04-Aug-2021

Radian Group Inc. (RDN)

Q2 2021 Earnings Call

CORPORATE PARTICIPANTS

John Damian
Investor Relations Contact, 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

Cullen Johnson
Analyst, B. Riley Securities, Inc.

Mark C. DeVries
Analyst, Barclays Capital, Inc.

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

Mihir Bhatia
Analyst, BofA Securities, Inc.

Ryan Gilbert
Analyst, BTIG LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to the Radian's Second Quarter 2021 Earnings Call. My name is Sanera, and I'll be the 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 this conference is being recorded.

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

John Damian
Investor Relations Contact, Radian Group Inc.

Thank you, and welcome to Radian's second quarter 2021 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 that will be discussed during today's call, including adjusted pre-tax operating income, adjusted diluted net operating income per share, and adjusted net operating return on equity.

In addition, specifically for our homegenius segment, other non-GAAP measures that will be discussed today include adjusted gross profit, adjusted pre-tax operating income or loss, before allocated corporate operating expenses, and the related homegenius profit margins. A complete description of our non-GAAP measures may be found in press release Exhibit F, and reconciliations to GAAP may be found in press release Exhibit G. These exhibits are also available on the Investors section of our website.

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, President of Radian Mortgage. Due to the current environment, all of our speakers 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, 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 2020 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, John, and good morning. Thank you all for joining us today, and for your interest in Radian. As a company that offers products and services, across the mortgage and real estate spectrum, we are encouraged by the continued positive momentum in the housing market, as well as the favorable credit trends within our insured portfolio that increasingly reflect a return to a more certain operating environment. We continue to closely monitor the pandemic, and the economic environment, and navigate our business accordingly.

Frank will discuss the details of our financial position shortly. But let me share a few highlights and insights from the second quarter.

We reported net income of $155 million or $0.80 per share for the quarter. And adjusted diluted net operating income per share was $0.75. We grew our book value per share by 11% year-over-year. We achieved this growth even after accounting for the $100 million in dividends that we returned to stockholders over the past year.

For our Mortgage segment, we remain focused on maximizing the economic value and the future earnings of our mortgage insurance portfolio. During the quarter, we wrote $21.7 billion of high quality, high value mortgage insurance business, and our primary insurance in force was $237.3 billion at June 30th. It's important to note that despite a modest decline in our total mortgage insurance portfolio year-over-year, the composition of the portfolio has gone through a favorable transition, with our monthly premium insurance in force growing by 8% which is the primary driver of our earned premiums.

We have seen continued improvement in the credit performance of our portfolio, with a 42% year-over-year decline in our total number of defaulted loans. Strong cure activity continues, with cures outpacing new defaults each month since June 2020. In addition, more than 70% of our defaulted loans are in forbearance, and approximately 80% of defaults from our peak default months, in May and June last year have since cured. The primary driver of the decrease in our loss provision this quarter was a better-than-expected cure activity we are observing in prior period defaults, and a declining number of new defaults. In fact, new notices of default in the second quarter were at or below pre-COVID new default levels. At June 30th, Radian Guaranty's PMIERs excess Available Assets grew to $1.9 billion or a cushion of 58%.

Now, I'd like to provide some perspective on mortgage insurance pricing, and our focus on building economic value. As I mentioned in May, we have seen increased pricing competition, over the last few quarters, as the economic environment has shown some improvement, following a pandemic-related downturn a year ago. During the second quarter, we are seeing signs that the mortgage insurance industry is transitioning to a more normalized competitive environment.

It is important to highlight that at Radian, we have remained disciplined in how we are navigating this environment, and have continued to focus on generating long-term economic value and maximizing that value for our company's shareholders. We continue to write new business at attractive returns that we believe will add economic value to our portfolio. While we expect some quarter-to-quarter volatility, across the mortgage insurance industry, we believe our recent business volume is trending back towards a pro rata share of the overall market.

In terms of overall housing market, we saw positive momentum continuing in the second quarter. Overall, the whole purchase market remains strong, illustrated by the composition of our new mortgage insurance business, which represented 77% purchase volume, in the second quarter, versus only 56%, a year ago. Based on the latest data, from our, own Radian Home Price Index, over the second quarter of 2021, continued strong housing demand, and relatively limited supply in the market, led to an annualized 12% increase, in home prices, across the country.

We continue to expect the rate of home price appreciation to moderate this year. And we believe the combination of an improving economy, strong housing dynamics, in terms of demand, supply, home values, and mortgage underwriting, relatively low mortgage interest rates, and income growth, are well-aligned for a healthy sustainable housing market.

Recent market projections for 2021 now estimate total mortgage originations to be approximately $3.9 trillion. While the overall origination market was expected to be less than 2020 due to lower refinance volume, the purchase market continues to grow, which is positive for the mortgage insurance industry, given the higher likelihood that purchase loans will utilize private mortgage insurance, as compared to refinance loans. Based on these most recent industry origination projections, we continue to expect the private mortgage insurance market to be approximately $550 billion to $600 billion, which would be slightly lower than the record volume in 2020, but would still represent the second highest MI volume year in history. Overall, we believe the improving macroeconomic conditions and strong home purchase market, fueled by first-time homebuyers, provide strong tailwinds for long-term growth, in the economic value, and projected future earnings, of our mortgage insurance portfolio.

