on several factors including the volume, mix and pricing of new business relative to the volume and mix of cancellations and prepayments in our portfolio and the pace of future refinance activity. Our level of premium yield driven by single premium cancellations increased to 10.7 basis points compared to 8.2 basis points in the second quarter of 2020 and 4.6 basis points of yield in the same quarter a year ago.

The continued high level of single premium cancellations is primarily due to higher refinance activity driven by the low interest rate environment. Approximately 3 basis points of the yield related to cancellations was due to the previously mentioned servicer reconciliation activity that occurred in the quarter.

The negative yield impact of ceded premiums, net of profit commission, was 7.3 basis points as compared to 11.5 basis points in the second quarter of 2020 and 4.5 basis points in the third quarter last year. This improvement on a linked quarter basis is primarily due to higher profit commission which increased to $20.4 million in the third quarter compared to a negative $10.6 million in the second quarter, as noted on press release Exhibit L.

The yield impact of reinsurance remains higher when compared to the third quarter of 2019, primarily due to the elevated level of single premium cancellations observed this quarter, and associated ceded premiums under our single premium QSR. Other components of our revenue include total Real Estate segment revenues of $33.3 million for the third quarter of 2020,

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representing a 28% increase compared to $26.1 million for the second quarter of 2020 and an 11% increase compared to $30.1 million from the third quarter of 2019. Our reported real estate adjusted EBITDA for the third quarter of 2020 was a loss of $1.4 million.

And finally, our investment income this quarter of $36 million was down 6% from the prior quarter and 15% from the same quarter prior year due to lower investment yields which were partially offset by additional investments from underwriting cash flows and proceeds from our May 2020 senior debt offering.

At quarter-end, the investment portfolio duration was approximately 4.6 years, up from 4.1 years in the prior quarter, due to both portfolio reallocation and longer duration on recently purchased securities.

Moving now to our loss provision and credit quality. As noted on slide 13, the provision for losses for the third quarter of 2020 decreased to $87.8 million compared to $304 million in the second quarter of 2020 and $29.1 million in the third quarter of 2019. Our ceded losses, which are a benefit under our reinsurance programs, were $10.2 million in the third quarter of 2020, compared to $39.6 million in the second quarter of 2020 and $0.8 million in the third quarter of 2019.

As shown on slide 14, we had approximately 21,000 new defaults in the third quarter of 2020 as compared to approximately 63,000 in the second quarter of 2020 and approximately 11,000 in the third quarter of 2019.

Also, as shown on slide 16, approximately 77% of these new defaults were reported to be in a forbearance program as of September 30, 2020. It is important to note that these new defaults were from recent origination vintages. And as a result, the average risk written on these policies is higher than our recent average claims paid experience, which has been more heavily concentrated in older vintages. These new defaults were the primary driver of our provision for losses during the third quarter as the reserve development on prior period defaults was not material.

The default to claim rate assumption on new defaults remained at 8.5% for the third quarter of 2020, unchanged from the second quarter of 2020, and an increase from 7.5% for the third quarter of 2019.

It is important to remember that our reserve estimate is based upon the best available information we have at the time which includes both external economic metrics and the outcomes of our own proprietary models. As we have all observed, since the beginning of this pandemic, the variability and frequency of change in many economic estimates has been elevated and continues to vary widely. Since our loss reserves are a point-in-time estimate, it is subject to change at each reporting period based upon available information at that time. Keep in mind that we are estimating the amount of future claim payments which under normal circumstances will not be realized for several years.

We have shared additional information on forbearance program mechanics and participation rates for our portfolio on webcast slide 16. As noted on the slide, 77% of our new defaults and 76% of our total default inventory are in forbearance programs. These forbearance programs are positive for our industry and for homeowners as they are intended to keep people in their homes, thus delaying or preventing claim payments. Included in our earnings release is an update for October operating statistics which shows a further decline in our primary default inventory as both the number of new defaults decreased and cure activity increased compared to prior months. Our October cure activity represented 160% of the new defaults reported in the month.

Now, turning to expenses. Other operating expenses were $69.4 million in the third quarter of 2020, compared to $60.6 million in the second quarter of 2020 and $76.4 million in the third quarter of 2019. The increase in operating expenses in the third quarter of 2020 compared to the second

quarter of 2020 was driven primarily by an adjustment in the second quarter which reduced share-based incentive compensation expense for that period.

Moving now to taxes. Our overall effective tax rate for the third quarter of 2020 was 16.2%. The decrease in our effective tax rate for the third quarter was primarily due to the effect of a one-time discrete item recorded following the successful completion of an IRS exam of our 2015 tax year. Our annualized effective tax rate before discrete items remains generally consistent with the statutory rate of 21%.

