13-Sep-2018

Radian Group Inc. (RDN)

Barclays Global Financial Services Conference

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MANAGEMENT DISCUSSION SECTION

Mark C. DeVries
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All right. Good morning. Thanks for joining us. I'm very pleased to have the team from Radian with us up on the stage. I have Rick Thornberry, CEO; Frank Hall, the CFO; and Emily Riley who's down in the front row. Radian is one of our overweight stocks in a sector that we've been extremely constructive on because we think the market continues to underestimate the quality of the credit and the continued growth opportunity across the mortgage insurance space.

So, with that brief introduction, I'll hand it off to Rick.

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

Thank you, Mark. First, I'd like to thank the Barclays team for having us here today and hosting this event. I am Rick Thornberry, Radian's CEO, and I'd like to welcome everyone in the audience and everyone on the webcast for joining us today. Thank you for your interest in Radian.

Before we get started, I thought it's important to note some of the statements that we'll make today will be forward-looking. The statements as well as Radian's prospects are subject to certain risk and uncertainties. You should read slide number 2, which is up on the screen.

And so, before I guess – so, turning to slide 3, our presentation today is meant to answer the question why buy Radian? I'll kick things off by providing an overview of the investment thesis, our company and the mortgage insurance business, which is the primary driver of our earnings today. Next, I will turn it over to Frank Hall, Radian's CFO to discuss what we consider to be the three pillars of modern MI, namely the guardrails in place for private mortgage insurers including the regulatory environment, the limits on our risk exposure, and today's risk-based capital requirements. Frank will also review some of the common misunderstandings around private MI, many of them I'm sure you know very well.

Finally, I'll wrap up with a review of what makes Radian unique in terms of our business strategy, our customer relationships, our risk management expertise, our large and growing high-value insurance portfolio, our diversified mortgage and real estate products and services, and our financial strength and flexibility.

Moving to slide 4, the investment thesis for Radian is very straightforward. Based on the type of risk we take and the credit quality of the business that we write, today is a good time to be in the mortgage insurance business.

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The mortgage insurance business is supported by one of the largest asset classes, the U.S. residential real estate market. The current economic environment and credit quality remains very strong.

The regulatory framework across mortgage lending and mortgage servicing in our business, which was strengthened as a result of the financial crisis, provides strong guardrails and discipline for all players. All combined, this makes for a great time to insure mortgage assets with our private mortgage insurance products. Given today's valuation metrics, we believe an investment at Radian based on our earnings and return potential provides a strong relative value to our peers and other financial markets comps. And most importantly, we believe Radian is unique and that we stand out from our peers.

Slide 5, so who is Radian? For more than 40 years, Radian has provided private mortgage insurance and risk management products to financial institutions nationwide. And since 2014, we have provided mortgage and real estate services to our customers. Our Mortgage Insurance segment accounts for 86% of our revenues today and is primarily regulatory-based capital business model. Our Services segment represents the other 14% of our revenues today. It is primarily a fee-based business and a capital light with no regulatory capital requirements.

So, what exactly is private mortgage insurance? Turning to slide 6, private mortgage insurance helps potential homeowners. Often, first-time homebuyers obtain a mortgage by reducing the size of their required down payment and also the product reduces the risk to the investor. The examples on this slide illustrate this by showing a typical first-time homebuyer would need to save $38,000 for a 20% down payment versus saving $9,500 or 5% down payment with mortgage insurance.

I mentioned earlier that Radian has been offering private mortgage insurance for more than 40 years. But as you can see on slide 7, the industry has been around for more than 60 years. During that time, private mortgage insurance has helped more than 25 million families achieve their dream of homeownership. And today, based on the regulatory framework and the capital requirements that are in place, we are even stronger and more reliable private capital industry and a business partner than ever before.

So, let me turn it over to Frank, and I will be back to close on the presentation and on my favorite topic, what makes Radian unique.

