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Radian Group Inc. (RDN)

Q4 2023 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by. Welcome to the fourth quarter 2023 Radian Group 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 like now to turn 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 fourth quarter and year-end 2023 conference call. Our press release, which contains Radian's financial results for the quarter and full year, was issued yesterday evening, and is posted to the Investors section of our website at www.radian.com. This press release includes certain non-GAAP measures that 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.

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 available in the Investors 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 excellent quarter and to wrap up a successful year for Radian. For 2023, we increased book value per share by 15% year-over-year, generating net income of $603 million, and delivering a return on equity of 15%. Despite a challenging macroeconomic environment, GAAP revenues grew to $1.2 billion in 2023.

Our primary mortgage insurance in force, which is the main driver of future earnings for our company, reached an all-time high of $270 billion. Radian Guaranty paid a total of $400 million in ordinary dividends to Radian Group during the year. We returned $279 million of capital to stockholders through share repurchases and dividends.

Our regular dividend yield continues to be the highest in the industry. Our overall capital and liquidity positions remain very strong. Available holding company liquidity at year-end was approximately $1 billion, and our PMIERs cushion was $2.3 billion, an increase of $533 million from the prior year. Reflecting our strong financial performance and capital position, we received a ratings upgrade from S&P in January to A- for Radian Guaranty, and BBB- for Radian Group. Radian Group is now rated as investment grade by all three primary rating agencies. I would also like to highlight that as a result of our team's disciplined focus on managing costs during a challenging business environment, we reduced our combined consolidated cost of services and other operating expenses by 17% or $77 million in 2023 as compared to 2022, which was at the higher-end of our targeted range for reductions.

These results demonstrate the continued strength of our high-quality and growing mortgage insurance portfolio and our capital position, as well as our ongoing strategic focus on managing operating expenses. In terms of our mortgage insurance business, we continue to leverage our proprietary analytics and RADAR Rates platform to successfully identify and capture economic value in the markets. As a result, we wrote $10.6 billion of high-quality new insurance written in the fourth quarter, and $52.7 billion for the year.

We continued to see positive credit performance in our mortgage insurance portfolio during the year, and our persistency rate remained strong. It is important to note here that borrowers in our insured portfolio have significant equity in their homes, which helps to mitigate the risk of loss by decreasing both the frequency and severity of paid claims. In fact, we estimate that as of year-end 2023, 86% of our total insurance in force had at least 10% embedded equity, and 82% of our defaulted loans had at least 20% embedded equity. It is also worth repeating that higher interest rates result at higher yields on our $6.3 billion investment portfolio. The increased investment yield supports higher returns, and generates incremental income that flows directly to our bottom line.

In terms of the housing market, recent industry forecasts for 2024 project total mortgage originations of approximately $2 trillion, which would represent an increase compared to 2023. This outlook projects a decline in mortgage interest rates in 2024 to approximately 6% by the fourth quarter. And these lower mortgage rates, coupled with continued strong home purchase demand, is expected to drive a 15% to 20% increase in purchase originations, and an increase in refinance originations as well. While declining interest rates are projected to increase refinance volume, we expect persistency to remain strong given that approximately 80% of our in force portfolio consists of loans with interest rates below 6%. Therefore, those borrowers would have little to no refinance incentive.

As we've said before, the increased purchase volume is a positive for our mortgage insurance business given that MI penetration on purchase transactions is currently 10 to 14 times higher than for refinances. Based on the origination forecast, we estimate that the private mortgage insurance market will be between $300 billion and $350 billion in 2024.

It is also worth mentioning that while low inventory and strong market demand continue to create challenges for first-time homebuyers, these dynamics help to mitigate downside risk in home values, which is a positive for our insured portfolio. Given that our mortgage insurance business benefits from increases in demand, home prices and purchase volume, our overall outlook for the business remains positive.

