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Radian Group Inc. (RDN)

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CORPORATE PARTICIPANTS

John Damian
Senior Vice President-Investor Relations & Corporate Development, Radian Group Inc.

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

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

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

OTHER PARTICIPANTS

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

Douglas Harter
Analyst, Credit Suisse Securities (USA) LLC

Mihir Bhatia
Analyst, BofA Securities, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Good day and thank you for standing by. Welcome to Radian's Group Second Quarter 2023 Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. [Operator Instructions] Please be advised that today's conference is being recorded.

I would now like to hand the conference over to John Damian, Senior Vice President, Investor Relations and Corporate Development. Please go ahead.

John Damian

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

Thank you and welcome to Radian's second quarter 2023 conference call. Our press release, which contains Radian's financial results for the quarter, was issued yesterday evening and is posted to the Investor section of our website at www.radian.com. This press release includes certain non-GAAP measures that may be discussed during today's call, including adjusted pre-tax operating income, adjusted diluted net operating income per share, and adjusted net operating return on equity.

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

Today you will hear from Rick Thornberry, Radian's Chief Executive Officer; and Sumita Pandit, Chief Financial Officer. Also on hand for the Q&A portion of the call is Derek Brummer, President of Radian Mortgage.

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 2022 Form 10-K and subsequent reports filed with the SEC. These are also available on our website.

Now, I'd like to turn the call over to Rick.

Richard G. Thornberry

Chief Executive Officer & Director, Radian Group Inc.

Good afternoon and thank you all for joining us today. I am pleased to report another solid quarter for Radian. GAAP revenues grew year-over-year to $290 million. We generated net income of $146 million. Our annualized return on equity was 14.1% in the second quarter. Book value per share increased 12% year-over-year to $26.51. We paid a $35-million dividend to stockholders, reflecting the highest yielding dividend in the industry. And our overall liquidity and capital positions remained very strong, which I will cover in a few minutes.

Despite continued headwinds in the mortgage and real estate markets and continuing macroeconomic uncertainty, our overall performance in the second quarter reflects the resilience of our business model, the strength of our growing insured portfolio, the depth of our customer relationships, and the commitment of our team. Our team remains focused across our three areas of strategic value creation, growing the economic value and future earnings of our mortgage insurance portfolio, positioning our homegenius business on a path to profitability and value creation, and prudently managing our capital resources.

In terms of growing the economic value and future earnings of our mortgage insurance portfolio, we continue to leverage our proprietary analytics and RADAR Rates platform focused on driving economic value while calibrating our dynamic risk-based pricing to capitalize on the opportunities that we see in the current market. As a result, we wrote $16.9 billion of high quality mortgage insurance business in the second quarter of 2023. And we expect to see continued opportunity to put our capital to work at attractive risk adjusted returns.

Our primary mortgage insurance in-force, which is the main driver of future earnings for our company, grew 5% year-over-year to $267 billion. As a reminder, during our Investor Day in June, we provided examples of the potential future earnings embedded in our current in-force portfolio, which is not included in our current book value.

Our persistency rate remains strong. Given the current interest rate environment and the comparatively low mortgage rates across our portfolio, we expect our persistency rate to remain high, which is positive for future insurance in-force growth. We continue to see positive credit performance in our mortgage insurance portfolio during the quarter. Although we generally expect new notices of default to increase in the future as the portfolio naturally seasons, in the second quarter, we saw the number of new defaults decreased as compared to the first quarter and cures outpaced new defaults by 8%.

From a quality perspective, our mortgage insurance portfolio has been well underwritten and has a strong overall credit profile. And it is important to note that the quality of the mortgage industry's loan manufacturing and servicing processes remain strong, including extensive efforts to support borrowers experiencing hardship. It is also worth noting that the increase in interest rates has resulted in higher yields across our $6-billion investment portfolio, which generates incremental income that flows directly to our bottom line.

With regards to our homegenius business, although we saw a small increase in revenues in the second quarter as compared to the first quarter, as I noted during our Investor Day, the businesses that make up our homegenius segment continue to be challenged by current market conditions, including higher interest rates and limited inventory, which has constrained mortgage and real estate activity. We are managing the homegenius segment through this challenging environment by focusing on disciplined cost management, including staff reductions, to better align our expenses and resources to the current market and the opportunities we see ahead.

