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Radian Group Inc. (RDN)

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by and welcome to Radian Third Quarter 2017 Earnings Call. At this time all participants are in a listen-only mode. Later we will conduct a question-and-answer session; instructions will be given at that time. [Operator Instructions] And as a reminder the call is being recorded.

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

Emily Riley

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

Thank you and welcome to Radian's third quarter 2017 conference call. Our press release, which contains Radian's financial results for the quarter, was issued earlier this morning and is posted to the Investors section of our website at www.radian.biz.

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

During today's call, you will hear from Rick Thornberry, Radian's Chief Executive Officer; and Frank Hall, Chief Financial Officer. Also on hand for the Q&A portion of the call are Derek Brummer, Executive Vice President and Chief Risk Officer of Radian Group, and Cathy Jackson, Corporate Controller.

Before we begin, I would like to remind you that comments made during the 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 2016 Form 10-K and subsequent reports filed with the SEC. These are also available on our website.

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

Richard G. Thornberry

Chief Executive Officer & Director, Radian Group Inc.

Thank you, Emily, and good morning. I'd like to thank each of you for joining us today and for your interest in Radian. Before I turn the call over to Frank to review the details of our financial results, let me provide a few highlights.

Today we reported another quarter of excellent operating results for Radian. There is strong customer demand for the core products in both our business segments, and we continue to benefit from positive trends in the credit environment. As you have seen, we took several actions during the third quarter to strengthen Radian's financial position and capital structure. I look forward to updating you on our progress this morning, but first let's turn to a few financial highlights for the quarter.

Earlier today we reported net income of $65 million, or $0.30 per diluted share, for the quarter on $103 million of pre-tax income. This includes $46 million of pre-tax loss related to our third quarter capital enhancement actions, as well as $12 million of pre-tax restructuring costs related to our Services segment. While these two items have a negative impact on our GAAP results, our capital actions strengthened Radian's financial position and improved the maturity profile of our debt, and our restructuring efforts positioned us to grow sustainable profitability in our Services business.

Therefore, on an operating basis, adjusted pre-tax operating income was $156 million in the third quarter, an increase of 11% compared to the same period last year. Our adjusted diluted net operating income per share was $0.46, an increase of 12% over last year. Book value per share grew by 3% year-over-year, $13.88, and over the same period tangible book value per share grew by 12% to $13.57.

Next, I'll share a few highlights related to our Mortgage Insurance segment. We wrote 5% more mortgage insurance business in the third quarter than we did in the second quarter of this year. And in August we broke a company record for the highest monthly NIW flow business. Refinance activity remained relatively low again this quarter, representing only 9% of NIW. Importantly, this lower level of refinancing, combined with our success in writing new mortgage insurance business, drove an 8% increase in our mortgage insurance in force portfolio year-over-year. Our $196.5 billion mortgage insurance portfolio, which is one of the largest in the industry, is the primary driver of future earnings for our company.

As I mentioned earlier, the mortgage origination market continues to be driven by purchase versus refinance activity. Since mortgage insurance can be three to five times more likely to be used in a purchase transaction than in a refinance, this is good news for our company and the industry. Based on market projections and our performance in the first nine months of the year, we continue to expect to write approximately $50 billion in NIW in 2017, which is comparable to 2016 levels.

We continue to pursue opportunities to effectively manage our capital position, improve our return on capital, and proactively manage our mix of mortgage insurance business. In 2016, we entered into a quota share of reinsurance program that was the first of its kind, focused exclusively on single premium business.

This week we finalized terms for a new program and those terms include a 65% cession of new single premium business written in 2018 and 2019 versus our existing Single Premium Reinsurance Transaction, which provides for a 35% cession of single premium NIW through 2017. Frank will discuss the details further; however, it is important to note that this very low cost of capital for this program is expected to generate meaningful value for our shareholders.

As we look at broader market factors, we continue to see first-time homebuyers representing more than one-third of all residential sales. The overall increase in purchase loans, combined with the fact that new homebuyers are more likely to seek lower down payment options, just like my wife and I did for our first home, likely many of you as well, creates an increased need and demand for private mortgage insurance.

Given this market shift towards first-time home buyers, the industry continues to see an increase in higher LTV loans. We will remain diligent in closely monitoring and measuring any changes in the risk mix of NIW, specifically any layering of risk, and we continue to focus on generating a portfolio of mortgage insurance policies that in aggregate produce strong through the cycle risk-adjusted returns on required capital.

We continue to benefit from positive credit trends in the third quarter. Frank will discuss the impact on our loss provisions in more detail. However, an important illustration of the positive credit environment and its impact on our company may be found on webcast slide 9, where you can see the breakdown of our total mortgage insurance portfolio. Today, 91% of our primary mortgage insurance risk in force, including HARP loans, consist a business written after 2008.

Finally, before moving on to our Services segment, let me take a moment to address a topic that was top of mind for investors in the third quarter, the financial impact of hurricanes. It is important to note that our mortgage insurance master policies cover losses arising from economic default and do not cover claims that were principally caused by physical damage, including damage caused by floods or other natural disasters. Frank will cover any impact to our financial results as a result of the storm shortly.

So moving now to our Mortgage and Real Estate Services segment, during my first earnings call with the company in April I expressed my excitement about the prospect ahead for Radian. As I continue to learn more about the businesses and capabilities, and I met with our customers, regulators and employees, I quickly realized that we had the core expertise in our businesses to succeed and create competitive differentiation. However, in order for our Services business to generate and contribute meaningful profitability, we needed to refocus and refine our strategy.

As we disclosed last week, we completed the strategic review of our Services business in the third quarter and finalized our restructuring plan. The objective of this review has been to reposition the segment for sustainable or for sustained profitability by focusing on the core products and services that we believe have higher growth potential, produce more predictable and recurring fee-based revenues, and better align with our customer needs. We have a market leading mortgage insurance franchise combined with a core set of products and services that include credit risk management, title insurance, real estate valuation, mortgage and real estate transaction, diligence, and REO management.

