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# Radian Group Inc. (RDN)

Q3 2018 Earnings Call


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# MANAGEMENT DISCUSSION SECTION

**Operator**: Ladies and gentlemen. Thank you for standing by, and welcome to Radian's Third Quarter 2018 Earnings Call. At this time, all the participant lines are in a listen-only mode. There will be an opportunity for your questions, and instructions will be given at that time. [Operator Instructions] As a reminder, today's call is being recorded.

I'll turn the conference over to Ms. Emily Riley, Senior Vice President of Investor Relations and Corporate Communications. Please go ahead.

## Emily Riley

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

Thank you and welcome to Radian's third quarter 2018 conference call. Our press release which contains Radian's financial results for the quarter was issued earlier this morning and is posted to the Investors section of our website at www.radian.biz.

This press release includes certain non-GAAP measures which will be discussed during today's call including adjusted pre-tax operating income, adjusted diluted net operating income per share, adjusted net operating return on equity, and services adjusted EBITDA. A complete description of these measures and the reconciliation to GAAP may be found in press release Exhibits F and G and on the Investors section of our website.

In addition, we have also presented a related non-GAAP measure, services-adjusted EBITDA margin which we calculate by dividing services-adjusted EBITDA by GAAP total revenue for the Services segment.

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

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

For a discussion of these risks, please review the cautionary statements regarding forward-looking statements included in our earnings release, and the risk factors included in our 2017 Form 10-K and subsequent reports filed with the SEC. These are also available on our website.

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

## Richard G. Thornberry

*Chief Executive Officer & Director, Radian Group Inc.*

Thank you Emily, and good morning. Thank you all for joining us today and for your interest in Radian. I am pleased to report another outstanding quarter for our company. I take great pride in the way that our team has delivered exceptional results by living our company values, which include partnering to win and creating shareholder value.


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Our quarter reflects the quality of our team, the power of our customer relationships, the strength and flexibility of our financial position, and the value of our $217 billion mortgage insurance portfolio. Before I turn the call over to Frank, to cover the financial results, I'd like to share a few highlights from the quarter. In terms of our financial performance, net income for the third quarter grew year-over-year to a $143 million or $0.66 per diluted share. Adjusted diluted net operating income per share increased 54% year-over-year to $0.71.

Our return on equity was 17% for the third quarter and adjusted net operating return on equity was 19%. In terms of our mortgage insurance business, we wrote $15.8 billion in NIW in the third quarter, adding to our high-quality mortgage insurance portfolio. We are very pleased with the projected economic value of this new business and we expect it to provide significant earnings and attractive returns for our shareholders going forward.

We are increasing our expectations for 2018 NIW volume and are now projecting to exceed $55 billion, which would mark our third consecutive annual record for flow NIW. The demand for private mortgage insurance remained strong, although refinanced loans have declined significantly as a result of increasing rates. First-time homebuyers who are more likely to have a down payment that is less than 20%, are fueling the growing purchase loan market. This is good news for our industry since purchase loans are three to five times more likely to have MI versus a refinanced loan.

Looking ahead to 2019, industry projections suggest the mortgage origination market that is relatively flat to 2018, but with a 5% increase in purchase loans which would be a positive trend for our mortgage insurance industry. During this past quarter, purchase loans accounted for 96% of our NIW. Additionally, we expect home price appreciation to continue to moderate across the country bringing it more in line with wage growth and providing a more sustainable and healthy real estate market.

In terms of emerging trends, we do believe that the mortgage insurance industry is continuing to evolve away from a pure rate card-pricing model to an environment where MI market participants will deploy a variety of pricing methodologies with varying degrees of risk-based granularity and transparency.

We believe that the right market strategy will both address our customer's unique business needs and build long-term economic value for our shareholders. Given our proprietary risk and customer analytics combined with our digital pricing delivery platform, we are well positioned to compete.

Our strategy is to consistently apply and approach the pricing that is customer-centric, flexible and customizable, that is balanced with our own objectives for managing the risk return profile of our insured portfolio. Today, we are actively delivering loan level pricing electronically to our customers with varying levels of risk-based granularity, based on their specific business requirements and risk profile.

In terms of our mortgage insurance portfolio, our strong new business volume combined with continued favorable persistency helped us to grow our high-quality mortgage insurance portfolio, which is the primary driver of future earnings by 10% year-over-year to $217 billion.

Radian has one of the largest high-quality mortgage insurance portfolios in the industry, and the projected economic value of this portfolio is not reflected in our current period financial statements nor is it reflected in our reported book value. But it is expected to be recognized over time. Importantly, the value of this portfolio provides us with significant strategic flexibility.

Turning now to our Services segment. During the quarter, we continued to make progress across our mortgage, real estate, and title services. As planned, since restructuring last year, we are positioning these businesses with


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the right products and services based on the needs of our customers going forward, and we are confident that we have the customer relationships and the team in place to grow revenues, increase the financial contribution, and build value across the segment.

We are pleased by our growing sales pipeline across the services business, including the interest that we see from our MI customers. Additionally, we have had a very positive response to our recent rollout of our One Radian brand. In a competitive MI market, we continue to believe that these capabilities uniquely position us with our customers. We look forward to keeping you informed of our progress.

In terms of capital management, we received the final PMIERs 2.0 rules in September and are well positioned to comply as of the effective date in March of next year. Continuing on capital management, the capital markets and reinsurance markets continue to have strong interest in mortgage insurance credit risk. We believe that mortgage insurance companies will increasingly look to distribute a greater share of mortgage credit risk through the capital markets and reinsurance markets.

At Radian, we have a successful track record of sourcing, underwriting, managing, and distributing mortgage credit risk. As we said last quarter, our capital plan contemplates achieving a balance between the use of proprietary capital and leveraging third-party capital.

We believe there are a number of strategic benefits from leveraging the capital markets and reinsurance markets to distribute risk including a reduction in our overall cost of capital, increase capital efficiently and, most importantly, the opportunity to reduce tail credit risk and earnings volatility associated with any credit cycle dislocation. As we disclosed last night, we are launching a capital markets transaction in the form of insurance-like notes. This transaction is all part of our comprehensive capital plan.