Now, moving to capital and available liquidity. Radian Guaranty had PMIERs available assets of approximately $4.5 billion and our minimum required assets were approximately $3.5 billion as of the end of the third quarter of 2020. The excess available assets over minimum required assets of $970.3 million represents a 28% PMIERs cushion.

We have also noted on slide 19, our PMIERs excess available resources on a consolidated basis of $2.3 billion which, if fully utilized, represents 67% of our minimum required assets as of September 30, 2020. As of September 30, 2020, we have reduced Radian Guaranty's PMIERs minimum required asset requirements by $1.3 billion by distributing risk through reinsurance which includes insurance-linked note transactions and traditional third-party reinsurance execution, as noted on press release Exhibit L. For Radian Group, as of September 30, 2020, we maintained $1.1 billion of available liquidity.

Total liquidity which also includes the company's $267.5 million credit facility was $1.4 billion as of September 30, 2020. It is important to remind our listeners that most of the cash flows of the parent company are funded by long-established regulator-approved expense, interest and tax-sharing agreements with its subsidiaries and not through dividends from subsidiaries. This provides us with an enhanced level of certainty and predictability in parent company cash flows.

And subsequent to our third quarter end, in October 2020, Radian Guaranty entered into a fully collateralized reinsurance agreement with Eagle Re 2020-2 Limited. This reinsurance agreement provides for up to $390.3 million of aggregate excess of loss reinsurance coverage for the mortgage insurance losses on new defaults on an existing portfolio of eligible recurring premium policies with initial risk in force of $13 billion that were issued between October 1, 2019 and July 31, 2020.

Eagle Re 2020-2 Ltd. financed its coverage by issuing mortgage insurance-linked-notes in an aggregate amount of $390.3 million to eligible third-party capital markets investors in an unregistered private offering.

Overall, despite the increased risks and uncertainties posed by the COVID-19 pandemic, the quality of our mortgage insurance portfolio and the steps we have taken in recent years to enhance our financial strength and flexibility have positioned as well for an economic downturn, and we believe will help us weather any further macroeconomic stresses ahead.

And while the strategic and systemic defenses in place will not provide complete immunity to the expected near-term negative effects to our financial results, we believe that we are in a better position than ever before to absorb the impact of economic stress and will emerge from this crisis strong. And we remain ready to fulfill our mission.

I will now turn the call back over to Rick.

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

Thank you, Frank. Turning now to regulatory and legislative matters. Regardless of your political leanings, I think we can all acknowledge that the level of voting we saw during the election, while in the midst of a pandemic, was inspiring for our country. At Radian, we cleared our calendars of scheduled meetings to ensure our employees had sufficient flexibility to exercise their right to vote. As to the outcome of the election, it is important to highlight that the private mortgage insurance industry has been successfully providing first loss credit protection through numerous administrations and economic cycles for more than a half a century.

We are a permanently dedicated source of private capital in the mortgage system, protecting taxpayers while ensuring the dream of homeownership for low and moderate income borrowers. We have written business uninterrupted through the Great Recession and now at a record level during the COVID-19 crisis.

Our business model is proven and continues to both evolve and improve with strong and consistent capital standards, dynamic risk-based pricing, efficient operations and an emphasis on credit risk management including programmatic risk distribution. We believe this is recognized on both sides of the aisle and that we are well positioned to continue to fulfill our important role in the housing finance system.

In terms of areas of focus, the CFPB recently announced an extension of the QM Patch for GSE-eligible loans until the finalization of its new QM definition, which is expected sometime soon. The CFPB appears committed to a QM definition focus on pricing. And while we would like to see an increase in their proposed safe harbor to capture more creditworthy borrowers, we would not expect a material impact on our business if the rule was adopted as currently proposed.

Numerous comments have been submitted to the FHFA's new proposed enterprise capital framework, including importantly questions regarding the rationale for the level of capital required and the diminished value of credit risk transfer under the proposal. We understand the FHFA is in the process of considering these comments and – as they look to finalize the new capital framework.

We also want to note that the FHFA recently issued a new proposal on the process for evaluating new GSE products, including pilot programs, an important step in our mind for ensuring a healthy balance among government and private interests in the housing finance system.

Finally, I want to emphasize how proud we are at Radian of being able to support the real estate and mortgage markets during this tremendously difficult time. The pandemic has not reduced the need for affordable mortgage options or the innate desire from many Americans to realize their dream of home ownership and to begin the important journey of building sustainable wealth.