With regard to our homegenius business, throughout 2023, our team navigated the impact of higher interest rates and limited inventory, which constrained mortgage and real estate activity. Our team focused on deepening and expanding our customer relationships, managing expenses to improve operational efficiency across our businesses, and making strategic investments in data, analytics and technology. We believe this business is well-positioned to benefit from a declining interest rate environment, as refinance and home purchase activity rebounds. We will continue to manage our cost structure and align our strategy and investments to the market environment.

And we continue to build on our strong track record for managing our capital resources. We have consistently demonstrated a strategic focus on capital optimization over the past several years. We believe the strength of our capital position significantly enhances our financial flexibility now and going forward.

Sumita will discuss our capital actions during the quarter and during the year, including the details of our current position. And 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.

Sumita Pandit

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

Thank you, Rick. And good afternoon to you all. We produced another strong quarter of operating results in the fourth quarter of 2023, earning net income of $143 million or $0.91 diluted earnings per share. For the full year, we earned net income of $603 million or $3.77 diluted earnings per share. Adjusted diluted net operating income per share was slightly higher than the GAAP metrics at $0.96 for the quarter, and $3.88 for the full year. We generated a return on equity of 15% in 2023, and grew our book value per share 15% year-over-year to $28.71. This book value per share growth was in addition to $146 million of dividends paid to our stockholders during 2023.

We also repurchased $133 million of our shares during the year. And in 2023, we were proud to deliver an industry-leading total shareholder return of 55%. Our revenues were strong in both the fourth quarter and full year 2023. Despite reduced mortgage and real estate transaction volumes during 2023, resulting from higher interest rates and limited housing inventory, we generated over $1.2 billion of total revenues during the year, a 4% increase compared to our total revenues in 2022.

Slides 11 through 13 in our presentation include details on our mortgage insurance in force portfolio, as well as other key factors impacting our net premiums earned. Our primary mortgage insurance in force grew 3% year-over-year to an all-time high of $270 billion as of year-end, generating $230 million in net premiums earned in the quarter, and $909 million for the full year. As previously announced, Radian Guaranty entered into two new excess-of-loss reinsurance agreements in the fourth quarter that are expected to provide additional protection in stress loss scenarios.

These agreements are consistent with our strategy to effectively manage capital, and to help mitigate the overall risk profile and potential volatility of our mortgage insurance business. The resulting increase in our ceded premiums from these transactions is reflected in our fourth quarter results on slide 13 of our quarterly presentation. Contributing to the growth of our insurance in force was $52.7 billion of new insurance written for 2023, including $10.6 billion written during the fourth quarter. The reduction in our volumes reflects the industry-wide decline in mortgage origination.

While the industry-wide decline primarily due to increased rates, provided headwinds for our new business, it has also significantly benefited the persistency rate of our insurance in force, which remained high at 84% in the fourth quarter based on the trailing 12 months, compared to 80% a year ago. We provide more detail on our persistency trends on slide 11.

We expect our persistency rate to remain strong even after consideration of the recent pullback in mortgage rates. As Rick mentioned, more than 80% of our insurance in force had a mortgage rate of 6% or less as of the end of the fourth quarter, and is therefore less likely to cancel in the near term due to refinancing. In addition, 69% of our insurance in force had a mortgage rate of 5% or less at year-end.

While increases in mortgage rates have reduced originations in NIW, high persistency rates have supported growth in insurance in force and earnings power, demonstrating the durability of our business model in varied interest rate environments. As shown on slide 13, the in force portfolio premium yields for our mortgage insurance portfolio remained stable during 2023, as expected, ending at 38.1 basis points consistent with year-end 2022.

With strong persistency rates and the current positive industry pricing environment, we expect the in force portfolio premium yield to remain generally stable for the upcoming year as well. The higher interest rate environment has also benefited our investment income, which grew 32% year-over-year to $258 million in 2023, including $69 million in the fourth quarter.

As shown on slide 16, the rise in our net investment income was driven by increases during the year in both the size and average yield of our investment portfolio. Our unrealized net loss on investments reflected in stockholders equity improved in the fourth quarter by $190 million at year-end, improving our book value per share.