Turning to our homegenius segment, formerly known as Real Estate, total revenues for the second quarter were $33.5 million, representing a 30% increase from the first quarter of 2021 and a 48% increase year-over-year. This was primarily driven by an increase in our title revenue, which grew 74% year-over-year, as well as growth in our valuation business. As we discussed during the Real Estate Segment Investor Day, in June, our products and services are a natural extension of our core mortgage insurance business, and support our mission of ensuring affordable, sustainable homeownership. We believe homegenius has the potential for significant value creation and financial contribution going forward. And Frank will discuss our progress against the financial projections that we introduced two months ago.

In terms of capital strength, at June 30, Radian Group maintained a strong capital position with $1.2 billion of total holding company liquidity. In terms of share buyback activity, we repurchased 3.9 million shares of Radian Group common stock during the second quarter for $90 million and an additional 2.8 million shares for $61.4 million in July. Approximately $39 million remains under our current authorization that expires at the end of this month. And as we mentioned last quarter, in May, we increased our quarterly dividend of $0.14, a 12% increase over our prior quarterly dividend.

Turning to the regulatory and legislative landscape, we were happy to see the appointment of Sandra Thompson as Acting Director of the FHFA. Acting Director Thompson has been a long-serving member of the FHFA team, across multiple administrations, and we believe she'll bring a balanced view to promoting access and affordability, while continuing to ensure the safety and soundness of the GSEs. Importantly, she has served with the FHFA during the evolution and reform of the mortgage insurance business model, including the implementation of PMIERs, and therefore is intimately familiar with the strength of our business model, and our resilient performance, during the most recent COVID pandemic period. We look forward to working with Acting Director Thompson and her team.

As to the regulatory environment, we appear to have entered a new phase, focused on balancing the wind-down of regulatory relief programs and various restrictions. The GSEs recently lifted their 50-basis point adverse market fee on refinance loans, and have also instituted changes in their temporary PMIERs guidelines to allow dividends for mortgage insurers that meet certain available asset thresholds, which are phased down throughout the remainder of the year.

The CFPB has also instituted new rules to help ensure that the significant number of borrowers, scheduled to come off a COVID relief program, this quarter, are given every opportunity to remain in their homes. At the same time, the unprecedented level of federal support and coordination, to ease the economic burden of the pandemic, continues with ongoing foreclosure-related eviction moratoria, and legislative proposals that are intended to benefit home ownership, in particular for first-time homebuyers. We expect this careful balance between a phased return to normality and further federal support to continue for the foreseeable future, which is good for the economy, and for home ownership, and given our strong alignment with borrower interests, for the mortgage insurance industry as well.

Now, I'd 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, issued last evening, we reported GAAP net income of $155.2 million or $0.80 per diluted share for the second quarter of 2021, as compared to net income of $0.64 per diluted share in the first quarter of 2021, and a net loss of $0.15 per diluted share in the second quarter of 2020.

Adjusted diluted net operating income was $0.75 per share in the second quarter of 2021 as compared to adjusted diluted net operating income per share of $0.68 in the first quarter of 2021, and adjusted diluted net operating loss per share of $0.36 in the second quarter of 2020.

I'll now turn to the key drivers of our revenue. As Rick mentioned earlier, our new insurance written was $21.7 billion, during the quarter, compared to $20.2 billion, in the first quarter of 2021, and $25.5 billion, in the second quarter of 2020. New insurance written for purchase transactions was $16.7 billion, an increase of 16% year-over-year and 40% compared to the first quarter of 2021. Purchase volume accounted for 77% of our total new insurance written, for the second quarter, an increase from 59% of volume, in the prior quarter, and 56% in the second quarter of 2020.

Direct monthly and other recurring premium policies were 93% of our new insurance written this quarter, an increase from 90% for the first quarter of 2021, and 85% for the second quarter a year ago. Lender paid policies accounted for less than 1% of our new insurance written.

Primary insurance in force decreased to $237.3 billion, at the end of the quarter, as compared to $238.9 billion, in the first quarter of 2021, with a total year-over-year insurance in force decline of approximately 2%. Our year-over-year decrease in primary insurance in force was primarily driven by sustained low persistency.

It is important to note, however, that monthly premium insurance in force, which drives the majority of our earned premiums, has grown 8% year-over-year compared to an approximate 28% decline in single premium insurance in force. The decline in single premium insurance in force is a positive outcome for us, as prepayments on our single premium business, enhance realized returns, as the life over which the single premium is recognized is shortened.

Our 12-month persistency rate of 57.7% increased slightly from 57.2%, in the prior quarter, and decreased from the 70.2%, in the second quarter of 2020. Our quarterly annualized persistency rate was 66.3% this quarter, an increase from 62.5% in the first quarter of 2021 and 63.8% in the second quarter of 2020. The year-over-year increase in quarterly annualized persistency is primarily driven by lower refinance activity, in the second quarter of 2021, as compared to the same quarter last year. While persistency is expected to improve, during the second half of 2021, we also expect persistency to remain below our expected long-term levels, given the current pace of refinance activity.