We see opportunities to continue to evolve and refine our set of products and services to position us to participate in the transformation of the mortgage industry, including the expanded use of technology-enabled data-driven services and the reemergence of a healthy and liquid non-agency secondary market. During the quarter, we repositioned our sales and marketing efforts to focus on an integrated enterprise sales structure. What this means is that we're taking advantage of the core set of products and services that we offer across the entire mortgage value chain rather than selling individual products from each of our companies.

Our sales team has demonstrated success time and again in building and deepening customer relationships. And this approach of selling all the Radian and its family of companies have to offer, helps position our company as a more relevant and valuable partner. We have more than 1,500 active and valued customer relationships across our enterprise. And we are focused on increasing awareness of all our products and the value that we can deliver as a business partner. We believe that our existing relationships, combined with a diversified set of products and services, can provide us with competitive differentiation among other monoline mortgage insurers.

Our team is hosting today's call from our Services office in Denver, Colorado, as we've been meeting with customers this week attending the annual Mortgage Bankers Association convention in town. Our sales teams have been presenting, among other things, our latest technology innovations delivered on our MI Online platform, introducing our improved mobile app for mortgage insurance ordering, and discussed in our broad set of products and services, including Red Bell Technology, title insurance services, and private label security solutions. I'm pleased with a very positive response.

As we reported last week, we expect to incur total restructuring charges of approximately $20 million, of which we recognized $12 million in the third quarter. Frank will provide more details on the charge and expectations for cost savings going forward. But what is important to remember is that we remain strategically committed to our Services businesses. We are focused on defining our products and services where we see future market opportunities versus being stuck in the past. We believe that the changes we have made across our Services business to refocus our efforts will drive future growth and profitability for Radian and deliver even greater value to our customers and shareholders. As we gain more experience and understanding regarding the success of our new business structure, we will try to give more specific guidance regarding the opportunity going forward.

Turning to operating expenses, we continue to sharpen our focus on improving our operational effectiveness and service delivery, while increasing our operating efficiency. Our team is highly focused on identifying opportunities to work smarter. In addition to the Services restructuring, we are reviewing all processes, vendor relationships, organizational structures, and other expense drivers with a goal of developing strategic roadmaps to develop sustainable improvements in our expense profile and operating leverage. Creating a right balance between managing expenses across the enterprise and investing in growth and quality execution is strategically important in order to create competitive differentiation, increased profitability, and improved shareholder returns.

Turning to the regulatory and legislative environment, we continue to expect that PMIERs 2.0 will continue – will become effective no earlier than the fourth quarter of 2018, and we expect to receive a draft of the recommend changes later this year. As we have experienced in the past, we anticipate a period of time for a collaborative and iterative process for discussing any changes prior to being finalized. Once finalized, the GSEs have committed to providing us with an implementation period of at least 180 days prior to the effective date.

More broadly, there continues to be active dialog on housing finance reform and we are encouraged by the consistent support on Capitol Hill for the important role on private capital. The private mortgage insurance industry is the only committed source of permanent private capital that continue to underwrite and support credit risk through the market cycles. We believe that key players in Congress understand us and, as an industry, we continue to reinforce the importance of our role as part of any housing finance reform proposals.

Now, I'd like to turn the call over to Frank for details of our financial position.

J. Franklin Hall

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

Thank you, Rick, and good morning. I'll start with the key drivers of our revenue. Our new insurance written was $15.1 billion during the quarter, which is up 5% compared to $14.3 billion last quarter and down 3% over the $15.7 billion produced in the third quarter of 2016. The new business we are writing today continues to consist of loans that produce excellent risk-adjusted returns.

Our 12-month persistency increased from 78.5% in the second quarter of 2017 to 80% in the third quarter of 2017, as noted on Exhibit L. Our quarterly annualized persistency decreased from 82.8% in the second quarter of 2017 to 80.4% this quarter. The persistency calculation was impacted by the scheduled termination of a commutation transaction executed with Freddie Mac in 2013.

Absent the impact of that transaction, persistency would have been 80.5% on an annualized basis and 82% on a quarterly basis. We continue to expect normalized persistency in the low-to-mid 80s; however, timing is difficult to predict. Primary insurance in force increased to $196.5 billion at the end of the quarter, an 8% increase over the same period last year. Based on current trends, including an expanded purchase market and increased persistency, we expect insurance in force to grow accordingly, enhancing our strong foundation for future earnings.

Premium yields on our portfolio are dependent on several factors, including the mix of new production and policy cancellations, coupled with the composition of the existing portfolio. Our enhanced portfolio yield disclosures on webcast slide 12 show the composition of our net premium yields over the most recent five quarters. Single premium cancellations resulted in $15.4 million of direct earned premiums this quarter, compared to $13.3 million in the prior quarter. As a result, both our gross and net portfolio yields this quarter remained relatively flat compared to last quarter.

Our direct yield on policies remaining in force decreased slightly to 48.4 basis points compared to 48.7 basis points in the prior quarter. The in force portfolio yield has declined by approximately 1 basis point over the past three quarters, consistent with our previous guidance of a gradual decrease due to the natural runoff of higher priced vintages with growth in our portfolio driven by new insurance written reflective of current market risk-based pricing.

As noted in the prior quarter, the timing of this decline will depend on several factors, including the pace of cancellations and the mix of new business we write, which has had a greater mix of higher LTV production, consistent with the industry trends Rick mentioned earlier. Our expectation remains, however, that the levered returns on current PMIERs capital for our future production and our portfolio would remain in the mid-teens due to our continued risk-based price discipline and effective use of reinsurance.

Net premiums earned for the quarter increased to $236.7 million in the third quarter of 2017 from $229.1 million in the second quarter of 2017. This increase was primarily due to the earned premiums from a larger in force portfolio, as well as the slight increase in single premium cancellations quarter-over-quarter.

Investment income increased quarter-over-quarter from $30.1 million in the second quarter of 2017 to $32.5 million in the third quarter. The increase was driven by the repositioning of our investment portfolio for a rising rate environment and active cash management. Total Services revenue for our Mortgage and Real Estate Services segment was approximately $41 million for the third quarter, as compared to $40 million in second quarter and $48 million in the third quarter of last year.