As I mentioned during our Investor Day, we believe we have a differentiated and valuable solution in our homegenius business based on the depth of the market relationships, a national footprint across our businesses, our unique real estate data and analytics assets, our innovative digital platforms leveraging advanced technologies including AI and computer vision, and, of course, an experienced and talented team. We maintain a realistic view of the current state and opportunity for homegenius, and we will continue to adjust our cost structure and align our strategy and investments to place homegenius on a path to profitability.

And in terms of managing our capital resources, total holding company liquidity increased to $1.3 billion. We continue to expect Radian Guaranty to pay $300 million to $400 million of ordinary dividends during 2023, of which $200 million has already been paid. Radian Guaranty maintains a strong PMIERs position with excess available assets of $1.7 billion or 41% over its minimum required assets.

It is also important to note that in the second quarter, tender offers were completed on two outstanding Eagle Re insurance linked notes that were no longer providing the same level of PMIERs capital relief that they had previously. Sumita will provide more detail on both the current period impact and the long-term financial benefit of these transactions. And we continue to execute our aggregate, manage and distribute mortgage insurance business model, including the placement of a new quota share reinsurance agreement for new business written through June 30, 2024.

We believe the strength of our capital position significantly enhances our financial flexibility now and going forward. As Sumita shared during our Investor Day, we are in an enviable position of having significant optionality regarding uses of our capital. We take a deliberate and balanced approach to capital allocation, which we believe has uniquely positioned us to deliver value to stockholders. And it's important to note that our capital plan is never static as we strive to maintain flexibility to successfully respond to potential changes in the environment, particularly in this uncertain economy.

As we have noted previously, we carefully consider the balance between organic growth in order to deploy capital back into our business at the most attractive risk adjusted returns, the return of capital to stockholders, which is an area we have differentiated from our peers, and inorganic growth investment opportunities. Over the years, we have consistently demonstrated a strategic focus on the optimization of our capital structure. And many of you have highlighted our effectiveness in unlocking trapped capital wherever feasible.

Let me share a few thoughts on the mortgage and housing markets. In terms of the mortgage market, for 2023, recent mortgage industry origination forecasts call for a bottoming out of the origination market with a decline of approximately 27% compared to last year, followed by a return to growth in 2024. It is important to note that the market decline has been largely driven by a decrease in refinance volume. And while the purchase market is down 15% from last year, it is expected to be slightly higher than the pre-pandemic level of volume in 2019.

As I've mentioned before, purchase volume represents the vast majority of our business, including homebuyers seeking a more affordable down payment for their first home. Based on a total mortgage origination market of

$1.7 trillion, we expect the private mortgage insurance market in 2023 to be approximately $325 billion, which is at the high end of our prior guidance.

Volume is projected to be driven primarily by purchase loans, which are estimated to be $1.4 trillion. Excluding the pandemic years of 2020 through 2022, this would represent the largest purchase market in the past 16 years. We view these collective factors as a positive sign of a strong and more stable purchase mortgage origination market.

In terms of the housing market, while there continues to be a significant imbalance in housing supply and demand, we have seen housing prices stabilize and more recently begin to rebound. As we mentioned during our Investor Day, first time homebuyer demand is strong, with large millennial and Gen Z generations either being in or soon reaching their prime homebuying years. And while the low inventory and strong market demand continue to create challenges for first time homebuyers, these dynamics help to mitigate downside risk in terms of home values, which is a positive for our insured portfolio.

We believe the resulting pent up demand provides strong support for continuing purchase market growth in 2024 and beyond. As such, our overall outlook for the housing market remains generally positive over the near and long-term. As you've heard me say before, our company is built to withstand economic cycles, significantly strengthened by the PMIERs capital framework, dynamic risk based pricing, and the distribution of risk into the capital and reinsurance markets.

Sumita will now cover the details of our financial position. Many of you met her during our Investor Day, and this is her first quarterly earnings call at Radian since being appointed Chief Financial Officer in May. Since joining Radian earlier this year, she has made significant contribution across the organization. And I'm very pleased to have her on the team.

I also want to personally thank Rob Quigley, our EVP, Corporate Controller and Chief Accounting Officer, and Daniel Kobell, EVP of Finance, for the important interim role they played during this transition. Their leadership, strategic insight, and outstanding counsel have been and continue to be incredibly valuable to me and to the broader Radian team.

Now, I will turn the call over to Sumita.

Sumita Pandit

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

Thank you, Rick. Good afternoon, everyone. I'm pleased to provide additional details about our second quarter results, which reflect another strong quarter of performance, highlighted by the continued growth of our high quality mortgage insurance in-force portfolio, as well as by the strength and flexibility of our capital and liquidity positions.