Moving now to our earned premiums, net premiums earned were $254.8 million in the second quarter of 2021, compared to $271.9 million in the first quarter of 2021, and $249.3 in the second quarter of 2020. The decrease of 6% on a linked-quarter basis is primarily due to a continued decline in our in force premium yield. The 2% increase compared to the same quarter prior year is primarily due to the adjustment in the second quarter of 2020, to accrued profit commission, due to increased loss provision in that quarter, and to the increase in net premiums earned in our title business.

Slide 10 shows the mortgage insurance premium yield trend over the past five quarters. Our direct in force premium yield was 41.1 basis points this quarter, compared to 42.7 basis points last quarter, and 44.3 basis points in the second quarter of 2020. As noted in previous quarters, we expect our in force portfolio yield to continue to decline due to the difference in credit profile, and associated premium rates, of today's new insurance written, relative to prior vintages. 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 volume and mix of cancelations and prepayments in our portfolio. Our direct premium yield, driven by single premium cancelations, was 5.3 basis points compared to 6.4 basis points, in the first quarter of 2021, and 8.2 basis points of yield in the same quarter a year ago. The impact of our insurance-linked notes, on our net premium yield, was a reduction of 2.6 basis points, this quarter, an increase from 2 basis points, in the prior quarter, and 1.3 basis points a year ago. The increase this quarter was due to our most recent insurance-linked note transaction, which was executed in April 2021. With regard to pricing on new business, we remain focused on maximizing economic value and generating attractive risk-adjusted returns.

homegenius segment revenues were $33.5 million, for the second quarter of 2021, representing a 30% increase compared to $25.8 million, for the first quarter of 2021, a 48% increase compared to $22.5 million, from the second quarter of 2020. Our reported homegenius pre-tax operating loss before allocated corporate operating expenses was $4.5 million, for the second quarter of 2021, compared to a loss of $6.5 million, for the first quarter of 2021, and a loss of $1.1 million, for the second quarter of 2020. Our reported homegenius adjusted gross profit for the second quarter of 2021 was $11.7 million, compared to $8.5 million, for the first quarter of 2021, and $9.4 million, for the second quarter of 2020. A reconciliation of these items can be found on Exhibit G.

The increase in homegenius revenue, in the second quarter of 2021, compared to the second quarter of 2020, was primarily driven by growth within our title business, which saw a 74% increase in total revenue year-over-year. Closed orders in our title business, which are a key driver of revenue, increased approximately 68% year-over-year, to approximately 12,000 for the second quarter of 2021. As noted on Slide 22, and as discussed in our recent Real Estate Investor Day, we expect to see continued growth in closed title orders as well as our total homegenius segment revenue. We will continue to offer guidance and our progress toward these targets. And thus far, we are pleased with our progress.

Our investment income this quarter of $36 million was down 5% from the prior quarter, and 6% from the same quarter prior year, due to lower investment yields, which were partially offset by additional investment balances, from underwriting cash flow. At quarter-end, the investment portfolio duration was approximately 4.5 years, unchanged from the prior quarter.

Moving now to our loss provision and credit quality, as noted on Slide 13, the mortgage provision for losses, for the second quarter of 2021, was $3.3 million, a decrease compared to $45.9 million, in the first quarter of 2021, and $304 million, in the second quarter of 2020. As shown on Slide 14, we had approximately 8,000 new defaults in the second quarter of 2021, compared to approximately 12,000, in the first quarter of 2021, and approximately 63,000, in the second quarter of 2020.

Also, as noted on Slide 13, the provision for losses for the second quarter 2021 includes a positive development on prior defaults of $31 million. This positive development was driven by a 50 basis point reduction in default-to-claim rate assumptions, on our defaults, from April 2020 to December 2020, primarily as a result of more favorable trends in cures than originally estimated. We also maintain the default-to-claim rate assumption on new defaults at 8.0% for the second quarter of 2021.

As shown on Slide 16, approximately 58% of new defaults in the second quarter and approximately 71% of all defaults were reported to be in a COVID-related forbearance program as of June 30, 2021. We have continued to share additional information on forbearance program mechanics, related to these loans, on Webcast Slide 16. These forbearance programs are positive for our industry, and for homeowners, as they are intended to keep people in their homes, through what is expected to be a temporary economic disruption.

I'll also note that over 95% of our defaulted loans are estimated to have at least 10% homeowners' equity, and over 65% have at least 20% homeowners' equity, using an indexed-based valuation estimate. This factor, along with improving overall economic indicators, such as favorable cure trends, home price appreciation, lower unemployment, governmental support, and ongoing forbearance programs, help make us cautiously optimistic, about the ultimate claim levels, and contributed to our decision, to reduce the default-to-claim rate assumptions on certain prior period defaults, first reported in 2020, as well as to maintain the default-to-claim rate at 8% for our new defaults.

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 noted at the beginning of the pandemic, our loss reserve is an estimate of future claim payments, which, under normal circumstances, will not be realized for several years. The broad availability of mortgage forbearance options in 2020, and continuing into 2021, may serve to extend the timeline for claim development. As such, the absolute dollar level of reserves, on our balance sheet, may continue to grow, despite any current or potentially ongoing improvements, in our quarterly new default-to-claim rate. Claim payments, which would reduce the reserve balance, when paid, have been substantially reduced, during the current foreclosure moratorium.