Moving now to loss provision and credit quality. As noted on slide 15, during the third quarter of 2017 we had positive development of $14 million on prior period defaults. This positive development was driven primarily by a reduction in claim rates on existing defaults based on the observed increase in cure rates. The positive development was partially offset by an incremental $14 million reserve for an anticipated legacy pool commutation. Absent this pool commutation, our positive development was flat to prior quarter. With this pool commutation, we continue to reduce the legacy exposure in our portfolio.

We reached an agreement to commute $469 million of pool risk in force, which represents 58% of our total pool exposure at the end of the third quarter. This commutation significantly reduces Radian's pool exposure at an amount that is generally in line with our estimate of the present value of net future losses associated with the included pool policies. In addition, the commutation frees up a meaningful amount of capital to support new business. After consideration of this pool commutation, Radian has only $343 million in pool risk in force remaining in our portfolio.

We remain optimistic about the trends we see in our credit quality. As such, it is important to note that our primary risk in force, including HARP, consist of only 9% legacy business originated before 2009 and those vintages are contributing positively to earnings, as you can see on slide 13. This portfolio composition is unique and it can skew overall performance metrics in total, where legacy versus post-legacy analysis may be more informative. We segregate our new defaults between our legacy and post-legacy portfolios on slide 17.

It is also important to note that only 22% of total primary defaults are from loans written after 2008, and these production vintages are producing a very low level of losses, as you can see on slide 14. And as our post-legacy production vintages reach peak default years, which is typically in years four to six, we are seeing an expected increase in default activity, though at very low rates.

Our cure rate was 19.3% for the quarter and this continued high level of cures is yet another sign of positive credit experience. It should also be noted that there has been a 19% year-over-year decline in our total number of primary defaults.

Given continued improvement in cure rates on new defaults, we reduced our estimated claim rate on new defaults from 11.0% to 10.5% in the third quarter. As in previous periods, we should mention that while there is a longer-term expectation of future improvement in our new default to claim rate if current trends continue, the timing of that improvement is difficult to predict. However, if observed credit trends do continue, claim rates could fall below 10%, although how far below is difficult to estimate. And as Rick mentioned, our mortgage insurance master policies do not cover claims that were principally caused by physical damage, including damage caused by floods or other natural disasters. Therefore, we currently do not expect any material impact to our financial results as a result of recent storms.

While we do expect to see an increase in reported defaults over the next two quarters, based on our past experience we do not expect for these defaults to result in a material number of new paid claims. We will assess the information we receive over the coming months and continue to evaluate any potential impact on our results. However, we currently expect that most of the post-hurricane defaults will cure before year end 2018.

PMIERs, on the other hand, does not differentiate between hurricane and non-hurricane defaults. So while we don't expect a material impact on minimum required assets, there is likely some future expected volatility in our PMIERs cushion, though we believe we have sufficient cushion to deal with this expected temporary condition. Overall, the performance of our portfolio remains strong with positive credit trends continuing, further evidence of both the strong credit profile of post-crisis business, which including HARP loans is now 91% of our primary mortgage insurance risk in force, as well as greater predictability around legacy portfolio.

In connection with the scheduled final settlement of the 2013 Freddie Mac commutation agreement mentioned earlier, we made a payment to Freddie Mac of $55 million during the third quarter, as shown on Exhibit J. Since this amount has been fully reserved for since 2013, there was no impact to our income statement during the quarter and we are pleased to have this transaction completed.

Now turning to expenses. Other operating expenses were $64.2 million in the third quarter of 2017 compared to $68.8 million in the second quarter of 2017 and $62.1 million in the third quarter of last year. We expect that the benefits of our recent Services segment restructuring will benefit the Services segment, both in improved operating margins and with a more efficient administrative structure. We would expect EBITDA margins for the Services segment to improve over time to between 10% and 15%.

Details regarding notable variable items impacting restructuring and other exit cost may also be found on Exhibit D. You will note that our restructuring charges fell into two categories, as it relates to our adjusted pre-tax operating income. Approximately $5.5 million, or almost $0.02 per share, of the total $12 million restructuring charges in the third quarter were included in adjusted pre-tax operating income due to the category and cash nature of the items, while $6.6 million of noncash items were considered non-operating.

Moving now to taxes. Our overall effective tax rate for the third quarter was 36.6%. This was higher than the 35% statutory rate, primarily due to the tax impact associated with discrete items that were recognized during the third quarter. Our expectation for our annualized effective tax rate, excluding any potential discrete items, is approximately the statutory rate of 35%.

And our capital activities during the quarter, we have continued to improve our capital structure by extending our debt maturities. And during the third quarter we issued $450 million of new Senior Notes at a 4.5% coupon and seven-year term. These proceeds were used to fund our tender offer to purchase existing outstanding debt of approximately $410 million in aggregate principal of our 2019, 2020, and 2021 maturities. As a result, our cash interest expense will be reduced by approximately $4.3 million annually and our weighted average coupon on our outstanding debt is now 5.3%, approximately 64 basis points lower than before these actions.

Radian has no significant maturities until June 2019 and the remaining amounts maturing in each of the next three years beginning in 2019 could be repaid from either expected holding company liquidity or by utilizing the credit facility. Though, our ultimate source of repayment will be determined as we approach the maturity date.

As previously mentioned, on October 16, 2017, Radian Group entered into a three-year $225 million unsecured revolving credit facility with syndicate of seven banks. Borrowings under the credit facility may be used for working capital and general corporate purposes, capital contributions to Radian's insurance and reinsurance subsidiaries, as well as growth initiatives. Terms of the credit facility include an option to increase the facility during the term of the agreement to $300 million.

As Rick mentioned, earlier this week we finalized terms for quota share reinsurance related to our 2018 and 2019 single premium business with a panel of eight third-party reinsurance providers. The new arrangement contains a cession of 65% of single premium business, a significant increase to the 35% cession on new insurance written under our existing arrangement. Other terms of the new arrangement are substantially the same as our existing Single Premium QSR.

The reinsurance effectively manages our capital position in a cost effective manner, improves our return on capital, and proactively manages the retained mix of single premium business in our total mortgage insurance portfolio. The agreement and our related PMIERs credit remain subject to GSE approval and we will provide more details when finalized.