And subject to ongoing market conditions, we expect to regularly access the capital markets and reinsurance markets to distribute credit risk. We believe the execution of our capital plan will enhance our already strong capital structure and demonstrate our commitment to effectively managing capital for our shareholders.

Turning to housing finance reform. While we believe it remains unlikely that Congress will take definitive action on legislative reform in the near term, we do expect the reform will continue to be debated on Capitol Hill and within the administration going forward. We've been encouraged by the discussions to-date and, in particular, the emphasis on greater risk sharing with private capital and the continued use of mortgage insurance in a first loss position.

Given the strong capital structure in place under PMIERs and our revised Master Policies, combined with our proven ability to aggregate, manage, and distribute risk, we believe the mortgage insurance industry is well positioned for any new housing finance framework that might develop. Of more immediate importance, we are closely following the discussions of Washington on the upcoming change in FHFA leadership.

Although it remains uncertain as to what actions the FHFA may take under new leadership, we do believe a leadership change represents a fresh opportunity to evaluate the FHFA's conservative role, in particular, to assess whether the GSE's activities are appropriately aligned with the long-term health of the housing finance system, reducing taxpayer exposure and encouraging private capital participation.

Finally, with respect to the FHA, we believe our industry continues to gain share from the FHA on higher FICO business where the borrower has an advantage using private mortgage insurance. We also believe it remains unlikely that the FHA will look to reduce its premium pricing, and particularly, given its well-publicized concerns


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regarding this reverse mortgage business. Additionally, the FHA is primarily focused on the modernization of their internal systems and processes which we expect will consume much of their attention for the near term.

Now, I'd like to turn the call over to Frank to review our excellent financial results.

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## J. Franklin Hall

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

Thank you, Rick. And good morning, everyone. To recap our financial results reported earlier this morning, we reported net income of $142.8 million or $0.66 per diluted share for the third quarter of 2018 compared to $0.96 per diluted share in the second quarter of 2018 and $0.30 per diluted share in the third quarter of 2017.

Adjusted diluted net operating income was $0.71 per share in the third quarter of 2018, an increase of over 3% over the second quarter of 2018 and 54% over the same quarter last year.

I will now focus on some of the drivers of our adjusted diluted net operating results for the quarter. I'll start with the key drivers of our revenue. Our new insurance written was $15.8 billion during the quarter compared to $16.4 billion last quarter and $15.1 billion in the third quarter of 2017. Total NIW increased 4% year-over-year and monthly premium NIW increased 6% year-over-year.

As Rick noted, we expect to write over $55 billion of NIW in 2018, which would be our third consecutive annual record for primary flow NIW. In addition to record volume, we continue to enhance the product mix of our new business. Monthly and other renewal premium NIW represented 78% of our NIW this quarter.

Borrower paid single premium policies represented 14% of our NIW this quarter or approximately two-thirds of our total single premium volume. Conversely, lender-paid single premium policies declined to 8% of our volume this quarter. A year ago, nearly all of our single premium NIW was lender paid. This shift in business mix is both expected and deliberate and designed to improve the return profile of our single premium business, as borrower paid singles have higher expected returns than lender paid policies.

Further, on a net basis after our 65% cession to reinsurers, our total retained single premium mix on new business was only 8% this quarter. The new business we are writing today continues to consist of loans that are expected to produce excellent risk adjusted returns.

Primary insurance in force increased to $217.1 billion at the end of the quarter, a 10% increase over the same period last year, the sixth consecutive quarter with insurance in force growth of 8% or higher. It is important to note that monthly premium insurance in force increased 13% year-over-year and has grown by over $27 billion over the past two years.

As Rick previously mentioned, the in force portfolio is the primary source of our future earned premiums and, as such, is expected to generate future earnings that are not reflected in the current period financial statements, nor reflected in our reported book value. This value is expected to be recognized over time.

Persistency trends remain positive, and our 12-month persistency rate increased to 81.4% in the third quarter of 2018, compared to 80.9% in the second quarter of 2018. Our quarterly persistency was 83.4% this quarter, up from 80.4% in the third quarter of 2017. Our direct in force portfolio yield was up slightly at 48.6 basis points this quarter, compared to 48.4 basis points last quarter, and 48.4 basis points in the third quarter of 2017, as seen on slide 9.


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Net mortgage insurance premiums earned were $255.5 million in the third quarter of 2018, compared to $249 million in the second quarter of 2018, and $236.7 million in the third quarter of 2017. This 8% increase from the third quarter of 2017 was primarily attributable to our insurance in force growth.

Total Services segment revenue for our mortgage and real estate services increased slightly to $40.9 million for the third quarter of 2018 compared to $40.5 million for the second quarter of 2018, and decreased from $41.1 million in the third quarter of 2017. Our reported Services adjusted EBITDA was approximately $0.6 million for the third quarter of 2018. Excluding the approximate $1.2 million impact of both restructuring charges and the operating impact of our recently acquired title insurance company, the Services adjusted EBITDA would have been approximately $1.8 million.

And it's important to note that since the restructuring of our Services business in the third quarter of 2017, Services adjusted EBITDA has been positive and there have been substantial improvements in the operational aspects of the business.

Our investment income this quarter was approximately $39 million, a 4% increase over the prior quarter and a 20% increase over prior year due to both higher rates and higher balances in our portfolio. Our strategic shift to slightly shorten the duration of the portfolio during 2017 has also proven effective. And our quarterly cash flows have been reinvested into a rate environment with higher yielding securities.

We are continually looking for ways to enhance the performance of our investment portfolio and apply our management expertise to produce greater investment income, while also being mindful of asset and liability duration matching and risk levels.

Moving now to our loss provision and credit quality. As noted on slide 13, during the third quarter of 2018, we had positive development on prior-period defaults of $20.4 million. This positive development was driven primarily by a reduction in assumed claim rates on existing defaults based on observed trends including an increase in cure rates on these defaults.

The default to claim rate applied to new primary defaults received in the quarter, which reflects recent observed trends, was approximately 8.5% compared to 9.0% in the second quarter of 2018, and 10.5% in the third quarter of 2017. We believe that if observed trends continue, default to claim rates could fall further, although the likelihood, and timing of this decline is difficult to predict. The total number of new defaults increased by 15.5% compared to the second quarter of 2018, consistent with typical seasonal patterns, and decreased by 4.4% compared to the third quarter of 2017.