Approximately 79% of new defaults from the second quarter 2020 and 75% of new defaults from the third quarter 2020 had cured as of the end of the second quarter of this year, as noted on Slide 14. As of July month-end, the second quarter and third quarter 2020, cumulative cure rates for new defaults had further increased to approximately 82% and 77% respectively.

Last night's earnings release included an update for July operating statistics that showed a further decline in our primary default inventory. Cure activity continued to exceed new defaults, which resulted in a cure to new default ratio of 172% in July.

Now turning to expenses, other operating expenses were $86.5 million, in the second quarter of 2021 compared to $70.3 million, in the first quarter of 2021, and $60.6 million in the second quarter of 2020. The increase in other operating expenses, in the second quarter of 2021, compared to the first quarter of 2021, was primarily related to an increase in incentive compensation expense, including share-based incentive compensation expense, and a $3.9 million increase in non-operating items, primarily due to lease-related impairments. The increase in the other operating expenses, as compared to the prior year, is primarily related to the increase in incentive compensation expense and other non-operating items, as well as a decrease on ceding commissions.

Moving now to taxes, our overall effective tax rate for the second quarter of 2021 was 20.6%. Our annualized effective tax rate for 2021, before discrete items, remains generally consistent with a statutory rate of 21%.

Now moving to capital and available liquidity, Radian Guaranty's excess Available Assets over Minimum Required Assets was $1.9 billion, as of the end of the second quarter, which represents a 58% PMIERs cushion. As of June 30, 2021, we have reduced Radian Guaranty's PMIERs Minimum Required Asset requirements by $1.3 billion, by distributing risks, through both insurance-linked notes reinsurance, and other third-party reinsurance arrangements, as noted on press release Exhibit L.

Our reported PMIERs cushion includes the benefit of the reduction in Minimum Required Assets attributable to the 0.3 multiplier, which reduces the Minimum Required Assets on applicable COVID-19-related delinquencies by 70%. On a net basis, this benefit was approximately $435 million at June 30, 2021. We expect that the application of this multiplier will continue to reduce Radian Guaranty's Minimum Required Assets for COVID-19 defaulted loans. However, the future impact to Radian Guaranty is expected to continue to diminish over time, as the population of loans eligible for the multiplier diminishes. As a reminder, this benefit has thus far peaked in the second quarter of 2020, when it resulted in an approximate $1 billion reduction in Minimum Required Assets.

For Radian Group, as of June 30, 2021, we maintained $923 million of available liquidity. Total liquidity, which includes the, company's $267.5 million credit facility, was $1.2 billion, as of June 30, 2021. It is important to note 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 reduces the impact of any dividend restrictions, placed on mortgage insurers, by the GSEs.

As previous noted, we resumed our $475 million share repurchase program during March of this year, which had been temporarily suspended, beginning in March 2020, in response to the COVID-19 pandemic. As of the end of July, we purchased a total of approximately 20.3 million shares or $436 million, under this repurchase authorization, which began in August of 2019, at an average share price of $21.45. During the second quarter of 2021, we repurchased 3.9 million shares and, year-to-date, through July 2021, we have purchased 7.1 million shares. As of July 30, we have approximately $39 million of remaining repurchase authorization, which expires on August 31 of this year. Our current 10b5-1 program remains in effect today.

We have also continued to pay a dividend to common shareholders throughout the pandemic, including during the second quarter of 2021, as we returned approximately $28 million to shareholders, through dividends, during the quarter. As a reminder, and as previously announced, we increased our quarterly dividend by 12% to $0.14 per share, during the second quarter of this year. The combination of dividend payments and share repurchase represent a return of capital of approximately 76% of our after-tax operating income for the quarter.

Given the capital strength at Radian Guaranty, and the financial flexibility provided by our available liquidity at Radian Group, we believe that we are well-positioned to support our businesses, and deliver value to our shareholders.

I will now turn the call back over to Rick.

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

Thank you, Frank. And before we open the call to your questions, let me highlight for you that we increased book value per share by 11% year-over-year, and maintained a strong capital position with $1.2 billion of total holding company liquidity. And Radian Guaranty's PMIERs excess Available Assets grew to $1.9 billion.

We have seen continued improvement in the credit performance of our portfolio, and are also seeing signs of improvement in the overall economy. We wrote $21.7 billion of high-quality high-value new mortgage insurance business, and increased homegenius revenue by 48% year-over-year. We repurchased 3.9 million shares, during the second quarter, and an additional 2.8 million shares, in July. Our team continues to demonstrate outstanding resilience and dedication, as we work together, to support our customers, and help ensure our continued success.

Now operator, we would be happy to take questions.

QUESTION AND ANSWER SECTION

Operator: Absolutely. Thank you. We will now begin the question-and-answer session. [Operator Instructions] Waiting on standby for any questions. And our first question comes from Doug Harter from Credit Suisse. Please go ahead. Your line is open.

Douglas Harter
Analyst, Credit Suisse Securities (USA) LLC

Q

Thanks. I was hoping you could give us a little more insight as to how you're thinking about sizing the buyback, both in the second quarter, and into the third quarter, given your liquidity and capital position?