We expect that our strong liquidity and cash flow position will provide us with the ability to hold these securities to maturity and recover the remaining unrealized losses. Our services revenue, which is derived primarily from our homegenius segment, totaled $46 million in 2023, including $12 million earned in the fourth quarter.

As Rick mentioned, we believe this business is well-positioned to benefit from a declining interest rate environment as refinance and home purchase activity rebounds, and we will continue to manage our cost structure and align our strategy and investments to the market environment. I will now move on to our provision for losses.

Credit trends continued to be positive. Throughout 2023, our defaults continued to cure at rates greater than our previous expectations, resulting in releases of prior-period reserves that have significantly offset reserves established for new defaults. These releases of prior-period reserves have continued to trend down over the past several quarters as the amount of our total reserve balance, net of reinsurance, has declined from $756 million as of January 1, 2022 to $340 million as of December 31, 2023, resulting in less reserves available for potential future releases if conditions are warranted.

As Rick mentioned, our favorable loss experience continues to be driven primarily by the significant embedded homeowner equity resulting from the strong home price appreciation experienced in recent years.

On slide 18, we provide trends for our primary default inventory. Our ending primary default inventory for 2023 was flat to prior year-end at approximately 22,000 loans, representing a portfolio default rate of 2.2% at both periods. The number of new defaults reported to us by servicers was approximately 12,500 in the fourth quarter of 2023, consistent with the expected seasoning of our insured portfolio and seasonal trends. We continue to maintain our default to claim goal rate assumption for new defaults at 8%, resulting in $54 million of loss provision for new defaults reported during the quarter.

Positive reserve development on prior-period defaults of $49 million partially offset this provision for new defaults due to the favorable cure trend just discussed, and higher claim withdrawals by servicers. As a result, we recognized a net loss of $5 million in our mortgage insurance provision for losses in the fourth quarter following eight consecutive quarters of net provision benefits.

Turning to our other expenses. As a result of our significant expense savings efforts, our combined consolidated cost of services and other operating expenses were reduced to $386 million in 2023, a decrease of $77 million or 17% compared to 2022. This result was at the higher-end of the expense savings range of $60 million to $80 million we had aimed for at the beginning of 2023. Our results for the fourth quarter include the impact of certain impairments. Our operating expenses included $14 million in impairments of other long-lived assets in the fourth quarter, primarily related to lease-related assets as we continue to right-size our office footprint to maximize efficiency and cost savings.

In addition, we wrote off as a non-operating expense our remaining $10 million in goodwill related to the homegenius segment. As of year-end 2023, we have no goodwill or other acquired intangible assets remaining on our balance sheet. We continue to actively manage our operating expenses and seek opportunities for additional efficiencies.

Moving finally to our capital, available liquidity and related strategic actions. The financial position of our primary operating subsidiary, Radian Guaranty, remained strong. At the beginning of 2023, we provided guidance that we expected to dividend $300 million to $400 million from Radian Guaranty to our holding company. We are pleased that Radian Guaranty paid $100 million of ordinary dividend each quarter in 2023, bringing total dividends to $400 million consistent with the high-end of our previously provided guidance. We estimate the ordinary dividends paid from Radian Guaranty to Radian Group in 2024 will increase, and be in the range of $400 million to $500 million. We expect Radian Guaranty to pay $100 million ordinary dividend in the first quarter of this year, followed by larger quarterly dividend payments to Radian Group later in the year.

Radian Guaranty's excess PMIERs available assets over minimum required assets increased during the fourth quarter from $1.7 billion to $2.3 billion, primarily as a result of the capital relief provided by the two new excess-of-loss reinsurance agreements executed in October. Our available holding company liquidity remained stable at approximately $1 billion at the end of the fourth quarter. We also have a $275 million undrawn credit facility providing us with significant financial flexibility.

During 2023, we repurchased 5.3 million shares at a total cost of $133 million, including $63 million of shares repurchased during the fourth quarter. As of the end of 2023, our current share repurchase authorization had $167 million remaining and expires in January of 2025. Looking ahead, we have $450 million of senior debt that comes due in October of this year, and $525 million of senior debt coming due in March of 2025. As we seek to optimize our capital structure, our recent ratings upgrade from S&P and our current strong liquidity position provides us with flexibility.