Webcast slide 15 shows the default trends associated with 2017 FEMA-designated areas over the past five quarters. As expected, most of the new defaults we received between September 2017 and February 2018 in these FEMA areas have cured. And the total default count in these areas has returned pre-hurricane levels.

As economic indicators have continued their positive trends, cumulative loss ratios on our post-2008 business continued to track to historically low levels. Overall, the performance of our portfolio remains strong with positive trends continuing further evidence of both the strong credit profile of business written after 2008, which is now 94% of our primary MI risk in force including HARP loans, as well as greater predictability around the pre-2009 portfolio.

Now turning to expenses. Other operating expenses were $70.1 million in the third quarter of 2018 compared to $70.2 million in the second quarter of 2018 and $64.2 million in the third quarter of 2017.


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Compared to the third quarter of 2017, the primary driver of the increase in expenses was the inclusion of operating expenses associated with our acquired title insurance company, which were $4.2 million this quarter.

As previously communicated, we expect that our total other operating expenses for 2018, exclusive of acquisitions, will not exceed our 2017 expense levels and that we will achieve positive operating leverage for the full year, which means that our revenues will grow at a faster rate than our expenses.

Moving now to taxes. Our overall effective tax rate for the third quarter of 2018 was 22.7%. This was higher than the 21% statutory rate primarily due to the impact of discrete items that were recognized in the third quarter. Our expectation for our 2018 annualized effective tax rate before discrete items is approximately the statutory rate of 21%.

And now moving to capital, under the current PMIERs, Radian Guaranty had available assets of $3.8 billion, and our minimum required assets were $3.3 billion as of the end of the third quarter 2018. The excess available assets over the minimum required assets of $530 million, represents a 16% PMIERs cushion and a $50 million increase from the prior quarter.

We have also noted on slide 19 our PMIERs excess available resources on a consolidated basis of $966 million which, if fully utilized, represents 29% of our minimum required assets.

Following the finalization of PMIERs 2.0, we have begun to take actions that will have an impact on our capital availability. We intend to launch an insurance linked note transaction for approximately $400 million that is expected to close in the month of November. And assuming continued favorable market conditions, we would expect to utilize this form of risk distribution on a recurring basis.

The expected reduction in PMIERs required asset, as a result of the pending insurance linked note transaction, coupled with organic growth in PMIERs available assets, should be sufficient to consider a broad range of potential capital actions, including contemplation of capital distributions from Radian Guaranty to Radian Group. These actions may include a request of our Pennsylvania regulator for repayment of the $100 million surplus note and/or a request for a special dividend after calibrating for an appropriate PMIERs cushion at the operating company.

We expect the PMIERs cushion to be sufficient to absorb projected organic growth and any potential volatility such as a cyclical economic downturn. It is expected that a potential utilization of this enhanced capital flexibility may also include retirement of the next maturity of debt, which occurs in June 2019 of approximately $158 million and, once eliminated, would reduce our debt to capital ratio by approximately 3.6 percentage points bringing our debt to total capital to approximately 20%.

Our comprehensive capital plan is already in process and we will provide additional information as the components of the plan become more certain, such as the completion of the mortgage insurance linked note transaction. Several components of our plan are dependent upon market conditions and the approval of regulatory agencies and, therefore, it is most appropriate for us to share these details when the outcome is more certain.

Holding company liquidity at the end of this quarter was $246 million compared to $202 million at the end of the second quarter of 2018. The increase in holding company liquidity during the third quarter was primarily due to payments received from subsidiaries under our tax-sharing agreements.


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And finally, effective October 26th, 2018, we exercised our rights under the accordion feature of our unsecured credit facility and added to our group of strong lenders in the facility to increase the total borrowing capacity by $42.5 million, bringing the aggregate unsecured revolving credit facility commitment to $267.5 million. All other terms of the credit agreement remain unchanged. Currently, there are no amounts outstanding under the credit agreement.

And before I turn the call back over to Rick, I would like to take a moment to recognize our Chief Accounting Officer, Cathy Jackson, who earlier this year announced her upcoming retirement. Cathy joined the company at the beginning of the financial crisis in 2008, and was instrumental in helping guide the company through those dark days. I have had the pleasure of working with Cathy for the past four years and she has been an outstanding and vital member of this team.

This is Cathy's final earnings call from this side of the phone here at Radian, so I wanted to publicly acknowledge the appreciation of the company and of me personally for her contributions and professionalism. Thank you, Cathy.

And now, I'll turn the call back over to Rick.

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

And I would like to add, thank you to Cathy as well for – it's been a pleasure for the last 18 months and we got a couple more months to go, and Cathy has been a tremendous part of this team, and we wish her all the best.

## Catherine M. Jackson
*Senior Vice President and Corporate Controller, Radian Group Inc.*

Thank you all.

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

Thank you, Frank. Before I open the call to your questions, let me remind you that net income grew to $143 million. Adjusted diluted net operating income per share increased 54% year-over-year to $0.71. Book value per share increased 13% year-over-year to $15.69. Adjusted net operating return on equity was 19%.

We continue to write new, high-quality mortgage insurance business in the quarter of $15.8 billion. We are projecting to set a new annual record by writing more than $55 billion of NIW this year. Our $217 billion mortgage insurance portfolio grew 10% year-over-year and is a primary driver of future earnings for Radian.

We continue to make progress in positioning our Services segment for sustained growth and profitability, and we are executing our strategic capital plan. Net-net, we are well positioned for the future under our One Radian brand to compete, grow and diversify our revenue sources, serve our customers and create even greater long-term economic value for our shareholders.

Now, operator, we'd like to open the call to questions.


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# QUESTION AND ANSWER SECTION

**Operator**: Certainly. [Operator Instructions] First from the line of Mark DeVries with Barclays. Please go ahead.

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Mark C. DeVries
*Analyst, Barclays Capital, Inc.*

Q

Yeah. Thanks. First, just want to wish Cathy best of luck in her retirement.