J. Franklin Hall

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

Thank you, Rick. Today, I will be speaking to some of the common misunderstandings we hear from investors about our industry and our business. While some of these topics may not be new to you hopefully, it will be a helpful reminder as you consider an investment in Radian.

On slide 8, you will see the barriers to entry for those considering becoming a private mortgage insurer. As Rick mentioned earlier, our industry is both highly specialized and well-regulated. When asked the question, why haven't we seen increased competition in the mortgage insurance industry, we point to these barriers to entry.

The GSE-established Private Mortgage Insurance Eligibility Requirements, or PMIERs, require that an approved MI provider commit an initial financial investment of $500 million and then maintain on an ongoing basis available assets of at least $400 million. While this may or may not sound like a significant sum, the economics and cash flows of an MI are slow to generate returns as premium revenue for a mortgage insurance company generally builds slowly over the first few years since we collect most premiums on a monthly basis.

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So, the upfront capital may seem onerous relative to the time horizons for profitability. In addition, in order to operate as a mortgage insurer, you must have a specialized operating system with a GSE interface, and typically need to obtain individual state licenses.

Turning to slide 9, these are the three pillars of private mortgage insurance today that Rick mentioned. Our industry today is strong, stable, and reliable based in large part on these three pillars of strengthened regulation, limits on risk exposure, and a clear risk-based capital requirements.

The first pillar of strengthened regulation. Slide 10 illustrates the breakdown of the total mortgage origination market today and describes the guardrails in place for ensuring that loans covered by private MI are made to borrowers on reasonable terms and in a sustainable way.

Today, loans covered by private MI are very high quality, primarily due to the greater risk discipline of the private MI providers as compared to those applied before the housing crisis, as well as the requirements for a qualified mortgage or QM loan as established by the CFPB. As you can see here, approximately 15% of mortgage loans today are insured by private MI. The typical private MI loan has an average FICO score of 740 with a 5% to 10% down payment and is fully documented with no exotic terms.

The average new loan amount for private MI is approximately $240,000, and more than half of the borrowers using private MI are first-time homebuyers. After the housing crisis, the mortgage market corrected many of the mistakes it had made in terms of documentation, servicing, and pricing. And with the further clarity of the QM rules that include ability to repay requirements and restrictions on risky loan attributes such as interest-only, negative amortization and balloon features, the credit quality of the loans we insure today has improved dramatically since the crisis. The loss experienced on the books of business written after 2008 illustrates this improvement, and you can also see more details on the changes in credit characteristics in our portfolio on slide 31 of today's presentation.

The second pillar is limits on risk exposure. On slide 11, you can see the private MI covers only a portion of the risk associated with a loan. This is in contrast to government mortgage insurance provided by the FHA, which covers the entire loan amount.

A typical home purchase is made up of borrower and lender-provided funds. For conforming loans with a loan-to-value ratio above 80%, the GSEs required credit enhancement in order for the loan to be purchased by the GSEs. This credit enhancement is typically in the form of private mortgage insurance, which is the first level of credit protection against the risk of loss on a mortgage in the event a borrower is not able to repay the loan.

In this example, on slide 11, the borrower makes a 5% down payment of $12,000 for a $240,000 home purchase. The GSEs would require private MI standard coverage for 30% of the loan amount or $68,400, which is the mortgage insurance risk in force and our exposure to the loan.

We'll talk more about other limits on our risk exposure shortly, but it's important to note that private MI coverage does not include property losses or physical damage, including damage caused by hurricanes or flooding. And a claim is only paid after the title for the property changes hands from the borrower typically following a foreclosure. One other risk-limiting aspect of our coverage is that for borrower-paid policies, the policy generally cancels automatically when the loan-to-value ratio reaches 78% of the home's original value.

Our third pillar is risk-based capital requirements as noted on slide 12. For those of you who have followed this industry, you know that over the years, private MI capital requirements have evolved from a risk-neutral to a risk-

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based capital framework. The PMIERs were first introduced in 2015, and they are a comprehensive set of requirements that covers virtually all aspects of a private mortgage insurer's business and operations.