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

A

Sure, Doug. This is Frank. When we think about our buybacks, and I think you'll recall, we've been very, very prudent about the way that we manage our capital, and have been very good about returning capital to shareholders. So, we've actually had six repurchase programs, since 2015, all of them with different sizes and have had different levels of repurchase, during those. So, we have roughly 36 – or excuse me, $39 million remaining, as of the end of July, on our current repurchase authorization. It's something that we'll generally report on after the fact.

But I think it's fair to say that we believe that repurchase programs are a good way to return capital to our shareholders. And again, since 2015, the authorizations have ranged in size anywhere from $100 million to our largest most recently at $475 million. But we'll continue to provide information, as it occurs, related to repurchase programs.

Douglas Harter
Analyst, Credit Suisse Securities (USA) LLC

Q

I guess just to follow up on that, if you could just talk about – you clearly stepped up the pace, in the second quarter, of the activity kind of – and that continued into July. Just kind of thoughts around that and kind of how that pacing might continue.

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

A

Sure. So, the pace is actually – and I think we've described our repurchase program, before, as a value-based program, where it's not repurchase at any price, it's repurchase within a price range that we're comfortable and believe reflects value. And so, that is typically what guides us. And so, it's a combination of where we set those targets, relative to where the market pricing is. And so the...

Douglas Harter
Analyst, Credit Suisse Securities (USA) LLC

Q

Thank you.

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

A

...the average share price, for instance, in the second quarter, we repurchased at $23.14. And over the program life, we're at $21.45 is the average repurchase price.

Douglas Harter
Analyst, Credit Suisse Securities (USA) LLC

Q

Great. Thank you.

Operator: Thank you. Our next question comes from Cullen Johnson from B. Riley. Please go ahead. Your line is open.

Cullen Johnson
Analyst, B. Riley Securities, Inc.

Q

Hey, good morning. Thanks for taking my questions. I think you noted that as defaulted loans age, while they're in forbearance, they can carry with them higher reserve assumptions. Could there also be some sort of offsetting dynamic maybe that the likelihood of a cure is higher, if the borrower has more time to catch-up on payments?

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

A

Sure, Cullen. This is Frank. The – I think – pardon me – your question is a good one. And I think what we try to incorporate, when we set our reserve levels, is all of those factors, right? And it's difficult to do and – in the current landscape, because the forbearance programs are unique to the COVID landscape, and how the borrower behavior plays out is something that we certainly can speculate on, but we'll wait to see how that develops. But we've incorporated all of those assumptions thus far into our reserve estimates thus far.

Cullen Johnson
Analyst, B. Riley Securities, Inc.

Q

Okay. Great. Thank you. And then kind of looking at claims paid in the release, there is, the July data looked a little bit higher. So, just the impact of some of the forbearance plans beginning to expire, or is that dynamic not yet showing up in the data?

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

A

Yes. The cure activity in July, and I'm glad you asked the question, is really related to a one particular event, and it's a commutation that we had. So, it was elevated by about 101 because of that particular commutation.

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

A

And I think, Frank, you mean claims versus cures.

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

A

Excuse me. Thank you. Claims.

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

A

Yes. Yes. The claims were elevated because of one commutation.

Cullen Johnson
Analyst, B. Riley Securities, Inc.

Q

Okay. Great. And just – and a last one, just, kind of, looking at the homegenius segment, looks like good revenue growth there this quarter. I think you mentioned much of that being driven by title. Is that mainly just, kind of, higher user adoption there? And then maybe broadly, what kind of message do you have in place to get the platform in front of new potential users?

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

A

Yes, great question. And yes, we're happy with the progress that we're seeing across homegenius, and we were happy to talk about the business back in early June, I think, when we did our Investor Day.

But we are seeing growth – in our title business specifically, Frank provided some of the, kind of, quarter-over-quarter numbers. But growing off smaller numbers, but the growth is related to really two factors. One is adding new clients, which we are – I think that's part of the strength of our franchise, is the strength of our relationships, across our lender, customers on our MI business, and other products, but we're also winning those with service, and I like to give credit to our title team, because we're expanding and deepening relationships.

So, once we get a relationship, as we add blue-chip clients and clients across the board, we're winning greater share of their business, as we enter that relationship. So, I've been very pleased with the progress too, Cullen. It's a combination of both new customers, and so our pipeline of new customers has been evolving and growing very quickly. So we're happy about that. But it's also a greater penetration of existing customers, once we get on board, and provide really superior service levels to the consumer, through the ultimate borrower through the transaction.

So, yes, we feel very good about where we're at, and the growth that we see. And in July orders, from a title point of view, I'm happy to report where it grew over June orders. So, we're continuing to see kind of the acceleration of that business.

Cullen Johnson
Analyst, B. Riley Securities, Inc.

Q

Great. That's helpful. Those are my questions. Thank you.

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

A

Thank you.

Operator: Thank you. Our next question comes from Mark DeVries from Barclays. Please go ahead. Your line is open.

Mark C. DeVries
Analyst, Barclays Capital, Inc.

Q

Yes. Thanks. I believe this is the second consecutive quarter of declining insurance in force. I was hoping to get your thoughts on when you expect to see an inflection and a return to growth there?