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Catherine M. Jackson
*Senior Vice President and Corporate Controller, Radian Group Inc.*

A

Thanks, Mark.

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Mark C. DeVries
*Analyst, Barclays Capital, Inc.*

Q

So, some follow-up questions, Frank, on the capital plans. You mentioned a number of different options including repaying with surplus notes, possible dividends off from Radian Guaranty. Would those two options be something that you could do simultaneously, or they have to be kind of staged at different times where you would potentially ask for one or the other? And also, is there any sense you can give us on what size dividend do you think would be appropriate to ask for?

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

A

Sure, Mark. Thanks for the question. I appreciate that.

When it comes to the timing of certain actions, the ones that I mentioned certainly have more flexibility around timing. But I would just more broadly talk about the capital planning that we're doing. And, Mark, as you would imagine, we receive questions continuously from shareholders and those who cover our company about what's next for our capital. We hear a range of ideas and suggestions, various forms and strategies for capital distribution, and we do appreciate getting that input directly from our shareholders.

I would just say, in summary, that we are well positioned to have these options because of the financial strength and flexibility that we've created over the past several years, and that flexibility is further enhanced by the potential for future and ongoing risk distributions such as the [ph] ILN (28:41) as mentioned, a few of those capital options such as debt repayment and surplus net redemption, but other uses of capital that are available to us require further discussions and approvals from our board, our state regulator, and perhaps other constituents such as the GSEs whose judgments and opinions we don't want to presume.

And all of that said, our strength has really just been evidenced by recent rating agency upgrades, taking advantage of strong capital markets and the reinsurance market that provide those risk distribution options, as Rick talked about, lower cost of capital options, PMIERs clarity, price discipline, the value of our $217 billion in force portfolio, and a very strong relationship with our state regulator.

All of that said, it does support the case to consider some of those capital return options, and we will provide additional clarity as those conversations conclude. So, not a lot of specificity on some of these things, but just


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overall, we feel very, very good about where we stand today as it relates to both capital options that are available to us and the positioning that we've done.

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Mark C. DeVries
*Analyst, Barclays Capital, Inc.*

Q

Okay. Fair enough. Is it fair to assume that the reason you didn't repurchase any shares this quarter is because you were effectively blacked out because of the information you had on PMIERs?

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

A

So, the analysis that we go through for our share repurchase and, if you'll recall, our historic share repurchase programs have been value-based in nature, so that is the largest component of that. And so, the activity that you've seen was certainly reflective of that.

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Mark C. DeVries
*Analyst, Barclays Capital, Inc.*

Q

Okay. Got it. Thank you.

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**Operator**: Our next question from Phil Stefano with Deutsche Bank. Please go ahead.

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Phil Stefano
*Analyst, Deutsche Bank Securities, Inc.*

Q

Yeah. Thanks. Looking at the Services EBITDA and including the $1.2 million from the restructuring in title, feels like the adjusted – adjusted margin shook out around 5%. It feels like a step-down from the 10% we saw last quarter, and probably trailing the 10% to 15% we're expecting by the end of this year. How should we be thinking about the progress of the restructuring there? What ending are we in? And does the margin feel like it can continue to improve?

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

A

Thank you, Phil. This is Rick. Yeah, a great question. And we feel extremely good about the progress being made in our Services business. I think Eric and Brien and their teams have made great strides forward towards building that business in.

As you highlight, in the second quarter we hit both guidances, basically both revenue and EBITDA. Third quarter we hit revenue and the EBITDA guidance fell back a little bit. We're kind of dealing with somewhat of a small numbers, if you will, so small variances or small investments, it kind of matter. But we do expect in the fourth quarter to achieve both guidances, if you will, both revenue and EBITDA.

And I would just say look, if we step back and look at where we're at, these are businesses that we put on a stable footing today. I feel very good about where we're at. The team's done a great job, consistent with our expectations. Just given the size of the numbers, there's room for small volatility. But I think we're on track with our expectations and we are focused on driving EBITDA as the first – adjusted EBITDA is the first milestone from a value creation point of view.



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And I think so as we sit here today, yes, we feel that we are on track with our guidance. Maybe we hit a little bit early and there are always timing issues quarter-to-quarter. But we see that in terms of next year, we continue to see growth and we're encouraged by the growth in our pipelines from a sales point of view, as we've seen our mortgage insurance customers show interest in leveraging our products and services and obviously and the core services customers growing.

So, just to give you a feel, because I think it's important. The three businesses within the segment, mortgage services is starting to benefit from a growth in the securitization market and we are well-positioned for that not only with the existing clients but our mortgage insurance customers who are entering the securitization market.

Our real estate services, which are really primarily valuation data, technology, asset management, well positioned for a market that's evolving into a digital real estate data and information space. And I think we have a very unique asset, a very unique position in the market that's becoming increasingly relevant to our customers not only in valuation but in data.

In title, we made an investment, and yes, we made that investment, very immaterial acquisition, very accretive acquisition. We're in the process of building what I'll call a digital title platform, much more of a title platform of the future, and we see the combination of our underwriting platform and our agent having a national footprint, putting us in a position to be disruptive in the title business.

We're not wed to agents and brick-and-mortar. So, we have an opportunity to really create a next-generation title business. So, we've been making investments not only in the acquisition but also in our technology, and enhancing the team all at the same time we're kind of moving these businesses board from a EBITDA and revenue growth point of view. So, where we sit today, I feel very good about Services. I feel like we are well positioned across the three parts of that segment. And I think as we go into 2019, we expect revenues to grow beyond where we are today.

And I'll provide a little bit of guidance in terms of 2019. We see revenues growing to a run rate of $175 million to $200 million with a 10% to 15% EBITDA. So, I think we – again, we're kind of making progress as we go, and we're also trying not to push too far from an expectation point of view, but this is a business that we see strong value, strong accretive value to our overall customer relationship in an otherwise competitive MI marketplace.

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**Phil Stefano**
*Analyst, Deutsche Bank Securities, Inc.*

Q

Okay. Got it. And the second one I had, I was hoping to talk about pricing delivery for a second. So, when we listen to some of your peers speak, there's a clear distinction of 80% of our business is being sourced through a risk-based pricing mechanism, presumably the other 20% flowing through a rate card.