When they were first implemented PMIERs nearly doubled the amount of capital or available assets that MI companies are required to hold, and under the PMIERs the available assets held to protect against stress scenarios vary based on the LTV of the loan and the FICO score of the borrower, as well as other factors such as loan vintage, documentation type, MI product type, payment status and completing a HARP refinance.

PMIERs has become the binding capital framework from which our business decisions are made, and Radian Guaranty has been in compliance with the PMIERs including the financial requirements since their implementation date in 2015. The next iteration of PMIERs, PMIERs 2.0 is planned to be effective in the first quarter of 2019, and we'll update the risk-based capital requirements for private MIs. Based on the most recent proposed version of PMIERs 2.0, as of the effective date, we expect to be able to fully comply with PMIERs 2.0 and to maintain substantially the same excess of available assets over minimum required assets under PMIERs 2.0, as we do today under the current PMIERs.

Since joining Radian nearly four years ago, I have heard many points of confusion from some analysts and investors about the private MI product and what influences our financial performance. And while many of you here may understand each of these areas of potential misunderstanding, I am confident that there are some in the audience or on the webcast who could benefit from the refresher.

First, the news is often filled with headlines about housing trends. You can see a few of those headlines here on slide 13, including news about luxury and vacation homes, storm damage to homes or rising interest rate fears. We will discuss a few of these in more detail. But the main takeaway is that based on the attributes of homes covered by private MI, many housing-related events making headlines often do not have a material impact on Radian.

Slides 14 and 15 focus on affordability and demand for private MI which generally accompany a first time home purchase. More than half of our borrowers are first time homebuyers who are ready for a home of their own. Whether it's a new job, a growing family or a decision to buy rather than rent, borrowers are mostly focused on the affordability of their monthly mortgage payment.

Despite rising interest rates, the rate for 30-year fixed rate mortgages is still low compared to historical standards, and an uptick in rate does not necessarily mean a large jump in monthly payment. In this example on slide 14, an increase of 50 basis points in interest rate would increase the monthly payment for a typical first time homebuyer by only 6%. And while home prices have been rising in many areas of the country, this trend reinforces that a home purchase may be a good financial investment which is a positive for a new borrower considering homeownership.

Also, in this example, on slide 15, for a typical first time homebuyer, a 5% increase in home price would only increase the monthly payment by $47. Even assuming that the increase in payment is enough to give the borrower pause, the life event driving the home purchase still remains and they may simply choose to buy a slightly less expensive home to meet their needs.

Moving to slide 16, another common area of discussion and misunderstanding is around the returns we generate in our business. Often, the question becomes what happens during the next housing downturn? As we have just discussed, the combination of today's regulatory environment and capital requirements, along with the limit on risk exposure for the business we write, means that private MI companies are stronger today than ever before.

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This slide is a snapshot of our projected returns under various economic scenarios using a representative mix of new insurance written. And, importantly, even under adverse scenarios such as the Moody's S4 scenario with major home price declines and high unemployment, private MI produces positive returns. Said another way, PMIERs capital requirements have contributed to better risk based pricing discipline to withstand severe stress.

It should also be noted that for pricing purposes, Radian uses a proprietary simulation-based methodology that approximates a five to six-year weighted average life and an approximate 20% through the cycle loss ratio on new originations with expected returns on required PMIERs capital in the mid-teens.

Along these same lines, slide 17 illustrates the cumulative incurred loss ratios for business written after the housing downturn. This newer high quality business represented 93% of our insurance in force portfolio, including HARP loans as of the second quarter of 2018. And, most importantly, cumulative incurred loss ratios on post 2009 vintages have been consistently lower than 10%, which is obviously well below the 20% through the cycle loss ratio that we assume for pricing new MI business. For those vintages that have reached peak loss years, we expect to generate higher than our modeled returns.