And in addressing that maybe elaborating on Rick's comment that you're – I think you feel like you're getting close to returning to kind of a pro rata share of the market. And if so, kind of, where have you been under-indexing, if you look at the risk that's been coming in, and what if any kind of actions have you been taking to get back to more of a pro rata share?

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

A

Okay. Yes. Thank you, Mark. Derek and I will tag team this one together. I'll take the insurance and force question, and Derek will come back to the kind of market share purchase strategy of that.

But clearly, insurance, of course, is driven by – has been largely driven through persistency being higher over the past few quarters. But we've also gone through a very positive transition, as I noted, in my comments, which I think is important to remember that our monthly book of business has grown by 8% year-over-year, which is really the primary contributor to future earnings, so we feel like that transition in our portfolio, even though it's relatively flat, is a very positive thing.

The other positive news is that our singles book has declined by about 28%. And when we think about that, it's also that product, specifically lender-paid, which declined by 43% year-over-year, has the greatest extension risk. And so, I think, as we've seen the monthly book grow, and as we've seen singles pay off, we came into this whole cycle probably at a higher level of singles, which has actually worked to our benefit, as we kind of transitioned our portfolio, to a greater share of monthly, and accelerated the premium recognition on our singles book.

So, all-in-all a good trend, going forward. It's obviously going to be driven by how refinances continue. And we've seen a little spike in refinances recently. But as you can tell by our new insurance written, over 70% of it was purchase, which is a good trend. And so, I think, as we go through the remainder of this year, we would expect persistency to increase, albeit not to the levels that we would expect kind of historic norms or normal levels. But certainly, refinances are expected to decline materially going forward, and over the next year, I think, as you look at industry forecasts.

And as part of that, we see our growth in our portfolio being fueled by declining refinances, increasing persistency, and continued strength in the purchase market, where MI is more likely to participate, as part of that offering.

So, we like the long-term dynamics of growth in value. And I think as Derek talks, our focus is all about creating value in our portfolio. And I just remind all kind of everyone that in this world today, not all insurance in force is created equal. So we're being very disciplined and deliberate about how we grow our book of business and how we construct it, and then we like the transition that we're going through, with this recent book of business, from 2021 be very high quality, very low mortgage interest rate, and monthly. So, I think the construct of our portfolio is well-positioned for growth and value in the future.

Let me just turn over to Derek to talk about market share.

Derek V. Brummer
President-Mortgage, Radian Group Inc.

A

Sure. So in terms of market share, I would say probably Q2 overall would be under a pro-rata share. But what we found throughout Q2 is an increase, each month, in terms of our estimate, in terms of our NIW market share. So when you get kind of to June and July, we think we're roughly back to kind of pro rata portion.

Now, in terms of where we're leaning in, the short answer is always going to be the same for us. We're leaning in where we see the highest relative value, right, looking at long-term economic value, in terms of what's out there on the market. Now, this quarter where we've leaned in, it's certainly been, I think, in terms of segments where we found more value that offered opportunities to deploy more capital. So, if you look at NIW quarter-over-quarter, we were up about 7%. And if you look at it from a risk-written perspective, I think we're up about 15%, 16%. And if you look at the increase in capital deployed, it's about 25%.

And as you think about value, in the MI business, and future value, it's driven much more by capital deployment. So, as we think about expected future premium that we were writing in Q2, relative to Q1, we would see an increase of about 25%. So, that's kind of telling you where we saw the value. And also, I think it's important, as you think about companies, historically, you could look at NIW market share that was a good approximation of value, when everyone had the same pricing, when our risk mixes were very similar, where there was transparency in pricing. Kind of in the current environment, probably a better proxy is going to be capital deployment, if you want to get a sense of kind of future earnings and value.

Mark C. DeVries
Analyst, Barclays Capital, Inc.

Q

Got it. Thank you.

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

A

Thank you.

Operator: Thank you. Our next question comes from Bose George from KBW. Please go ahead. Your line is open.

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

Q

Hey. Good morning. First, just on the operating expense expectation, after those unusual items, should we expect that number to be back kind of in the mid-50s for the back half of the year?

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

A

Yes, Bose. This is Frank. When we look at – and actually the guidance that we've given previously is call it roughly $70 million of sort of the comp-related seasonal adjustments that you'll see, I think between $70 million and $72 million a quarter is still, just again excluding those items, a reasonable expectation to have. It could be elevated depending on where our compensation accruals end up for the balance of the year. But $70 million to $72 million is a good general range for us on a normalized basis.

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

Q

Okay. And so, the $70 million to $72 million, for combined company?

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

A

That's correct. Yes. That's correct.

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

Q

Okay. Okay. Great. Thanks. And then the – just on the – going back to the buyback capital return discussion, is there a debt-to-capital range that you keep in mind as well just when we think about sort of the cadence of potential capital return?

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

A

Sure. That's a great question, Bose. There is. But I would tell you that we haven't been restricted in any way by the debt-to-capital ratio. And I would say, as you look at our most recent debt issuance that we did, last year, for defensive purposes, that elevated us really to the high point that we hadn't seen in a few years. And so, the business naturally delevers over time. But I would tell you that we also probably carry a bit extra leverage, just as a result of that defensive issuance that we had. So, we're mindful of it. We don't feel restricted by our current levels whatsoever. But we would expect to see – we would expect to see that number come down over time.