We are evaluating options to address these debt maturities, and may seek to reduce our debt outstanding during 2024. Our results for the fourth quarter and full year 2023 highlight the strength and resiliency of our company in contrast to the challenges many other mortgage market participants faced over the past year as a result of the overall macroeconomic environment.

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 in 2023, we successfully reduced our combined consolidated cost of services and other operating expenses by 17% or $77 million. Our growing mortgage insurance portfolio, which reached an all-time high of $270 billion, is highly valuable, and expected to deliver significant earnings going forward.

We continue to strategically manage capital. In 2023, we increased our PMIERs cushion by $533 million, paid $400 million of ordinary dividends from Radian Guaranty to Radian Group, and returned $279 million of capital to stockholders through dividends and share repurchases. Most importantly, we accomplished all of this working together as a One Radian team. I'd like to recognize and thank the dedicated and experienced team at Radian for the outstanding work they do every day. And thank you to our customers and investors for their continued support and confidence.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] The first question comes from Bose George with KBW. Your line is open.

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

Q

Hey, everyone. Good afternoon. Actually wanted to ask first just about new notices, as your book seasons, the 2021, 2022, 2023 books, do you think the new notices number continues to grow, and just what are your expectations there?

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

A

Hey, Bose, it's Derek. Thanks. Yeah. In terms of the development of the book, it's kind of playing out as expected and pretty favorably. So, if you look at the new notice development in Q4, if you look at that quarter-over-quarter and year-over-year increase, very similar to what we saw in 2022 Q4. Also we saw, which unlike Q4 2022, we actually saw cures increase in the most recent quarter.

The other thing I would – important to focus on, just not new defaults looking at the default rate. So, the default rate continues to be at low levels at around 2.2%. That was actually flat last quarter. I think some of our competitors may have seen a bit of an increase. So, that's been a positive development. The other thing we're seeing in new notices is significant embedded equity. Rick alluded to 82% of our defaults having at least 20% equity, and we continue to see that with new defaults. So in Q4, a little less than 80%, I think it was 78% of new defaults had at least 20% equity as well. So when you look at the book, kind of developing as expected and very favorably.

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

Q

Okay, great. That's helpful. Thanks. And I just wanted to switch over to capital. You noted that dividends coming up to the holding company this year. How are you balancing return of capital versus what you might do in terms of your debt?

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

A

Yeah. And I think I gave some indication of what we are planning for both in my prepared remarks. But maybe just like breaking that down a little bit, so we are increasing our guidance of how much dividends we should be able to pay from dividend – from Radian Guaranty to Radian Group. So, instead of the $300 million and $400 million that we paid last year, we're increasing that guidance to $400 million to $500 million. We're still early in the year, so we are being conservative there. I think there is probably some upside to that number. But given that we're early in the year, we felt that our conservative guidance would be appropriate at this stage.

In terms of balancing that with our debt, so again, I think I indicated in my prepared remarks that we are looking at opportunistically thinking about our options this year. Given our S&P ratings upgrade, the overall credit market, the fact that there are many other issuers looking to access the market this year, given the constructive credit environment, we would look to evaluate our options. We may consider reducing our debt this year. So, I think all of that is on the table. But I think we don't have to make a choice between really thinking about our debt as well as thinking about our capital return. We are in that fortunate position where we have significant excess capital and liquidity in our holding company. I think Rick mentioned it's a little less than $1 billion. So, I think we are in a really good place in terms of what we may want to do this year.

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

Q

Okay, great. Thanks.

Operator: [Operator Instructions] The next question comes from Doug Harter with UBS. Your line is open.

Douglas Harter
Analyst, UBS

Q

Thanks. Can you talk about the increase in ceded premiums this quarter? Were there any kind of onetime costs in there, or is that a reasonable run rate as we think about heading into 2024?