Our Real Estate and title teams have been advancing creative solutions to help people get into homes safely such as digital valuation tools and remote or even drive-through closings. Once in a home, our mortgage teams have been supporting homeowners affected by the pandemic by aligning our policies and procedures with the mortgage forbearance and loan modification alternatives that have been so critical in helping borrowers navigate this unprecedented environment.

We look forward to continuing to ensure the American dream of homeownership for many years to come.

Now, operator, we'd like to take questions.

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QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] And our first question comes from Douglas Harter from Credit Suisse. Please go ahead.

<Q – Doug Harter – Credit Suisse Securities (USA) LLC>: Thanks. Can you talk about the pricing you got on the most recent ILN transaction and [Technical Difficulty] (00:31:02) risk is being priced by those investors?

<A – Frank Hall – Radian Group Inc.>: Yeah. This is Frank. Why don't I start and then Derek can add in some additional color? The pricing that we received on the last on a blended basis on all the bonds is a spread of 483 basis points. And that compared to the issuance – our last issuance earlier in the year of 186 basis points. So the spreads widened quite a bit. But we still think, at those levels, it was attractive cost of capital for us and overall enhancement to our financial strength.

I don't know, Derek, if you'd add anything?

<A – Derek Brummer – Radian Group Inc.>: Yeah. I would just add that there continues to be obviously significant appetite. I think investors do see the US housing market and kind of see the trends that we're seeing in a very positive light. So I think that, as we've kind of gone through the crisis, I think we've generally just seen kind of a bit of tightening in the structures, which is consistent with what you're seeing also in the market on some of the CRT pricing as well.

<Q – Doug Harter – Credit Suisse Securities (USA) LLC>: And then, I guess, just on that point of the strength of the housing market, can you talk about home price appreciation, kind of how that might impact kind of the current default population and kind of how the [Technical Difficulty] (00:32:28) ultimate severity of those claims if and when they get there?

<A – Derek Brummer – Radian Group Inc.>: Sure. This is Derek. So, in terms of home price appreciation, home prices have held up and continue to appreciate in a much more rapid pace than we would have anticipated several months ago. So, depending on the index you're looking at, you're seeing home prices going up year-over-year in kind of that 5% to 8% range, which is somewhat unusual given kind of where unemployment rates have been.

So, in terms of that, that, first and foremost, really has a positive impact in terms of the propensity of one loans to roll to default and then to roll from default to claim. Because what it does with a positive equity that's been built up and as we continue to have that appreciation and equity, it allows homeowners kind of different exit paths to get out of delinquent status. So I think that's one reason we're certainly seeing very positive kind of cure to new default and also why we're seeing our default rate go down I would say sooner and more rapidly than anticipated.

And then, certainly, it takes obviously a period of time, kind of, our average default that's in default for about 36 months for rolls to claim, but that's where – it'd be a period of time before you see those rules and ultimately go to claim. But that can have a positive impact also in terms of the severity.

<Q – Doug Harter – Credit Suisse Securities (USA) LLC>: Great. Thank you, Derek.

Operator: And our next question comes from Randy Binner from B. Riley. Please go ahead.

<Q – Randy Binner – B. Riley Securities, Inc.>: Hey. Thanks. I want to ask one on premium yield, is a little bit better than we expected this quarter. And in light of the reinsurance agreements, in understanding, of course, that it would trend lower because of [Technical Difficulty] (00:34:17)

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product in the mix. But could there be an offset from the reinsurance deals and kind of good underlying performance there?

<A – Frank Hall – Radian Group Inc.>: Sure. I think as you look at the impacts of that over time, the reinsurance is certainly an item that has become more material and more variable there. I just want to be careful about the overall prediction about the premium yield on the portfolio itself, sort of, X single premium cancellations and X the reinsurance. I mean, we have been careful to guide that as the portfolio turns over with new vintages, older vintages that are higher priced for coming out that we do expect to see some decline over time. But the dynamic and the performance of the reinsurance is something that is variable and is largely dependent upon the pace of the single premium policy cancellations which is what our QSR program is covering. So as goes the single premium policies, so goes the variability on the QSR programs for us.

<Q – Randy Binner – B. Riley Securities, Inc.>: All right. That's helpful. And then, I guess, the related follow-up is just in regard to pricing. We're hearing from yourself and other MIs that the business is lower-priced which makes sense. How would you characterize pricing competition in the market?