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

Q

Some – okay. Great. Thanks a lot.

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

A

Thank you.

Operator: Thank you. Our next question is from Mihir Bhatia from BoA. Please go ahead. Your line is open.

Mihir Bhatia
Analyst, BofA Securities, Inc.

Q

Hi. Good morning and thank you for taking my questions. I guess the first question I just had was, I just wanted to check the eviction moratorium, which was extended yesterday, does that have any impact on you?

Derek V. Brummer
President-Mortgage, Radian Group Inc.

A

Yes. That would have an impact in terms of, for instance, if the GSEs have any property that hold in REO, right, if they're renting those out, they've extended their moratorium, I think, to September 30. But generally, it's going to be a, kind of, forbearance and not the eviction moratorium that's going to have any material impact on us.

Mihir Bhatia
Analyst, BofA Securities, Inc.

Q

Right. And because that's such a low percentage of, I guess, in less...

Derek V. Brummer
President-Mortgage, Radian Group Inc.

A

Correct.

Mihir Bhatia
Analyst, BofA Securities, Inc.

Q

...problems in the book for you. Okay.

Derek V. Brummer
President-Mortgage, Radian Group Inc.

A

That's exactly right.

Mihir Bhatia
Analyst, BofA Securities, Inc.

Q

Okay. I wanted to make sure. Okay. Got it. And then just – I want to go back to the market share question, I guess, a little bit. I understand you don't – like you're not managing the market share, you're trying to invest, where you see value. But maybe just help us understand, where are you seeing the volatility in the market? Is it across the board? Is it in certain segments, whether customer-specific maybe specific FICO LTV buckets? How should we be thinking about that, like where's the volatility in the market coming from?

Derek V. Brummer
President-Mortgage, Radian Group Inc.

A

Yes. That's a good question. I don't think I would identify particular volatility, in the market, in terms of what we're seeing, in terms of pricing. So, as Rick had indicated, we're seeing the signs that the MI industry is transitioning to what we'd call a more normalized competitive environment, right? But that is following meaningful pricing reductions that we saw in the so-called black box segment of the market. And we talked a lot about that last quarter, right, in terms of the market share movements...

Mihir Bhatia
Analyst, BofA Securities, Inc.

Q

Right.

Derek V. Brummer
President-Mortgage, Radian Group Inc.

A

...why we had market share move away from us since our strategy is not to be a price leader.

Now, as we think about a more normalized environment, and we kind of think about it pre-COVID, as a normalized environment, we were in a position, where we could continually adjust our pricing up and down. And you had fair stability, I would say, overall, in terms of the pricing, we saw in the market. And that's an environment we really like. We think that plays very much to our analytical strengths, in terms of finding relative value in the market and capturing that.

And so, while we see signs of that return to the normalized environment, there has been variability, in terms of pricing adjustments, across the risk dimension. So, you've seen some adjustments – I wouldn't call it a lot of volatility, and I wouldn't call it a stream across the credit curve. The one thing we would note that as we kind of see aggregate pricing levels in the market now, at least in the industry black box segment, we see them as being currently below the levels we observed in the market pre-COVID.

And when, we get to that estimate, that's based upon our estimate, of market-clearing levels, across the entire industry's production. And so, as I say, market-clearing levels, what we mean there is the lowest price in the market across all MI companies, and not one particular MI company in the market. So, that's an important part of where we find value, is identifying those market-clearing prices. We do that on over 10 million unique loan types. So, we're looking at all combinations of loan, borrower characteristic and geographies, to find out where is that market-clearing level that where we can capture the most value.

So you had kind of gone through that, and you see that kind of normalized environment, where we kind of see it settling out, and it's an important point, from an overall pricing perspective, we continue to see very strong economic value, really across all the business being written in the market, and there's plenty of opportunity. It's very much a relative value play. So, you kind of see value everywhere. But where is the highest relative value? And that's why we're deploying our capital.

The other thing to keep in mind is we still have a very strong housing market and positive kind of demographics momentum, and that's kind of pushing the market as well. So overall, I'd say we're well-positioned. I think we're back to pro rata share. We're finding attractive returns, across the credit spectrum.

Mihir Bhatia
Analyst, BofA Securities, Inc.
Q

Got it. Thank you for that. I guess, just one last one, on maybe on capital. Just want to make sure we understand. Would you be willing to share your internal view of just how much excess capital you have? Maybe accounting for buffers you want to keep in place even on PMIERs and stuff, is there a number you all think about, as we just think about sizing the next buyback, because it seems like this current one will expire relatively soon.

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

Sure, Mihir. This is Frank. We do not establish sort of the clear definition or quantification of what the excess is at the holding company. But if you look forward, at some of the debt maturities that we have, if you look at what remains in our current share repurchase authorization, I think you can definitely see that we have excess. We don't quantify it only because included in sort of the intended or potential use for holding company resources are support for our businesses, either for the MI company, which actually sits with a very healthy PMIERs cushion right now. So, that's not a near-term expectation there, but just other businesses, our homegenius segment, which again don't expect it to be material. But all of those things factor into how we calibrate, how much in cash that we hold, at the holding company. But we do not quantify an excess number, so to speak.

Mihir Bhatia
Analyst, BofA Securities, Inc.
Q

Okay. Thank you. Thanks so much.