As reported last night, in the second quarter of 2023, we earned GAAP net income of $146 million or $0.91 per diluted share compared to $0.98 per diluted share in the first quarter. Adjusted diluted net operating income per share for the quarter was also $0.91 compared to $0.98 per share in the first quarter, as reflected in the reconciliations provided in Exhibit G of our press release.

We produced a 14.1% annualized return on equity for the quarter and grew our book value per share 12% year-over-year to $26.51 as of June 30. First, let's discuss our revenue and related drivers. Despite the challenging macroeconomic environment, we generated $290 million in total revenues during the second quarter compared to $311 million in the first quarter.

Our total revenues and net premiums earned in the second quarter were reduced by a onetime increase in ceded premiums earned of $21 million under our insurance linked note program. This was due to tender offers by certain Eagle Re issuers during the period to purchase the notes that supported the reinsurance agreements with Radian Guaranty.

We are very pleased with the tender offer results, particularly since these transactions were no longer providing the level of PMIERs capital benefit to Radian Guaranty that they provided in prior years. Based on current projections and expectations, we expect Radian Guaranty to save approximately $58 million of future ceded premiums over time as a result of these tenders, including a full recovery of the $21 million of the upfront onetime costs within one year.

Excluding the $21-million impact of the tender offers, our total revenue would have increased by 9% year-over-year, and our net premium yield and net premiums earned would have been in line with the first quarter of 2023. Exhibit D in our press release provides details on the various components of our net premiums earned. And slide 7 highlights the $0.10 reduction these tender offers had on our net income per share during the quarter.

The two most significant and consistent drivers of our net premiums earned remain the size and average premium yield of our large in-force mortgage insurance portfolio. Our primary insurance in-force grew 5% year-over-year to $267 billion as of June 30. Contributing to the growth of our insurance in-force was $16.9 billion of new insurance written for the second quarter compared to $11.3 billion in the first quarter. We were able to achieve this growth quarter-over-quarter while continuing to increase pricing for recent originations.

As discussed in our Investor Day last month, using the base economic scenario assumptions and inputs outlined in our presentation, our primary insurance in-force is expected to be the most significant driver of our future results, with embedded future earnings from the existing portfolio as of the first quarter estimated to be approximately $2.6 billion.

While the industry-wide decrease in purchase and refinance originations has provided headwinds over the past year for our new insurance written, it has significantly benefited the persistency rate of our insurance in-force, which remained high at 83% in the second quarter based on the trailing 12-months compared to 72% a year ago. We expect our persistency rate to remain strong given the sharp rise in mortgage rates last year following an extended period of very low rates. 77% of our insurance in-force had a mortgage rate of 5% or less as of the end of the second quarter and is therefore less likely to cancel in the near term due to refinancing.

As shown on slide 13 and consistent with our prior expectations, the in-force portfolio premium yield for our mortgage insurance portfolio remained stable in the second quarter at 38.2 basis points, comparable to the level reported at year end 2022. With strong persistency rates and the current industry pricing environment, we continue to expect the in-force portfolio premium yield to remain relatively flat over the course of 2023 while the total net yield of our insured portfolio can fluctuate from period to period due to other factors such as changes in our risk distribution programs, profit commissions earned, and single premium policy cancellations.

The higher interest rate environment has also increased our investment income, which grew 37% year-over-year to $64 million in this quarter. As shown on webcast, slide 9, our total investment portfolio of $6 billion consists of well-diversified, highly rated securities. We have significant diversification and conservatism built into the composition of our portfolio, which includes not only diversification between asset classes but also across industry segments, obligor tenors, and in securitized assets across geographies, collateral, vintage, and issuers.

The book yield on our investment portfolio increased during the second quarter from 3.8 percentage to 4% at quarter end, and the higher rate environment should continue to be positive for the reinvestment of future cash flows. While the impact has moderated in 2023, rising interest rates have created an unrealized loss on our investment portfolio, reported in AOCI net of tax, which was $424 million as of the end of the second quarter.

Our book value fully reflects the fair value and unrealized losses of our investments as we do not classify any of our investment securities as held to maturity carried at amortized cost. We do not expect to realize these losses given our ability to hold these securities to maturity as they trend to par due to our significant positive operating cash flows and our other available liquidity options.

Our homegenius segment revenues totaled $15 million second quarter compared to $13 million for the first quarter. As Rick mentioned, this segment continues to be negatively impacted by the higher rate environment and industry-wide decline in mortgage and real estate transactions.