<A – Derek Brummer – Radian Group Inc.>: Yeah. This is Derek. I think we probably have to segment in terms of what you're talking about per segment. So if you look at kind of our radar rates pricing and black box pricing, we'd indicated we raised pricing pretty early on compared to some of the competitors last quarters, and then you pretty much saw across the board everyone raised their rates. And so, you've seen an increase, and I think you've seen through Q3 those increases hold up for the most part. I think you kind of distinguished there, bulk bid pricing. So where we have seen more competition is on that side. And you've seen, I would say, some of the bulk bids from a pricing perspective, I think we've seen recent ones priced below, even some the pre-COVID levels. We don't participate in those. We haven't historically participated. Certainly, you see that reflected. We tend not to have as much volatility in our market share as compared to some of our competitors.

So that's probably where we've seen the competition. Kind of early fourth quarter, I think we're seeing some indications of a competitor or two kind of picking spots where rolling back a bit of the increase that you maybe saw going in at the peak of the crisis, I would say, which isn't terribly surprising. Certainly, if you look at kind of at the beginning of when COVID hit, the economic uncertainty and the deterioration, that obviously factors into everyone's models. And that's kind of where I sum up where pricing is probably at this point.

<Q – Randy Binner – B. Riley Securities, Inc.>: All right. Thanks for that.

Operator: [Operator Instructions] Our next question comes from Mark DeVries from Barclays. Please go ahead.

<Q – Mark DeVries – Barclays Capital, Inc.>: Thank you. There are obviously some strong tailwinds this quarter for the Real Estate business and some headwinds, as you called out, but yet that business is still not really generating any meaningful cash flow. Can you just talk about what kind of conditions you need to see there to really improve performance? And at the same time, you're also seeing healthy bids and valuations for those types of assets out in the marketplaces. Would you consider potentially divesting some of those assets to unlock value for shareholders?

<A – Rick Thornberry – Radian Group Inc.>: Mark, thank you. This is Rick and I appreciate your question. And I think, look, here's what I would say about our Real Estate segment and which really includes our title business and our kind of real estate businesses. And we are seeing growth, where we expect to see growth, we're seeing growth in our title business. I think, as I mentioned in my script, the year-over-year orders are up significantly and we're seeing that title business, a very

strong pipeline of customers in the process of being implemented, not so much even just from a sales cycle.

So, we – so I'll just split my comments between title and the other real estate activity. So, in our title business, we're really effectively scaling that business from a very small level and growing it that requires us to hire people in advance and kind of build capacity as we start to implement these customers quarter-by-quarter. So, some part of the revenue growth is from title, some part of the expenses, building up capacity ahead of those new clients entering.

So, that's all part of kind of taking something and scaling it from a startup like size to an industrial strength size and I think we feel very comfortable with the path and the growth opportunity we see around title. It is very accretive to our lender relationships and the kind of blue chip customers that are becoming customers of our title business are important, right. So that's – so on the title side, I think you can kind of – that growth opportunity is one that we feel strongly.

On the real estate side, interesting, your comment about some of the other valuations that you see because we feel strongly that we have a very unique and valuable set of assets that play towards a digital future across mortgage and real estate. We continue to have a very unique set of assets around real estate information specifically about property conditions, property valuations with the data we've accumulated over 20-plus years, I could go through the statistics. But we think we have very unique set of assets that, again, from a valuation point of view played towards the future of where the world is going versus where it's been and more traditional appraisal world.

But we also think it has broader relevance across the real estate transaction. And so, we continue to grow those businesses from a revenue point of view. But we're also investing from our technology, data and analytics point of view to continue to mature those businesses much like you see from a FinTech/PropTech perspective. And so, they are – there is some startup aspects like I refer to them as industrial strength startups.

And so, I'm a little bit less concerned about a couple millions plus or minus of EBITDA versus the value we see building in those businesses through our investments in things like AI and machine learning and robotic process automation through the process and how we're building proprietary technology.

So, to your question about how do we think about the valuations, we do consider and think through the best way to optimize value for our shareholder and I think just as we demonstrated through our capital planning and our stewardship of investor capital, I think you can assume that we do think we're very aware of the situations in the market and we do understand the inherent value of the assets we have in those businesses and continue to manage them to optimize that value.

So, we feel very good about where we're at, we feel very good about the progress being made by the team. We've got an incredible team focused on this and standing next to an MI business is always very hard for these kind of startup to industrial strength kind of businesses, but we like the assets we have and have refined – continue to refine down where we see value.

<Q – Mark DeVries – Barclays Capital, Inc.>: Okay. Got it. Thank you.

Operator: And our next question comes from Jack Micenko from SIG. Please go ahead.