Under the Private Mortgage Insurer Eligibility Requirements, or PMIERs, Radian Guaranty had available assets of $3.5 billion and our minimum required assets were $3.3 billion as of the end of the third quarter 2017. The excess available assets over the minimum required assets of approximately $237 million represents a 7% PMIERs cushion. The cushion decreased from $321 million at the end of the second quarter 2017, mainly due to the $55 million settlement payment related to the Freddie Mac commutation. In addition, holding company available cash of $300 million and the previously mentioned liquidity facility could be utilized to enhance the cushion, if needed, which, if fully utilized, would bring our cushion up to $762 million, or 23%.

Note that, effective this quarter, our subsidiary Radian Reinsurance is now classified as a non-exclusive affiliated reinsurer under the PMIERs, and as such, its available assets and minimum required assets are no longer consolidated with Radian Guaranty. We believe that we will continue to be in compliance with the current PMIERs financial requirements without the need to contribute additional capital to Radian Guaranty from Radian Group.

Although subject to fluctuations quarter-to-quarter, it is expected that Radian Guaranty will continue to build our PMIERs cushion organically over time under the current PMIERs framework.

And I will now turn the call back over to Rick.

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

Thank you, Frank. Before we open the call to your questions, let me remind you that we had another quarter of strong operating results, with year-over-year growth of 12% for adjusted diluted net operating income per share, 3% for book value per share, and 12% for tangible book value per share. NIW grew 5% over last quarter and mortgage insurance in force increased 8% year-over-year, which is the primary driver of earnings.

We are committed to our Services business and have made progress in repositioning the segment for sustained profitability. We took actions in the third quarter to increase our financial flexibility with a $225 million credit facility and improved our debt maturity profile, further positioning Radian Group for a return to investment-grade ratings in the future.

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

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] And we will begin with the line of Mark DeVries with Barclays. Please go ahead.

Mark C. DeVries
Analyst, Barclays Capital, Inc.

Q

Yeah, thanks. My first question has to do with your capital plans going forward and how that ties in with your efforts to get back to an investment-grade rating. Could you just give us an update on where you are in that process with the rating? If the agencies have been explicit on what you need to do to get there, whether that's for the reduced leverage? And should we assume that any kind of plans to potentially return more capital to equity holders either through buybacks or dividends would have to remain on hold until you make more progress on that front?

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

A

Good morning, Mark. This is Frank. Couple of questions in there that I'll speak to. First, on the return to investment-grade, I think what you saw us complete in the third quarter was another step on the path to returning to investment-grade. We pushed our maturities out even further and on very favorable terms. We knocked down some of the existing maturities in the upcoming years. And I think we balanced it out in such a way that we would not necessarily need to access the capital markets to redeem any of those upcoming maturities.

So all of those things factor into the rating agency calculus as they look at whether or not we're positioned to return to investment-grade. Certainly leverage, overall leverage is one of the items that they look at as well. We're currently at 25.6% debt-to-total-capitalization. If that number comes down organically over time, I'm sure that will also bode well for Radian in their analysis of our rating overall.

And then on the capital plans, as it relates to dividends capacity and getting back to an ordinary dividend paying capacity, we've said previously that that is several years away, just due to the negative unassigned surplus that we currently have and the organic path out of that is many years in the future. What we've also said is that we expect to grow our PMIERs cushion over time organically, and that may happen on a much faster path than that negative unassigned surplus reduction.

And so what that means is that we may be at a point sometime in the future, where we are holding such an excess in PMIERs capital that we may contemplate approaching the state of Pennsylvania for a special dividend. And at that time, we would certainly want to have a plan for what the intended use of that dividend – that special dividend to the parent company would be, but it's premature at this point to speak about any details there.

Mark C. DeVries
Analyst, Barclays Capital, Inc.

Q

Okay. And then on any potential stock buybacks, I mean, I guess the $300 million of cash you have at the holding company, is that a level you feel you need to sustain for – I know you don't have a lot of debt maturities, but for debt service and for, I guess, like longer-term debt maturities, or is some of that cash available [ph] but in the (35:17) buyback stock?

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

A

There certainly is, and we do have an authorization currently in place for a share repurchase, and I believe I mentioned last quarter that the terms and the conditions of that share repurchase plan under the 10b5-1 matrix that we have there is similar to what we had in our last share repurchase plan. And if you recall, we repurchased less than 1,000 shares under that plan. It's intended to be a value-based repurchase plan that takes advantage of temporary market dislocations and really intended to be more opportunistic in that regard.

Mark C. DeVries
Analyst, Barclays Capital, Inc.

Q

Okay, understood. And then just one other question. Sorry if I missed this in your prepared comments, but why the decision to – on your new single premium quota share agreement to cede 65% of the risk versus 35% on the previous agreement?

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

A

[indiscernible] (36:17) take that?

Derek V. Brummer
Chief Risk Officer & Executive Vice President, Radian Group Inc.

A

Sure. This is Derek. Really, the decision is driven by a couple of things. One is just the effective cost of capital is very low on that particular execution, also just continuing efforts to manage really our mix of business from a single versus monthly perspective. So when you factor that in, if you've factored in 65% kind of on our current run rate of singles and put kind of a net rate really at kind of that 8% range, so really continued efforts there.

Mark C. DeVries
Analyst, Barclays Capital, Inc.

Q

Okay. Should we think of that as potentially pushing up your share, at least of NIW in the singles, knowing that a larger share of that risk will end up going elsewhere anyway?

Derek V. Brummer
Chief Risk Officer & Executive Vice President, Radian Group Inc.

A

I don't think you'd necessarily come to that conclusion.

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

A

Yeah. I think just to add to Derek's comments, I mean, it's not a change in strategy by any means. It's really more of a capital transaction, as Derek went through, and really just trying to optimize our returns and the value we create for shareholders.

Mark C. DeVries
Analyst, Barclays Capital, Inc.

Q

Got it. All right. Thank you.

Operator: Next we'll go to the line of Doug Harter with Credit Suisse.