Turning to slide 18, we are often asked about the size of the mortgage origination market and how much we expect originations to grow in any given year. While this is certainly important, what's more relevant for our private MI industry is the size of the purchase origination market. That's because purchase transactions are three to five times more likely to use private MI than refinance transactions.

Importantly, the purchase market has increased at a compounded annual growth rate of 14% over the past eight years and is expected to continue to grow. In the second quarter of 2018, purchase transactions accounted for 95% of our total new insurance written.

Slide 19 and 20 are focused on the rising interest rate environment we're in today. While lower interest rates can, at times, attract more new business volume including a higher proportion of refinance transactions, a rising interest rate environment typically results in a market with lower refinance activity that generally translates into higher persistency, which is the percentage of MI policies that remain in force after a 12-month period.

Essentially, this higher persistency means that current insurance in force stays in force longer which extends the amount of time we collect premium on most of our portfolio. The example on this slide illustrates the difference in insurance in force growth between 77% persistency and 82% where, after five years, this difference in persistency rate would add up to an additional $36 billion of insurance in force. Rising interest rates also extend the time period that it takes for newly-originated borrower paid loans to reach 78% LTV, the trigger for automatic cancellation under the Homeowners Protection Act, which in turn extends the earning power of this new business.

Slide 20 depicts the result of this higher interest rate environment on Radian. Due to record levels of new business and higher persistency, Radian's insurance in force has grown over $35 billion over the past 10 quarters with growth rates that have accelerated to 10% annually as of the second quarter of 2018. In addition to helping drive higher levels of insurance in force, rising interest rates also benefit investment yields which are expected to produce higher investment income. Radian's investment portfolio was in excess of $4.8 billion as of the second quarter of 2018, and our investment yield has increased approximately 32 basis points as compared to the second quarter of 2017.

And finally, before I turn it back over to Rick, slide 21 is an industry comparison of mortgage insurers to others in the financial services sector. We have presented the comparisons both on a return on equity basis and an

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estimated two-year compound annual growth rate of earnings basis. You can see that ROE compares favorably to other financial services companies, while the valuation multiples on earnings are among the lowest, suggesting an opportunity for value-based investors.

And now, I'd like to turn it back over to Rick.

Richard G. Thornberry

Chief Executive Officer & Director, Radian Group Inc.

Thank you, Frank. Turning to slide 22, let us close out the topic of misunderstandings or common misunderstandings with the last one. The fact is that our greatest contribution to earnings is derived from our insurance in force, a measure that is not included in our balance sheet. Economic value is more than just book value and captures the value that is reasonably assumed to be recognized in the future from our policies in force. Radian's insurance in force was one of the largest high quality portfolios in the industry. The future economic value of this portfolio is not reflected in our current period financial statements nor is it reflected in our reported book value.

Moving now to slide 23, I mentioned earlier that we have been in the market serving customers for more than 40 years. During and after the financial crisis, we continue to do the same. And today, we are a best-in-class mortgage and real estate risk and transaction management company that stands out from the rest. As the company CEO, I am probably not surprising you when I say Radian is unique.

Already, you think being unique in the MI business is not necessarily an advantage, but let's put into context all things that Frank just mentioned and what I said earlier. Today is a great time to be in the mortgage insurance business. The market conditions are favorable. The credit quality of the business we are writing is exceptional. There is strong demand for our product in today's heavy purchase market, and our customers are rewarding us with more good quality business based on our relationship and our reputation as a steadfast business partner. In short, our mortgage insurance franchise is strong.

We have a large high quality, high value portfolio of existing business that is expected to continue generating earnings. The new business that we are winning from our customers is very good credit quality. We focus on managing our capital and risk distribution from a portfolio of management perspective. And we have a very disciplined approach from an economic value modeling perspective to price and assess credit risk that has served us well and has helped us deliver very strong returns on required capital for shareholders.