<Q – Jack Micenko – Susquehanna International Group, LLP>: Hi. First one for Derek, going through just your explanation, I think either in a prior question or comment around – it sounded like what you're saying on the reserving this quarter was more of a severity issue, not a frequency issue. I think we're all looking at frequency and saying it's coming – volumes are coming down. Your credit's improving very – maybe a little quicker than anybody else's. But the mix – is that the right – is that the message that you're trying to convey?

<A – Derek Brummer – Radian Group Inc.>: Well, the question was kind of looking out in the future, and someone was really talking about reserving and how that factored in, in terms of reserving. So, if you kind of look at it, we didn't make any significant changes in terms of our approach from a reserve perspective. So any movement you're seeing kind of an approved reserve default, it's going to be driven really by where loans sits. So obviously, they've aged. So, we had more in the two to three missed payment bucket last quarter is that the age. So, you have that kind of pushing in that direction. So, that's where you're going to see more of the movement.

And then on the new defaults, what we're seeing on new defaults, those are starting to look more like the way they did pre-COVID, so the balance being a bit lower, the FICO being a bit lower. So, it's really driven by the inventory as opposed to any change in terms of our reserve assumptions.

<Q – Jack Micenko – Susquehanna International Group, LLP>: Okay. And then, you're at 8.5% that was unchanged from last quarter. Your peers are at 7%. I think one went to 8% on incrementally this quarter. I know you don't know their models. But what do you the difference is between Radian's view of the world currently and what the others in your industry are looking at just, in particular, given how consistent they were last quarter around the 7% you guys were an outlier being more conservative?

<A – Rick Thornberry – Radian Group Inc.>: Jack, this is Rick. I'll take this one. I think, look, as we walked through last quarter, I think it continues this quarter where, as we look forward in the economic scenario, the uncertainty still exists. And I think as we did in the second quarter and as we did here in the third quarter, we have to – we go through a quantitative analysis, we go through a thoughtful research on the – thought about the government programs that are in place and kind of how this all plays forward and looking at historical scenarios and then we apply a judgment.

And so, we felt like from quarter-to-quarter, there's not enough of a track record to see a change. I would say, the trends have continued to be positive. But I would also point out that all you see the difference between whether it's 7%, 8%, 8.5%, it's just different management teams applying a judgment factor around the scenario and the forward scenario, and I feel good about where we've landed.

I would also remind you that when you have an 8.5% default to claim rate, that assumes that 91.5% of them cure. So, whether 91.5% or 93% cure, I mean, we're talking about really insignificant differences between different companies. But I would say we applied our judgment. We felt like the level of uncertainty in the market warranted some caution. And we're going to continue to monitor the market and navigate through this scenario as we see it versus being swayed by how others approach and apply their judgment.

<Q – Jack Micenko – Susquehanna International Group, LLP>: Okay. You're looking at the cure to default rate. I mean, you're running, I think, 160% in October and that's kind of a high watermark post-pandemic, if you will. When do – I guess, when do you think we're sort of out of the woods on or when you get more confident in maybe getting a little more aggressive on the claim rate? Is it after the forbearance period ends, or just kind of thinking about how you guys are looking at from a risk perspective?

<A – Rick Thornberry – Radian Group Inc.>: That's a great question. And I'd let Derek and Frank chime in as well. But I think the way I would look at it is, really need – the good news is, our total default rate is going down. And as we announced also, our October numbers, as you just pointed out, look really strong – continue to look strong. So, four months of good trends. Learned very early in my career, be careful how many data points you need before you make a decision about something.

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So, I think we're not there yet. But I would say the trends look very good. But you've got to separate, new defaults are new defaults, right. So, we've seen – the good trend there as we've seen a trend where new defaults have come down materially, right? Materially. The cure is, I think – and I'll let Derek comment on this. The trend is, is that, really, we're – we expect cures to occur, they are occurring, and we're monitoring how they're developing, how those cures are developing, how they go back to current, how they go to loss mitigation.

And maybe Derek you want to just comment on the trends we're seeing there.

<A – Derek Brummer – Radian Group Inc.>: Yeah. I mean, I think it does need a little bit more time. I think also what we're seeing, obviously, loans and forbearance, those kind of transition people essentially have a bit of an option not to pay. So, at this point, I think, again, giving it a little time to see development.

As Rick said, we're talking about very small differences here. So, whether you're at 7.5% or 6.5% or 8.5%, these are very small and it takes a period of time for those kinds of cures to develop out. So – and a lot of it is going to be driven I think in terms of what we see on the macroeconomic side, so more certainty in terms of that and where things are going. Because from an economic perspective, still uncertainty around COVID situation. So, I think that that's really what we'd be looking at, do we see stability there underpinning the very positive trends we're seeing thus far and also continuing to see home price appreciation going up year-over-year. It just – it's a bit early to make a change at this point.