Rick, I think it was your prepared comments, you said that we're delivering pricing electronically and to varying degrees of risk-based pricing. Do you feel like the distinction here between the black box and the rate card is really a distinction without a difference? To what extent is the electronic pricing through black box? How should we be thinking about the differences there?

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

A

Yeah. Phil, great question. So, I won't respond to the 80% and 20% comment [indiscernible] (36:21-36:23).

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Phil Stefano
*Analyst, Deutsche Bank Securities, Inc.*

Q

Well, [ph] and that's just hypothetical, right, to see (36:22). There's a line drawn in the sand of, one way is X and one way is Y, where it feels like you're kind of talking about X and Y together.

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

A

Maybe X, Y and Z, and Q and R and S. I think – look, here's – we, myself personally, we spend a lot of time with our customers talking to them. We just were at the recent MBA Conference Meeting with literally dozens of our key customers, and talking to them about what their needs are.

So, today we are definitely in the market, providing risk-based granular pricing to customers, right? I think that is – there should be no doubt about that. And we are very comfortable with not only our ability to do it, our analytics to do it, but it's driven from a customer perspective.

And so, when we think about our 1,500-plus customers, we can't think of them all as one type of customer. They all have a variety of different needs and unique needs, right? Not all of them can accept different types of pricing structures. And so, when we hear references to a one-size-fits-all, this is what everybody will get in one, we don't believe that.

What we believe is, is that the mortgage insurance industry is migrating effectively, and we're leading that change to a much more a variety of different pricing methodologies that are specific to what our customer wants and needs, driven by our own – balanced with our own risk-and-return objective. So, we're not kind of going down a path that is not going to produce the right returns from an economic value point of view. So, for us, we do see the merits of providing increased risk-based granularity to a customer at a loan level through electronic delivery.

By the way, most of our business, this is the interesting part, and Derek can correct me if I'm wrong, most of our business today is delivered electronically, right? Most of our pricing is delivered electronically. So, let's just cross that box, right? Check that box.

The granularity of pricing all depends upon what a customer wants, and the transparency of that pricing is also depending upon what the customer is comfortable with. So, our approach is just fundamentally customer-centric, flexible, and we believe that balanced with our own view of value from an economic value point of view and a risk return profile of different products, we are focused on our customers and delivering a much more flexible style model, leveraging everything from risk-based granularity with limited transparency to traditional rate card, right, but we do see the market evolving to be increasingly granular from a risk point of view and varying degrees of transparency so. I think we feel very [indiscernible] (39:28-39:31)...

I would just add one more – I would add one more thing, Phil, just I think we have to be careful as we look at the industry. And I say this and I've come from different world in the mortgage insurance world, 30 years. I come from our customer side. The reality is one size does not fit all.

And so, it is we're being much more strategic in the discussions that we're having with customers are all about, what are your needs? What would you like? How can we assist you and fulfill those needs. And I think given the long-standing strength of our relationships, we're in a position to have those discussions and work with them to solve the needs that they have.


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Phil Stefano
*Analyst, Deutsche Bank Securities, Inc.*

Q

All right. Thanks, Rick. I appreciate the color. To an extent we saw the same thing with the private healthcare exchanges where some people tried to push one thing as the sole solution and others took a more customer consultative approach. And I think the latter makes sense there. But one more quick point on this is flexibility is something you noted once or twice. And in my mind, a black box is much more flexible than the rate card which has more rigid pricing changes ability to it. How flexible do you feel like you can be with your pricing?

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

A

Yes. Actually thank you for that clarification because I think when I'm referring to flexibility, I'm really talking more about the structure of our pricing that we deliver to a customer in terms of the degree of granularity and transparency as opposed to we have the ability to provide full granularity to a customer from a risk base point of view to – all the way to the other end, which would be kind of the current traditional rate card.

So, it's all about the flexibility to deliver what they need. And let me give you an example. In talking to customers, and these are some of the largest customers out there, we can't deal with a random result. We can't deal with lack of transparency. And we have a difficult time not having fixed pricing in our system, right?

So, we have to be able to adapt to their needs not to try to force, "Hey, go hit your information in this machine and see what price you get." So, the other end is, "Hey, I want to take your prices in and I want to send you a request, and I want to get an answer. And I want – I'm happy to take more granular pricing because I can accept that."

So, I think it's all about the flexibility of our delivery of pricing to a customer to meet their needs. And we have a full range of capabilities from rate card to highly granular, loan level pricing, transparent, non-transparent capabilities. And so, I don't think "black box" is the unique element here.

To me, it is about a range of pricing, pricing structures and models that fit the customer need. And I think we're well positioned with the capabilities that Derek and his team have built and put in place from an analytical and technology point of view, to fulfill the needs of our customers going forward.

Phil Stefano
*Analyst, Deutsche Bank Securities, Inc.*

Q

Got it. Thanks for all the color. I appreciate it. And best of luck in the future.

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

A

Thank you, Phil.

**Operator**: Our next question is from Douglas Harter with Credit Suisse. Please go ahead.

Douglas Harter
*Analyst, Credit Suisse Securities (USA) LLC*

Q

Thanks. Kind of with the announced move into the [ph] ILN (43:13), can you talk about your plans to use a quarter share of reinsurance?


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

A

Sure. I'll start. This is Frank. And Derek can add in. I think as we look at the reinsurance channel of risk distribution versus [ph] ILN (43:33), it really does start first with sort of the objective, what it is that we're trying to achieve, and then we'll look at cost of capital, counterparty evaluation, etcetera.

As it relates to our current quota share, we're very pleased with how that's operated and for the particular product that that covers. So, we like the QSR structure and how we're utilizing it currently. [ph] ILN (43:58) provides a different type of reinsurance and a different type of execution. And so, for the purposes that we've discussed, we think that's most appropriate. So, it really does depend really on the objective and what it is that we're trying to achieve first.

Derek...

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

A

Yeah. I think I would just add to what Frank said when we look at that, we would expect going forward to have multiple forms of risk distribution and capital management tools in our arsenal.