Douglas Harter
Analyst, Credit Suisse Securities (USA) LLC

Q

Thanks. Just wanted to touch on the Single Premium Quota Share again, just I understand that it's an attractive cost of capital. But I guess how do you think of that in the context of the capital that's building up, the excess PMIERs capital that's building up, just kind of how you think about that without sort of immediate plans to kind of return capital to shareholders?

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

A

Yeah. Good morning. This is Frank. So as we look at our capital plan going forward, we certainly do take into account the impact of reinsurance. But as Derek and Rick both mentioned, it's more an optimization exercise on several fronts. It is an attractive cost of capital and it does help enhance the returns that we have on that capital, but it is certainly contemplated when we look at our capital planning going forward.

Douglas Harter
Analyst, Credit Suisse Securities (USA) LLC

Q

Okay. And, I guess, what are your thoughts about using a quota share for the monthly product going forward, given that that's probably a relative attractive cost of capital as well?

Derek V. Brummer
Chief Risk Officer & Executive Vice President, Radian Group Inc.

A

Yes. This is Derek again. I mean, when we look at that, we're really looking at any points of execution on a few dimensions, so one is the cost of capital, the ease of execution, and certainly capital relief through time. I think another thing we'll factor in is when we have a better sense in terms of PMIERs 2.0, what our needs would be with respect to that and also what the capital requirements would be. It might be more optimal than to do a monthly execution versus the singles. So that's the other thing we'll have to keep a look out for.

And in addition to that, also the use of reinsurance does have an impact potentially on our credit ratings, and so also the reaction from the rating agency is another factor when we think about what portion to transfer from a reinsurance or also an insurance-linked perspective.

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

A

And I think one – just from a strategic perspective too, again, it gives us a great deal of financial flexibility to kind of manage our capital and how we think about it going forward. So we have a number of tools and really we're building those lever points today as we go through these structures, but reinsurance is just another tool for us to leverage our financial flexibility across our business.

Douglas Harter
Analyst, Credit Suisse Securities (USA) LLC

Q

Great. Thank you.

Operator: Next we will go to the line of Randy Binner with FBR.

Randy Binner
Analyst, FBR Capital Markets & Co.

Q

Hey. Thanks. Just as a policy question around commentary from Carson recently at HUD regarding False Claims Act and how the Justice Department may kind of pursue enforcing that and just more broadly, kind of an update on how involved FHA has been in the mortgage insurance market from your perspective and any expectations of how that might change going forward.

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

A

Yeah. Thank you. Appreciate the question, and it's one that's very timely as we've been here in Denver with the – kind of all the news flying. So I think what we've seen, just historically and currently, is that we continue to write business where FHA has a pricing advantage, certain lenders prefer the ease and efficiency of loans insured with private MI. And borrowers are attracted to the cancellation features of private MI. So, as you see this policy, I think it's kind of too early to tell. There's still a little bit of a cloud around how this will get executed, given kind of the coordination between HUD and the Department of Justice and how that all plays out.

But I think we feel that it's still business as usual today. We haven't seen any significant shifts. I think it's a policy change, but there's still merits to the mortgage insurance product that we've seen kind of historically play out and we expect to see those continue to play out as we go forward. I think, FHA mortgage insurance covers the entire loan amount versus the first loss coverage of our private mortgage insurance. So they are different products that have different features, and we think the borrower attributes are meaningful at an origination level, although FHA has a strong market share for a particular set of borrowers. I think they continue to capture market share at the higher LTV and the lower credit score, and I think the MI industry is performing very well at the core first-time home buyer marketplace across a broader credit spectrum.

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

A

So, I guess, I kind of take that as it's business as usual for FHA, but I guess a follow-up would be, one of the critiques of FHA is that they had gotten into kind of higher FICO score borrowers, which might be outside of their mandate. Have you seen any change on how they're kind of performing or competing in that part of the market or is it kind of business as usual across the board for FHA?

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

A

Yeah. No change. I think it's still business as usual. So the announcements of this week don't really change any of that at all. It's really more of trying to bring comfort to lenders that participate in the FHA program around False Claims Act. So I think we see it as business as usual. The merits of the two products stand on their own and we think the merits of a loan product with mortgage insurance compares very favorably to the FHA product. Where we do see higher FICOs being done through FHA, that's certainly not necessarily always in the borrowers' best interest from a pricing perspective. So I think just continuing to create awareness about our products and the benefits are what our focus is, so business as usual.

Randy Binner
Analyst, FBR Capital Markets & Co.

Q

All right. Thank you.

Operator: Next we'll go to the line of Phil Stefano with Deutsche Bank.

Phil Stefano
Analyst, Deutsche Bank Securities, Inc.

Q

Yeah. Thanks and good morning. I was hoping you could touch base on the quota share again, and I guess I'm just curious how the conversations went with the reinsurers on the panel. Part of the concern, at least from my perspective, is that with the third quarter catastrophe losses that we experienced, the reinsurers might have less of an appetite for mortgage insurance business, or at least less capital to put to use there. So maybe you can talk about, did the conversations change at all this year versus in years past? And any color you can provide there.

Derek V. Brummer
Chief Risk Officer & Executive Vice President, Radian Group Inc.

A

Derek again. No, I didn't see any significant changes really in terms of the conversation. I think in terms of the reinsurers looking at the market, the production continues to be very solid production from a risk/return perspective. I think the current quota share transaction has performed very well for the reinsurers. So I think when they look at that and they look at kind of their options in deploying their capital, and after taking certain catastrophic losses, there might be some repricing there. But I still think, on a relative basis, the mortgage market presents a significant opportunity. So I would say from really an interest and kind of demand perspective, didn't see any significant changes this time versus on the first transaction.

Phil Stefano
Analyst, Deutsche Bank Securities, Inc.

Q

Okay. And, Derek, you had mentioned, at least quickly, in response to another question an ILN, and I guess I'm curious why hasn't an ILN made sense and we saw [ph] LMI (45:01) has went out and UGC and now Arch through the Bellamy transactions. Why hasn't it made sense for Radian? How do you think about and maybe what might change in the calculus moving forward that would get it to make sense?

Derek V. Brummer
Chief Risk Officer & Executive Vice President, Radian Group Inc.