As we grow our mortgage insurance franchise, we also seek to diversify our sources of revenue and, in turn, increase the contribution from our fee-based businesses. Unlike other mortgage insurance peers, we have a growing and diversified set of high-quality mortgage and real estate products and services which help to broaden our customer relationships. We utilize an enterprise approach to sales and marketing in order to deepen those partnerships and make us even more valuable to the customers we serve. At Radian, we have significant capital and financial flexibility and strength which we believe provides us with a strong relative strategic advantage.

Finally, something that I'm very proud of. At Radian, we have a highly talented and experienced team that serves our customers every day and operates as good stewards of our shareholders' capital.

On slide 24, you can see how we sell at the enterprise level to a mortgage banking customer. While a typical mortgage insurance company has one product to sell, we can offer solutions across the entire loan cycle. We believe our ability to address a broader range of needs of our customers gives us a strategic competitive advantage in the market.

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Now, let me turn to some of our risk management tools and products on slide 25. Radian has a unique business model among MI companies as our focus is on providing risk management services and solutions to our customers across the entire mortgage and real estate value chain. We do this by leveraging a variety of proprietary mortgage credit risk tools. Our services businesses also deliver products and services that enable our customers to manage mortgage and real estate transaction risk.

This slide lists out some of those tools and I'm going to describe a few of them briefly. First on the list, RaDaR is a default and risk model that we developed post crisis. It is statistically based default and prepayment model that leverages key borrower loan, product and macroeconomic factors such as home prices, interest rates and unemployment rates to project credit losses over time utilizing both the deterministic scenarios and Monte Carlo simulations.

Next, our customer segmentation framework is also unique and essential to managing risk and optimizing economic value. As we look at historical data from a modeling perspective, we find a fairly wide distribution in terms of performance by lender. This is what drove us to create a framework to focus on the differences among lenders we serve, particularly as we consider the next chapter of the credit cycle.

We focus closely on the business we write by lender and rank order our lending partners based on numerous quantitative and qualitative metrics. We then score all our lenders and the basis for the mix of the business they deliver, the performance we see from the portfolio that we deliver, the expected returns on capital in terms of the business they're delivering and the return to the long-term economic value of our insurance portfolio.

Another proprietary risk management tool and is our Mortgage Risk Barometer, which provides a view of home price trends. As I mentioned, our mortgage and real estate and title services businesses provide products and services that enable our customers to better manage risks associated with mortgage and real estate transactions. We are positioned to deliver a strong value proposition across our services businesses based on a combination of our data analytics and technology and experienced personnel.

Finally, Radian is unique among its peers in terms of having capital flexibility and untapped risk distribution. Slide 26 shows the higher and broader use of soft capital by our private MI peers including use of reinsurance, insurance-linked notes, and other risk distribution not recognized on the balance sheet.

As you have seen from deals recently completed in our industry, the capital and reinsurance markets continue to have strong interest in high LTV mortgage credit risk. In fact, in addition to the traditional reinsurance, private mortgage insurance companies have transferred nearly $3 billion of high LTV credit risk to the capital markets via insurance-linked note structures over the past three years.

Unlike most other private MIs to-date, Radian has distributed only a limited amount of risk through our unique single-premium quota share reinsurance program. What this means is that we have significant accessible, untapped capital resources relative to our risk in force, and therefore greater financial flexibility.

So, when we evaluate the merits of future risk distribution, it is in the context of enhancing an already strong capital structure with an eye towards reducing the volatility associated with any future credit cycle downturns and further demonstrating our commitment to effectively managing capital for our shareholders.

So, let me ask again, why buy Radian? Radian is a company with a strategic focus, business momentum, customer relationships, and a high quality insurance portfolio that, as shown on slide 27, has achieved strong

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growth year-over-year, including a 10% increase in insurance in force and in book value per share, 44% growth in adjusted diluted net operating income per share, and 17% growth in adjusted pre-tax operating income. So, why is our business strategy generating such attractive returns, customer loyalty, and strong year-over-year growth?

Turning to slide 28, it comes back to our investment thesis. We are successful due to our strong industry, economic and regulatory backdrop for our business. We are generating strong value and relative returns on capital. And for all the reasons we just discussed, Radian is truly unique – is a unique mortgage and real estate risk and transaction management franchise.