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

A

Yeah, I think maybe if you want to just take a look at slide 13, it gives you a little bit more detail on what is our ceded premiums by quarter. And I would say that there is no real onetime expense there. It is really driven by some of the risk distribution deals that we put in place in the last two quarters. And I think it's really a result of those risk distribution days, so our ceded premium went up just given the reinsurance deals that we put in place. I would also point to the positive of that. You saw that our PMIERs buffer did go up. It is again attributed to the reinsurance deals that we put in place. So, our buffer did go up by about $533 million. And that's the pros and con of thinking about risk distribution. We've always said that we want to access risk distribution at the right cost of capital and at the right time, but it also comes with the prospect that our ceded premiums do go up when we have more reinsurance.

Douglas Harter
Analyst, UBS

Q

I guess along those lines, is the execution of those deals one of the factors that allowed you to increase your guidance on the dividends up to the holding company for the year?

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

A

Not at all. In fact, I would say that we kind of think about risk distribution pretty distinctly from how we manage our business day to day. When we underwrite new business, we're really doing that on the basis of the strength of our own capital. We don't need to do risk distribution. We do it because it is appropriate, and it gives us even more flexibility. But we do not think about our day-to-day pricing on the premise that risk distribution would be available to us.

We've always said that we try to access the markets from a risk distribution perspective opportunistically. We do it when we like the cost of capital. So, I think we've indicated last year that we've done reinsurance typically at the cost of capital of about 3.5% to 4.5%. At that cost of capital, we like distribution of that risk. But we do not really depend on risk distribution to think about our day-to-day underwriting.

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

A

Yeah. And also just to add to that, so the dividend from Radian Guaranty, the Radian Group, it's really largely driven through statutory earnings on our annual earnings. So, to Sumita's point, we look at risk distribution from those perspectives, but the Radian Guaranty dividend to Radian Group, it's really driven by the strength of our earnings overall, the release of contingency reserves from prior period, as we've talked about, providing positive unassigned surplus to create an ordinary dividend. And so, one of the reasons why last year when we first started to pay the ordinary dividend, first time in I think 15 years, something like that, that's now a recurring part of our capital structure based upon what we expect earnings to kind of develop as we go forward here. So, pretty powerful piece, but the capital arbitrage and the opportunity to risk distribution is really something we take advantage of when we see value in it from a capital trade and a risk trade.

Douglas Harter
Analyst, UBS

Q

Great. Thank you.

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

A

Yeah. Thank you, Doug.

Operator: [Operator Instructions] The next question comes from Mihir Bhatia with Bank of America. Your line is open.

Mihir Bhatia
Analyst, Bank of America Merrill Lynch

Q

Hi. Thank you for taking my questions. I wanted to start on slide 18. I think you have a new disclosure in there about the claims resolved without a payment that'll be included as cures. And I was curious, I guess just a two-part question on that. One is, why? Are you trying to signal something with this? Do you expect this to increase? Obviously, in your prepared remarks, you talked about how much equity there is inbuilt in a lot of the new delinquency notices you are receiving. So, maybe put this in a little bit of historical context for us. Did this like just not used to happen at any meaningful level as the numbers – presuming the numbers are increasing given all the home price appreciation, et cetera that we've...

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

A

Yeah.

Mihir Bhatia
Analyst, Bank of America Merrill Lynch

Q

Go ahead.

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

A

Yeah, Mihir, it's Derek. I mean, the state we've been in has been a bit atypical really for the last probably 1.5 to 2 years in terms of the claim withdrawals. So, if you look at it, for instance, our pending claim inventory, I think this most recent quarter, the cure rate was around 30%. So, it's at the highest level it's been at ever, and that is driven in large part by continued strong macroeconomic environment. So, employment, reemployment, but most importantly the embedded equity, right. So, Rick referring to that embedded equity in the portfolio. So, it is resulting in a large number of claim withdrawals, and that's been pretty consistent with the trend we've seen for some time now.

Mihir Bhatia
Analyst, Bank of America Merrill Lynch

Q

But do you think these numbers like keep increasing, the claims resolved without payment?