Moving to our provision for losses. The positive trends that we have been experiencing continued into the most recent quarter. As noted on slide 16, we had a net benefit of $22 million in our mortgage provision for losses in the second quarter compared to a net benefit of $17 million in the first quarter. The positive benefits in recent periods have been due primarily to defaults curing at rates greater than our previous expectations, in part due to the impact of forbearance programs and the strong home price appreciation experienced in recent years.

For the second quarter, the net benefit to our mortgage provision was the result of $63 million of benefit from reserve development on prior period defaults due to favorable cure trends. We are also seeing the benefit of higher claim withdrawals by servicers. The reserve releases were partially offset by $41 million of loss provision for new defaults reported during the quarter.

On slide 17, we note that the number of new defaults reported to us by servicers declined in the second quarter of 2023 to 9,800 from 10,600 in the first quarter. Consistent with recent quarters, we maintained our default to claim rate frequency assumption for new defaults at 8%. Our ending primary default inventory as of June 30 was slightly under 20,000 loans, representing a portfolio default rate of 1.98%.

Turning to our other expenses. For the second quarter, our other operating expenses totalled $90 million, an increase compared to $83 million recognized in the first quarter. Expenses in the second quarter were elevated due to the timing of certain employee compensation and benefits, including our annual share based incentive grants. Our operating expenses for the quarter included $4 million related to share based incentive grants and $2 million of severance expenses related to our homegenius segment.

Based on our expense savings actions to-date and consistent with our previous guidance, we continue to anticipate our 2023 full year consolidated cost of service and other operating expenses to be $380 million to $400 million. This would represent a reduction in these total expenses in line with the higher end of our prior guidance of $60 million to $80 million or 13% to 17% compared to last year.

Moving finally to our capital and available liquidity. Based on current performance expectations and consistent with our prior guidance, we expect Radian Guaranty to pay between $300 million to $400 million of ordinary dividends to Radian Group for the full year 2023. Year-to-date, Radian Guaranty has already paid $200 million of ordinary dividends to Radian Group.

Radian Guaranty's excess PMIERs available assets over minimum required assets remain stable at $1.7 billion. That's a 41% PMIERs cushion. Our available holding company liquidity increased from $956 million to slightly over $1 billion during the quarter. This increase was net of the payment of our quarterly dividend to Radian Group's stockholders of $22.05 per share totalling $35 million and the purchase of 229,000 shares at a total cost of $5 million under our value-based share repurchase program.

As Rick mentioned earlier, consistent with our use of risk distribution strategies to effectively manage capital and proactively mitigate risk, in July 2023, Radian Guaranty entered into a quota share reinsurance arrangement with a panel of third-party reinsurance providers. Under the 2023 QSR agreement, we expect to cede risks related to 22.5% of policies issued between July 1, 2023 and June 30, 2024, subject to certain conditions.

To recap, our results for this quarter, once again highlight the consistent earnings and cash flows generated from our business model. We believe our financial position has never been stronger given our significant holding company liquidity, sizable PMIERs cushion at Radian Guaranty, and the future embedded earnings in our high quality mortgage insurance in-force portfolio.

As illustrated using the assumptions and inputs outlined in our Investor Day presentation last month, even under a stress macroeconomic scenario that includes a severe decline in home prices consistent with the great financial crisis, we expect to remain resilient and generate positive earnings each year, grow book value, maintain adequate PMIERs cushion, and have significant ordinary dividend capacity at Radian Guaranty.

I will now turn the call back over to Rick.

Richard G. Thornberry

Chief Executive Officer & Director, Radian Group Inc.

Thank you, Sumita. Before we open the call to your questions, I want to highlight that we are pleased with our results and remain focused on executing our strategic plans. We are driving operational excellence across our businesses and aligning our overall expense structure and resources to reflect the market environment. Our $267-billion mortgage insurance portfolio is highly valuable and is expected to deliver significant earnings going forward.

We continue to strategically manage capital by maintaining strong holding company liquidity and PMIERs cushion, while expecting to continue to pay ordinary dividends from Radian Guaranty to Radian Group, opportunistically repurchasing shares, and paying the highest yielding dividend in the industry to stockholders. And finally, I want to recognize our team for helping to drive our strong results and for the outstanding work they do every day.

And now, operator, we would be happy to take questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] And our first question comes from the line of Bose George with KBW. Your line is now open.