And so, when we look at that we're going to have a common framework for bringing out the best execution looking at a variety of things such as cost of capital, certainly of capital credit through time, the insured portfolio impact, the impact it has on our kind of net retain position, and net retain kind of expected earnings. So, all of those factors will be utilized in terms of making that decision as to how we distribute risk.

Douglas Harter
*Analyst, Credit Suisse Securities (USA) LLC*

Q

Got it. And I guess sort of following up on that, do you have a view as to – or could you share your view as to kind of how you would think those two different forms of reinsurance kind of perform kind of over a cycle and how that influences kind of the decision as to kind of how you want to be positioned.

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

A

Well sure. This is Derek. I mean, in terms of the way they perform, I wouldn't look at them as being kind of differing in performance in terms of kind of the structure of the execution. It's much more the form of the structure, right? So, you can basically structure traditional reinsurance that provide similar protection.

I think the point is and I think where the industry is moving overall is to essentially set up risk distribution structures where essentially it's removing the tail risk in the portfolio. And what that does is it decreases the volatility from a loss ratio perspective and in earnings volatility.

So, when we kind of look at that and we talk about the way we model our expected return, so essentially, our modeling, once we kind of factor it in, in terms of current production, we're kind of modeling out roughly around a 20% loss ratio. So, some of these structures – and I think what you'll see more going forward is basically cutting off that tail risk, so you don't have kind of a loss ratio exceed that.

So, we think that puts us in a better position. We also think it positions us, as Rick referenced in his prepared remarks, in terms of ultimately being an originator, a manager and a distributor of the risk. So from that


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perspective, less tail risk from a credit perspective in the portfolio, less loss ratio volatility, last earnings volatility, so, that's the way I look at it. In terms of the way to optimize that, we'll find a way to optimize that amongst traditional reinsurance [ph] and also through the (46:34) capital markets execution.

---

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

A

And just to add to Derek's comment because I thought that was perfect. I think as we go forward, having, again, multiple tools for distributing credit risk is to emphasize that is fundamental to our strategy, and I think we have a long history of accessing tools both in the reinsurance market and capital markets, so, it's not new to Radian.

But we are beginning to evolve our model to include a much greater distribution of risk going forward subject to market conditions, because as I said last quarter, one of the great strengths of Radian is the strength of our portfolio, and the strength of our capital structure.

All these things create opportunities for us. The fact that we've distributed less risk than others have relative to us create opportunities for us to free up capital, if you will, for other purposes, as Frank went through. And so, I think, again, as we go forward leveraging the strength of our own proprietary capital combined with the capital markets and reinsurance markets as Derek outlined, I think it really provides us great opportunity to manage the financial position of this business.

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Douglas Harter
*Analyst, Credit Suisse Securities (USA) LLC*

Q

Great. Thank you.

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**Operator**: Our next question is from Bose George with KBW. Please go ahead.

---

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

Q

Hey. Good morning. Actually first, just wanted to ask about the average premium on NIW you did this quarter. And also just in terms of your in force portfolio yield that ticked up a little bit, do we expect it to tick down a little? Just curious what the offsets are since I assume premium on NIW is obviously trending down a little.

---

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

A

Sure. So Bose, as you'll recall, we don't disclose what the NIW premium yield is. So, I'll have to go past that question. But as it relates to the portfolio yields, I think one of the things that the portfolio is starting to experience a little more so just as it relates to the mix, is as we shift more toward borrower paid policies those relative to lender paid policies have shorter lives, and therefore, a shorter recognition period for premium recognition. So, as that shift continues, I mean the borrower paid singles versus lender paid singles is advantageous on many fronts. But that's also one of the outcomes, that it has a shorter life.

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

Q

Okay. That's helpful. Thanks. And then actually just one on the Services segment. Is there anything else in terms of sort of add-on acquisitions or anything sort of external that you need to do to get there where you wanted to be or now, is it more sort of internal blocking and tackling?


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

A

Hi, Bose, this is Rick. Yeah. That's a great question. I think today, it is all about what we have today in front of us. We added the title underwriter earlier in the year and it was an immaterial kind of acquisition, but very strategic and very accretive to us in our strategy and business plan.

I think we have what we need today. And anything that we would do would be – we would expect to be immaterial and more accretive in the sense of kind of bolting on to something already that's we see is core today.

So, I think, as I outlined, I think earlier, the three businesses that are part of the segment, I think all have interesting runway going forward in terms of the market dynamics, whether it's the securitization market, digital data, transformation of the title business. And so, I think we have the core capabilities and the team is in place, and the customers are starting to understand our broader offering. So, I think we feel good about where we sit today.

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

Q

Okay. Great. Thank you.

**Operator**: Next, we'll go to Jack Micenko with SIG. Please go ahead.

John Gregory Micenko
*Analyst, Susquehanna International Group, LLP*

Q

Good morning. Cathy, I don't know if you remember, but you were like the first person I ever met with [ph] inside the organization (50:41), so – back in the day. So...

Catherine M. Jackson
*Senior Vice President and Corporate Controller, Radian Group Inc.*

A

I do. Yeah.

John Gregory Micenko
*Analyst, Susquehanna International Group, LLP*

Q

All the best to you.

Catherine M. Jackson
*Senior Vice President and Corporate Controller, Radian Group Inc.*

A

Thank you.

John Gregory Micenko
*Analyst, Susquehanna International Group, LLP*

Q

First one for Frank. I guess let's talk about the gross – if we call it a gross buffer or 29% today, you've obviously got the island and the market coming, you've got an adjustment downward with PMIERs at the end of January, but you've got some retained earnings. So, I guess the question is, not what you're going to do with the money, but where does 29% go to? Can you give us a range of where we think we're going to sort of be running in kind of at the end of the first quarter?


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

A

Sure, Jack. Great question. So, couple of things. One, the 29% is inclusive of all available resources.

John Gregory Micenko
*Analyst, Susquehanna International Group, LLP*

Q

Yeah.

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

A

At Radian Guaranty, it's at 16% right now with $530 million cushion. That, if we were to roll forward and PMIERs 2.0 were effective today, that 16% would move to about 8.6%.