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

A

Well, in terms of the – it kind of depends. I mean, the base of defaults are going down. So, that's going to kind of move that around. In terms of percentage, it is going to depend upon just the new defaults coming in the portfolio. To-date, they've been coming in in terms of embedded equity pretty close to the same levels we've had. So, I don't see on the horizon it moving down substantially. I think you'd probably need to see some home prices come down significantly. But where we are now is in a really spot, because if you look at home price appreciation, some of that embedded equity was driven by double-digit home price growth, which is good for the existing portfolio, but it puts a little pressure on the new business. Where we are right now, where we're seeing 5% to 6% home price appreciation is a pretty good spot. So, that should continue to be positive in terms of new vintages. As they move through default seasoning peak, they should be coming into default with some embedded equity unlike past years ago where maybe you've seen 1% to 2% home price appreciation.

Mihir Bhatia
Analyst, Bank of America Merrill Lynch

Q

Got it. And then, I wanted to maybe just talk a little bit about the – good to hear about the upsize of capital that you expect to be able to get out of the insurance subsidiaries. But what is the impact of that from a – like I mean, I guess what is the plan for use of that? Is it, can shareholders reasonably expect that a bulk of that capital distribution that's coming up is going to get returned to shareholders, or is the thought that there are expansion opportunities to go invest or like whether it's M&A or whether it's invest more in homegenius, things like that? What is – how should we be thinking about the upside in dividends?

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

A

Yeah, I think maybe just some context. So if you just think about 2023, right, we had said we'll pay $300 million to $400 million of dividends. We returned $279 million of that. So, $279 million of the $400 million went out as dividends and share repurchases last year. In fact, just in the fourth quarter, we bought back about $63 million of share. So, I would say that we want to continue to be disciplined about it. But yes, a big part of that would probably go back to shareholders. A portion of that could be used towards debt. And I would say we would also evaluate other strategic opportunities.

And maybe, Rick, you want to add a few comments here.

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

A

Yeah. I mean, I would say just our history and our track record speak for itself in terms of how disciplined we are about thinking about return to shareholders along with just kind of capital return in general. So, I just kind of look at our track record of $1.9 billion over the last several years returned through dividends and share buybacks. And I think we have the luxury of capital. Today, it's a good problem to have. And we have excess capital, when you look at PMIERs cushion within Radian Guaranty, you look at the capital flow up to Radian Group from Radian Guaranty and excess capital sits there.

So Mihir, to your question, we're going to continue to be good stewards of capital. We're going to focus on opportunities to return capital to shareholders. We always talk about it in hindsight. We're always aware and alert to other strategic opportunities, and thinking through a waterfall of capital allocation. And I think we've been really very disciplined about evaluating those opportunities. Sumita and I and John see dozens of them throughout the year, and we're really very quick to kill. But there are opportunities that could arise, and we're in a great situation with our excess capital situation to consider those, should they warrant consideration. So, that's what I would say.

Mihir Bhatia
Analyst, Bank of America Merrill Lynch

Q

Okay. And then, just my last question, just to touch base regulatory developments. Is there anything that you're seeing that's coming down the pipeline that can maybe have a larger impact on your business, something that investors should be aware of? I know that regulations are always changing, but I'm talking more like big things that could be coming down that investors probably weren't paying attention to. It just seems like the regulatory discussion around MI has been a little bit quiet in the last few quarters. So, just wanted to touch base to see where we are at on that? Thank you.

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

A

Yeah, Mihir, Derek and I can kind of tag team on this one a little bit, but I would say, look, the good news is, as you say, it has been relatively quiet, I think, in terms of many different respects as it directly impacts us. But it's not been quiet as it relates to the kind of the broader mortgage market, and you think about things like Basel III and the impact on banks from a participation in mortgage and all the discussion around that, other capital rules for independent mortgage banks. And just there's a number of regulatory matters that are out there that don't directly impact us.