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

Thank you.

Operator: Thank you. Our next question comes from Ryan Gilbert from BTIG. Please go ahead. Your line is open.

Ryan Gilbert
Analyst, BTIG LLC
Q

Hi. Thanks, everyone. Just a couple of follow-ups for me. The first on insurance in force, and just thinking about the sequential drop, driven by single premium cancelations, it seems like, I guess, looking through the supplement, single premiums are still around 19% of your risk in force. So, do you think that we're through the bulk of single premium cancelations, and we can see insurance in force start to inflect higher? Or do you think that there's still room to run, to shift the book further towards monthly business?

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

Yes. Well, thank you, Ryan, for the question. This is Rick. I think in the next quarter or two, kind of while we're in this refinance wave, I think we're going to see volatility around kind of how persistency kind of runs relative to those refinances. And so, I wouldn't say that we've seen the end of any single premium kind of cancelation or acceleration. But I would say that what we do see kind of fundamentally is that we are growing our monthly book of business and we're growing it with very high quality, very low mortgage interest rate books of business that I think bode well for the future. And so, the transition we've gone through has really been very positive, from acceleration of earned premiums, on the single business that would have otherwise have extension risk, right, in a rising rate environment. So, we've kind of cleared through much of that, which I think is good.

The second thing we've done is we've freed up capital in a more – from products that are more capital intensive and lower return, so, and we transitioned to this monthly book of business based on, really, 2020 and 2021 vintages, representing a significant share of that book.

So, we feel like as we come out of this, as refinances and persistency start to settle down a bit, and persistency starts to increase, the fundamentals for the mortgage insurance business, in terms of continuing to grow the value of the portfolio, by having high-quality monthly books of business, other policies that we see value, are really strong, tailwinds are strong, because we have a strong purchase market, we've got a strong underwriting environment, and it's fueled by first-time homebuyers, which are more likely to use mortgage insurance.

So, we like where we sit today. I can't say the volatility is completely out of the market until we kind of get through the refinance wave, if you will. But I do think the long-term dynamics are good for growing the value of the portfolio, which we feel like this transition has actually positioned us very well for the future, in terms of value and earnings.

Ryan Gilbert
Analyst, BTIG LLC
Q

Okay. Great. Appreciate that. And then, second question is another one on the buyback. And I ask because it seems like there's a real disconnect between where the stock is trading, below book value, and the fundamental trends in your business, credits improving, really strong housing market. And it seems like those – that disconnect doesn't occur very frequently, so especially with over a $1 billion of liquidity at the holding company.

So, I was hoping you could discuss maybe broadly about how you're thinking about share repurchases as a capital allocation or capital deployment strategy, relative to just return to shareholders, in the context of where the stock is trading, relative to the fundamentals you're seeing in your business.

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

Yes. Ryan, this is Frank. That's a great question. I apologize. There's a siren in the background here. Hopefully, you can hear me.

But the decision around capital deployment, and the decision around returning capital to shareholders, either through repurchase or dividend, is something that we actively discuss in our capital planning exercise. And I would agree, your observation is right. And I think it's reflected in the repurchase activity that we've had here in the most recent quarters relative to where our stock has been trading, and the amount of activity that we've seen in the repurchase program. So, yes, I would agree with your observation. And that is certainly something that we contemplate, when we go through our capital planning.

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

A

Yes. And I would just kind of add on to Frank's comments and say, look, when you look at the fundamental value, of this business, the intrinsic value this business, in terms of the performance of the mortgage insurance business, the strength of capital structure, across our mortgage insurance business, the value of the portfolio that we have, and are building, and again, going back to the whole monthly shift, our homegenius business, and the way it's positioned, going forward, I do think there is strong value in our business today, and we feel very good about kind of how the business is performing.

Again, MI is performing at a very high level. I think our teams have been extremely disciplined, in this kind of competitive environment, in terms of really focus on extracting value, right, and not just being – not just decreasing price for the sake of grabbing market share. We've been very focused on economic value and have been very disciplined.

We're managing capital. I think we have very good track record of being good stewards of capital management, whether it's been buybacks, dividends, deployment of capital. And I'm excited about the progress our homegenius business is making, in the plan that we laid out a couple months ago. So, when you put that all together, I think going back to your comment, Ryan, this is a – I feel like there is great value in this business, as we sit today. So, we're excited about it, and we're going to continue to be very good stewards of capital, as we go forward.

Ryan Gilbert
Analyst, BTIG LLC

Q

Okay. Thank you. I appreciate it.

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

A

Thank you.

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

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

Yes. Thank you. And thank you all for your questions and your continued interest in Radian. We always enjoy hearing from you, and addressing your questions. Look forward to talking to all of you, as we go forward here, and continuing to kind of bring you up to speed, on the progress that we see at Radian. Also want to thank our team, our entire team across Radian, for the continued dedication and commitment they're demonstrating through a continually challenging environment. Whether it's COVID pandemic environment, remote work environment, our teams performed at a very high level. So, I thank them. I thank our Board for their support. And I look forward to talking to all of you soon. Take care. Be well. And we'll talk soon. Bye.

Operator: Thank you. And thank you, ladies and gentlemen. This concludes today's conference. Thank you for participating. You may disconnect.