A

Sure. So the way we look at it, again, is first and foremost really from a cost of capital perspective. So when we look at an ILN structure versus reinsurance on our single premium business, the cost of capital is lower on the reinsurance side, reinsurance side also in terms of kind of a timing, ease of execution, and also kind of that capital certainty – treatment from a capital perspective through time also provides a lot of certainty around that.

So I would say in terms of form of execution, I think we're pretty agnostic as to whether we use an ILN structure or reinsurance. We're just really going to look at it on kind of those three or four dimensions and compare the forms of execution. If the form of execution makes sense from an ILN perspective, it might make more sense on a different portion of the portfolio, whether that be legacy or the monthly business, we would certainly execute in that format, just haven't made as much sense to-date.

Phil Stefano
Analyst, Deutsche Bank Securities, Inc.

Q

Okay. Makes sense. One last quick one, hopefully. The guidance essentially reaffirmed for NIW to be relatively flat year-over-year. I'm getting something like a 20%, 25% decline in the fourth quarter to get there, and I was hoping you could just speak qualitatively around, are you seeing anything in the business fundamentals or the trajectory of certain relationships that would cause that? Or – we're just about through October, how does October 2017 feel versus October 2016? And maybe you can just give us some thoughts around whether the business trajectory around NIW might be so much slower in the upcoming quarter.

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

A

Yeah, this is Rick, Phil. So let me take that one and will kind of address a few parts of that, which is where – I think more seasonality of fourth quarter than anything else as we kind of look for a forecast for the rest of the year, I think the market is going through a pretty – the origination market, if you kind of go through the different industry forecasts, see somewhat of kind of a seasonal slowdown for the fourth quarter. I think we pretty well parallel that from a volume perspective.

So I think we're holding to our guidance of approximately $50 billion of NIW, mostly just related to what we would expect to occur naturally in the fourth quarter. So no changes from a competitive point of view, and we'll wait to see kind of where our market share came out in the third quarter. But I think we're holding our position extremely well at the customer level and the market doing business that we want to do with the right customers and the right return profile. So I think nothing's changed from that. It's probably more driven by seasonality and I would say, as we're looking at the fourth quarter now, we see it being consistent with our expectations.

Phil Stefano
Analyst, Deutsche Bank Securities, Inc.

Q

All right. Well, appreciate the thoughts and best of luck in the rest of the year.

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

A

Thank you.

Operator: Next we'll go to the line of Bose George with KBW. Please go ahead.

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

Q

Hey. Good morning. I had one on the Services segment. Just what should we think about in terms of the normalized profitability of that segment? Once sort of the dust clears, like what should the pre-tax operating margins be?

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

A

Good morning, Bose. This is Frank. We're looking at, for the EBITDA margin, is really that 10% to 15% EBITDA margin, and next year we're looking at revenues anywhere from $150 million to $175 million. So that translates into a range of $15 million to $25 million, and I would call it optimized run rate EBITDA.

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

A

Go ahead, Bose.

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

Q

And just, yeah, the timeline to getting there, I mean, is everything done so we can kind of hit that in the fourth quarter, or is there a little more of a timeline?

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

A

I would expect a – I wouldn't call it a slow ramp, but a gradual ramp to that level. As you look at the restructuring charge that we mentioned, we recognized $12 million out of the $20 million in the third quarter, so we still have some yet to go and we've articulated those among the various categories in the coming quarters. But call it mid-year, I think, next year is probably a reasonable timeframe to get us on that normalized run rate, thereabouts, but we'll certainly keep you updated as to the status of the restructuring plan.

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

A

Yeah. And I'll just add to Frank's comments. From a business point of view – and I want to thank our team for all the hard work they've done this quarter on all the things that you hear. We're moving through from a transactional and restructuring point of view. But as it relates to the Services business, we have been very, very focused on really refining our products and our approach to the market. Rolling out this enterprise sales organization, really consolidating our sales organization, and taking our products to market as one company, has been received extremely well.

So we're at the front end of really kind of executing our game plan of – we're moving on multiple paths, one of which is put our sales organization together, create a messaging and branding and positioning for delivering that message to our customer been received very well. Going through the operational assessment and really understanding the right structure to go forward. And as you know, we've been making pretty strong changes in that regard to really think through the organization and think through how we align different products and service from an operational point of view. So we're largely on the way there. We saw the few charges that will flow through in future quarters, as Frank mentioned.

So really we're positioning today, and through this conference this last week at the MBA conference, we've been going full speed at kind of repositioning our company in the marketplace and assessing kind of customer feedback. And I'm pleased to report that feedback has been well received by our customers in terms of the opportunity to do business with Radian on a broader basis. And we'll share a little bit more about this at Investor Day in a couple of weeks in terms of kind of how we're evolving the business, but we think we're much stronger as a company with a diversified set of products. We've become increasingly relevant to our – not only our MI customer base, but other players in the market. So we feel good about where we are and the changes we've made and the speed at which we're moving.

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

Q

Thanks, Rick. And actually switching over to the impact of the hurricanes, I don't know if you guys mentioned it, but was there any impact on new notices in 3Q from the hurricanes?

Derek V. Brummer
Chief Risk Officer & Executive Vice President, Radian Group Inc.

A

This is Derek again. We're starting to see some effect. So we saw a bit of an increase in September and seeing a bit more in October, really as expected. So that's starting to come into the portfolio a bit.

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

Q

Good, thanks. And then actually just one more on the default claim, the commentary that it could go below 10%, can just talk about some of the factors there? I mean, clearly, types of loans are, obviously, a lot better than in the past. But other variables, how this home price appreciation play into that, just any thoughts there would be great.

Derek V. Brummer
Chief Risk Officer & Executive Vice President, Radian Group Inc.

A

This is Derek again. I mean, really what we're going to look at is what we always look at, which is really looking at the default inventory, what percentage are going to claim, what percentage is curing, and we've seen pretty steady improvement really over the last several years, and that continues. So what we'll look to really in the future is those continued kind of performance trends. Home price appreciation plays a part. And if you look at it, really after home prices kind of hit the bottom, they've increased about 6% per year. And if you look at historical – on a historical basis, when you see kind of the lowest rates we've seen, they tend to be pretty heavily correlated with home price appreciation.