And in fact, the Basel III changes have actually created an opportunity for us from a conduit perspective that we just continue to kind of evaluate and kind of watch and participate in where appropriate. But I would say we're very close to it. There was a lot of chatter around FHA and different activities around that. I would say right now, we are in a little bit of a quiet period as it directly relates to MI.

Would you agree, Derek?

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

A

Yeah. I would just add on the policy side is just the strength in the industry, and I think that's well-recognized in terms of the financial strength which you've seen in kind of in our most recent rating upgrade, and just how the industry has transformed for an industry that's really about aggregating and distributing risk, so much more resilient through the cycle. Also, when you look at it, I mean we are private capital that helps an affordable and first-time homebuyer segment. So, from that perspective, we're in a really good spot kind of looking on both sides of the political aisle. So, if you have changes kind of in terms of regulatory leadership, I think the industry is well-placed.

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

Yeah.

Mihir Bhatia
Analyst, Bank of America Merrill Lynch
Q

Thank you for taking my questions.

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

Yeah, thank you, Mihir.

Operator: [Operator Instructions] The next question comes from Scott Heleniak with RBC Capital Markets. Your line is open.

Scott Heleniak
Analyst, RBC Capital Markets LLC
Q

Yes. Hello. First question I had was just on the expense ratio. You've made good progress on bringing that down for the year. And so, you took a lot of costs out, you right-sized. Is the expectation that you could see further improvement in 2024 or the expense run rate kind of going to be stable from the run rate where you are at now?

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

Yeah. Thanks, Scott, for that question. So I think as you saw in 2023, we had given initial guidance of $60 million to $80 million of cost savings, and we were able to achieve $77 million of cost savings in 2023, which is about a 17% reduction in our cost of services and other operating expenses. You also heard us talk about some of the cleanup activity that we completed in Q4, including writing off acquired intangibles. So I think from a balance sheet perspective, we really feel good about where we are starting this year from.

I think the fourth quarter is a good indicator of the run rate going forward, excluding some of those onetime items. We are not giving specific expense guidance this year yet. I think we are still early in the year, and we took out about 17% of our expenses last year. So, I would say that we're not giving a specific dollar guidance yet, but we are always looking to make sure that we are continuing to remain efficient, and we are looking at our expenses across our business lines. So, I think that's an ongoing initiative, but we are not giving a specific dollar guidance of what that may look like for this year.

Scott Heleniak
Analyst, RBC Capital Markets LLC
Q

Okay. That's fair. And just switching gears to pricing, can you just talk a little bit about what you've been seeing in the last few months, whether you're seeing any kind of major shifts at all in third quarter versus fourth quarter and into the year, and any thoughts on how you see that playing out in 2024?

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

Hey, Scott, this is Derek. Yeah. In terms of pricing, pretty quiet, which is a positive. So when we look at pricing in the industry, I would say fairly flat really since our last call, which we view as a positive in the sense that I think the macroeconomic outlook has significantly improved. You're seeing home prices go up. I think there's a decreased probability of a soft landing. So, to see price stay flat is very positive. The other thing I'd point out is that when you look at pricing, it's substantially above where it was in 2022. So, when you go back 1.5 to 2 years, our pricing is at higher levels, which we think is appropriate, looking at the risk through the cycle. So, overall, I would say pretty quiet quarter-over-quarter in terms of development.

Scott Heleniak
Analyst, RBC Capital Markets LLC

Q

Okay, great. And then the last one, just on the average investment yield was 4.15% was similar to Q3. Is there any opportunity to get some higher yield than you expect to get that in the coming quarters or is it kind of you feel like it's kind of stabilized where it is right now, the yield?

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

A

Yeah. I think we mentioned, Scott, in our quarterly call last quarter that we do see new money reinvestment rates are higher than our current yield. I think it takes a little while for it to actually come into our portfolio just given the size of our overall portfolio. So, I would say maybe some upside, but not a meaningful one from our current levels, given the overall interest rate backdrop that we have for 2024.

Scott Heleniak
Analyst, RBC Capital Markets LLC

Q

Yeah. Okay. Appreciate it.