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

Q

Hey, everyone. Good afternoon. I wanted to ask first just about share buybacks. You've obviously been somewhat quieter on that front the last couple of quarters. Just help us think about when we could see a bit of more activity there.

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

A

Thanks, Bose. Hi, this is Sumita here. It's nice to speak with all of you today. So, I think, Bose, we are taking a pretty deliberate and measured approach to how we think about our excess capital return given the uncertain economy. As far as our share return in this year is concerned, in the first half of this year, we've returned about $90 million to shareholders, including dividends and share repurchases.

We do have a strong track record of managing capital. As you know, we've returned about $1.75 billion of capital over the last five years. We've bought back approximately one-third of our outstanding shares in a similar time period. And we think that it is prudent for us to hold some excess capital today given the uncertain macroeconomic environment.

I think if you look at our ROE, they were a little lower in this quarter at 14.1%. Adjusted for tender, that number would have been 15.7%, very, very comparable to our first quarter ROE. And we think that as we go along, we will continue to take decisions on the optimum capital return to shareholders given this macroeconomic environment.

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

Q

Okay, great. That makes sense. Thank you. And then actually, just wanted to clarify on your expense guidance. Does that include the OpEx, the cost of services and the policy acquisition costs? Or is it just the first two of those line items?

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

A

It's just the first two of those line items. The operating expense – the other operating expenses and the cost of services, which is the $380-million to $400-million guidance that we had previously given.

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

Q

Okay. Great. Thanks very much.

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

A

Thank you, Bose.

Operator: Thank you. One moment for our next question, please. Our next question comes from the line of Doug Harter with Credit Suisse. Your line is open.

Douglas Harter
Analyst, Credit Suisse Securities (USA) LLC

Q

Thanks. I believe in your prepared remarks you talked about still being able to increase pricing during the quarter. I guess, can you just talk about the pacing of price increases that you're seeing relative to some market expectations for an improved housing market or an improved economic outlook today versus three or six months ago?

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

A

Hey, Doug. It's Derek. So, in terms of the market in Q2, I'd characterize it as very similar to Q1. I think I characterized it there as being positive, disciplined and rational. So, we continue to see a hardening market. So, in our principal segment, the black box segment, RADAR Rates, we continued to see pricing increases in Q2. I would say the pace of the increase kind of came down a bit, still increasing but not at the same pace we probably saw in Q4 of last year and Q1 of this year. But still kind of positive directionally.

Douglas Harter
Analyst, Credit Suisse Securities (USA) LLC

Q

And then, it appears that your Q-on-Q volume, you had a bigger sequential pickup than most of your peers. Is there any particular areas where you found you were kind of winning more business? Or is it kind of broad based?

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

A

Yeah, kind of broad based. It was really – the pickup was in the RADAR Rates segment. So, that's where we really picked up. We were able to increase pricing across the board. And again, when we kind of see shifts in terms of volume, which we talked about in Investor Day, it's really going to be focused on where we find relative value and where we find kind of the highest economic value. So, if you saw any movement with respect to credit mix, it's probably a little bit on the higher FICO where we saw relative value was kind of the driver.

Douglas Harter
Analyst, Credit Suisse Securities (USA) LLC

Q

Great. Thank you, Derek.

Operator: Thank you. One moment for our next question. [Operator Instructions] Our next question comes from Mihir Bhatia with Bank of America. Your line is now open.

Mihir Bhatia
Analyst, BofA Securities, Inc.

Q

Hi. Thank you for taking my question. I wanted to, first, maybe just start with the reinsurance transaction. Just to clarify, the $21 million recovery you talked about, that's just from lower ceded premiums, is that right or is there something else going on there?

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

Yeah. So, the $21 million was the ceded premiums that went up. So, it's a contra revenue line. So, think of it as our revenue went down by $21 million because of the transaction. And...

Mihir Bhatia
Analyst, BofA Securities, Inc.
Q

Right.

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

...the $58 million that we expect to get a benefit for will be a savings in the future years. So, that would be our ceded premiums going down in the future years by $58 million.

Mihir Bhatia
Analyst, BofA Securities, Inc.
Q

Right. And of that $58 million, I think you said $21 million would be within the next year, right?

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

That's right. So, we expect a cash breakeven within the next one year. So, I think in short, this is a really good NPV transaction for us, Mihir. And as we look at it, we are looking at our performance excluding this tender offer. And as you look at our numbers, I think our revenue would have been $25 million higher if we had not executed on the tender.