I believe that we are well positioned for the future with the right strategic focus, the right team in place to execute our plan, business momentum fueled by strong customer relationships, a highly valuable insurance portfolio that is expected to produce significant earnings in the future periods, a core expertise in managing credit risk, a diversified set of products, the embedded financial flexibility and capital strength to compete, grow, and diversify our revenue sources, serve our customers and the potential to create even greater long-term economic value for our shareholders.

Thank you for joining Frank and me today. We appreciate your interest in Radian.

Mark C. DeVries

Analyst, Barclays Capital, Inc.

Thanks. Before we do Q&A, I had a few audience response questions. So, if you do want to participate, please pick up the clickers in front of you and register response. Can we queue those up?

All right. What do you view is the biggest catalyst for Radian over the next year? One, capital returns; two, declining loss ratios; three, growth in risk in force; four, finalized capital standards of PMIERs 2.0; five, other?

Richard G. Thornberry

Chief Executive Officer & Director, Radian Group Inc.

We don't get clickers, Mark?

Mark C. DeVries

Analyst, Barclays Capital, Inc.

Okay. It's a 61% indicated finalization of PMIERs. Next question, please. What's the biggest risk to shares? One, weaker than expected credit; two, weaker than expected risk in force growth; three, competitive pricing pressure; four, alternative MI options such as IMAGIN; five, recession or recessionary fears; six, PMIERs 2.0?

All right. So, 40% are still concerned about competitive pricing pressure. Next question, please. Over the next year, would you expect your position in Radian to: one, increase; two, decrease; three, remain the same?

Okay. So, 58% remain the same. So, thank you for participating.

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QUESTION AND ANSWER SECTION

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

I'll lead off the questions first, particularly given the second response, I'll ask about pricing. Do you feel like we've reached kind of a new equilibrium after the last round of price cuts? And the second part of the question is on black box pricing. It feels like the industry is moving that way. Is that something you're closely evaluating? If so, how quickly could you implement that, if you decide to go down that path?

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

Yes. So I think pricing has largely stabilized across the market. I think – we went through a change earlier this year, which we feel extremely comfortable with where that ended up from a risk granularity point of view., our ability to kind of introduce new factors into the rate cards.

I think, overall, we feel very good about where pricing is. This is an industry that historically has been competitive and I suspect it will continue to be competitive over time. But I think there are good guardrails around capital requirements and certainly investor expectations, and certainly capital flexibility that enable these entities to be, I think, in a strong position from a returns point of view.

As we look at black box and we think about the trend, we kind of think of as there's a little bit more sizzle than there is reality today. And so black box is just nothing more than a delivery means. And so we are well prepared to deliver black box pricing to our customers, to the extent they want it. And I have to tell you, in the last week, I've talked to four different mortgage bank CEOs, and not a single one of them is interested or prepared to accept black box pricing. And these are quite large lenders.

So, we think a black box is just one of many different delivery mechanisms of what is already a fairly risk-based pricing structure in the market. And we are well-prepared to address any client need as they should want it. And we could talk at length about black box and some of the misunderstandings. We probably should have had that as a chart as to what really black box is.

But when you think about it, it's adding the risk attributes that we believe were really incorporated with the number of borrowers and DTI and things that came through with the latest pricing changes. So, as the market evolves, we're well prepared. We have the platform to do it. Certainly, have tremendous risk analytics to address any kind of pricing requirements going forward if we need to.

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

I had a question on capital. I think you had a slide up there showing the mix of kind of the hard and the soft. So, I think you guys would acknowledge that some forms of the soft are actually much cheaper and also provide some tail risk protection. Could you talk about how you're thinking about potentially the use of insurance-linked notes in particular and how that could help your capital structure?

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

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So, we could probably both do this, but I'll take a shot and I'll have Frank. So, I think – so, when we look at our capital structure, we think in terms of highest and best use of the capital we have not only the capital we have on our balance sheet, but let's say the capital we have embedded within the portfolio that's used for PMIERs capital purposes, right?