Operator: [Operator Instructions] The next question comes from Eric Hagen with BTIG. Your line is now open.

Eric Hagen
Analyst, BTIG LLC

Q

Hi. How are you, guys? Within your outlook for, I think I heard you say, $300 million to $350 billion of NIW this year for the market, do you feel like there's any catalysts other than maybe lower interest rates, which could take it above that level?

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

A

So, this is Rick. Thanks for your question, Eric. I think that range is based upon kind of an increase in the purchase origination market that's expected with kind of declining rates, obviously with refinances picking up a little bit. But I think the catalyst is demand being met by supply. And that's – so I think right now to the extent we saw supply become available because people began to list their home and start to re-trade homes, you could see that purchase market expand, and because MI especially for first-time homebuyers, second, third-time homebuyers, MI is more likely to be part of that transaction. That would be the other catalyst. So, interest rates are going to provide a little bit, but right now we're supply limited. And so to the extent supply could expand based on a variety of different factors, catalysts, construction, building, those would be things that I think would enable the MI market to expand kind of similarly.

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

A

Maybe I can add a little bit also here in terms of consumer behavior, I do think that people are getting just more used to a higher interest rate environment, and I think for a lot of potential homebuyers who were waiting for the interest rate curve to change, I think it's a good confluence of slightly lower interest rates, maybe not as great as what they had a few years back, but at some point people need to go ahead and live their lives. So, I do think that there is a consumer behavior aspect to it, as people get used to the current interest rates.

Eric Hagen
Analyst, BTIG LLC

Q

Yeah, that's good perspective. I appreciate that. We got prepayment speeds from the GSEs this week. Any perspective you can share there on the high LTV loans out there? And even what your persistency rate might look like if mortgage rates were to drop from here?

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

A

Well, I mean – yeah, it's Derek. So in terms of looking at the outlook for persistency, which Rick kind of touched upon earlier, most of the portfolio is significantly out of the money from a refinance perspective. So, when you kind of look at it in terms of that interest rate movement, I think Rick and Sumita were alluding to the fact having rates go down could be a positive in terms of kind of the origination side. Also, we're in a situation where your persistency still stays elevated, because we have so much of the portfolio out of the money versus a typical situation where you have a bit of an interest rate dip, you might pick up originations, but then you have a lot of refi out of your portfolio. So, we might be in a good spot if kind of rates kind of stay within kind of a certain corridor, let's say, within 100 to 150 basis points down.

So, I would say that I think there's a lot of stickiness to the portfolio, and it would take significant decreases in interest rates, which I don't think we're projecting or most third-parties are projecting to see a significant pick-up in prepayments.

Eric Hagen
Analyst, BTIG LLC

Q

Yeah. Is it a fair assumption that most of the borrowers with MI now, if they were to refi, they'd require MI again, or is there more flexibility for some folks you feel like?

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

A

Well, there's more flexibility. It just depends on the portfolio, so. And I think that has been – you've seen that a little bit in kind of the penetration rate on the refinance side. The more recent vintages, there is going to be less embedded equity. So, if you look at those who are closer to being in the money are going to be recent vintages like the last year, and they're going to have less embedded equity. So, with respect to that versus the overall portfolio, there might be a higher probability they would have – need mortgage insurance versus kind of some of the older vintages, but the older vintages are so far out of the money, so you have to put that in perspective.

Eric Hagen
Analyst, BTIG LLC

Q

Sure. I appreciate it, guys. Thank you.

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

A

Thank you.

Operator: I show no further questions at this time. I would now like to turn the call back to Rick Thornberry for closing remarks.

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

Thank you. And I want to thank everybody for their participation and their really excellent questions. We appreciate the support that we receive from all of you as our investors, and we look forward to meeting with you soon. And for those of you who are also Chiefs fans for the Super Bowl this weekend, I hope that you have a good weekend, and for our 49er fans, good luck as well. So, that's it. That's all I got. Look forward to seeing you all on the road. Take care.

Operator: Thank you for participating. This concludes today's conference call. You may now disconnect.