Our net premium yield would have been 3.2 basis points higher, our EPS would have been $0.10 higher, and our ROE would have been 160 basis points higher excluding the impact of this tender. And because of this tender, we expect that we will actually have a higher future dividend capacity. So, think about the $58 million that we have saved in future ceded premium, that should help us increase our dividend capacity in future years.

Mihir Bhatia
Analyst, BofA Securities, Inc.
Q

Okay. Got it. And then just wanted to ask about the 2018 deal. Like I recognize it's hit the delinquency trigger currently, but given it also is not providing a...

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

Yeah.

Mihir Bhatia
Analyst, BofA Securities, Inc.
Q

...PMIERs benefit, would that be a candidate in the future? Or because it's hit the delinquency trigger, you basically are not likely to do that one?

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

So, we do have a call option in November for this year for the 2018 ones, and we will look at our options and take a decision on that.

Mihir Bhatia
Analyst, BofA Securities, Inc.
Q

Okay. And then maybe just asking about the paid claims, just switching to the business. In terms of the paid claims, they're running at a pretty low level relative to history. I think there was only 91 claims paid this quarter and 80 last quarter, which obviously is quite low.

And my question is really, when does this normalize back to, I guess, the pre-pandemic, pre-foreclosure levels or something more of a normal run rate level? Is there a cliff from a standing point – standpoint just given the foreclosure programs expiring, etcetera? Just trying to understand what that like path looks like and when we get back to what, I guess, would be a normal environment.

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

Yeah. I think it's a really good question. I wish I had a future ball that I could look into and predict it, Mihir. It's really hard to predict the future, as you know. I think what we can say is that we are taking a conservative view about how we think about the macroeconomic scenario.

Our performance till date has actually been consistently better than our expectations. But as you said, if you look at the average direct claim that we've paid this quarter, it was about 36,400. And, as you know, our severity assumptions that we use when we reserve for a new default is higher. It's about $60,000. So, we are continuing to see consistently better performance than our expectations. And we expect to continue to be conservative as we forecast our performance here. But, Derek and Rick, if you have other thoughts.

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

Yeah, I'll jump in. So it's tough to say, I mean one of the phenomenons we had in the portfolio is just the embedded equity. And so we've seen very high cure rates, so particularly in our pending claim kind of bucket. So at very unusually high levels just in terms of that cure rate. And so that's certainly been a positive.

And if you look at kind of that default portfolio, if you take an index based approach, over 80% has 20% or more equity. So, until you kind of have a turnover in the portfolio, that does put downward pressure in a positive way in terms of potential paid claims. So, you probably need to see a significant turnover in the portfolio.

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

Yeah. And we are – really it's kind of the law of small numbers right now, just kind of watching as this thing kind of evolves through the cycle. So, I think, as Sumita and Derek said, we're watching that carefully and I think being appropriately prudent about trying to factor in too much as we go forward.

Mihir Bhatia
Analyst, BofA Securities, Inc.
Q

Got it. And my last question just – Derek, just to follow-up on the – I understand there's a index based portfolio approach, the 20% equity stats that you give. Like that 80% have over 20% equity. What would have been the rate like typically in, I don't know, 2015 and 2017 around that pre-pandemic, I guess? What would be the typical equity rate in your pending portfolio?

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

Yeah. I'm not going to guess on that lower, but I don't have a percentage off the top of my head in terms of kind of the embedded equity. But if you think about that, just looking at the run up in home prices kind of after that period of time, it would be significantly less. And so just I can't think of any time in history where we would have had this much embedded equity in the default portfolio.

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

Maybe more of a normal amortization kind of embedded equity over time with small HPA compared to kind of a 2021 kind of ramp up in HPA. So, I think the comparison is, to Derek's point, probably two different scenarios.

Mihir Bhatia
Analyst, BofA Securities, Inc.
Q

Got it. Okay. Thank you. Thanks for taking my questions.

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

Thanks, Mihir.

Operator: Thank you. [Operator Instructions] And currently, I'm showing no further questions at this time. I'd like to hand the conference back over to Mr. Rick Thornberry for any closing remarks.

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

Thank you and thank you all. Appreciate you joining us today. Appreciate the questions and a good discussion. And most of all, appreciate your interest in Radian and the team here. We look forward to talking to each of you in the coming months as we have an opportunity to and talk about how we're executing our business plans as we've laid out here. So, have a great day and look forward to talking to you soon. Thank you.

Operator: Thank you. This concludes today's conference call. Thank you for your participation. You may now disconnect. Everyone, have a wonderful day.