<Q – Jack Micenko – Susquehanna International Group, LLP>: Okay. Well, appreciate your thoughts. Thank you. I'm sorry. Sorry. Go ahead.

<A – Rick Thornberry – Radian Group Inc.>: Jack, I just want to add – I want to add one more thing to kind of complete your question, which is...

<Q – Jack Micenko – Susquehanna International Group, LLP>: Yeah.

<A – Rick Thornberry – Radian Group Inc.>: ...from a – from how do our reserves evolve in the future. And I think it's important to remember that when we put that default to claim rate, that really is our expectation for how that book of business will proceed through time, right. So, if we got it right, there's never any adjustments. We monitor trends both to the positive and to the negative, and that's where you see adjustments in the future. So, those are things that, again, play out in our scenario driven based on performance. But we apply judgment on every new default assuming that we get it right from the get-go and those adjustments don't occur. Obviously, things change as we go through time. So I just want to highlight that for you from a reserving point of view.

<Q – Jack Micenko – Susquehanna International Group, LLP>: Yeah. Great. Thank you.

Operator: [Operator Instructions] Our next question comes from Bose George from KBW.

<Q – Bose George – Keefe, Bruyette & Woods, Inc.>: Hey, guys. Good afternoon. I just wanted to get back to the...

<A – Rick Thornberry – Radian Group Inc.>: Good afternoon.

<Q – Bose George – Keefe, Bruyette & Woods, Inc.>: ...the comments on the – on competition. And just in terms of the bulk market, I know you guys aren't active in it. But I'm just curious whether there's obviously a big player that's been trying to grow share that's active in that market on the lender side, whether you see that market growing and sort of impacting the other players even if you're not directly participating in it.

<A – Derek Brummer – Radian Group Inc.>: Tough to say. I mean, that market's been there for years. And the dynamic in terms of where we see the relative value has been there for years. So, when we talk about not participating in that market, that's been a consistent for, like I said, a quite a period of time. And for us, it's really just a question of relative value. So, while there's been value in terms of the business just given kind of where the housing market is we're generally pricing as you can see value in all sorts of different segments in terms of where you're writing business. For us, it's really looking at where's that kind of the optimal use from an economic value perspective, where do we put our capital to work.

And when we will look at it on a relative basis as opposed to absolute, those are just not the highest kind of value opportunities for us. Obviously, if lenders look at relative pricing in this all kind of matters. But I would say in terms of the percentage of the market that's going bulk bid, the percentage of the market that's in black box, we haven't seen, I would say, significant changes over the last year, year-and-a-half once black box pricing really got embedded in the market. So it's a little hard to speculate as to where that would go. But there's no kind of secular shift that would cause me to think it's going to shift dramatically one way or the other.

<Q – Bose George – Keefe, Bruyette & Woods, Inc.>: Okay. That's helpful. Thanks. And just in terms of the size of the roughly the percentage that's going in the bulk market, do you have a feel for that?

<A – Derek Brummer – Radian Group Inc.>: Yeah. It's a little – I'm probably not going to characterize that. I'm not exactly sure what it would be this quarter. So, I'll probably demure on that one. And also since we're not participating, we're not in kind of the best position. I can kind of tell you where our pricing breaks down. And so, it's a little tough to speculate.

<Q – Bose George – Keefe, Bruyette & Woods, Inc.>: Okay. All right. Thanks a lot.

<A – Rick Thornberry – Radian Group Inc.>: Thank you, Bose.

Operator: And our last question comes from Mihir Bhatia from Bank of America.

<Q – Mihir Bhatia – BofA Securities, Inc.>: Hi. Thank you for taking the questions. Just wanted to start, I wanted to go back just real quick on the real estate segment discussion. I understand that you are managing the business for the long-term. But can you help us, just remind us on the run rate revenue and EBITDA, because you all had some targets a little while back but then I know there's been some restructuring and stuff. Is there – has that changed and I know recently you also – and also the size of the traditional appraisal business that you – I think you mentioned you're winding down in terms of just know thinking – as we think about headwinds for 2021 for your top line growth, if you will.