The other thing to factor in is what portion of our default inventory is comprised of the post-2008 book of business. Again, as Frank indicated, that's still only about 22% of the portfolio. As that flips over to newer books of business, I think you also could see kind of some downward pressure on that, because those properties have benefited from home price appreciation, and also there's more of an infrastructure from a servicing perspective to help borrowers keep them in their homes and to try to stave off foreclosure, which is a positive for us, since we don't pay a claim unless it actually goes into foreclosure.

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

Q

Okay, great. Thank you.

Operator: Next we'll go to the line of Jack Micenko with SIG. Please go ahead

John Gregory Micenko
Analyst, Susquehanna Financial Group LLLP

Q

Hey. Good morning. The upsized QSR in 2018 and 2019, is that going to have any meaningful impact on premium yields looking forward?

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

A

Yeah. This is Frank. I wouldn't expect it to differ too materially from what we have seen in the past. And as you look at the basis point impact, it's roughly 2.8 basis points now, probably something similar.

John Gregory Micenko
Analyst, Susquehanna Financial Group LLLP

Q

Okay. Okay, so [ph] holds comfort (54:38). And on the service expense run rate, how should we think about the quarterly, once everything sort of settles out? And then how much of that run rate is fixed versus variable? Some component I'm assuming flexes up with business volume, correct?

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

A

It does and the breakdown of the efficiencies that we're gaining there, as I said in my prepared remarks, really twofold. One was in just the cost of services, which will improve the absolute operating margins of each of those businesses, and then also some of the fixed administrative costs as well. So we would expect there to be a benefit and the split is roughly 50/50 as it relates to the cost saves and the expected improvements. So when you think about what those expense saves look like if they flow through the P&L, not all of that will be reflected in other operating income.

John Gregory Micenko
Analyst, Susquehanna Financial Group LLLP

Q

Okay. So for like a dollar level, is [ph] 30 (55:45) kind of the right number to start with or is it something inside of that?

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

A

I'm sorry, [ph] 30 (55:53) as far as the operating margin?

John Gregory Micenko
Analyst, Susquehanna Financial Group LLLP

Q

The mortgage – no, the real estate – so the expense dollars, sorry.

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

A

Yes. So I think you can sort of back into the margins. I mean, we're targeting that 10% to 15% EBITDA margin. We're expecting enhanced gross margins on that business. We want to try to give you some general sense of what the EBITDA contribution there is, but it really will depend upon the business mix of what generates that. So those gross margins can vary, but the point of the exercise is to see that there's an enhancement in those margins on a post-restructuring basis.

John Gregory Micenko
Analyst, Susquehanna Financial Group LLLP

Q

Okay. Just one last one on the buffer. Is it safe to interpret your comments of 7% maybe a little watermark? You've got financial flexibilities you need to, but that will grow over time back to a healthier 10-ish kind of number?

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

A

I wouldn't want to put a target on it, but your general observation about the organic growth is correct.

John Gregory Micenko
Analyst, Susquehanna Financial Group LLLP

Q

Okay. Thanks for taking the questions.

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

A

You bet.

Operator: Next we'll go to the line of Mihir Bhatia with Bank of America.

Mihir Sudhir Bhatia
Analyst, Bank of America Merrill Lynch

Q

Hi and thank you for taking my questions. Just want to start off with maybe just going back to your default inventory, was there anything unusual or anything specific this quarter that – it seems like the first quarter the default inventory didn't improve on a quarter-over-quarter basis, and I just had – just wondering if was it just because of the hurricane or was there something else in there. And what we should expect just going forward with default inventory?

Derek V. Brummer
Chief Risk Officer & Executive Vice President, Radian Group Inc.

A

This is Derek again. Pretty typical of what you're going to see in the third and fourth quarter. Typically, when you look on a quarter-over-quarter basis, when you go from really the second to the third quarter, you wouldn't expect to see really a decrease. You tend to see the decrease as much more on a quarter basis in the first and second quarters of the year. So I would say that was probably the bigger driver and kind of as expected. I would say the trends remain pretty similar to what we've seen over the last several years, which is continued improvement on a year-over-year, kind of, seasonally adjusted basis.

Mihir Sudhir Bhatia
Analyst, Bank of America Merrill Lynch

Q

Right. And you expect that the year-over-year improvement to just continue on, so there is not like really a slowdown in that rate would you say or – I mean, I guess, there is a little bit [indiscernible] (58:19) 20% pretty healthy year-over-year improvements.

Derek V. Brummer
Chief Risk Officer & Executive Vice President, Radian Group Inc.

A

I think we've been kind of bouncing around really, I would say, that 18% to 20% range, I think.

Mihir Sudhir Bhatia
Analyst, Bank of America Merrill Lynch

Q

Right.

Derek V. Brummer
Chief Risk Officer & Executive Vice President, Radian Group Inc.

A

So I don't see that necessarily changing trajectory anytime soon. Obviously, at some point, it's going to slow down just because the default inventory continues to decrease, but I would say that's kind of a pretty good rate that we've experienced, and I don't see really a shift on the horizon in the immediate term.

Mihir Sudhir Bhatia
Analyst, Bank of America Merrill Lynch

Q

Perfect, great. That's helpful. Thank you. And then just going back to your Services – to the Services business and the restructuring, and I understand you would probably give us more details in a few days at the Investor Day. But are there any – is there anything specific in terms of lines of business or things that you do now that you just feel isn't as attractive, so you're not going to – like services that you might be doing that you don't think are as attractive on a go-forward basis? Is that those types of changes in restructuring happening or is it more just, as you've talked about just realigning some of the sales force and things like that?

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

A

Hi, Mihir. This is Rick and thank you for your question. We have gone through an extensive review of our products, and I think as these businesses have been acquired and aggregated and assimilated over the years, we've accumulated quite a broad set of products across each of our businesses. So what we've done is, obviously, through the restructuring we've done organizational changes, we've done some facility shutdowns, we've done realignments of different operating groups for product, kind of focused perspective.