And so, you think about what that comfortable range is for us, and if you look at historically where we've been 10 to 15-ish has been comfortable. We've operated there. I think one of the things, though, to keep in mind as we look at what that cushion is intended for, as I've said in my prepared remarks, it's both for organic growth and also for any cyclical downturn that we may experience.

So, on that second part, keep in mind too, as Derek just went through in detail, part of the benefit of some of these risk distribution strategies is that it does cut off the tail risk associated with the risk that we're ceding. So, now, that doesn't mean to suggest that we would necessarily run tighter, but it does give us greater comfort that the cushion that we withhold and if it's between a 10% to 15% historical rate, that we would feel even better about that level.

John Gregory Micenko
*Analyst, Susquehanna International Group, LLP*

Q

Okay. Thanks. And then as a follow-up, really a two-part question, are you seeing any impact from the pilots that came out earlier this year?

And then second, it seems like in Washington, there's this kind of growing sentiment that maybe pilots shouldn't be part of the mandate is, I guess, the second part of the question, is that the right interpretation from your perspective?

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

A

Yeah. No, it's a -- thank you, Jack. That's a great question. I think that we – I quiz our team all the time. Are we seeing impact from either the IMAGIN program or the EPMI program which are the Fannie and Freddie programs, and the answer is, we're not.

And it's largely, I think, even in some recent commentary I've seen, I mean, they're still "In a pilot phase" kind of building a relatively small number in terms of a pilot universe. So, we're not seeing impact on a day-to-day basis for the programs. And I think there are many reasons for that, but largely because they don't necessarily solve any problems for a customer that that today we're not already solving plus in terms of other services we provide to our customers in terms of continuing education and just the ongoing consultative relationship we have with our customers.


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So, I think not seeing much impact, currently. And I would say, as it relates to the tone in D.C., there's an interesting thing on November 14th. I think the Senate Banking – November 15, sorry, the Senate Finance Committee is holding hearings on these pilots, right? And so, there will be testimony by FHFA and I believe the GSEs to kind of address these issues.

So, I would agree with you that there is a tremendous amount of discussion as to whether these pilots will continue or appropriate. And I think what we're most interested to see, as I said in my comments, is kind of where the new FHFA leadership goes. Mel Watt will be retiring in January. And there'll be kind of a transition to the new leadership.

And we think from all the comments we're hearing that these pilot programs, it's not just the MI, they just discontinued the financing of single-family rental transactions and there's an MSR pilot out there, and there's probably a few other things that kind of lower on the radar.

So., we do think that there's probably the right level of dialog as to the appropriateness of how these pilots go forward. And so, we'll just have to wait and see where the new leadership team takes it.

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John Gregory Micenko
*Analyst, Susquehanna International Group, LLP*

Q

I appreciate the color. Thank you.

---

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

A

My pleasure.

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**Operator**: Our next question is from Chris Gamaitoni with Compass Point. Please go ahead.

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Chris Gamaitoni
*Analyst, Compass Point Research & Trading LLC*

Q

Good morning, everyone.

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

A

Good morning.

---

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

A

Good morning.

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Chris Gamaitoni
*Analyst, Compass Point Research & Trading LLC*

Q

I want to shift to corporate expenses. They've been running – this is the corporate allocation expenses, they've been running kind of low-20s. Is that a pace we should expect moving forward? How should we think about that expense level on the corporate side?

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

Sure. This is Frank. So, when we think about our corporate expenses, I would tell you that's something that is reassessed every year as far as what that allocation looks like and much of it depends upon the time allocation spent with each of the respective segments. So, I would probably suggest to you that to look at expenses on more of an aggregate basis is a better approach if you're looking to build out a forward view.

And I've commented on some of the things related to expenses. Our focus really is on creating positive operating leverage, which connects both revenue to the expenses. And as long as we are growing our revenues at a faster rate than our expenses, we feel good for 2018 relative to 2017.

That expense level is expected to be flat absent the acquisition of the title company. So that is – I think the approach that I would take to that versus trying to figure out what a stable allocation percentage looks like over time because that could fluctuate.

And then the other thing that I would just suggest to you is just keeping an eye on other things that can impact that expense ratio. And so, when you think about things like reinsurance, the QSR structure has an accretive impact on the expense ratio, whereas [ph] ILNs or XOL (57:39) structures actually have a dilutive impact because they're only impacting the premium. But those are, I would say, the general large component that I would direct you to.

Chris Gamaitoni
*Analyst, Compass Point Research & Trading LLC*
Q

Frank, can you remind me what the title expense was in 2Q?

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

In 2Q, $3.7 million.

Chris Gamaitoni
*Analyst, Compass Point Research & Trading LLC*
Q

Okay. And moving to persistency, obviously a nice increase given the forward curve, kind of the overall housing market mobility. Do you have any updated sense of how high that quarterly persistency could trend up over the next couple of years?

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

I think we've guided historically that a mid-80s is about the right number. Could there be a momentary tick up a little bit? Sure, it's possible. But we think that the mid-80s percent is the right level.

Chris Gamaitoni
*Analyst, Compass Point Research & Trading LLC*
Q

Mentioned improving performance on your investment portfolio. Could you give us where the current book yield is and what the new money yields that you're putting on are?


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

A

We don't provide that level of detail. The current portfolio yield is 3.3% or 3.29%.

Chris Gamaitoni
*Analyst, Compass Point Research & Trading LLC*

Q

Okay. Thank you.

**Operator**: And our next question is from Geoffrey Dunn with Dowling & Partners. Please go ahead.

Geoffrey Murray Dunn
*Analyst, Dowling & Partners Securities LLC*

Q

Thanks. Good morning.

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

A

Good morning.

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

A

Good morning.

Geoffrey Murray Dunn
*Analyst, Dowling & Partners Securities LLC*

Q

I'm not sure if this is Frank or Derek, but in terms of the [ph] ILN (59:14) strategy, is this on a go-forward basis, meaning the next yield would probably contemplate the 18 policies. Are you looking at more seasoned deals to put coverage on the back book?

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

A

Geoff, great question. All we can speak to at this moment is what's in the current transaction, which is the 2017 vintage. I think the good news is that we do have optionality on future deals, but we have not provided any type of guidance on what would be contemplated.