<A – Rick Thornberry – Radian Group Inc.>: Yeah. Mihir, thank you for the question. And I think, look, we – I think we had given guidance years before, before we sold off the Clayton business. And we've kind of been focused on really putting these businesses on the right track from a value creation point of view. And so, we have not provided those stakes in the ground of that guidance going forward. At some point, we'll consider it again. But, I would say, where we sit today, we feel very confident about the trajectory that they are on and we understand kind of where we see value and how our lenders are receiving that value. I will say that, we feel – today, we feel the benefits of these businesses aside for long-term value, are the competitive differentiation they give us in terms of our relationship with customer, some part of strategic differentiation in terms of kind of how we're thinking about markets, and obviously from a data and analytics point of view that we see across whether it's real estate information or just general market trends.

So – but I would say, as we've come around, we continue to shape the businesses, which include kind of our announcement of the wind-down of our AMC business which – I think your question was

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kind of the financial aspect of that. We would expect no material impact from a net financial point of view as a result of that wind-down. And we really see the market – our ability to leverage our data and analytics around property valuations to be a core strength and value in our franchise. And we felt like the AMC business and our team really has done a great job on that business. But we felt like it's a little bit more traditional and more commodity-like, and we're focused on wanting to make sure these business are aligned towards growth opportunities around more digital kind of day-to-day analytics and technology. So, the AMC business, we don't see any kind of net financial impact on our kind of segment P&L going forward.

<Q – Mihir Bhatia – BofA Securities, Inc.>: Great. Thanks. And then, just one last question, just on the capital side, off the ILN and obviously the excess capital position. Is there anything you are targeting in this current environment in terms of how much you want to have, how much excess capital about PMIERs, if you will, you want to have, or is it just a matter right now of now is the time to preserve capital and we will see what it looks like the outlook improves?

<A – Frank Hall – Radian Group Inc.>: Sure. This is Frank. I think when it comes to PMIERs, we are managing it in the context really of what our expectations are of our delinquency inventory and how those migrate. There are a couple of moving parts that that impact PMIERs right now. So, for instance, the capital charge benefit that we get through the forbearance programs through the CARES Act represents a fairly sizable portion of PMIERs benefit.

So, we just want to be careful around things that could be happening to us near-term. And so, yeah, I think your characterization of preserving it is certainly an accurate statement. We also maintain a very healthy level of cushion at the parent company which is not reflected in the operating company. So, with over $1 billion there to support it as well, we feel that we're in a good position. I think you'll remember earlier in the year, we also issued $525 million in new senior debt that was tended to serve defensive purposes. So, yeah, I would say right now, the preservation of capital from that perspective is the right way to orient your thinking around our management of it.

<Q – Mihir Bhatia – BofA Securities, Inc.>: Great. Thank you. Those were all my questions. Thank you.

<A – Frank Hall – Radian Group Inc.>: Thank you.

<A – Rick Thornberry – Radian Group Inc.>: Thank you.

Operator: And we do have one more question from Phil Stefano from Deutsche Bank.

<Q – Phil Stefano – Deutsche Bank Securities, Inc.>: Yeah. Thanks and good afternoon. I know it's early days, but I was wondering are there any lessons out of consumer behavior around the forbearance programs that have in any way translated to changes in your pricing or reserving?

<A – Derek Brummer – Radian Group Inc.>: It's a little early to tell. I think the thing to keep in mind with the forbearance programs and then the exits are just the response, I would say, that the industry and from a government policy perspective. That's certainly positive. So, as you kind of think about that and we think about previous downturns and that risk of elevated defaults and elevated claims in a downturn, I would say, certainly, one of the things we'll have to see this play out is that data is compared to certainly the financial crisis is, I would say, how quickly and proactive the government and also how much better kind of from a servicing perspective. So, a real impetus on the forbearance side to keep homeowners in their homes which is good for homeowners. It's good for obviously MI companies that don't pay claims until actually it goes through the foreclosure process and then just the exit paths that have been given in this crisis.

So, options like payment deferrals where essentially you take the amounts that weren't paid and tack them on at the end of the mortgage, I would say, provides a much better path. And over time,

all things being equal, ends up putting – making it more positive and less likely that those in default ultimately roll to claims. But nothing that I would certainly factor in, in a significant way from a pricing perspective. But it's a little early to kind of see all of that play out at this point.

<Q – Phil Stefano – Deutsche Bank Securities, Inc.>: Got it. Is it – maybe drawing on that, is it fair to think about – well, if we think about a 15-, 20-year cycle for the industry and it's historically been severely pressured for a couple years have we had a recession. Maybe those lows don't look nearly as bad as we have those programs. And then, of course, you have to layer onto that, the benefit of reinsurance that we haven't had in the past and think – thinking about the lows being adjusted upwards a couple of standard deviations.