So we understand the structures. Unlike many other participants, we are able to fund our business growth by the capital we generate in our business. So, the embedded risk distribution opportunity that has the ability to free up capital is really somewhat embedded value in our business. So, as we think about it, we're quite familiar with all the different structures. We have a highly unique singles-only quota share program that has worked very effectively for our singles business. And we're certainly aware of the opportunities in the market.

But I think for us, different than others who may need to fund the next dollar NIW through some form of risk distributions, we look at it purely from an opportunity point of view, an opportunity to distribute risk and volatility through earnings or any kind of credit cycle downturn, and also to think about how we best manage capital on behalf of shareholders. So, we've not talked specifically about our capital playing forward, but we understand the merits of it. And I think it's really an embedded opportunity in part of our value – embedded value at our franchise today.

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

A

Yeah. And I would just add, I think what's encouraging about today's landscape for those particular risk distribution methods, there is a market receptivity to it. And it's a fairly deep market and the execution on those particular risk distribution methods are getting better.

Q

Hi. I have a couple of questions. One, can you talk about Mel Watt's successor and what changes you might envision once a new individual takes over? And then, second kind of unrelated question, just kind of walk us through how you think about imagine and what traction it may or may not gain. Thank you very much.

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

A

Yeah. Actually those two questions are connected in some ways, right. They kind of come from the same source. So, Mel's term is up at the – in early January and the administration will appoint a successor. We may go through a similar process that we went through with the CFPB where you have kind of an interim and then somebody to go through the whole confirmation process.

I think from – and we're very active and very involved in kind of all the aspects that are shaping and forming what we would call administrative reform versus legislative reform. So, on the administrative reform front, I think there's a very strong view that the idea would be to generally bring the GSEs kind of back towards their core purpose and probably have the opportunity to maybe bring back some of these pilot programs that some have argued have kind of gone kind of little too far, but we'll have to see.

I mean, I think, largely, what we expect is probably a more conservative view of how the GSEs are managed and what their role and responsibility is going forward along with FHA. And I think it should generally be favorable for our business net-net. As it relates to EPMI and IMAGIN, certainly, we're aware of the programs. We chose not to participate in the programs. We don't – I think as we've publicly stated, we don't really see the merit of the

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structures of the program from durability and sustainability. So, we chose not to invest time and energy. We have great relationships with both GSEs and work on a lot of innovative structures.

Today, there has been minimal impact in the business. And quite frankly, it's focused on a product that we have been reducing which is lender-paid single premium policies. So, it's really – I think over time, we expect whatever the reform solution is, administrative or maybe eventually legislative, that private capital is going to play a role. We in our industry are the largest and probably most committed long-term through-the-cycle source of private capital. And think we provide a lot of solutions to the mortgage industry in terms of supporting credit risk over the long term. Yeah.

Q

Maybe to clarify and explain a little bit sort of the thought process around the durability and sustainability.

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

A

Yeah, it's real simple. A program, we're quite familiar with the reinsurance market and a program that is dependent upon a panel of reinsurers to bid periodically and kind of re-up, I think it is – our view is that it's a less committed source of capital versus permanent private capital. Not to take anything away from the reinsurance markets because they play a very important large role across, I think the markets.

But when you compound the fact that it's a group of folks that can easily migrate to other types of investments along with the fact that this is not a CRT market where there is borrower equity, maybe MI, GSE first loss, and then a CRT risk which we invest in CRT transactions. This is first loss. This is first dollar. So month one, month two, month three, you're going to start to take losses and in a market where the credit cycle continues to evolve, how sustainable is that?

We see it as opportunistic, not necessarily sustainable, and we're in the business of building sustainable and durable solutions. But we see many ways to accomplish the same objective, right? And we think our business model and our platform is a very efficient way to originate source and distribute risk as appropriate.

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

Thank you.

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

Thank you.

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