But the other thing that we've done is, we've literally gone through all of our products to really assess what is core, what do we do, what do we do very well versus what have we added to the list to kind of add some level of additional services, if you will, for the benefit of our customers. So we've done a pretty thorough assessment of each product across our transaction management business and surveillance business, which is really the historical Clayton business. Our Green River Capital, which is our REO management business, our Red Bell, which is really our – I would call it, our real estate data, kind of the data business, if you will, and valuation business and title. And so we've focused around those four things with our core products.

So today, our sales team is talking to customers about a very – a shorter list of products that are very highly focused on things that we can deliver with excellence and also achieve our return thresholds. So I think it's a much more focused product list. There are things on the peripheral that we've discontinued either investments in new products or other activities. We've really narrowed down the focus and put the team on the field with a very clear set of products across those four product groups, if you will. So I think it's a different approach. The market's receiving it well. They can understand our message better, and so far so good.

Mihir Sudhir Bhatia
Analyst, Bank of America Merrill Lynch

Q

Great. Thank you. And just last question, just wanted to make sure I didn't miss it, but do you have a target for your PMIERs cushion and on your debt-to-capital ratio? I mean, I understand what the current numbers are, but just wondering if you have a target that you're kind of aiming towards.

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

A

Mihir, on the PMIERs cushion, if you think about it, I mean, we really look at it in total. We certainly maintain a cushion at the operating entity, which is the 7% that we mentioned, but on an aggregated basis we have the ability to take it up to 23%. So we really view it in that holistic consolidated view and we certainly want to make sure that we maintain sufficient cushion to continue to write good new profitable business and maintain some cushion.

But as far as what we hold at the operating company, there really is no target there, just because we do have a financial flexibility to add when we need to. As it relates to the debt to total cap, again, our goal is to return to investment-grade. And if that means a gradual and organic shift from 25.6% down into the low-20s, we feel like that's the right level.

Mihir Sudhir Bhatia
Analyst, Bank of America Merrill Lynch

Q

Okay, great. Thank you so much.

Operator: Next we'll go to the line of Geoffrey Dunn with Dowling and Partners.

Geoffrey Murray Dunn
Analyst, Dowling & Partners Securities LLC

Q

Hi. Good morning. I just want to clarify, with respect to the 10% to 15% margin target on MS, is that the way it's presented in the supplement, meaning that that excludes corporate allocation?

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

A

Yes. That's correct, Geoff.

Geoffrey Murray Dunn
Analyst, Dowling & Partners Securities LLC

Q

Okay, great. Thank you.

Operator: Next we'll go to the line of Chris Gamaitoni with Compass Point. Please go ahead.

Chris Gamaitoni
Analyst, Compass Point Research & Trading, LLC

Q

Thanks for taking my call. First, when did the Services sales force realignment occur? I'm sorry if I missed the timing of when you went to an enterprise sales approach.

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

A

Yeah. We did that during the third quarter and this has really been in process over that quarter and continues to evolve in strength, and so we did that as part of our restructuring plan, as part of the strategic review of how we realign this business. So it's all occurred in the last – over the course of the last 60, 90 days.

Chris Gamaitoni
Analyst, Compass Point Research & Trading, LLC

Q

Okay. As far as hurricanes, do you have any sensitivity of the potential transitory increase in PMIERs required capital related to new delinquencies from hurricanes that may occur? You see the books much better than us, so it's hard for us to see any – to gauge that level from the outside?

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

A

This is Frank. As we said, there will be some volatility there. It really is hard to predict. I think we can use a rough proxy of previous storms, but to apply it sort of universally over the most recent storms, I think, would be – wouldn't be a good approach there. So it really is hard to gauge and we'll certainly be sure to try to call those out in future quarters.

Chris Gamaitoni
Analyst, Compass Point Research & Trading, LLC

Q

Okay. And then lastly, singles as a percentage of NIW is still around 23%. Historically, we've thought of that as being more reliant on a refinanced product, but that's down to 9%. So given the expanded singles reinsurance deal, can you just talk about the competition dynamics, or the client dynamics of why your singles percentage is reining so high, despite declining refinances? Any color would be helpful.

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

A

Chris, thank you. I think over – we've seen that singles percentage come down over the course of time, over the last couple of years, and even through the course of this year, and we monitor it very carefully. I think there's – all that's based upon kind of a mix of business from our current customers and how they choose the product versus singles versus monthly. And so we monitor it very carefully and we watch our clients in terms of the mix and the returns we get from each individual client customer. And so I think we have seen it come down.

There's been no change in strategy, other than just to let you know that we monitor it very carefully at a customer level, looking to our overall returns on a risk-adjusted basis, and we feel very comfortable with the mix we get today. But I think our slightly higher percentage on a gross basis is largely driven by some of the – of our clients and the mix of our clients. But again, we manage it from an overall risk-adjusted return.

Keep in mind, as I think Derek and Frank both said, on a net basis, through 2017, I think that equates to around 15% or 16%. And going forward, after reinsurance it'll be closer to 8% in terms of kind of our singles mix, net of reinsurance. So we feel comfortable with that from an overall return on capital. We continue to refine it at a customer level based on mix and returns and try to drive optimized risk-adjusted returns for shareholders.

Chris Gamaitoni
Analyst, Compass Point Research & Trading, LLC

Q

Okay. Thank you so much.

Operator: Our last question will come from the line of Mackenzie Aron with Zelman and Associates. Please go ahead.

Mackenzie Aron
Analyst, Zelman & Associates

Q

Thanks. Good morning. Just one quick one for me to clarify, the reduction in the available assets this quarter, was that entirely due to the reinsurer affiliation or was there anything else there?

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

A

It was largely due to the commutation. That's correct. So something – I/m sorry.

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

A

Actually the shift.

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

A

Thank you. I'm sorry. Yes. The shift was due to $600 million being transferred from Radian Guaranty to Radian Reinsurance.

Mackenzie Aron
Analyst, Zelman & Associates

Q

Okay, perfect. Thank you.

Operator: Thank you. I'll now turn the call back over to CEO, Rick Thornberry.

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

Thank you all for joining us today. For those interested in learning more about Radian, we'll be holding an Investor Day on Monday, November 6, in New York City. You can visit our website or contact our Investor Relations department for more information. We appreciate your questions today and we hope to see you on November 6. Thank you.

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