Geoffrey Murray Dunn
*Analyst, Dowling & Partners Securities LLC*

Q

Okay. And then kind of feeding to that, before the credit crisis, I think the traditional rule of thumb was a 10-year loss curve with peak incurred in your 3, 4 and pay as is in 4, 5. Do you think that type of curve still holds today? And the reason I'm asking is I'm trying to see if there's actually value in putting cover on, like, 15 book, for example. What do you think the loss curve looks like today?

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

A


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Sure. This is Derek. Look, it might be extended a bit. I mean, the other thing is when you just look at loss curves, it's really going to depend upon kind of the macro conditions both when they're hitting and also basically the book that benefited, for instance, from positive HPA in the meantime.

So, when you look at some of those older books and you get to the 2014, 2015s, you look at the positive HPA, that's going to have a couple of factors. One is it's basically going to decrease the frequency because the LTV is lower.

The other thing is especially, as the book shifts more and more to borrower-paid, that's going to be subject to hope of cancelation, right? And so, once it reaches an 80% or 78% LTV that will cancel out. So, I guess in kind of a longwinded answer, it kind of depends on a variety of factors. I think, generally, I would agree that you probably see that loss curve kind of shift out a bit, but I can't give you kind of a set number.

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Geoffrey Murray Dunn
*Analyst, Dowling & Partners Securities LLC*

Q

Okay. Thanks.

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**Operator**: Our final question's from Mihir Bhatia with Bank of America Merrill Lynch. Please go ahead.

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Mihir Bhatia
*Analyst, Bank of America Merrill Lynch*

Q

Hi. Thanks for taking my questions. Just first, I was curious on your NIW this quarter. It was down quarter-over-quarter, which is a little different than I think some of your peers. I understand there's – I don't want to make [ph] map of the model (61:31) here, and I understand there's differences quarter-over-quarter, but I was just curious was there something driving that this quarter that maybe you didn't compete in certain markets or certain [ph] pieces of the (61:45) business?

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

A

Yeah, Mihir. This is Rick. Thank you. It's a great question. I think we're – to answer your last part of that question, is there anything that we weren't able to compete with, I think we compete extremely well in all the markets and for all the products that we're interested in and that we're focused on. I think you're going to see – I think our business over time has been extremely steady in terms of kind of our market share position plus or minus a percentage point here or there.

And as I've said in the past, we're not focused on market share. We're focused on growing economic value of this business, and for the benefit of our shareholders. And so, I feel like where we want to participate and compete, we are able to do that very effectively. Where we choose not to, we choose not to.

I mean it's essentially we're – so, I think we're being – we are very focused on driving economic value across our business working, doing the right loans at the right price with the right risk return profile and, probably, most importantly, doing them with the right customers. And so, we are – Derek and his team leverage not only our risk analytics but our customer analytics both to the quality of the customer as an originator and also as a servicer.

And so, I think we are very, very disciplined about what products we do and who we do it with, and I think that's very unique in our industry, as opposed to chasing market share. And so, since the day I got here, I very [ph]


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rarely price that (63:23) market share more in this conversation than I have in the last six months. And I very rarely focus on market share, and we focus on the creation of economic value.

So, I think we're in the right place. I think our team is competing very effectively in the market. And given the earlier discussion that we had around kind of our flexible pricing structures and models to accommodate unique needs of our customers, I think we are well positioned to continue to do business where it fits our profile and with the customers that we see as a long-term valuable partners.

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Mihir Bhatia
*Analyst, Bank of America Merrill Lynch*

Q

No, that makes sense. Appreciate that. And then on the services segment, just curious, where are we in terms of – appreciate the guidance for next year, but I was just curious in terms of just the restructuring, and I think [ph] you all have (64:18) mentioned in the last quarter a little bit of [ph] adjusting the (64:19) repositioning in some of it. Is that most or almost all done at this point? Is there a little bit more [ph] come in (64:26) Q4 and Q1? Where are we in that process?

---

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

A

I think we're largely done. There's a small amount that are probably still left to go, but from our original guidance, I believe. So, yeah, I'd say, it's largely behind us. And I think someone asked earlier, I forget who it was. Maybe it was Phil, asked what inning we're in.

And I felt the answer to that, I would say, look, we're still in the early innings but in terms of early positioning and building these businesses and I remain extremely optimistic not only in the opportunity to provide a financial contribution that is accretive to our returns but also to provide us with a strategic advantage in the marketplace from a customer relationship point of view.

And so, I'd say we feel very good about where we're at and I want to share this with you. I meant to share this earlier. I have had probably a dozen conversations in the last couple of months with some of our key customers, key MI customers.

And every single conversation – actually and even non-MI customers who – that we're working with, every single conversation that I had was, had an extreme balance between our mortgage insurance relationship and the opportunities that we see with Derek and his team to work, to help people do things better, but equally balanced with how can you help me become more relevant to the consumer by leveraging your real estate capabilities, how can you improve my valuation processes and how can you help me from a digital title perspective? And oh by the way, I'm getting into the securitization issuance market and we've used during the past over due diligence.

So, I think our relevance and the discussions we're having at the CEO and business leader level about the strategic relationship between Radian as a fully integrated company and our customers, is becoming increasingly relevant to how we build this business. So, I feel like we're early. I feel like we've got our feet under us. I think we got the right team on the field with Eric and Brien and their teams. And I think we're building these businesses to be contributors to our returns.

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Mihir Bhatia
*Analyst, Bank of America Merrill Lynch*

Q


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Got it. Great. Thanks. And then – sorry, one last question. Just on the share buyback. I think Frank, you mentioned earlier it's a value-based buyback program and that would – so that was the driver of I guess no repurchases in Q3, not something else, is that correct?

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

A

I did say that, that is correct.

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Mihir Bhatia
*Analyst, Bank of America Merrill Lynch*

Q

Okay. Thank you.

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**Operator**: And, Mr. Thornberry, I'll turn it back to you for any closing comments.

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

Thank you. Well, again, I wish Cathy all the best, but she's stuck with us for two more months, and we plan to make the most of those two months. Thank you, all, for joining us on this call and your very fine questions. We much appreciate your interest in Radian, and we look forward to talking to all of you in the very near future. Take care.

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

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