<A – Derek Brummer – Radian Group Inc.>: Well, look, I think the business has fundamentally transformed. And, certainly, as you go back to the financial crisis that, in the past where we bought, we kind of held that risk, we had that volatility from a loss ratio and earnings perspective; now, having a model which we're aggravating, managing, distributing that risk, so that certainly cuts off the tail risk. You have much better underwriting quality, and that's held up through that COVID crisis as we see in our QC. Default rates continue to be very positive, much higher credit quality. And then you have these mitigating effects on the back end in terms of better exit paths for parties.

So, all of those things, I think you're right, does decrease that historical volatility in terms of those lows. It creates for more stability. It's certainly a message we've been talking about for a number of years. And I think we're going to see this as kind of I would – the first downturn we've seen since we've made that fundamental transformation as an industry.

<Q – Phil Stefano – Deutsche Bank Securities, Inc.>: Okay.

<A – Rick Thornberry – Radian Group Inc.>: Hey. I think I would just – I would add to just Derek's last point, Phil, because I think it's important. Since I've been in this industry, the number of times I've heard we got to see the mortgage insurance industry go through a recession or some sort of downturn. And so, I think what you really see is this industry showing its strength, all based on the factors Derek went through, plus the mortgage industry kind of factors that he outlined. And so, I think, I always hate to say taking it in stride but we're serving the purpose we were meant to service, which is to pay claims on losses and continue to underwrite high-quality business through the cycle. So, we're doing record levels of business through a pretty difficult economic scenario, working with the industry.

I think the other factor is, politically, socially, economically, everyone understands the incentive to try to keep borrowers at the home where there's an economic event outside of their control, right. Normal activity we kind of moved through normally. But this has really highlighted the fact that we as an industry and we as a country can support homeowners through a crisis and get them to the other side. Now, there will be a day of reckoning which is why we have reserves and why we have capital. But I do think it's very different than the MI industry showing its strength as a permanent source of private capital supporting US credit risk. And I think that's a big factor for the industry and the investors to see.

<Q – Phil Stefano – Deutsche Bank Securities, Inc.>: Got it. Got it. Just going back to Mihir's questions around the Real Estate segment. Rick, how do you want us to judge the success of this business? What metrics do you want me to focus on that I can see or appreciate the value creation that is happening there?

<A – Rick Thornberry – Radian Group Inc.>: Yeah. Listen, that's a great question and I think – and I appreciate that. So, I know it's always top of mind. And I talked to a lot of investors about it. And I think these are businesses that we have accumulated very small businesses where we've really begun to scale businesses. We've gotten rid of things that we think don't really fit that digital

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model. I think to the question earlier about how do we think about it in the context of this kind of FinTech/PropTech valuations that we see out there. We really do believe we have strong value.

And I think what you can hear from me and what you can see from our team is, we're going to continue to kind of develop these businesses and exploit the value. I would see the Title business growing – just from a growth point of view, we're not here to give any guidance today, but I will take your question into consideration. But I think you can see that business growing from a revenue point of view. And I think the same is true for our other real estate activities, but our investment into those businesses from a data and analytics and technology point of view are important to what we think can be very disruptive.

So, we'll – I'll take your question because I think it's an important question. And we'll think about how we can help kind of the market and investors better understand that as we go forward.

<Q – Phil Stefano – Deutsche Bank Securities, Inc.>: All right. Thanks. Looking forward to it. Be well, guys.

<A – Rick Thornberry – Radian Group Inc.>: Yeah. Thank you.

Operator: We have no further questions at this time. I would like to turn the call over to Rick Thornberry for final remarks.

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

Thank you. Thank you, all, for your questions. Before we wrap up, I'd like to mention an important organization that shares our mission of enabling and protecting homeownership. The MBA Opens Doors Foundation and Radian, we recently completed our annual fundraiser for the foundation, which helps families with critically ill or injured children, who remain in their homes while their children are in treatment.

With the help of so many of you, we raised money through our Everyday Heroes Campaign, which encourage people to donate to the foundation, while sharing stories of someone in their lives who are making a positive impact. As we have with other organizations during the COVID-19 pandemic, we matched all donations 2:1, which brought the total to more than $166,000 to support the incredible work of MBA Opens Doors.

So, thank you, all, for those of you who contributed and for joining us today. We look forward to speaking to you again next quarter, if not sooner. But be safe, be well, and we'll talk soon. Thank you.

Operator: Thank you. Ladies and gentlemen, this concludes today's conference. Thank you for participating. You may now disconnect.

Editor's note: Texts in brackets [] has been inserted at the request of the company after the event to make clarification on certain statements owing to a technical glitch on the call.

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